THE EFFECT OF LONG TERM FINANCING ON THE PERFORMANCE OF SMES IN KONYO KONYO MARKET IN JUBA, SOUTH SUDAN

KUOL NYOL DENG

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A POSTGRADUATE DISSERTATION PRESENTED TO FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF THE MASTERS OF BUSINESS ADMINISTRATION, FINANCE

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DEDICATION

This work is dedicated to my beloved mother Abach Kuol Charep, my siblings, family members, friends and colleagues for their encouragement, without which I would not be what I am today. I pray Almighty God bless to bless them all.

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I wish to extend my sincere gratitude to various people for their moral, financial and other forms of support towards my education.

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LIST OF ACRONYMS

ASEAN	-	Association of South-East Asian Nations
ECB	-	European Central Bank
EU	-	European Union
GDP	-	Gross Domestic Product
OECD	-	Organization for Economic Cooperation and Development
ROE	-	Return on Equity
ROI	-	Return on Investment
SMEs	-	Small and Medium Enterprises

ABSTRACT

This thesis entitled “long term financing and the performance of SMEs” is presented as a result of a study conducted in Konyo-Konyo market in Juba, South Sudan. The study was based on three specific objectives; to examine the effect of equity financing on the performance of small and medium enterprises; to evaluate the effect of debt financing on the performance of small and medium enterprises and to examine the effect of mortgage financing on the performance of small and medium enterprises. The study adopted a case study design and used a sample of 100 respondents from four types of SME businesses: textiles, foodstuffs, hardware and general merchandise as well as secretarial and stationery supplies. The study found out that long term financing has a significant positive effect on the performance of SMEs. It also found out that most of the businesses in Konyo-Konyo market depend on equity financing, specifically internal/owner’s equity, which has a positive effect on the performance of SMEs. It also found out that debt financing has a positive effect on SME performance, but this effect diminishes over time due to debt repayment obligations that affect the performance. Also, mortgage financing was found to have a positive effect on SME performance, but that fewer businesses have access to mortgage financing due to lack of the collateral security. The study concluded that indeed there was a significant positive relationship between long term financing and the performance of SMEs. The study recommended the SME to come up with ways to increase the amount of liquid stocks in order to increase financial viability, that SME owners should utilize funding from equity financing to ensure achievement of the targeted profit; and that SMEs should avoid situations where they are highly leveraged long longer term debt since this may lead to bankruptcy if they are unable to make payments on their debt obligation when due and SME owners should also make good investment decisions in order to increase profitability.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study was aimed at assessing the effect of long term financing on the performance of small and medium enterprises, with Konyo-Konyo market in Juba, South Sudan as the case study. This chapter presents the background of the study, statement of the problem, research objectives, research questions, scope, and significance, limitations of the study and conceptual framework.

1.1 Background of the Study

The Small and Medium-sized Enterprise (SME) sector performs a very significant role worldwide (Abor, 2011). SMEs have a social and economic potential of contributing towards job creation, revenue generation, innovations, as well as a catalyst for urban and rural growth (Hallberg, 2010; OECD, 2014; Williams, 2014; Fatoki & Asah, 2011). In most of the industrialized countries, over 98% of all manufacturing sector firms originate from the SME sector and they are the main employment providers (Saeedi and Mahmoodi, 2011). The SME sector employs more than 34% of the productive labour force in the developing countries (Kaumbuthu, 2011). In South Sudan, according to the Ministry of Finance (2013), a 'micro enterprise' is an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding 12,000 South Sudan Pounds. On the other hand Small Enterprises employ between 5 and 49 and have annual sales/revenue turnover or total assets above 12,000 pounds but not exceeding 125,000 pounds. The Medium sized Enterprises employ between 50 and 100 with annual sales/revenue turnover or total assets of more than 125,000 pounds but not exceeding 450,000 pounds.

SMEs have been and are still a central hub in generating income for the majority of urban dwellers with no formal paid employment; however enabling growth of SMEs has posed a major challenge (Kipilyango, 2012). Financing for the SME sector is so far unique as compared to other businesses and thus optimal capital structure rules are often not applicable to SMEs (Uzzi and Gillespie, 2009). One of the reasons for this is the obstacle to accessing and more stringent conditions for acquiring external financing for SMEs compared to larger firms (Da Silva et al., 2010). It is difficult for SMEs to access long term finance since the sector lacks the collateral to guarantee long term loans (Barbosa and Moraes, 2014; Fatoki and Asah, 2011). More importantly, in a study conducted by Garengo et al. (2015) found out that some of the reasons which make it difficult for SMEs to access debt in developing countries are lack of collateral and poor accounting records. The same problems are still experienced even by those SMEs that are using different sources of financing, and some of them perform poorly and even fail. Financing decisions are some of the most critical decisions for SME owners because they have direct impact on capital structure and performance of the SME (Brigham, 2014). In recent decades, the SME sector has attracted attention from researchers, policy makers, and practitioners due to its contribution to economic growth (Lopez-Gracia and Sogorb-Mira, 2010).

Long term financing refers to the capital requirements for a period of more than 1 year. It may be 1 to 5 years, 5 to 10 years, or maybe more depending on other factors. Capital expenditures in fixed assets like plant and machinery, land and buildings, of a business are funded using long-term finance (Uzzi and Gillespie, 2009). Part of working capital which permanently stays with the business is also financed with long-term sources of finance. Some of the sources of long term financing include: share capital or equity shares, preference capital or preference shares, retained earnings or internal accruals, debenture / bonds, term loans from financial institutes, government, and commercial banks, venture funding, and asset securitization (Lopez-Gracia and Sogorb-Mira, 2010). A company takes on long-term finance in order to acquire immediate capital. For example, startup ventures require substantial funds to get off the ground and pay for basic expenses, such as research expenses, insurance, license and permit fees, equipment and supplies and advertising and promotion. All businesses need to generate income, and long-term financing is an effective way to get immediate funds to finance and operations (Da Silva et al., 2010).

In spite of the statistical difficulties in defining SMEs and defining business failure in different countries, most of SMEs fail due to the lack of a consensus about what would qualify as optimal financing arrangements (Ahmad, Abdullah and Roslan, 2012). In fact the firm's cost of capital is seen as function of its capital structure of which the choice of adequate and appropriate financing and investment reduce overall firm's cost of capital and increase its market value and thus will maximize the shareholders wealth (Modarres and Abdoallahzadeh, 2009). The financial manager is required to take accurate and timely decisions on financing that derive the best combination of financial resources needed to take the firm to the next level. Financing decisions result in a given capital structure and sub-optimal financing decisions can lead to business failure. A great dilemma for management and investors alike is whether there exists an optimal capital structure (Mwangi et al., 2014). However, managers and practitioners still lack adequate guidance for attaining optimal financing decisions (Kibet et al., 2011).

The continued poor performance and even failure of small and medium sized enterprises has raised more questions than answers to researchers and practitioners. The financing structure employed by many SMEs could be a reason influencing their performance trends, an issue that has not been given serious attention. This could be attributed to lack of knowledge on the best financing terms, with majority of SME owners having no ideas on how debts and internal sources of finance influence their financial performance (Chepkemoi, 2013). The existing empirical studies have lacked systematic empirical evidence on which optimal financing mix that will benefit and improve performance of SMEs and provided mix results to help policy makers, financial managers and SME Operators in their financing decisions (Karanja, 2014). Studies by Karanja (2014), Abdul (2012), Saeedi and Mahmoodi (2011), are some studies which revealed that the financing structure has a significant positive impact on the SMEs' performance whereas the studies by Chepkemoi (2013), Adekunle (2009), Myers and Rajan (2010) revealed that the capital structure has negative impact on the SMEs performance. These contradicting results may not be generalized as most of these studies cannot be applicable in the South Sudan context particularly with a focus on the infant South Sudanese SME sector.

1.2 Statement of the Problem

An appropriate financing structure is a critical decision and important not only because of the need to maximize returns to various organizations, but also the impact such a decision has on an organization's ability to deal with its competitive environment (Siro, 2013). The amount of debt and equity used by the firm to finance its assets is important, since it will impact on business financing decisions (Yahyazadehfar et al., 2010). The real picture of SMEs business activities in South Sudan has not been unveiled entirely in reflecting the long term financing decisions and how they impact performance in those SMEs. Most of the studies relating to SMEs have concentrated on the impact of accessing finance for SMEs without indicating the implications of appropriate financing structure on SMEs performance. For example, evidences from Microfinance Institutions in Tanzania by Kipesha (2013) pointed out only SMEs access finance from financial institutions without indicating the optimal financing mix for SMEs' performance in Tanzania.

Similar studies covering the effect of financing structure of SMEs financial performance in Nakuru town in Kenya by Chepkemoi (2013), the effect of capital structure on financial performance of firms listed at the Nairobi securities exchange in Kenya by Siro (2013), and the Relationship between Capital Structure and Firm Performance evaluation measures evidence from the Tehran Stock Exchange by Pouraghajan et al (2012) are much less common and inapplicable in the South Sudan context particularly with a focus on the SME sector. The South Sudan government, according to a Ministerial policy statement on the economic outlook in 2015, there is no information about how long term financing can affect performance of SMEs (Ministry of Finance, 2015), as a way of helping policy makers, financial managers and SME owners/managers in their financing decisions. From these points of view, it was deemed appropriate to conduct an investigation on the effect of long term financing on SMEs performance, specifically in Juba, South Sudan.

1.3 Objectives of the study

1.3.1 General Objective

The main objective of the study was to assess the effect of long-term financing structures on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan.

1.3.2 Specific Objectives

i. To examine the effect of equity financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan.

ii. To evaluate the effect of debt financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan.

iii. To examine the effect of mortgage financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan.

1.4 Research Questions

In order to achieve the above objectives, specifically this research sought to answer the following questions:

i. What is the effect of equity financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan?
ii. What is the effect of debt financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan?
iii. What is the effect of mortgage financing on the performance of small and medium enterprises in Konyo-Konyo market in Juba, South Sudan?

1.5 The Scope of the Study

This study focused on equity financing, debt financing and mortgage financing and how it affects the performance of small and medium enterprises in Juba, South Sudan. This is because these types of financing are the most common and they have different effects on business performance. Geographically, the study only involved SMEs which are located within Konyo-Konyo market in Juba city, because it's the largest market, consisting of the biggest number of small businesses in the country and the data were collected from SME owners and Operators within Juba city. The study focused on the activities of SMEs in Juba city over the past six years from 2011 to 2016, the period in which South Sudan has been independent as a country.

1.6 The significance of the study

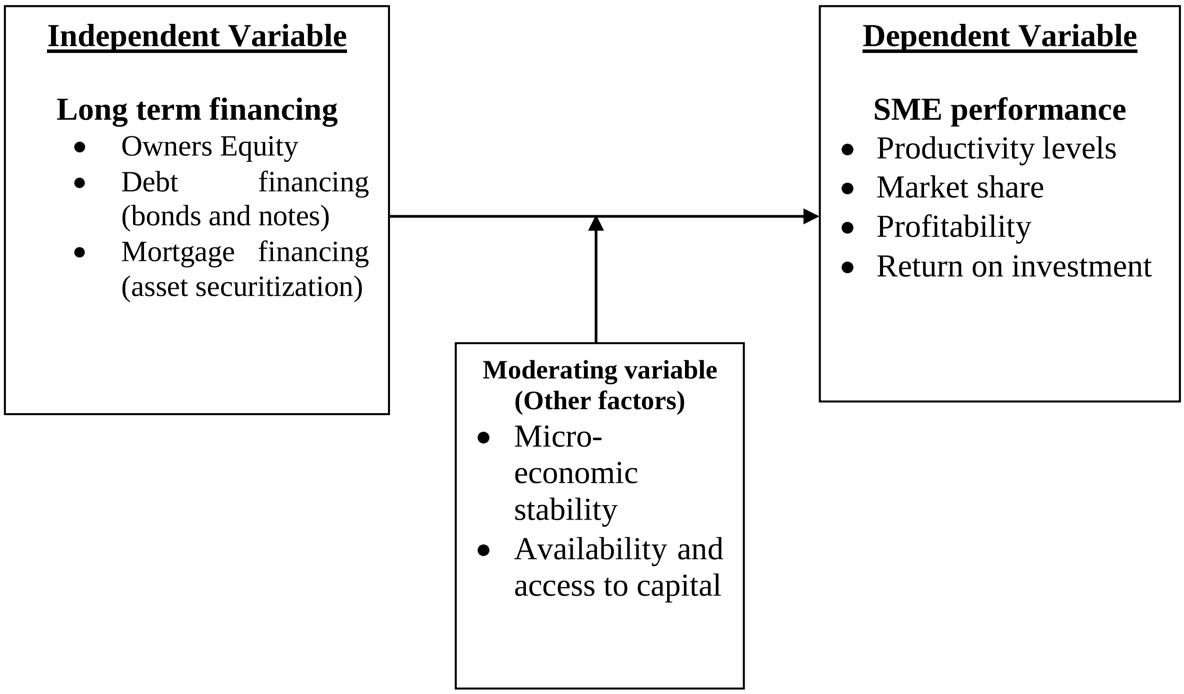
For policy makers, the findings of the study will be good input in formulating effective strategies and policies which will assist the financial manager of the SMEs to determine effective financing mix to improve the performance of SMEs in South Sudan.

For financial institutions involved in financing SME businesses, the findings of the study will act as a reference point in determining the viability of their financing structures, enabling them make informed decisions on which financing options are most appropriate for the success of SME performance and therefore their profitability.

For academicians, the study will serve as the stimulant for further studies to be conducted on similar or related topic by other researchers. And for this candidate, the study will help him acquire practical research skills as well as act as a partial fulfillment of the requirements for the award of a Masters' degree in Business Administration of Uganda Martyrs University.

1.7 Conceptual Framework

The conceptual framework in this study examined the interconnection between the variables in the study. It explored how the independent variable interacts with the intervening variable to influence or determine the dependent variable



Source: *(Adopted from Pouraghajan A et al, (2012)*

1.7.1 Description of the Conceptual framework

The conceptual framework depicted in Figure 1 shows long term financing as the independent variable, while performance of SMEs as a dependent variable. The framework shows the effect of long term financing on SME performance. The components of long term financing include: asset securitization or mortgage financing, owner equity, as well as bonds and debenture capital. SME performance is measured by productivity levels, expansion of the market share, profitability levels as well as returns on investment. These variables are moderated by the level of macro-economic stability in the economy, availability and access to capital as well as the fiscal regulatory regime. This means that the various aspects of the independent variable work hand in hand with the moderating variable and together they influence the dependent variable. For example, the availability of equity financing, together with the micro-economic stability influences productivity levels in the economy.

1.8 Definition of Key Terms

Long term financing: Are the sources of capital whose availability is guaranteed for a period of one year and above. Long term financing is mostly used to finance the acquisition of long term assets like machinery, equipment, land among others.

Equity financing: Is the type of financing where the financiers acquire partial ownership of the business which is consummate with the amount of money they provide in capital. Equity partners provide capital in anticipation of sharing in the future profits of the business.

Debt financing: Is where finances are secured on a loan basis, with clearly stipulated terms for the repayment of the premium loaned plus interest accrued, and is secured by collateral in case of failure to repay the loan.

Mortgage financing: Is the type of financing secured using tangible valuable property such as residential houses, commercial buildings or land, which act as security for the finances acquired. In the case of commercial properties, the funds generated by those properties during the mortgage period are used to service the mortgage.

SMEs: Small Enterprises are enterprises which employ between 5 and 49 and have annual sales/revenue turnover or total assets above 12,000 pounds but not exceeding 125,000 pounds. Medium enterprises are enterprises which employ between 50 and 100 with annual sales/revenue turnover or total assets of more than 125,000 pounds but not exceeding 450,000 pounds, according to the South Sudan Ministry of Finance.

SME performance: Is the measure of the level of achievement of the goals of the small and medium enterprises in terms of profitability, market share, productivity levels as well as returns on investment.

1.9 Conclusion

The foregoing chapter was intended to provide an understanding of the concepts within the research topic, explain the motivations behind the study as well as define the parameters to be covered by the study. It establishes a problem area which requires investigation by exposing the current situation and the ideal or desired situation. The chapter has also explained what the study aims to achieve and well as spell out which areas the study is interested in.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the theoretical and related literatures relevant to long term financing and the performance of SMEs. The literature has been expanded by many theoretical and empirical contributions since Modigliani and Miller (1958). These have been showing the impact of long term financing on the SME performance. A number of relevant theories/models used to guide the course of this investigation, particularly the Pecking order theory for long term financing and the integrated performance model for SME performance.

2.1 Theoretical Review

Small and Medium Enterprises (SMEs) operate a major role in national economies and are considered as the machine for economic growth all over the world. Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations (Pierre and Delisle, 2009). Financing decisions are some of the most critical decisions for SME owners because they have direct impact on capital structure and performance of the SME. The capital structure is described as the mix of debt and equity that a firm uses to finance its operations (Pauraghajan, 2012). According to Brigham (2004) the way in which a firm finances its operations may either be through debt or equity capital or a combination of both. An organization finances its assets through some combination of equity, debt or hybrid securities, measured as total debt divided by total equity (Sarlija and Harc, 2012). In this study, long term capital refers to debt and equity resources used to finance

SMEs. Debt and equity financing will be used as measure of long term capital applying pecking order theory for this research.

Firms can obtain funds from either external or internal sources. Internal sources of funds include retained earnings while external sources include loans from financial institutions, trade credit, issuance of loan stock, and issuance of equity shares. The creation of a capital structure, therefore, can influence the governance structure of a firm which, in turn, may influence the ability of a firm to make strategic choices. Financing decisions which result into a given financing structure constitute one category of managerial decisions (Mwangi et al, 2014) According to Victor and Badu (2012), long term capital includes debt and equity. Long term capital structure puts into perspective the way in which a firm finances its operations over a period of more than one year. This can either be through debt or equity capital or a combination of both David. In fact the firm’s cost of capital is seen as the choice of adequate and appropriate financing and investment to reduce the overall firm’s cost of capital and increase its market value over time (Siro, 2013).

There is no consensus definition of SME as various countries have definitions depending on the phase of economic development and their prevailing social conditions. In this, various indexes are used by countries to define the terms such as number of employees, invested capital, total amount of assets, sales and production capability (Karanja, 2014). In the context of South Sudan according to the Ministry of Finance (2013), a ‘micro enterprise’ is an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding 12,000 South Sudan Pounds. On the other hand Small Enterprises employ between 5 and 49 and have annual sales/revenue turnover or total assets above 12,000 pounds but not exceeding 125,000 pounds. The Medium sized Enterprises employ between 50 and

100 with annual sales/revenue turnover or total assets of more than 125,000 pounds but not exceeding 450,000 pounds. The majority of micro enterprises fall under the informal sector.

SMEs play important roles in many countries' economies and make substantial contributions to employment and output regardless of the level of economic development of a country. SME businesses with less than 100 workers in the United States represent one-third of domestic employment and sales revenue (Suttapong and Tian, 2012). SMEs represent 99.8 percent of all European Enterprises (ECB, 2010). SMEs in the EU (those with fewer than 250 workers) accounted for about one-half of total value added and two-third of labour force (European Union 2002). SMEs contribute 40% and 50% of manufacturing output in Chinese Taipei, Japan and Republic of Korea in the 1990's. Zeitun and Tian (2007) evidenced that SMEs in ASEAN contribute up to 90% of business establishments and 70% to 90% of Domestic workforce.

Lindholm-Dahlstrand and Cetindamar (2010) acknowledged SMEs as a major driving force in economic expansion in China, with more than 40 million SMEs and sole industrial and commercial proprietorships are responsible for 59% of GDP, with 68.65% of imports and exports. They paid 48.2% of taxes and occupied more than 75% of employment in urban areas. SMEs have become the main driver of economic growth in China. SMEs in Kenya refer as the small enterprises have from 11 to 50 workers and medium enterprises have from 51 to 100 workers (Wachilonga, 2013). A Medium Sized Enterprise in Uganda is defined by the SME Business Guide (2008) as the one employing more than 50 people with an annual revenue of more than Uganda shillings 360M and assets of more than Uganda shillings 360M.This study will be guided by the definition of SMEs as per the South Sudan Ministry of Finance (2013).

2.1. The Pecking Order theory

In determining the long term financing in SMEs, this study will be guided by the pecking order theory which shows the preferences of financial managers in raising new capital (Hashemi, 2013). According to the theory, managers' preference is to use retained earnings then debts before going to equity shares. Also, the first choice in external finance is issuing debt. Debt is a safer security and less risky than equity. The pecking order theory allows issuing equity when the capacity of debt is fully used. In addition, Myers (2008) stated that in the event that external finance is required, firms are most likely to issue the safest security first that is to say, they start with debt then possibly convertible debt, and then equity comes as last resort. Pindalo et al., (2006) and concurred with Myers' argument when he noted that managers always preferred to use internal finance and would only resort to issuing shares as a last resort. He added that the pecking order theory is able to explain the negative inverse relationship between profitability and debt ratio within an industry. The pecking order theory is dependent not only on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, particularly the stage of development of the firm. The most important source of funding for start-up and nascent firms are the personal funds of the firm owner, and funding from friends and family (Akintoye, 2008).

Performance is a measure of how well a mechanism/process achieves its purpose (Donglin, 2009**)**. In enterprise management, Moullin (2003) defines an organization's performance as 'how well the organization is managed' and the value the organization delivers for customers and other stakeholders. Performance Models of SMEs is the crucial factor in this research. According to Myers (2008), performance models are a balanced and dynamic system, which gives a holistic view that uses different measures and perspectives. The various models and perspectives are tied together and continuously monitor the internal and external context of organizations. Basically, performance models and frameworks are designed to support management in measuring their performance, analyzing and improving their performance through better decision making. Tatichi *et al*. (2008) mentioned that SMEs have used financial measurement tools such as ROI and ROE, which are basically used by large firms. Based on Garengo *et al*. (2005), there are six of the most popular generic models which make no reference to company size, developed in the last 15 years, and two performance models created specifically for SMEs which are Organizational, Integrated and performance benchmarking models.

2.2 The Small and Medium Enterprises economy

SMEs play important roles in many countries' economies and make substantial contribution to employment and output regardless of the level of economic development of a country**.** Small and medium enterprises (SMEs) are considered the backbone of an economy, whether a random state, or even globally. These companies represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries, just like they do in emerging economies and in even in least developed economies. The main argument for this is that SMEs are the dominant form of business organization, representing roughly 95 – 99% of all companies (Saeedi and Mahmoodi, 2011**)**. According to the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs.

SMEs contribute to employment and income generation and export revenues. However, in order to tap into the potential of SMEs for development and poverty reduction, transition and developing country governments, development partners and SMEs themselves need to address a number of challenges (OECD, 2004). SMEs are an important source of export revenues in developing economies. For individuals, SMEs often represent the first job, the first step in the career. They are also a first step to the world of entrepreneurship. For the economy in whole, the SMEs are launchers of new ideas and assemblage of new processes, accelerating the increase based on a more effective use of resources (Siro, 2013). SMEs are the engines that sustain growth for long-term development in developing countries. When growth becomes stronger, SMEs gradually assume a key role in industrial development and restructuring. They satisfy the increasing local demand for services, which allows increasing specialization, and furthermore support larger enterprises with services and inputs (Fatoki and Asha, 2011).

Long term capital in the SME sector is so far unique as compared to other business and thus optimal capital structure rules are often not applicable to SMEs (Hashemi, 2013). One of the reasons is the obstacle exists on access of long term financing for SMEs comparing to large firms (Da Silva *et al.,* 2007). It is difficult for SME to access long term debt finance since the sector lacks of collateral to pledge (Fatoki and Asah, 2011). More importantly the study conducted by Siro (2013) found one of the reasons which lead difficult for SMEs in Tanzania to access long term debt is lack of assets to act as collateral. Because of this, SME financing structure typically follows pecking order behavior, where the little capital that SMEs can access in a short time is used in order of prioritization (Suttapong and Tian, 2012). Also, Sarlija and Harc (2012) argued that SMEs do not have easy access to equity of which it is expensive and raising it implies a dilution of control of the firm.

Firms in general and SMEs in particular have various sources of finance to support their activities that can be summed up as equity or shareholders' funds, trade credit, short term and long term bank debt (Moro and Fink, 2010). Also Elaine et al, (2005) pointed out that financing decisions in SMEs have received comparatively little academic attention despite their economic importance. Smaller businesses are heavily reliant on retained earnings to finance their investments and obtain most of additional finance from banks, while other resources, especially equity are less accessible to them. Brighi and Torluccio (2007) used data from an Italian SMEs survey and found that on average, self-financing as a major form of finance is the preferred choice of the small firms. These findings seem to be consistent with the predictions of the pecking order theory.

SMEs are also more vulnerable to credit crunches during economic downturns or financial crises than larger enterprises. The European Central Bank (ECB) and the European Commission surveys from 2009 provided evidence that the financial and economic crisis had an adverse effect on the availability of external financing for SMEs since most of them cannot secure long term debt (ECB, 2009, 2010). The problem of bank financing to SMEs has been persistent for many years in the developing countries with both parties actively responsible for the lack of SME financing. Given the constraints on the supply side of debt financing, an option for SMEs would be to resort to external equity financing, for example, private investors and business angels (Mac and Bhaird and Lucey, 2010).

2.3 Review of Related Literature

2.3.1 Equity financing and SME Performance

Traditionally, SMEs are financed by the owners and their relatives (Fletcher, 2000). They do not like to access external finance since it implies a reduction in the freedom in managing the firm, limitation in the possibility of accessing non-pecuniary benefits, and the implementation of additional control and management tools (Delmar, 2000). Moreover according to the pecking order theory, if SMEs had unconstrained choice between external debt and internal resources, they would choose not to use debt financing because of a desire to retain control and independence (Bell and Vos, 2009). Therefore, potential investors face big problems in valuing the venture and making investment decisions. Chepkemoi (2013) noted that equity and return on equity cannot be easily quantified or even clearly defined for the majority of SMEs and therefore, cost of equity cannot be ascertained and employed in long term financing decisions. Also, profit is not necessarily a source of finance since it is the result of assets and it does not generate any financial benefit because there is a time lag between earning profit and generating cash (Moro and Fink, 2010).

SMEs are traditionally financed by the entrepreneurs and their relatives. They do not like to access external finance since it implies a reduction in the freedom in managing the firm, limitation in the possibility of accessing non-pecuniary benefits and the implementation of additional control and management tools (Delmar, 2000). SMEs are very opaque and for them the implementation of control mechanisms can be very costly. Therefore, potential investors face big problems in valuing the venture and making investment decisions. In addition, SMEs are used to dealing with banks requests rather than those of venture capitalists. Consequently, entrepreneurs do not typically seek external funds in the form of equity. As a result, in the large majority of SMEs, the equity invested in the venture consists entirely of the funds provided by the entrepreneurs themselves.

SMEs typically have substantial debt financing but banks will require collateral that must be provided by the SMEs shareholders and associates. Therefore, the shareholders’ investment in the firm is not only the original cash provided plus any retained earnings, but also the personal assets provided as collateral to obtain bank funds (Fletcher, 2000). In other words, SMEs have hidden collateral that can play a very important role for the life of the business. In addition, when the firm is run as a sole trader or it does not rely on limited liability, it implicitly leverages all entrepreneurs’ personal assets since in case of distress, creditors can access not only the firm’s assets but also the entrepreneurs’ private assets. Either way, shareholders and entrepreneurs usually invest in the venture all their wealth from the beginning. Thus, when the firm needs additional funds to expand, the original funders often do not have additional equity and therefore are not able to cover additional needs. Thus, the option of financing additional needs with equity is non-existent (Moro and Fink, 2010). SMEs are financially constrained in accessing additional equity and their only option is to obtain additional bank finance or leverage their trade credit capability.

Entrepreneurs and SME's shareholders involved in the management of the firm either directly (as managers) or indirectly (as relatives and friends of the management), seem not to pay too much attention to the expected return on equity (Bell and Vos, 2009). Literature on entrepreneurship stresses their desire for independence, optimism about the venture's success and the fact that the entrepreneurs enjoy non-pecuniary benefits as high as 20% of their investment. In fact, median entrepreneurial earnings after 10 years of business are found to be 35% less than the predicted alternative wage on a paid job of the same duration, according to Chepkemoi (2013). From this perspective, the expected financial return on equity is not the key concern for entrepreneurs. Most entrepreneurs and SME managers and owners have difficulties in understanding the concept of return on equity.

2.3.2 Debt financing and SMEs performance

SMEs long term financing challenges the proposition that the financing structure can be modeled by looking at agency theory, asymmetry of information, and taxes as long as short-term debt is not affected by the trade-off between tax benefits and bankruptcy costs. Long-term debt is affected by collateral sable assets but short-term debt is not (Pindalo *et al.,* 2006). From the entrepreneur's point of view, short-term debt is the best financing tool because it is perceived to be cheaper. Both entrepreneurs and banks prefer short-term debt (Landier and

Thesmar, 2009). According to Moro and Fink (2010), repayment plan has a key role in building up the optimal debt structure of the firm since it is too short and from which the firm will end up again using short-term debt to finance long term assets, if it is too long, it can raise problems of underinvestment since the firm has additional, free cash temporarily available. Moreover both SMEs and new ventures for which the access to finance is more limited than for traditional SMEs since new ventures are very risky due to lack of track record and frequently have not already entered the production and selling stage, finding a substitute for equity is very hard, notwithstanding the tax benefits linked to interest charges (Örtqvist *et al.*, 2006).

Debt financing involves the procurement of interest bearing capital instruments. They are secured by asset-based collateral and have term structures, that is, either short or long term. The equity component of external finance gives the financier the right of ownership in the business and as such may not require collateral since the equity participant will be part of the management of the business. Debt financing is the major sources of capital for firms since the retained earnings are insufficient or not available. According to Landier and Thesmar (2009), SMEs depend on debt financing because debt financing is relatively cheaper compared to equity financing. In addition, firms have insufficient track records, resulting in a relatively higher risk for capital suppliers. Therefore, shareholders are less likely to provide money for such firms. Many smaller, less liquid firms do not enjoy access to debt markets but nevertheless can acquire external funds through bank lending, loans from associated firms, trade credit and other means. In structuring their liabilities, firm managers must choose their associated maturity, taking into account many of the same issues and constraints that affect the choice of a debt maturity structure.

Long-term debt limits managerial discretion by making access to new funds and over-investment less likely, a feature that would enhance profitability. Örtqvist *et al*., (2006) argue that shorter-term loans are not conducive to greater productivity while long-term loans may lead to improvements in productivity. It is higher in stronger and more flexible firms, when there are big differences between short term and long term interest rates and when firms have more growth opportunities. An econometric study by Moro and Fink (2010), suggests that the important variables in determining SMEs long-term debt include the length of the banking relationship and the number of banks involved.

Short-term debt in an environment of incomplete contracts grants the lender a control right as the firm's ability to roll over the debt may be conditioned on financial ratios and adequate performance. As this mechanism limits managerial discretion it may contribute to the relaxation of financial constraints. This increased availability of external finance should stimulate better performance. Maturity matching between debt and the life of assets plays an important role in deciding the length of the debt maturity (Landier and Thesmar, 2009). Short-term debt is positively correlated with firm's growth opportunities. Short-term debt is the best financing tool because it is perceived to be cheaper, thus both entrepreneurs and banks prefer short-term debt.

2.3.3 Mortgage financing and SME performance

From a start-up's perspective according to Huyghebaert (2008), firm survival is indeed a key consideration for entrepreneurs, as they usually hold a largely undiversified portfolio, have pledged personal assets to secure their firm's bank debt, and enjoy sizeable private benefits of control. Entrepreneurs may take into account that according to Huyghebaert (2008), given asymmetric information, weak firm performance in one year could reduce their firm's access to future financing from banks and could even lead to firm liquidation following default. Abor

(2005) conducted a study on the effect of debt on firms in Ghana which indicated a significantly positive association between total debt and total assets and return on equity.

According to Berkivitch and Israel (1996), a firm's debt level and its value is positively related especially when shareholders have absolute control over the business of the firm and it is negatively related when debt holders have the power to influence the course of the business. According to Berkivitch and Israel (1996), the impact of debt on value of firms therefore, depends on the balance of power within a firm. Mortgage financing can help SMEs manage rapid-growth issues by providing them with the funding they need to fill new orders and develop new facilities. Given the fact that the value of assets mortgaged tends to be stable over time, this enables SMEs to acquire fixed interest loans that they can use to finance their businesses over a longer period of time Huyghebaert (2008).

In seeking mortgage financing, one of the key considerations is whether to take a fixed-rate or an adjustable-rate mortgage loan. Fixed-rate mortgage loans have the same interest rate for the entire repayment term. Because of this, the size of the monthly repayment stays the same, month after month, and year after year without changing (Huyghebaert, 2008). This is true even for long-term financing options, such as the 30-year fixed-rate loan. It has the same interest rate, and the same monthly payment, for the entire term. Adjustable-rate mortgage loans have an interest rate that will change or 'adjust' from time to time. Typically, the rate on an adjustable-rate mortgage will change every year after an initial period of remaining fixed. It is therefore referred to as a 'hybrid' product, which starts off with a fixed or unchanging interest rate, before switching over to an adjustable rate.

According to Abor (2005), both of these types of mortgages have certain pros and cons associated with them. The adjustable-rate mortgage loan starts off with a lower rate than the fixed type of loan, but it has the uncertainty of adjustments later on. With an adjustable mortgage product, the rate and monthly payments can rise over time. The primary benefit of a fixed loan is that the rate and monthly payments never change. But the cost of that stability is paid through higher interest charges, when compared to the initial rate of an adjustable-rate mortgage.

2.4 Summary and Gaps Identified

The literature reviewed above provides an insight into the relevance of the availability and access to capital by small and medium enterprises, as well as the challenges and limitation they face in trying to acquire external financing. It is evident from the literature that majority of SMEs depend on entrepreneurs' equity as well as family and relatives for financing their business. It's also evident that in order to grow as businesses, there is need for them to acquire financing from elsewhere. The literature however, does not explain exhaustively on how external financing affects the performance of SMEs, especially in developing countries. Most SMEs operate in a semi-formal setting, where records of business assets and their performance is scanty, in an era where external financing is the key determinant of success or failure. The lack of information about the effect of long term financing on SME performance could be the factor behind many entrepreneurs' reluctance to seek external financing. This study therefore aims to generate accurate information to close this knowledge gap.

2.5 Conclusion

The foregoing chapter has given an illustration of the existing literature in as far as the concept of long term financing is concerned, as well as examine long term financing aspects, that is equity financing, debt financing and mortgage financing in relation to SME performance. However, the literature has also illustrated that some relevant information is missing and the additional information generated through this study will go a long way in providing that missing information.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, study population, study area, sample size and sampling techniques, the methods of data collection, processing and analysis as well as ethical considerations and anticipated study limitations.

3.2 Research Design

A case study design was used in this study since it narrows down a broad field of research into few easily researchable fields. The case study design was much suitable since this type of design involved looking at historical information from SMEs financial records for past three consecutive years of business operation. Konyo-Konyo was the case of the study findings since it might be very complex to conduct the research throughout the entire market because of time and resources constraints. Lamnek (2005) explained that “case study is a research strategy of an empirical inquiry that investigates a phenomenon within its real life in a single representation from multiple representations.”

3.3 Study population

The study population in this study consisted a total of 333 SMEs registered by the Juba City Council (JCC Business record, 2014), operating in Konyo-Konyo market, from which a sample was drawn for data collection and analysis.

3.4. Study Area

The research study was carried out in Konyo Konyo Market. This study area is situated in Juba city, the capital of South Sudan.

3.5. Sample size

From the target population of 333 SMEs, the sample size consisted of 100 SMEs which represented 30% of the study population. Krishnaswami (2002:144) recommended that a sample size of 30% of the population is enough for the entire population. Also, the sample size was justified by the fact that these were the people who had records of their business activities and were willing to participate in the study. Sampling frame of this study included all those who were registered and concerned with SMEs operations particularly textile shops, food vending, hardware and general supplies and secretarial and stationery supplies in Konyo-Konyo market to ensure efficiency, representativeness and reliability. The sample will be selected so as to represent the population under study and thus get enough data for analysis due to financial and time constraints.

3.6. Sampling Techniques

The study used stratified random sampling technique to select the SMEs where owners/managers will be picked from. Therefore, SMEs were stratified into four (4) strata sectors where the sample size was allocated under stratified proportional allocation. The purpose of the method is to maximize survey precision with a given fixed sample size. With stratified proportional allocation, the best sample size for stratum *h* was as follows:

nh= (Nh⁄N) n

Where:

nh - The sample size for stratum h,

n - Total sample size,

Nh -The population size for stratum h,

N - The total population

Therefore, a distribution will be as follows:

Table 3.6.1: Sampling procedure

Type of SME	Target Population	Sample size of SMEs	Sampling technique
Textile shops	87	26	Simple random
Food stuffs	103	31	Simple random
Hardware and General merchandize	53	16	Simple random
Secretarial and stationery supplies	90	27	Simple random
Total	**333**	**100**	

Source: *Researcher (2017)*

3.7. Data Collection Methods

This study used both secondary and primary data. Secondary data was obtained from SMEs business records. Secondary data are data that are to be collected from other projects that have already been published (Diyamett, 2012). The study only collected data related to debts, internal source of financing, profits, current assets and current liabilities over a period of the past three years, from the year 2014 to 2016. Primary data was collected using structured questionnaires and oral personal interviews to get some important information about the factors affecting long term financing decisions from SME operators in Konyo Konyo market.

3.8. Data Processing

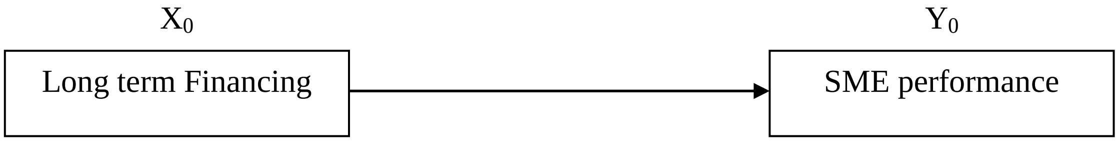
The method of handling data in this study was Field Editing Method, whereby data was received and reviewed in their reported forms and any ambiguous terms were translated to enhance understanding of the information collected from the source. The data processing involved activities such as editing, coding, classifying, and tabulating of data so that they could be easily interpreted in the context of the study.

3.9. Data Analysis

Multiple Regression analysis was used to determine the relationship between the independent and dependent variables in determining the effect of the long-term financing on SMEs performance, the descriptive analysis was used to compare and contrast between variables. The data under each specific objective was analyzed using Statistical Package for Social Sciences (SPSS) Ver. 22 and presented using Microsoft Excel.

3.9.1 Regression analysis

Figure 3.1: Relationship between One independent variable against one dependent variable



Source: *Researcher, 2017*

Figure 3.1 above shows that long term financing which is measured by using the composition of debt and equity financing based on the Debt-Equity ratio is the cause of behavior of performance of SME which is measured by liquidity, determined by taking current assets divide by current liabilities as the current ratio and profitability was determined by the total targeted profit as the percentage of actual profit obtained from SMEs operation in a specified period of time.

3.10. Measurement of variables

In this study, long term financing, which is the independent variable was measured in terms of the various types of financing (equity financing, debt financing, mortgage financing) which can be secured over a period of more than one year. Small and medium enterprise performance, which is the dependent variable, was measured in terms productivity levels, market share, profitability and return on investment.

3.11. Quality Control Methods, Reliability and Validity

Vlãsceanu *et al*. (2004, p. 49), quality control is a phrase that refers to the process of quality evaluation that focuses on the internal measurement of the quality of an institution or a program. It refers to a set of operational activities and techniques (monitoring activities and a structured internally planned and implemented policy) elaborated and used to fulfill requirements of quality. In this study, quality control was done by following the following steps: following the preparation of research instruments, a pilot study was conduct at Nkozi Trading Center in order to ascertain and detect any defect related to questions that were not easily understood or were not properly constructed. From the responses, feedback and remarks received on the pilot survey, the whole questionnaire was redesigned to correct those mistakes. This enhanced validity therefore, making the questions more easy and simple to answer. Many more research assistants were also used to ensure that reliability of the information collected was highly maintained.

3.12. Ethical Considerations

The researcher used only the information collected for the purpose of this study and not forwarded by any other party. Information obtained from SME was treated with high degree of confidentially without disclosing the respondents' identities, and this encouraged respondents to be as open minded as possible and express opinions freely. The researcher did not modify anything and also acknowledged all the sources of the literature that contributed in one way or another to this research.

3.13 Anticipated limitations

In the course of carrying out this study, the researcher anticipates several constraints, which may in one way or the other, limit the findings of the research. These include the following;

3.14 Limitations of the Study

During the study, the researcher was faced with many problems that need to be brought into the attention of any reader of this research work.

One of the major problems faced was the unwillingness of some respondents to cooperate as many of them feel that it was another way of giving out business secrets. In this case the researcher assured the respondents that the information will not be used for other purposes other than academic ones.

As many South Sudan business people are Arabic speakers, it was not easy for some respondents to understand the English-written questionnaires. This resulted in some questionnaires being returned half-answered or not answered at all. The researcher tried to work with such group in order to help them answer those questions.

Another challenge was the busy schedule of the respondents who at field study time were working which made it difficult to get them in timely manner. In such situation, persistently seeking repeated appointments were finally found to be useful.

Finally, financial constraint was another great change that was face by a researcher. This made it difficult for the researcher to carry out printing work of questions as well as travelling to Juba Market where the study was being conducted. However, the researcher solicited for advance funds from the sponsor in order to solve the financial problems.

3.15 Conclusion

This chapter has presented the methods to be used in preparation for data collection, during data collection and during data analysis. It illustrates the key areas where attention will be focused, in a bid to achieve the objective set out in the study. It has explained how the study sample was determined, how the data was collected, interpreted and analyzed and how the results were presented. It also explains the other various concerns such as the ethical considerations as well as the limitations to the scope of the study, and how these were addressed.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This Chapter presents research findings on the basis of data that were collected from the research field work. It entails presenting and analyzing the data concerning the effect of equity financing on the performance of SMEs, the effect of debt financing on the performance of SMEs, the effect of mortgage financing on the performance of SMEs, as well as examine the relationship between long term financing and performance of SMEs in Konyo-Konyo market in Juba, South Sudan. However, for a more systematic presentation, the first section entails the descriptive analysis of the characteristics of the respondents and their businesses.

4.1 Demographic Characteristics of Respondents

A number of demographic characteristics of the respondents and their businesses were examined, and the information from these is presented as follows:

Table 1: Showing the demographic characteristics

Particular		**Percentage (%)**
Gender	Male	52
	Female	48
Age	18 – 25	29
	26 – 35	33
	36 – 45	26
	46 and above	12
Education levels	Tertiary level	17
	Secondary level	42
	Primary level	28
	Others	13
Type of Business	Textiles	30
	Foodstuffs	47
	Hardware and gen. merchandise	16
	Secretarial and stationery supplies	7
Duration of business	1 – 3 years	39
	3 – 5 years	46
	5 – 10 years	12
	Over 10 years	3
Number of employees	1 – 15 employees	86
	16 – 30 employees	14
Size of capital	SSP 1,000 – 1,500	73
	SSP 1,500 – 50,000	18
	SSP 50,000 – 100,000	7
	SSP 100,000 – 250,000	2

The results on the demographic information as presented in table 1 above show that on the gender of the respondents, 52% of the respondents were male while 48% were females. This implied that the study tried to balance the gender composition of the respondent pool with almost equal numbers of both male and female respondents in order to obtain balanced opinions from a gender perspective.

On the age categories of the respondents, the results show that 29% of the respondents were aged 18 – 25 years old, 33% of them were aged 26 – 35 years old, 26% of them were aged 36 – 45 years old, and 12% of them were aged 46 years and above. This implied that all the respondents were mature enough to provide informed and independent opinions about the business activities in Konyo-Konyo market.

On the education levels of the respondents, the results show that 17% of the respondents were at tertiary level, which included those with masters' degrees, bachelor's degrees, diploma and certificate qualifications. 42% of the respondents were at secondary level, having dropped out of secondary school. 28% of them were primary level drop outs and 13% of the respondents were categorized as others, and these included those that did not have any formal education at all, and those that had acquired some sort of formal education through adult literacy schemes. These figures implied that the respondents were sourced from all educational backgrounds, giving varied opinions in as far as literacy differences.

On the type of businesses, the results show that majority of the businesses dealt in foodstuffs with 47%, followed by textiles with 30%, and then followed by hardware and general merchandise with 16% and then secretarial and stationery supplies with 7% of all businesses studied. This implied that majority of the businesses surveyed deal in foodstuffs and that this is the largest business section in Konyo-Konyo market due to the high demand for foodstuffs.

On the duration of the existence of the businesses, the results show that 39% of the businesses had been in existence for 1 – 3 years, 46% of them had been in existence for 3 – 5 years, 12% of them had been existing for 5 – 10 years and only 3% of the businesses had existed for over 10 years. These results imply that the life of small and medium enterprise businesses in

Konyo-Konyo market is consistent with the international standards, where on average, SMEs survival rate is generally under 5 years. This points to the need to improve the business environment to ensure that more SME businesses can survive longer, given the fact that they are the lifeblood of the South Sudan economy.

On the number of people employed by the businesses, the results show that majority (86%) of the businesses employed 1 – 15 employees, and only 14% of the businesses had 16 – 30 employees. None of the businesses surveyed employed more than 30 employees. This implied that the level of employment creation among small and medium enterprises is still low given the fact that even the medium enterprises which had high capital did not exceed 30 employees. This is consistent with the high unemployment level in South Sudan.

On the size of capital of the businesses, the results show that majority (73%) of the businesses had capital of SSP 1,000 – 1,500, flowed by 18% of the businesses with SSP 1,500 – 50,000 in capital. Also, 7% of the businesses had capital of SSP 50,000 – 100,000, and only 2% of the businesses had capital of SSP 100,000 – 250,000. None of the businesses admitted to having capital exceeding SSP 250,000. This implied that majority of the businesses in Konyo-Konyo market and South Sudan in general were micro businesses with less than 12,000 capital, followed by small businesses and medium sized businesses were the least. This is problematic in that the medium sized businesses are the ones that generate higher sales turnover and therefore able to pay higher taxes and employ more people, and yet they are the least in number.

4.2 Equity financing and the performance of SMs

The first specific objective in the study aimed to examine the effect of equity financing on the performance of small and medium enterprise businesses in Konyo-Konyo market in Juba, South Sudan. Descriptive statistics were used to analyse the data and the results were presented in table

Table 2: Showing Descriptive Statistics on Equity financing and SME performance

Equity financing and SME performance	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
Equity is a prime source of financing for business in this market	33%	42%	0%	9%	16%	**3.88**	**1.159**
Most SME owners use their own equity to finance their businesses	26%	58%	0%	14%	2%	**4.07**	**.704**
Equity finance is also acquired from close family members	37%	47%	5%	5%	6%	**4.02**	**1.123**
Owner's equity is preferred because it maintains ownership of the business in the hands of the founder	42%	37%	0%	16%	5%	**4.12**	**1.005**
Husbands provide equity for their wives' businesses and vice versa without having to claim ownership	35%	42%	16%	5%	2%	**4.02**	**.963**
Close family members can provide equity without seeking partial ownership, rather, just a share of profits	39%	45%	7%	7%	2%	**4.12**	**.981**
Equity financing can be secured over a short, medium and even long term according to the business needs	39%	47%	0%	12%	2%	**4.23**	**.751**
Owner's equity offers a guarantee of long term financing needed for business stability	32%	49%	15%	2%	2%	**4.07**	**.884**
There is no debt burden to repay, and this helps the business to function properly	39%	32%	12%	12%	5%	**3.91**	**1.192**
Equity partners (family members) offer free labour, advise and expertise, needed for business success	28%	46%	14%	7%	5%	**3.86**	**1.060**

Source: *Field data, 2017*

The results of the study on the effect of equity financing on the performance of SMEs as presented in table 2 above show that; on whether equity is a prime source of financing for business in this market, 75% of the respondents agreed, while 25% of them disagreed. On whether most SME owners use their own equity to finance their businesses, 84% of the respondents agreed, while 16% of them disagreed. On whether equity finance is also acquired from close family members, 84% of the respondents agreed, 5% of them were neutral, while 11% of them disagreed. On whether owner's equity is preferred because it maintains ownership of the business in the hands of the founder, 79% of the respondents agreed, 16% of them were neutral, while 5% of them disagreed. On whether husbands provide equity for their wives' businesses and vice versa without having to claim ownership, 77% of the respondents agreed, 16% of them were neutral, while 7% of them disagreed.

On whether close family members can provide equity without seeking partial ownership, rather, just a share of profits, 84% of the respondents agreed, 7% of them were neutral, while 9% of them disagreed. On whether equity financing can be secured over a short, medium and even long term according to the business needs, 86% of the respondents agreed, while 14% of them disagreed. On whether owner's equity offers a guarantee of long term financing needed for business stability, 81% of the respondents agreed, 15% of them were neutral, while 4% of them disagreed. On whether there is no debt burden to repay, and this helps the business to function properly, 71% of the respondents agreed, 12% of them were neutral, while 17% of them disagreed. Further still, on whether equity partners (family members) offer free labour, advise and expertise, needed for business success, 74% of the respondents agreed, 14% of them were neutral, while 12% of them disagreed. This implied that equity financing is largely relied upon by many of the SME businesses in Konyo-Konyo market.

The results show that majority of the respondents alluded to the fact that the largest portion of their financing comes from equity, especially internal equity from owners' savings. To this effect, one respondent remarked that:

> *"......most of us here we use our own money in these businesses, especially at the beginning. Much as there are banks and microfinance institutions that would be*

willing to lend you money, most of them will not be willing to finance an idea in your head. It's up to you the person with a brilliant idea to show that your idea is good enough for you to be ready to risk on it with your own money. If you do that, then other people can come in to offer extra financing if you need it. So you see, without equity, most of these businesses, even the big ones that are now using bank loans, would not exist."

The respondents also added that most of the businesses are capitalized through equity financing for one simple reason, that equity is easy to access. According to one respondent:

"......it is much easier to raise money through equity financing compared to all other forms of financing; if you have your money, you can simply put it to use any way you choose. Even when you do not personally have money, or if you don't have enough, other benefactors will be willing to come it to help you with some equity with the hope that if you get yourself established in business, you will be able to help yourself, thereby reducing the burden on them, and even help them if need be. So in such circumstances, equity financing is easier and more appealing. That is how people who have relatives in government, get money and end up in this market doing business. Even wives get money from their husbands in that way. One problem with equity is that most of the times its limited, since it's your own money from the pocket, or even when it's given to you by a relative or friend, it may not be enough to push you to what you want, and with equity, you do not have much power to negotiate how much will be given to you. Since the money is coming from someone's pocket, whatever he/she gives you, that is what you take"

4.2.1 The financing structures of SMEs

The study first examined the financing structures of the small and medium enterprise businesses in Konyo-Konyo market to ascertain their sources of financing. The results on this are presented in table 3:

Table 3: The financing structure compositions of SMEs

Type of Business	Equity financing	Debt financing	Mortgage financing	Mean	Std dev
Textiles	62%	30%	8%	4.02	1.117
Foodstuffs	78%	21%	1%	4.09	1.035
Hardware and general merchandise	56%	28%	16%	4.04	.996
Secretarial and stationery supplies	72%	25%	3%	4.11	.981

Source: *Primary data, 2017*

The results on the financing structures of small and medium enterprise businesses in Konyo-Konyo market as presented in table 3 above show that for textiles businesses, most of their capital was financed from equity with 62%, followed by debt with 30% and mortgages with only 8%. Also, the businesses that dealt in foodstuffs sourced most of their financing from equity with 78% and debt with 21%, and mortgage. Hardware and general merchandise businesses sourced most of their financing from equity with 56%, debt with 28% and mortgage with 16%. And the secretarial and stationery businesses also followed the pattern of foodstuffs and textiles with majority of their capital financed from equity with 72%, debt with 25% and mortgage with only 3%. With an average mean of 4.065, the results show that equity financing, debt financing and mortgage financing are all used as sources of financing among the four sectors of the SME businesses in Konyo-Konyo market. However, the figures implied that all businesses preferred to equity financing as a source of capital for their businesses. It’s also observed from the results that most micro businesses (foodstuffs and secretarial/stationery supplies) had most of their capital sourced from equity, with mortgage financing accounting for the least percentage of their financing, most likely because they lacked the tangible assets to use as collateral to acquire debt and mortgage financing. Furthermore, mortgage financing is seen to be sourced by the high capital medium sized businesses such as those dealing in hardware and general merchandise and secretarial/stationery supplies since these are more likely to have assets which they can use as collateral. Therefore the sources of financing for businesses are determined by the size of the business and its capital assets.

4.2.2 Financing periods/duration

The study also examined the period/duration for which businesses secured their financing in order to ascertain whether small and medium enterprises (SMEs) acquired short term, medium term of long term financing. The results on this are presented as follows:

Table 4: Period/Duration of financing

Financing period	Frequency (f)	Percentage (%)
Under 3 months	7	7
3 – 6 months	19	19
6 months – 15 months	39	39
1 – 3 years	24	24
3 – 5 years	10	10
5 – 10 years	1	1
Over 10 years	0	0

Source: *Primary data, 2017*

The results on the period or duration in which small and medium enterprise businesses were able to secure financing in Konyo-Konyo market as presented in table 4 above was such that 7% of the businesses were able to secure financing for a maximum of 3 months, 19% of them were able to secure financing for 3 – 6 months, 39% of them secured financing over a 6 – 12 months period, 24% of the businesses were able to secure financing over a period of 1 – 3 years, 10% of them secured financing over a 3 – 5 year period and only 1% of the businesses were able to secure financing over a 5 – 1- year period. None of the small and medium enterprise businesses were able to secure financing for a period exceeding 10 years. This implied that majority (74%) of the small and medium enterprise businesses in Konyo-Konyo market were in position to secure long term financing, which is a period of more than 12 months and only 26% could secure financing on a short term. However, most of the financing is not acquired over a long enough period to finance capital assets such as machinery and equipment, land and buildings, which requires financing over a period of over 3 years, as results show that only 11% of the businesses can secure financing over that period. This therefore means that small and medium enterprise businesses operating in Konyo-Konyo market are not in position to pursue long term investment ventures given the structure of their financing.

Most of the respondents said that if given the option, they would prefer to have long-term financing. One respondent said that:

> *".......as you know business, in order to get established well, it requires time to set yourself up, build confidence in customers and establish contacts with suppliers and distributors. So when you have more time, you can plan your business operations without panic or pressure. But unfortunately, most of us who rely on debt financing, the loans are mostly structured over short to medium periods of three to six or six to twelve months. In most cases, this time is not enough to enable someone utilize the money before starting to pay it back. For some people, they start paying back using the very same capital they acquired because they are not allowed enough time to invest it."*

4.3 Debt financing and the performance of SMEs

The second specific objective was to examine the effect of debt financing on the performance of small and medium enterprise businesses in Konyo-Konyo market in Juba, South Sudan. Descriptive statistics were used to analyse the data and the results were presented in the following table:

Table 5: Showing descriptive statistics on the effect of debt financing on SME performance

Debt financing and SME performance	**Percentage responses (%)**					**Mean**	**Std dev**
	SA	**A**	**N**	**D**	**SD**		
Debt is a reliable source of financing on both short and long term basis	37%	35%	12%	14%	2%	**3.91**	**1.130**
Debt financing is used to acquire long term purchases such as machinery, equipment, land etc.	40%	41%	7%	7%	5%	**4.05**	**1.090**
Assets which would have been used to capitalize the business are secured as collateral to acquire debt financing	37%	37%	15%	9%	2%	**3.98**	**1.058**
The lender does not seek partial ownership so the business owner retains all decision making power to control his business	28%	40%	16%	2%	14%	**3.65**	**1.307**
Lender requires payback of his principle and interest at a given time whether the business is doing well or not	56%	26%	9%	7%	2%	**4.26**	**1.049**
Long term debt can be repayable over many years, making it flexible enough to allow the business to stabilize	40%	30%	0%	12%	18%	**3.86**	**.934**
If the debt is secured on a fixed rate, the interest expense is known, which enables better business planning and budgeting	40%	30%	12%	12%	6%	**3.84**	**1.271**
Interest on debt is tax deductible, which reduces the net payable obligation on the business	32%	44%	14%	5%	5%	**3.95**	**1.045**

Source: *Field data, 2017*

The results on the effect of debt financing on the performance of SMEs as presented in table 5 above show that on whether debt is a reliable source of financing on both short and long term basis, 72% of the respondents agreed, 12% of the respondents were neutral while 16% of them disagreed. On the fact that debt financing is used to acquire long term purchases such as machinery, equipment, land etc., 81% of the respondents agreed, 7% of them were neutral while 12% of them disagreed. On the assertion that assets which would have been used to capitalize the business are secured as collateral to acquire debt financing, 74% of the respondents agreed, 15% of them were neutral while 11% of them disagreed. Also, on the assertion that the lender does not seek partial ownership so the business owner retains all decision making power to control his business, 68% of the respondents agreed, 16% of them were neutral and 16% of them disagreed. Furthermore, on the fact that the lender requires payback of his principle and interest at a given time whether the business is doing well or not, 82% of the respondents agreed, 9% of them were neutral, and 9% of them disagreed. On the assertion that long term debt can be repayable over many years, making it flexible enough to allow the business to stabilize, and tree planting to prevent further effects of climate change, 70% of the respondents agreed, while 30% of them disagreed. On the assertion that if the debt is secured on a fixed rate, the interest expense is known, which enables better business planning and budgeting, 70% of the respondents agreed, 12% of them were neutral, while 18% of them disagreed. And on the assertion that interest on debt is tax deductible, which reduces the net payable obligation on the business, 76% of the respondents agreed, 14% of them were neutral, while 10% of them disagreed. This implied that overall, there is widespread agreement that debt financing has an effect on the performance of small and medium enterprises in Konyo-Konyo market.

Most of the respondents said that acquiring debt is complicated by the collateral requirements by financial institutions, and that since the business environment in South Sudan is highly volatile, the collateral requirement as well as interest on debt is very high. This, according to the respondents, makes debt financing less appealing and even less accessible since most people cannot satisfy the requirements. One respondent even remarked that:

> *"......you see, people don't want to get into the complications and pressure of debts if they can avoid it, especially for small businesses which don't generate a lot of money. So when you see someone going to acquire debt to finance his or her business, you know it's because of two reasons; either his/her business has grown too big that his individual capital is not enough to satisfy all his customers, or he/she is connected to powerful people who can get him/her a loan with good terms. Either way, when you can acquire debt with a long payback time and at good interest rate, it can be very useful in supporting a business to get well established."*

4.4 Mortgage financing and the performance SMEs

The third specific objective in the study was to examine the effect of mortgage financing on the performance of small and medium enterprise businesses in Konyo-Konyo market in Juba, South Sudan. Descriptive statistics were used to analyse the data and the results were presented in the following table:

Table 6: Showing Descriptive Statistics on the effect of mortgage financing on the performance of SMEs

Mortgage financing and the performance of SMEs	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
SME owners secure financing by use of 'loan against property' of mortgage loans	33%	40%	16%	7%	4%	**3.88**	**1.096**
Land, homes, commercial properties are used as security to acquire financing	30%	47%	4%	12%	7%	**3.81**	**1.200**
Mortgage financing has more substantial security and so lower interest rates	26%	58%	0%	14%	2%	**4.07**	**.704**
Mortgage financing offers longer tenure needed for stabilizing the business	37%	47%	5%	5%	6%	**4.02**	**1.123**
In case of failure to pay, the business is still secured since the mortgaged property is the only one affected	42%	37%	0%	16%	5%	**4.12**	**1.005**
Mortgage financing is easy to acquire with hassle free documentation	39%	45%	7%	7%	2%	**4.12**	**.981**
Repayment can be spread over a very long period of time, even up to 15 years	39%	47%	0%	12%	2%	**4.23**	**.751**
In case of mortgaged commercial properties, repayment is derived from the property itself through the monthly rental income	32%	49%	15%	2%	2%	**4.07**	**.884**

Source: *Field data*

The results on the effect of mortgage financing on the performance of small and medium enterprise businesses in Konyo-Konyo market in Juba, South Sudan as presented in the table 6 above show that on the assertion that SME owners secure financing by use of 'loan against property' of mortgage loans, 73% of the respondents agreed, 16% of them were neutral, and 11% of them disagreed. On the assertion that land, homes, commercial properties are used as security to acquire financing, 77% of the respondents agreed, 4% of them were neutral, while 19% disagreed. On whether mortgage financing has more substantial security and so lower interest rates, 84% of the respondents agreed, while 16% of them disagreed. On whether mortgage financing offers longer tenure needed for stabilizing the business, 84% of the respondents agreed, 5% of them were neutral, while 11% of them disagreed. On the assertion that in case of failure to pay, the business is still secured since the mortgaged property is the only one affected, 79% of the respondents agreed, 16% of them were neutral, while 5% of them disagreed. On whether mortgage financing is easy to acquire with hassle free documentation, 84% of the respondents agreed, 7% of them were neutral, while 9% of them disagreed. On the assertion that repayment can be spread over a very long period of time, even up to 15 years, 86% of the respondents agreed, while 14% of them disagreed. And on the assertion that in case of mortgaged commercial properties, repayment is derived from the property itself through the monthly rental income, 81% of the respondents agreed, 15% of them were neutral, while 4% of them disagreed. This implied that most respondents believe that mortgage financing is another important source of financing for SMEs and has a significant effect on their performance especially in the long term.

On the effect of long-term financing on the performance of SMEs in Konyo-Konyo market in Juba, South Sudan, the study examined this effect in terms of how long-term financing affects the productivity levels, market share, profitability and return on investment in small and medium enterprise businesses. The data from this is presented in the following table:

Table 7: Showing Descriptive Statistics on the effect of long-term financing on the performance of SMEs

Effect of long-term financing on the performance of SMEs	Percentage responses (%)					Mean	Std dev
	SA	A	N	D	SD		
Long-term financing helps to increase on the productivity levels	48%	33%	12%	5%	2%	**4.21**	**.989**
Long-term financing enables SMEs to expand their market share through increased production	41%	37%	12%	5%	5%	**4.07**	**1.078**
Long-term financing enables SMEs to invest in long-term ventures, leading to increased profitability	30%	44%	16%	8%	2%	**3.93**	**.985**
Long-term financing increases return on investment	26%	40%	24%	8%	2%	**3.79**	**.989**

Source: *Field data, 2017*

The results of the study on the effects of long-term financing on the performance of SMEs as presented in table 7 above, show that 81% of the respondents agreed that long-term financing helps to increase on the productivity levels, 12% of them were neutral, while 7% of the respondents disagreed. The results also show that 78% of the respondents agreed that long-term financing enables SMEs to expand their market share through increased production, while 12% of them were neutral, and 10% of them disagreed. Also, 74% of the respondents agreed that long-term financing enables SMEs to invest in long-term ventures, leading to increased profitability, 16% of them were neutral, while 10% of them disagreed. Furthermore, 66% of the respondents agreed that long-term financing increases return on investment, with 24% of them neutral, while 10% of them disagreed. This implied that there is overall agreement that long-term financing has a significant positive effect on the performance of SMEs in Konyo-Konyo market in Juba, South Sudan.

4.5 Results from Regression Analysis

Table 8: Effect of long-term financing and performance of SMEs

	Unstandardized Coefficients		*Standardized Coefficients*		
	B	**Std. Error**	**Beta**	**T**	**Sig.**
Constant	.783	.001		4.385	.000
Long-term financing	.980	.002	.755	4.394	.000
Equity financing	.482	.063	.489	7.679	.000
Debt financing	.169	.078	.168	2.175	.001
Mortgage financing	.138	.044	.098	2.030	.003

R Square	1.000
Adjusted R Square	1.000
F	24.367
Sig.	.000[b]

a. Independent variable: Long-term financing (equity financing, debt financing, mortgage financing).

b. Dependent variable: Performance of SMEs

Source: *Research findings, 2017*

Regression analysis revealed the extent to which long-term financing predicted the performance of SMEs. The coefficient for long-term financing (.755), in table 4.8 indicates that as long-term financing increases by one unit performance of SMEs would increase by .755 units. The results showed that long-term financing explained 75.5% variation of performance in SMEs. Also, equity financing was observed to be the most significant predictor of the performance of SMEs (Beta .489, sig.=0.000), which implied that equity financing leads to a 48.9% positive change in the performance of SMEs. Furthermore, debt financing was also observed to significantly predict the performance of SMEs (Beta .168, sig.=0.001), implying that debt financing leadings to a 16.8% positive change in the performance of SMEs. Further still, mortgage financing was observed to be the least significant predictor of the performance of SMEs (Beta .098, sig.=0.003), which implied that mortgage financing leads to only a 9.8% positive change in the performance of SMEs. Thus, the model was fit to predict performance of SMEs using long-term financing. Equity financing is seen to play a key role in the performance of SMEs. However, the utilization of other different types of financing (debt and mortgage financing) in the long-term financing of SMEs is one of the methods employed by managers in order to improve performance. Usually, most SMEs are financed by equity from entrepreneurs themselves and their relatives (Fletcher, 2000), which enables them to enjoy benefits such as the flexibility over one's schedule and being one's own boss (Jensen and Meckling, 1976). Therefore, debt and mortgage financing from external sources creates complexity in management thereby having less significant effects on the performance of SMEs as compared to equity financing.

They (the respondents) also said that all the three types of financing have their advantages and disadvantages, but that the choice of which to take is not entirely in their hands in most cases. When asked about what factors influence the choice of financing, the respondents said that it is mostly the issue of availability and access that influences the choice of financing that on takes. One of them added that:

"......it is the circumstances that direct you on where you get your business financing. If your own financial situation allows it, then you use your own money (owner's equity) or money from friends and family (external equity). But that may not be enough, which may force you to seek additional financing from elsewhere. Debt can come in as supplementary but it can be really expensive and time bound. Mortgage financing can be less restricting with flexible repayment schedule and lower interest, but there are not many of us here who can afford to meet all the requirements for a mortgage loan. So you see, someone does not just wake up one day and say I want this or that type of financing, it is the conditions you find yourself in that dictate where you get your financing."

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents summary, conclusions and recommendations of the study. The recommendations are proposed as a means of addressing the challenges of access to financing as well as improving the performance of small and medium enterprises. Summary and conclusions on the other hand, involve salient issues found out in the study.

5.1 Discussion of the study findings

Long term financing was found to be composed of mainly equity and debt financing among the small and medium enterprises in Konyo-Konyo market. Equity financing, which is one of the types of financing for long-term arrangements, is seen to be a key source of financing for SMEs in Konyo-Konyo market. The scores on the various aspects of equity financing show that an average 79.5% of the respondents were in agreement that equity financing is important for SME performance. Most of the businesses were found to be financed by more equity and debt and very small percentage of mortgage, except for the hardware and general merchandise businesses whose mortgage financing percentage stood at 16%. This was due to the fact that SMEs engaging with hardware and general merchandise had the necessary requirements to fulfill the loan conditions from lending institutions compared with other types of SME businesses. This enables them to acquire mortgage and debt financing over longer periods of time. These findings are consistent with the findings of Lema (2013), who found that most of the SMEs owners get their initial capital from personal savings followed by loans. Wachilonga (2013) also found that SMEs financing is made up most with equity, particularly internal sources of financing during the initial or final stages of operation. Chepkemoi (2013) revealed that most of SMEs rely on internal sources because external sources of financing particularly debt were more difficult. Also, the study findings are consistent with Pecking Order Theory of hierarchical preference for equity (particularly internal equity) and debt financing. According to the pecking order theory in the presence of asymmetric information, a firm will prefer internal financing, but would issue debt if internal financing sources were exhausted. Lema (2013) also found the pecking order theory relevant for long-term debt.

5.1.1 Discussion of the findings on equity financing and the performance of SMEs

On the effect of equity financing on the performance of small and medium enterprise businesses in Konyo-Konyo market, the results show that overall, respondents agreed that equity is a prime source of financing for business in this market, that most SME owners use their own equity as well as funds from close family members to finance their businesses, owner's equity is preferred because it maintains ownership of the business in the hands of the founder, since in many cases husbands provide equity for their wives' businesses and vice versa without having to claim ownership, and close family members can provide equity without seeking partial ownership, rather, just a share of profits. Also, that equity financing can be secured over a short, medium and even long term according to the business needs, and owner's equity offers a guarantee of long term financing needed for business stability. Furthermore, that there is no debt burden to repay, and this helps the business to function properly, and that equity partners (family members) offer free labour, advise and expertise, needed for business success. With an average mean score of 4.03, the results illustrate an overall agreement that equity financing affects the performance of SMEs in Konyo-Konyo market.

These findings were consistent with the findings of Chepkemoi (2013) in his study found that as equity financing increases firm profitability. Also, Wakida (2011) revealed that many of the medium sized enterprises that employed external equity in their financing structure alluded to paying a lot in terms of interest rates, hence a reduction in profitability of the overall business. He recommended that SMEs that pursue a high external equity financing policy compared to the industry average should seriously consider increasing the internal equity component in their financing structure in order to avoid the negative effects of excessive demands on business. Other studies by Berger and Bonaccorsi di Patti (2006), whereby lower equity capital ratio is associated with higher firm performance as regard to profitability. Zeitun and Tian (2007) was similarly of the opinion that equity financing is closely linked to the financial performance (profitability).

5.1.2 Discussion of the findings on debt financing and the performance of SMEs

On the effect of debt financing on the performance of small and medium enterprise businesses in Konyo-Konyo market, results show that majority of the respondents were in agreement with the assertion that debt is a reliable source of financing on both short and long term basis, used to acquire long term purchases such as machinery, equipment, land etc., that the assets which would have been used to capitalize the business are secured as collateral to acquire debt financing, and that the lender does not seek partial ownership so the business owner retains all decision making power to control his business. Also, that the lender requires payback of his principle and interest at a given time whether the business is doing well or not, and that long term debt can be repayable over many years, making it flexible enough to allow the business to stabilize. Also, that if the debt is secured on a fixed rate, the interest expense is known, which enables better business planning and budgeting, and also that interest on debt is tax deductible, which reduces the net payable obligation on the business. With an average mean score of 3.94, the results show that there was overall agreement that debt financing has a positive effect on the performance of SMEs in Konyo-Konyo market.

These findings were consistent with the study of Chepkemoi (2013) who argued that as business debt increases, firm profitability decreases. Myers (1984) prescribed a negative relation between profitability and debt. Profitable firms are likely to have more retained earnings. Successful companies do not need to depend so much on external finance. Empirical evidence from Kayo and Kimura (2010) is consistent with the pecking order theory. Daskalakis and Psillaki (2008) found a positive but dimishing relationship between profitability and debt financing. Kebewar (2013) also found a negative influence of debt on profitability of French SMEs and Forte, Barros and Nakamura (2013) finds that profitability is negatively related to leverage for Brazilian SMEs. Similar evidence is also provided by Akdal (2010) for UK SMEs who finds profitability to be negatively related to leverage for total debt and long-term debt ratios.

5.1.3 Discussion of the findings on mortgage financing and the performance of SMEs

On the effect of mortgage financing on the performance of small and medium enterprise businesses in Konyo-Konyo market, the results show that SME owners secure financing by use of 'loan against property' of mortgage loans, with land, homes, commercial properties are used as security, that mortgage financing has more substantial security and so lower interest rates and offers longer tenure needed for stabilizing the business. Also, that in case of failure to pay, the business is still secured since the mortgaged property is the only one affected, and that mortgage financing is easy to acquire with hassle free documentation. Furthermore, that repayment can be spread over a very long period of time, even up to 15 years, and in case of mortgaged commercial properties, repayment is derived from the property itself through the monthly rental income. With an average mean score of 4.04, the results illustrate an overall agreement that mortgage financing has a positive effect on the performance of SMEs in Konyo-Konyo market. However, the results also show that due to the security requirement on mortgage loans, most people cannot access them because they do not have the valuable property that they can use as security to acquire mortgage financing, as indicated by the fact that the biggest number of businesses which depend on mortgage financing was hardware and general merchandise with only 16%. Others scored lower with 8%, 3% and 1% for textiles, secretarial and stationery supplies and foodstuffs respectively.

These findings are consistent with those of Morallec (2001) who found that the importance of liquid assets is conditioned by the value of its assessment whether the value of liquid assets is measured by the liquidation value of the firm's assets or by the selling price of assets over the entire life of the firm, and that these are significant in enabling the firm secure financing over a longer term. Sibilkov (2004) in her study, which was based on a sample of U.S. public companies, came to the conclusion that liquid assets increased leverage and access to longer term debt of the companies. According to this finding, it can be concluded that firms with more liquid and thus reversible assets, are more leveraged.

5.1.4 Discussion of the findings on the Effect of long-term financing on the performance of SMEs

On the effect of long term financing on the performance of SMEs, performance was measured in terms of productivity levels, market share, profitability and return on investment, and with an average mean score of 4.00, there was overall agreement that long-term financing positively influences all the four aspects. This means that with a guarantee of long term financing, small and medium enterprise businesses in Konyo-Konyo market are able to invest in long term ventures such as machinery and equipment, and ensure higher stock of inventory, resulting into improved productivity, expansion of the market share, increased profits and higher returns on investment.

5.2 Conclusions

There is enough evidence to state that long term financing has a positive effect on the performance of SMEs in Konyo-Konyo market. It has also been revealed that utilization of different levels of equity, debt and mortgage financing sources enables firms to invest more hence more profits. From the study findings there is enough proof that long term financing enables SMEs to engage in financial investments. A high degree of equity financing (internal sources) implies relative high degree of profitability. Higher internal equity financing has a significantly high positive effect on profitability. From the findings, firms with more liquid stock are highly likely to meet their financial obligations in the required time and higher profitability is as a result of proper organization of equity and debt. Therefore, it is true to state that there is a positive significant relationship between long term financing and performance of SMEs in Konyo-Konyo market. This is supported by Ahmad (2007) who argued that there is a need to examine more closely the factors that may contribute to a firm's ability to secure capital for success and performance of SMEs.

5.3 Recommendations

Small and medium enterprise business owners should devise means of increasing liquidity and cash flows in order to increase financial viability in their businesses. This will improve financial performance among the SMEs in the different sectors.

Small and medium enterprise business owners should put more effort in mobilizing and utilizing funding from equity financing (from family and friends) since it's the most favorable in ensuring the achievement of the targeted profit. Once this is done, there will be high profit turnover leading to better SMEs performance.

Small and medium enterprise businesses should avoid situations where they acquire debt at very long term at adjustable interest rates because they can be vulnerable to fluctuations in the money markets, and they can be highly leveraged, leading to bankruptcy if they are unable to make payments on their debt obligations.

5.4 Recommendations for Further Studies

More research needs to be carried out to evaluate the effect of availability and access to reliable financing on the productivity and profitability of Small and medium enterprises, since many SMEs are restricted by the heavy loan requirements and yet they need to access financing to be able to operate.

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APPENDIX I: QUESTIONNAIRES

Dear Respondent,

My name is Kuol Nyol Deng, a student of Master of Business Administration and Management Studies at Uganda Martyrs' University. I am conducting a study on "Long term financing and SME performance". You have been selected to participate in this study by answering the following questions. Please tick the most appropriate response or elaborate where necessary. The information obtained from you shall be kept confidential and used for academic purposes only. You are also free to withdraw from participating at any time.

Thank you in advance for your participation.

Section A: <u>Respondents' Demographic Information</u>

1. Gender   Male   [ ]

    Female   [ ]

2. Age   18 – 25   [ ]

    26 – 35   [ ]

    36 – 45   [ ]

    46 and above   [ ]

3. Education levels   Tertiary level   [ ]

    Secondary level   [ ]

    Primary level   [ ]

    Other, please specify……………………………………...

4. Type of business

Textiles [ ]

Foodstuffs [ ]

Hardware and general merchandize [ ]

Secretarial and Stationery supplies [ ]

Other, please specify…………………………………...

5. Duration of stay in business 1 – 3 years [ ]

3 – 5 years [ ]

5 – 10 years [ ]

Over 10 years [ ]

6. Number of employees 1 – 15 [ ]

16 – 30 [ ]

31 – 45 [ ]

46 – 60 [ ]

61 – 75 [ ]

7. Size of Capital of the business 1,000 – 15,000 SSP [ ]

15,000 – 50,000 SSP [ ]

50,000 – 100,000 SSP [ ]

100,000 – 250,000 SSP [ ]

250,000 – 500,000 SSP [ ]

Section B: <u>Equity financing and SME performance</u>

Please tick the most appropriate option in the ranking of the questions; Use the following Likert scale to rate your answers:

1 – Strongly Disagree (SD) 2 – Disagree (D) 3 – Not Sure (NS)

4 – Agree (A) 5 – Strongly agree (SA)

Alt.	**Statements**	**Rankings**				
		1	**2**	**3**	**4**	**5**
a.	Equity is a prime source of financing for business in this market					
b.	Most SME owners use their own equity to finance their businesses					
c.	Equity finance is also acquired from close family members					
d.	Owner's equity is preferred because it maintains ownership of the business in the hands of the founder					
e.	Husbands provide equity for their wives' businesses and vice versa without having to claim partial ownership					
f.	Close family members can provide equity without seeking partial ownership, rather, just a share of profits					
g.	Equity financing can be secured over a short term, medium term and even long term according to the business needs					
h.	Owner's equity offers a guarantee of long term financing needed for business stability					
i.	There is no debt burden to repay, and this helps the business to function properly					
j.	Equity partners (family members) can offer free labour, advise and expertise, needed for business success					

SECTION C: <u>Debt financing and SME performance</u>

Please tick the most appropriate option in the ranking of the questions; Use the following Likert scale to rate your answers:

1 – Strongly Disagree (SD) 2 – Disagree (D) 3 – Not Sure (NS)

4 – Agree (A) 5 – Strongly agree (SA)

Alt.	**Statements**	**Rankings**				
		1	**2**	**3**	**4**	**5**
a.	Debt is a reliable source of financing on both short and long term basis					
b.	Debt financing is used to acquire long term purchases such as machinery, equipment, land etc.					
c.	Assets which would have been used to capitalize the business are secured as collateral to acquire debt financing					
d.	The lender does not seek partial ownership so the business owner retains all decision making power to control his business					
e.	Lender requires payback of his principle and interest at a given time whether the business is doing well or not					
f.	Long term debt can be repayable over many years, making it flexible enough to allow the business to stabilize					
g.	If the debt is secured on a fixed rate, the interest expense is known, which enables better business planning and budgeting					
h.	Interest on debt is tax deductible, which reduces the net payable obligation on the business					

SECTION D: <u>Mortgage financing and SME performance</u>

Please tick the most appropriate option in the ranking of the questions; Use the following Likert scale to rate your answers:

1 – Strongly Disagree (SD)   2 – Disagree (D)   3 – Not Sure (NS)

4 – Agree (A)   5 – Strongly agree (SA)

Alt.	**Statements**	**Rankings**				
		1	**2**	**3**	**4**	**5**
a.	SME owners secure financing by use of 'loan against property' of mortgage loans					
b.	Land, homes, commercial properties are used as security to acquire financing					
c.	Mortgage financing has more substantial security and so lower interest rates					
d.	Mortgage financing offers longer tenure needed for stabilizing the business					
e.	In case of failure to pay, the business is still secured since the mortgaged property is the only one affected					
f.	Mortgage financing is easy to acquire with hassle free documentation					
g.	Repayment can be spread over a very long period of time, even up to 15 years					
h.	In case of mortgaged commercial properties, repayment is derived from the property itself through the monthly rental income					

SECTION E: <u>The effect of long term financing and on the performance of SMEs</u>

Please tick the most appropriate option in the ranking of the questions; Use the following Likert scale to rate your answers:

1 – Strongly Disagree (SD) 2 – Disagree (D) 3 – Not Sure (NS)

4 – Agree (A) 5 – Strongly agree (SA)

Alt.	Statements	Rankings				
		1	2	3	4	5
a.	Long-term financing helps to increase on the productivity levels					
b.	Long-term financing enables SMEs to expand their market share through increased production					
c.	Long-term financing enables SMEs to invest in long-term ventures, leading to increased profitability					
d.	Long-term financing increases return on investment					

APPENDIX II: INTERVIEW GUIDE

1. Your name, gender and age?
2. How long have you worked in this business?
3. Are you a business owner or manager?
4. What are the sources of financing for your business?
5. What percentage of your capital is equity and which is debt?
6. Do you use short, medium or long term financing for your business?
7. Give reasons for your answer (in 5 above)
8. What are the factors that influence the choice of financing in your business?
9. Does your choice of financing have any effect on the performance of your business?
10. If yes, how?
11. Which other factors influence the performance of your business?