**`THE CONTRIBUTION OF MICROFINANCE INSTITUTIONSON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NYENDO SSENYANGEDIVISION, MASAKA MUNICIPALITY.**

**A CASE OF MASAKA MICROFINANCE AND DEVELOPMENT COOPERATIVE TRUST (MAMIDECOT) -NYENDO BRANCH**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT OFUGANDA MARTYRS UNIVERSITY**

**JULY, 2020**

## DECLARATION

I, Byonanebye Gordon, the researcher hereby declare that, that the material contained in this research report of "**The Contribution of Microfinance Institutions on the Growthof SMEs in Nyendo Ssenyange Division, Masaka Municipality using a case study of Masaka Microfinance Cooperative and Development Trust (MAMIDECOT)-Nyendo Branch** "according to my knowledge, has never been presented to any Institution for any academic award.

Signature……………………… Date…………………

Byonanebye Gordon

## APPROVAL

This is to certify that this research report of "**The Contribution of Microfinance Institutions on the Growth of SMEs in Nyendo Ssenyange Division, Masaka Municipality using a case study of Masaka Microfinance Cooperative and Development Trust (MAMIDECOT) Nyendo Branch"** has been produced by Byonanebye Gordon under my supervision and submitted to Uganda Martyrs University in partial fulfillment for the award of Bachelor of Business Administration and Management.

Signature………………………… Date………………

**MR. KIYEMBA DENIS**

**(SUPERVISOR)**

# DEDICATION

I dedicate this research report to my beloved father, mother, my wife and our son, sisters, my dear brothers and my friends for the support they gave me. With these heartfelt words “Your guidance, support and love will always be cherished and treasured”. May the almighty God reward them abundantly.

## ACKNOWLEDGEMENT

First, I thank the almighty God for sustaining my life and seeing me through this course at the University. He showed me that I can do all the things through Christ who strengthens me. I would not have achieved all that I have done without His mercy, grace, provision and wisdom.

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| | |
|---|---|
| A.E.G.R | African Economic Growth Report |
| GDP | Gross Domestic Product |
| MAMIDECOT | Masaka Microfinance and Development Cooperative Trust |
| MFIs | Micro Finance Institutions |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package for Social Sciences |
| TC | Total Cost |
| TR | Total Revenue |

# ABSTRACT

This study intended to evaluate the contribution of Microfinance institutions on the growth of SMEs considering a case study of Masaka Microfinance Cooperative and Development Trust (MAMEDICOT) which is found in Nyendo Ssenyange division, Masaka Municipality, Masaka District located in the central part of Uganda.

The review of Literature was collected using the set objectives which were, to examine the role of savings on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch, to assess the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch and to examine the role of training on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.

To achieve the set objectives, the tools used in collecting data involved use of questionnaires, and secondary data got from various books from the library and from the internet which made data collection and analysis easier. The study involved 50 respondents from MAMEDICOT and the study was guided by the economic theory.

Data from the questionnaires was coded, entered, edited for consistency and easiness in and later analyzed using SPSS Software where pie – charts and bar graphs were constructed to establish the relationship that existed between microfinance institutions and the growth of SMEs.

Conclusively, the researcher found out that saving services moderately enhanced the growth of SMEs. This is because saving services enabled SMEs to earn extra money in form of interests, increased the capital structure which enabled them to stay into business for a long time, used for future business projects or for business expansion, used as collateral to obtain a loan for the business, saving services had a favorable effect on the realization of desired business goals. On the other hand, majority of the respondents were not sure whether savings enable their businesses to cater for taxes in case they have to pay the taxes at the time they are supposed to be paid.

The researcher recommended that the government should ensure that the microfinance institutions adhere to the laws and regulations of the businesses and country in a reasonable manner. The researcher also suggests that proper and extensive activities should be provided for clients who are granted loans. The loans should be client oriented and not product oriented. Therefore SMEs have a great responsibility to ensure the proper use of loans which is an important tool when it comes to the business acceleration.

# CHAPTER ONE

# GENERAL INTRODUCTION

## 1.0 Introduction

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (Asiama, 2007). The services provided by microfinance institutions (MFIs) are marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999).

However, the World Bank (A.E.G.R, 2015) focusing on the study on the growth of small scale enterprises in Africa has indicated that, still most of them had a challenge of securing loan an financial assistance from the microfinance institution. The report further indicates that this small scale enterprise fails to fulfill the requirement that are imposed by these financial institution including lack of recognized assets to be used as collateral by financial institution as the guarantee for loan or credit facilitation, pledge of the business and permanent location to conduct their business.

This research basically aimed at establishing the contribution of microfinance institutions in relation to the growth of small or medium enterprises. This chapter covered the research background, the problem statement, the general objective, the specific objectives, research questions, scope of the study, the significance of the study, justification of the study, the conceptual framework and the definition of key terms and concepts.

## 1.1 Background to the Study

### 1.1.1 Historical background to the study

Since Uganda attained independence in 1962, considerable efforts have been directed towards the nation's industrial development. The initial efforts were government-led through the vehicle of large industry, but lately emphasis has shifted to Small and Medium Enterprises (SMEs). Since 1986, government had played down its role as the major driving force of the economy by a process of commercialization and privatization. Emphasis, therefore, shifted from large-scale industries mainly to small and medium scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention was focused on the organized private sector to spearhead subsequent industrialization programmes (Pasanen, 2003).

Microfinance activities which provided a positive effect on the development of small scale entrepreneurs was witnessed in Bangladesh in 1976, when Dr. Mohammed Yunus started a small microfinance scheme as an experiment at all level in the rural areas of Bangladesh. The experiment evolved from its initial success into the Grameen Bank, the world's first microfinance institution, which popularized group lending, in which loans were issued to individual members of small, homogeneous groups, who collectively guarantee loans issued to their members. He introduced a system where small scale women entrepreneurs received small loans even for those who were unable to gives any guarantee Grameen Bank and Bangladeshi bank where offered small loans which they were required to return after a specified period of time (BBC, 2011)

Small or Medium Enterprises are a major source of entrepreneurial skills, innovation and employment. They are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006). In Uganda, they create employment at low levels of investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society. Emphasizing further on their role in employment creation, Wachira (2006) points out that 12.8% of the retrenches who received the golden- handshake‟ in Kenya in the year 2002 started their own business.

Yunus (1976) initiated the advancement of growth of women's entrepreneurship and economic empowerment in Bangladesh through provision of education, and engagement program. All of these introduced education programs were aimed at enhancing the education capacity of the small women entrepreneurs so as to make them more innovative. Despite those positive achievement, there are some challenges which were experienced in mostly of villages of Bangladesh that have seen a dramatic rise in the number of cases of serious individuals over-indebtedness among the small scale women entrepreneurs of the main borrowers of micro credit from the MFIs, insecurity and un-repayable business-related debt. The reason was most of small and microloans were taken out for consumption purposes and have simply not led to the many successful of small scale entrepreneurs (Jared, 2015).

The introduction of microfinance institution in African countries focused toward the assisting the growths of small scale enterprises have met with a number of challenges during their inception stage. According to Abiola (2015) Nigeria introduced the microfinance institution so as finance the small scale enterprises sector during the year of 2000 but despite the flourishing of the microfinance institution in Nigeria the growth of small scale enterprises has been stagnant specifically those within the rural areas due to administrative bureaucracy on the issuing of loans and their the recovery from individual small scale enterprises. The whole process had led to the stagnation of economic development SME in Nigeria as unemployment rate has continued to grow at the rate of 15%.

In Uganda at the beginning of the 1990s there were no specialized formal financial institutions delivering micro finance, but a handful of non-governmental organizations (NGOs) and government programmes doing so. The last 20 years have experienced a rapid expansion of the industry. By December 2005 the number of active MFIs was about 750, the majority of which were savings and cooperatives (SAACOs) MOFPED (2006). In 2004 and 2005 for non BOU-regulated MFIs or Tier 4 MFIs, namely Finca-Uganda, Uganda Micro finance Union, Pride Uganda and Uganda Woman's Finance Trust (UWFT) transformed into BOU-regulated MFIs following the enactment of the Micro finance Deposits-taking Institutions (MDI) Act, 2003. Furthermore, a lot of restructuring is taking place in the industry, as some MFIs are putting in place the necessary requirements to become MDIs, while others are changing their legal status and restructuring operations to conform to the new legal regime (micro finance Act 2003).

The development of Medium enterprises is generally agreed to be a key ingredient in poverty reduction (World Bank, 2000). Microfinance has one of its visions being to steer the growth of micro enterprises. Among many challenges facing small and medium enterprises (Medium enterprises) is lack of access to finances. In Uganda, credit facilities to Medium enterprises are in the form of loans or debt financing offered by Banks which provide for their growth capital. The obstacles to Medium enterprises in accessing credit facilities is the perception by Banks that offering loans to Medium enterprises is risky, inability of the Medium enterprise operators to fulfill the collateral requirements, lack of a guarantee scheme to back up banks financing Medium enterprises, high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present business plans that meet bank requirements (Ministry of Finance, 2006).

### 1.1.2 Contextual background

In Uganda context, Microfinance institutions were formally introduced in 1985 by the government for lending small amounts of money to small entrepreneurs who had no credentials and collateral demanded by commercial banks. The main objective of microfinance institution was to ensure they provide financial services to the small scale entrepreneurs. Apart from financial services, some MFIs provide social services such as group formation and training on investment skills and group management to the small scale enterprises. Microfinance institutions seem to be supportive and friendly to small scale enterprises that are otherwise not having an opportunity to access loans from commercial banks (Mugendi, 2015).

Small and Medium Enterprises (SMEs), sometimes referred to as micro, small and medium enterprises (MSMEs) play an important economic role in many countries (Parenzee, 2003). The growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as "stepping stones" to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986).

Therefore, introduction of microfinance institution in Uganda is seen as the best alternative source of financial services for low income earners and their small scale enterprises as a means to raise their income. It is estimated that all the MFIs in Uganda put together serve a combined client population of about 1,000,000 small scale enterprise, which is only around 10% of the total estimated demand.). Commercial banks including community banks account for around 50,000 while the NGO category accounts for the an estimated population of 220,000 clients(Kessy, 2014). Micro finance services have become significantly important globally and more preferably at national levels in developing countries. A Microfinance institution (MFI) is an organization that provides financial services in terms of loans, funds at a given interest rates. For example the modern microfinance movement started in the 1970s when pilot programs in Bangladesh, Bolivia, and other countries began to provide small loans to groups of vulnerable women to invest in economic activities.

According to Ledger wood (2002) the term microfinance refers to the provision of financial services to low income client including self-employed. Integrated Microfinance Bank (IMFB 2007) was of the opinion that microfinance is the supply of loans, savings and other basic financial services to the poor. Everyone needs a diverse range of financial instruments to run their business, build asset, stabilize consumption and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings pension insurance and money transfer services.

Jamil (2008) asserts that microfinance is the entire flexible structures and processes by which financial services are delivered to micro entrepreneurs as well as the poor and low income population on a sustainable basis. Africa remains one of the least developed, and the most under-banked continent. This is not a coincidence, and reflects the importance of banking as an engine for economic development. Interest in microfinance has soared in the recent decade and the instrument is now seen as one of the most promising tools to tackle poverty in the developing world. The fascination with microfinance derives from the fact that the provision of financial services can contribute to poverty reduction and pass the test of sustainability at the same time.

For donors, microfinance is especially attractive as it can be delivered in an institutional and financially sustainable manner that permits them to withdraw after making relatively modest investments. However, microfinance has sometimes disappointed its supporters. Uganda is generally seen as the country with the most vibrant and successful microfinance industry in Africa. Some MFIs have experienced strong growth and are now reaching a considerable number of clients, with three serving between 25.000 and 45.000 clients. A number of microfinance providers are close to financial sustainability or have already surpassed it. A series of impact studies conducted in Uganda in the past years have demonstrated that the provision of microfinance services contributes to reduce client vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, and enables clients to acquire valued skills.

According to Waswa Balunywa (2010)explained that **"**Small scale enterprises worldwide have been recognized as engines of growth and development**"** (Harper, 1984; et al, 1997; Ba-el and Felsenstein, 1990) and in many countries there has been some considerable effort to support them so as to create the necessary employment opportunities, incomes and productive capacity. Besides the evidence available about the role of small enterprises some of the reasons for them were being preferred as follows: ease of formation, capital requirements, flexibility, mobility and a variety of other factors. Seen from a global perspective, small businesses have a specific niche in global economic affairs. The global market is dominated by world class competitors in the form of multinationals and for the developing countries; small business appears to be the way to compete. For developing countries, small-scale enterprises would generally mean enterprises with less than 50 workers and medium size enterprises would usually mean those that have 50-99 workers. In Uganda, a small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US$ 30,000), and the annual income turnover of between Ugshs.10-50 million (US$6,000-30,000). A Medium sized enterprise is considered a firm, which employs between 50-100 workers. (Draft Policy Paper on Micro & Small Enterprise Development Uganda, 1999).

Kasekende Louise & Henry Opondo (2003),explains that in Uganda, a small medium enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US$ 30,000), and the annual income turnover of between Ugshs.10-50 million (US$6,000-30,000). A Medium sized enterprise is considered a firm, which employs between 50-100 workers. Other characteristics have not been fully developed.

It is also reported by the Ministry of Planning and Economic Development **(1992)** that over 80% of Uganda's manufacturing output is by small enterprises. The sector also employs up to 2.6 million people in Uganda (Uganda Investment Authority, 1996. Katwe Small Scale Industries Business Association continues to face various outstanding challenges coupled with lack of information and poor accessibility to micro-finance services. Against this background, the microfinance services have no significant contribution to the growth of small and medium enterprises.

In 1999, the United Nations Development Programme (UNDP) in coordination with the Government of Uganda (GOU) assisted in the financing and launching of Masaka Microfinance and Development Cooperative Trust, to support the people of Masaka District. Beginning as an organization consisting of two staff and 35 members, Masaka Microfinance and Development Cooperative Trust has now grown to employ more many staffs and it has expanded by opening up other branches including Lukaya, Nyendo, Bukomansimbi and Bukunda where Nyendo is the main branch. The organization has a wide array of clients ranging from farmers, small business owners and youths with services that target their specific needs. Loans are structured for the different sectors Masaka Microfinance and Development Cooperative Trust's client work in and savings are promoted as the key to development.

### 1.1.3 Conceptual background

Microfinance according to Otero (2004) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (2004) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2006) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks."

Microfinance institutions are designated financial institutions dedicated to assisting small enterprises, the poor, and the households who have no access to the more institutionalizes financial systems, in mobilizing savings, and obtaining access to financial services. (Elahi et al 2004).

Micro finance is defined as the provisions of very small loans (micro - credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. (Kimotho, 2005).

Small and medium enterprises are an outline which requires small amount of capital and has some reasonable number of employees. (Anderson 1998).

Small and Medium Enterprises sometimes referred to micro, small and medium enterprises (MSMEs). Any activity involved in production and distribution of outputs to meet the expectation of client can be referred to as small and medium enterprises as respectively explained by Kessy and Urio (2006).

Growth of SMEsin general refers to the increase in size. In research, SME's growth has been operationalized in many ways and different measures have been used. This may be one reason for the contradictory results reported by previous studies, though other explanations have also been presented (Delmar, Davidsson and Gartner, 2003). Growth can also serve as an instrument for increasing profitability by enlarging the firm's market-share. Other similar goals include securing the continuity of business in the conditions of growing demand or achieving economies of scale. Further, growth may bring the firm's new business opportunities, and on a larger scale growth enhances the firm's credibility in the market. Also, achieving a higher net value of the firm can be regarded as a motive for growth (Pasanen, 2006).

Micro financing loan are small loans granted to the basic sectors, on the basis of the borrower's cash flow and other loans granted to the poor and low-income households for their microenterprises and small businesses to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases (Odebiyi, & Olaoye, 2012).

### 1.1.4 Theoretical background

This research study covered the following theories;

**Transaction cost theory**

Transaction cost approach to the theory of the firm was created by Ronald (1937) in his article "The Problem of Social Cost" "In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on". More succinctly transaction costs are: Search and information costs, bargaining and decision costs, and policing and enforcement costs. The transaction cost can be conceptualized as a nonfinancial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan (Stiglitz, 1990).

**Women empowerment theory**

Cheston and Kuhn (2002) talk about the theory of empowerment. The theory indicates that women account for nearly 74% of the 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent payment records in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is a very good idea to lend to the poor and to women. Financial self-sustainability paradigm: The main consideration in programme design is provision of financially self-sustainable microfinance services to large numbers of people particularly micro and small entrepreneurs. The focus is on setting of interest rates right to cover costs, to separate microfinance from other interventions, to enhance separate accounting, to expand programmes so as to capture economies of scale to use group to decrease cost of delivery. Gender lobbies argue that targeting women on grounds of high women repayment rate, it is assumed that increasing women access to microfinance services will in itself lead to individual economic empowerment, well-being and social and political empowerment.

**Economic theory**

This research study was guided by Economic theory that was propounded by Remenyi (1950) because the theory discusses on how microfinance institutions can be utilized in the provision of loan and credit facilities to small and medium enterprises to enable them to expand their business and facilitate their economic growth. Also, the economic theory treats microfinance institutions (MFIs) as infant industries, since many societies have embraced microfinance as a major strategic tool to combat the severe poverty, particularly in rural areas. This stems mainly from the belief that providing small loans, savings facilities, insurance products, money transfer services and skills training to poor small scale entrepreneurs and could be a way of providing opportunities to be self-reliant and play active roles in their households and communities and the economy as a whole in rural areas. Therefore the other theories are left out since they do not benefit SMEs, and also the economic theory stipulates that it's through financial empowerment of small scale entrepreneurs in rural areas contribute positively toward the poverty reduction and economic sustainability of the majority of rural population.

## 1.2 Statement of the problem

Microfinance institution is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services (Diagne and Zeller (2006). Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. As microfinance institutions become more widely accepted and move into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs (Mosley and Hulme, 2003).

Markowski (2007) conducted a study on the contribution of MFIs to the enterprise, in their project designs are failing to meet the needs of the very poor and destitute, who do have a demand for microfinance services, especially for savings (Littlefield and Rosenberg, 2009 and Dichter, 2004).

Another study done by Madole, (2013) on the contribution of microfinance institutions on the growth of SMEs in Nakuru, Kenya. The study found that access to loans positively influenced the growth of 92% of SMEs. Most SMEs were found to be hindered by high cost of finance and lack of collateral for the new SMEs. Most SMEs rely too heavily on short-term loans from microfinance institutions, which are more expensive and therefore increase the risk of failure due to strict financing rules and procedures (Nyarko, 2005). For SMEs, equity financing from MFIs could be more appropriate for their growth and expansion. Thus, it is more appropriate to study the effect of MFIs on the growth of SMEs. SMEs find it difficult to access loans from the banking sector. The MFIs may be a solution because they would lend without putting stringent demands on SMEs. This notwithstanding, the SMEs have not shown great growth. The failure rate continues to be high.

Coopper (2012) asserted that, the growth of small and medium enterprises has continually increased because of the increase of microfinance institutions in the towns within Uganda.

In many cases, microfinance institution lending has been a prime source of credit to SMEs. However, with the credit facilities period (giving out loans), the credit relationship between microfinance institutions and SMEs has been associated with a lot of risk, and in order to mitigate these risks, microfinance institutions all over the world have used strict financing rules and collateral in financing SMEs growth (Beck *et al.*, 2004).

However Yasin, (2013), adapted a study of Microfinance institution lending relevance to the SMEs growth which identified that Small and medium enterprises are facing challenges to access loan from MFIs and this results many Small and medium enterprises to demise soon or may not be started due to lack of ability to overcome the challenges. The finding showed how SMEs face some requirements to have an access to borrow money from Microfinance institutions. Also the findings revealed that the requirements hinder the possibility of borrowing money from microfinance institutions so as to start, run or expand small businesses. It is because of the fact that the SMEs owners cannot meet the requirements set by the Microfinance institutions.

Bakht (2008) carried out a study on the challenges facing SMEs and he acknowledged that insistence on collateral security adversely affected the growth of SMEs and the interest rates charged were prohibitive. Aftab (2001) carried out a study on the cost of acquiring capital and established that SMEs are not satisfied with the existing banking institutions as this was because lending institutions often require guarantees or collateral beyond the means of the borrowers.

Tagoe (2005) conducted a study on the burden that SMEs faced in getting financial approval. The study found out that the financing of the enterprises were strict and there was a high demand for collateral among financial institutions. In addition, there were long procedural issues such as a lot of paperwork, collateral security and high processing fees and prepayment charges, issues that affected the growth of SMEs.

It’s from the above conflicting assertions by the scholars that the researcher investigated on the contribution of microfinance institutions on the growth of small and medium enterprises in Nyendo Ssenyange division, Masaka Municipality-Masaka district.

### 1.3 General objective of the Study

The general objective of the study was to examine the contribution of Micro Finance Institutions on the growth of SMES, using a case study of Masaka Microfinance and Development Cooperative Trust – Nyendo branch.

### 1.4 Objectives of the Study

The following objectives guided the researcher during the collection of data from the field;

- To examine the role of savings on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.
- To assess the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.
- To examine the role of training on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.

**1.5 Research Study Questions**

- What is the role of savings on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch?
- What is the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch?
- What is the role of training on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch?

**1.6 Scope of the study**

**1.6.1 Geographical scope**

The study mainly looked at Masaka Municipality emphasizing on SMEs in Nyendo Ssenyange Division leaving out the other divisions like Katwe Butego division and Kimaanya Kyabakuza division and was chosen because there is no any microfinance institution operating and many SMEs thus posing a major challenge of accessing the major microfinance services like loans and others.

The study was carried out at Masaka Microfinance and Development Cooperative Trust-Nyendo branch in Masaka Municipality which is located in Nyendo town along Masaka-Kampala road near Nyendo police station. The researcher chose this study area because Headquarters of

MAMEDICOT are found in this division surrounded by SMES which include the following categories; manufacturing businesses, schools, communities, whole sale and retail trade businesses and real estate businesses.

### 1.6.2 Time scope

The study took a period between October 2019 and May 2020 because it was the period that the university required third year students to undertake a research study in partial fulfilment of the Bachelor of Business Management and Administration.

### 1.6.3 Content scope

The study focused on the contribution of microfinance institutions on the growth of Small and Medium Enterprises in Masaka municipality as the key tool in enhancing SME's growth through examining the role of savings on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch, assessing the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch and examining the role of training on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.

Each service was to be examined to find out its contribution on the growth of SMEs, which comes as a result of saving, loans and training.

## 1.7 Significance of the study

The research would enable policy makers in charting the way forward for integrating various MFIs in national development agenda.

The research would also serve as a guide to MFIs on the need to upgrade their services to meet required standards.

MFIs were also informed on the types of assistance needed by SMEs and the training required to help their clients on sustainable basis.

This study would be used by the Government through the Ministry of Trade and Industries to develop better policies for establishment and growth of small and medium enterprises. The Government of Uganda would use the results of this study to develop policies and regulations that would guide the favorable location for growth of SMEs in Masaka Municipality and other urban areas in Uganda.

Academicians who wished to undertake further research on the subject are able find the literature arising from this study to be of great value since it would add value on the existing literature. Likewise the findings of this study would enable the researcher to make recommendations on ways to improve performance of SMEs particularly SMEs.

The researcher will manage to graduate after this study is completed. The study would be useful even for the other coming researchers; by using it as reference and adding unique recommendations and would serve as reference for future research.

The management of microfinance institutions would be interested to know the contribution of this sector to SMEs economic growth. The management of MFIs can be happy to see their money being well spent for the benefit of its customers. This study can therefore help the MFIs know how effective and efficient they have been towards the economic growth of SMEs.

The study can create an awareness of the role of MFIs on SME growth. The results from the study would also help the employees of MFIs understand the SMEs sources of finance, the role of MFIs in SME growth and identify ways of improving the microfinance financing activities.

## 1.8 Justification of the study

It is argued that credit constraints, lack of external debt, and equity capital were among the main obstacles to the sustainability of SMEs particularly in Masaka Municipality. Due to the information asymmetries, SMEs are more likely to be charged relatively high interest rates and asked for high collateral and loan guarantees. Furthermore, SMEs also face external barriers, internal organizational barriers and social barriers which covered aspects of market position of a firm, access to qualified human capital, and access to network. Due to the fact that these financial constraints are to hit small and medium enterprises harder than large firms, the findings for this study helps in guiding formulation of policies and strategies to facilitate the sustainability of SMEs with the aid of finances from Microfinance Institutions.

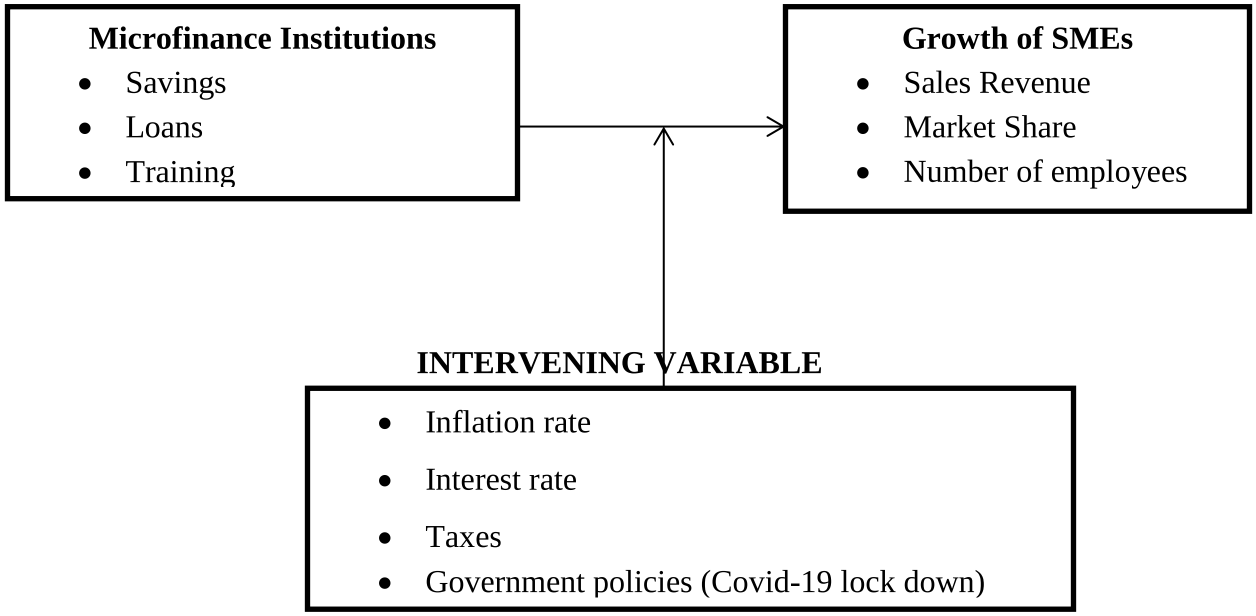
This research study is necessary to assess if Microfinance Institutions are doing enough to avail small and medium enterprises with their services and products to SMEs, and if not, what could be done to ensure that the process is smooth for all stakeholders.

This study is a build up on the various investigations by various scholars and researcher on the contribution of Microfinance institutions on the growth of Small and Medium Enterprises. It is aimed at building up on the lapse on previous investigations. The importance of this study lies in identifying the impact of Microfinance institutions on the growth of Small and Medium Enterprises in Masaka Municipality using the case study of MAMEDICOT. The findings of the research will therefore, provide a veritable base for the effective functioning of microfinance institutions to the growth of small and medium enterprises in Masaka Municipality.

## 1.9 Conceptual Framework

**Figure 1: Showing conceptual framework**

**INDEPENDENT VARIABLE** **DEPENDENT VARIABLE**




**Source: Designed by the researcher with the help of Amin (2005)**

In figure 1, the conceptual framework interconnects the independent, dependent and intervening variables. To ensure growth of SMEs over time, there should be sustainable microfinance institutions to provide products and services such as savings, loans, trainings among other services and products (Richard, 2010). This ensures that SMEs in return provided better outcomes in form of increased sales revenue, wide market share and number of employees.

The relationship between microfinance institutions and SMEs is very clear as the two depend on each other. Because SMEs by their nature do not benefit all that from the formal financial institutions, microfinance institutions have come to serve as a grass root financial intervention in the wake of bottom up development approach (Yunus, 2008). However; this can only be possible if both the Microfinance Institutions and Small and Medium Enterprises comply with set financial policies and existing market trends during their performing. When these relationship issues are complied. This in turn strengthened the microfinance institutions since SMEs were in position to repay their loans and increased savings and increased loan able funds for other businesses to borrow (Robnison, 2002).

The current perception on macroeconomic indicates predictability and permanent transformation in the inflation rate which may be impartial in the long run. This sometimes lacks substantial impact on the real activities as indicated in the budget preparation and donor funding. However, consistent high inflationary rates may have extreme implication on real economic development which may impact on donor funding in the long run. Therefore, high inflationary rates cause challenges to financial managers who controls donor funding. However, Boyd, Levine & Smith (2001) criticizes that further inflation in a donor funded country may impact on financial sector.

The budget planning, control and preparation usually do not take into account the variances which may be caused by inflationary levels within a country that causes increase in commodity prices.

Substantial challenges realized by managers in supply chain may originate from demand fluctuation as reflected in inflationary period. Factors that result to demand fluctuation involves global range of business operations, taxation, seasonality, pricing, and product availability. Therefore, an institutional interest in a commodity reflects variance over a given period while focusing on the budgetary allocation for supply chain activities towards enhancing supply stability. Therefore institutions such as United States International University of Africa should initiate supply chain management in their budget preparation towards ensuring stability in budget procedures and processes involved in supply chain management.

According to the Uganda Revenue Authority(URA) Taxation handbook, NGOs are exempted from paying income tax since they are non profit but then the URA system is an automated one and it assesses all organizations. It is therefore upon these microfinance institutions to keep tracking their operations so that they are in good books (URA Taxation Handbook, 2015).

By educating the public about tax issues and promoting transparency in tax policy, civil society groups can overcome these barriers. Vigorous, open debate on tax policies is ultimately an essential ingredient for the development of a country's "fiscal social contract," whereby citizens are willing to pay taxes because they are confident that the tax system is fair and is raising revenue for valued programs and services (Moore and Schneider, 2004).

Since microfinance institutions don't exist or operate in a vacuum, they affect and are affected by the policies of the government in which they operate. While this might be a spurious relationship caused by the fact that aid-dependent countries are also poor and have weaken institutions it still raises an interesting question about the role of government agencies in supporting and promoting financial transparency and accountability. For example all countries are affected by the pandemic Covid-19 which has put everything on standstill and most people who had their savings with Microfinance institutions withdrew their money and this somehow also has affected the microfinance institutions and SMEs at large.

### 1.10 Conclusion

In conclusion, chapter one presented the background of the study, statement of the problem, general objective of the study, objectives of the study, research questions, scope of the study, justification of the study, significance of the study and conceptual frame work.

# CHAPTER TWO

# LITERATURE REVIEW

### 2.0 Introduction

This chapter presents related literature to the study and it was guided by the objectives of the study namely; to examine the role of savings on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch, to assess the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branchand to examine the role of training on the growth of SMEs in Masaka Microfinance and Development Cooperative Trust, Nyendo branch.

**2.1Examining the role of savings on the growth of SMEs**

Savings are defined as income not spent or deferred consumption (Price, 2011). Consequently, any service provided by financial institutions for the purpose of increasing this income and its subsequent utilization by clients is referred to as a savings service (Suberu, Aremu &Popoola, 2011; Kalala &Ouedraogo, 2001). These services are particularly provided by microfinance institutions, especially when they are intended for low income earners and SSEs that cannot afford commercial banking terms (Anyanwu, 2004; Pickens, 2004; Kalala& Ouedraogo, 2001). Savings services are of importance to these categories of clients tend to include those offered in terms of set minimum account balance, return on savings, ease of opening savings accounts, depositing and withdrawals, facilitating money transfers, remittances, and realization of the goals for which they save (Asian Development Bank, 2014; Zeller, 2003). The specific savings services microfinance institutions tend to provide range over a wide spectrum that covers current savings services, demand savings or demand deposits services, special regime demand savings services, and entrepreneurial savings services, to mention but a few (Kalala &Ouedraogo, 2001).

Savings is hinged not only on the fear to lose some control over business assets and operations. It is based on the fact that using savings services is the best way of avoiding the cost of capital associated with other types of financing, which many SMEs not only find too difficult to afford but also adverse to the attainment of their business goals as desired (Whonderr-Arthur, 2009). With savings services, capital is accumulated without incurring interest expenses and loan repayments based on strict schedules that tend to weigh the SMEs down, thereby making them fail to realize their business goals (Söhnke, Gregory & Waller, 2013). The accessibility of savings services is therefore envisaged to have a favourable effect on the realization of desired business goals. It is for this reason that this paper investigates the effect of accessibility of savings services as provided by microfinance institutions on the business growth attained by SMEs in terms of such as growth in terms of sales revenue, profitability, expansion, and product range.

The current savings service is offered to all clients in form of facilitating deposits and withdrawals. This service is provided to keep clients' money in safe custody, thereby preventing it from theft, termites, fire and the temptation for unnecessary expenditures (Rutherford, 2000). Clients can deposit any amount of money and are therefore not subjected to a minimum amount. This service bears no interest, and the money is available to clients at all the time within working workers (Sherraden, 2005). All transactions carried out under this service can be free of fees or charged a constant fee every defined period, usually a year (Rutherford, 2000). This savings service allows clients to deposit and withdraw money any time they want. According to Sherraden (2005), demand savings or demand deposits are a service similar to current savings in Research Journal's Journal of Management Vol. 3terms of aim and deposit and withdrawal mechanism. It is however, different in that a minimum deposit is normally set at a fixed amount of money. Interest is paid to clients under this category so as to reactivate inactive savings accounts. A special demand savings service is for large savings clients (individual or enterprises). For these clients, the minimum balance is usually set, say, at 1.5 million for individuals and 3 million for groups and societies. Interest is also paid to these clients per annum, depending on the average monthly savings balance (Scher&Naoyuki, 2004). According to Graham (2009), under term deposits, savings are deposited for a certainperiod of time, under terms and conditions agreed between the institution and the client. During the term, the client is not supposed to withdraw any money. The amount of money to be deposited per agreed period that's weekly, monthly or annually, the term the client is not allowed to withdraw that's three months, six months, a year or more and the interest paid to the client that's to say 2%, 8% to mention but a few and the account balance vary according to the terms agreed between the institution and the client (Scher&Naoyuki, 2004).

According to Dransfield, R, &Nedham,D, (1993), savings include any amounts of money accumulated over a period. Saving money as cash under a mattress or in a teapot is clearly not wise because of the risks such as fire and theft. At the same time, it is important for savings to be effective and work on the behalf of their owner by generating interest.

The task of smoothing consumption is made more complicated if there is nowhere to store money safely. In an emergency, richer people might choose between dipping into their savings and borrowing. The choice for the great mass of the unbanked in the developing world is limited to whom to borrow from, often at great cost (Cheston and Kuhn, 2001). That they can borrow at all is partly due to the rapid growth of microfinance, which specializes in lending small amounts to poor people.

But the industry remains dominated by credit, and the ability to save through an MFI is often linked to customers' willingness to borrow from it. Of 166 MFIs surveyed in 2009 by the Microfinance Information Exchange, a think-tank, all offered credit but only 27% offered savings products. Advocates of a greater variety of financial services for the poor argue for more balance (Guichandut, 2006). This may be on the horizon. More MFIs are becoming interested in the potential of savings, thanks partly to the global financial crisis. This, together with rising financing costs and exchange-rate fluctuations for those MFIs that rely on external finance, has prompted many credit only MFIs to warm to the idea of funding at least part of their lending activity using local savings (Guichandut, 2006).

Microfinance institutions provide linked savings, blocked savings or solidarity savings services for the purpose of encouraging clients to obtain a loan and to repay it by saving a certain proportion of it within a specified period of time. The institution can, for instance, require clients to make savings worth 10% of their loan for every two, three or more months, depending on the agreed schedule. The savings are not accessible to the clients until the loan is paid off. It is a non-interest-bearing security deposit. The preferential voluntary fixed deposit savings services are provided to organizations that can afford a set minimum deposit without withdrawing any money for specified minimum term that's 3 months. The interest paid to a client increases with increase in the amount of deposits and term. The conditions are negotiated according to the amount, term and the nature of the partnership with the depositor (Madhurantika, 2009). Contractual savings agreements are other services rendered to savings clients, especially those who earn wages whether with SMEs or large-scale enterprises in the public or private or even in the informal sector. The deposit period may be monthly or with some other fixed frequency. When the contract matures, the principal is returned with interest in a single lump-sum payment (Graham, Christen & Imran, 2009). The payroll deposit savings service involves payroll deposit or salary transfer from employers directly into employees' savings accounts. The loan amount available and its term depend on the number of interested employees. This service saves the employer time, reduces absenteeism amongst staff, and facilitates salary loans, thereby enabling employers to avoid administering salary advances. It is therefore a way of stabilizing employers' working capital by reducing unexpected expenses on salary advances (Graham & Marguerite, 2009).

### 2.2Assessing the contribution of loans on the growth of SMEs

In the view of Adongo and Stork (2005), microfinance credit facilities enable micro-enterprise owners to use anticipated income for current investment. This reduces the vulnerability of the micro-enterprise to various shocks and stabilizes the income stream for the micro entrepreneur. The reduced vulnerability promotes the sustainability of the micro-enterprise at its existing levels, to the extent that this credit is used to acquire capital (physical or human), which yields a rate of return in excess of the cost of credit. Thus, microfinance enhances the income of micro entrepreneurs and increases the chances that they will diversify or expand their activities. The benefit that microfinance provides to low-income households and microenterprises also has positive implications for the overall economy. The provision of savings facilities deepens financial markets by mobilizing savings that were not previously part of the money supply. This increase in gross savings creates a larger pool of resources that can be channelled to gross domestic investment opportunities, which has positive implications for economic growth.Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty.

Banks and microfinance lending are the most common sources of external finance for many SME's worldwide, which are often heavily reliant on straight debt to fulfil their start-up, cash flow and investment needs. In particular, debt financing uppers to be ill-suited for newer, innovative and fast-growing companies, with a higher risk return profit. The financing constraints can be especially severe in case of start-ups or small businesses that rely on intangibles in their business model, as these are highly firm specific and difficult to use as collateral in traditional debt relations (OECD 2010). Therefore, micro-finance institutions are particularly important for start-ups; high growth and innovative SME's. This necessitates the need to broaden the range of financing instruments available to SME's and entrepreneurs, in order to enable them to continue to play their role in growth, innovation and employment.

In Uganda, the cost of borrowing elements that is the interest rate and loan processing costs, are associated with SME performance and the cost of price, risk of small business credit." Journal of money, credit and Banking. Berger, Allen N, W., Scott Frames and Nathan H Miller forthcoming; "credit scorning the availability of borrowing as a whole accounts for 31.1% of the variation in the performance of the SME's. initiatives should therefore be intensified to encourage greater understanding and acceptance of cost of borrowing, select appropriate elements such Aswan processing costs and interest rates in order to be able to provide affordable financing for peace to start and grow SME's, provide employment to citizens and also contribute to the country's GDP. This will therefore be arrived at by enabling improved access of credit by SME's resulting from their ability to most commercial bank credit terms, leading to survival, increased sales higher profitability and low cost of doing business (Ogujiuba, 2004).

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995). The main objective of microcredit according to Navajas et al, (2000) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

(Buckley, 1997) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on microfinance. On the other hand, (Burger,1989) indicates that microfinance tends to stabilise rather than increase income and tends to preserve rather than to create jobs. Facts by Coleman (1999) suggest that the village bank credit did not have any significant and physical asset accumulation. The entrepreneurs ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from this study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. It also concluded that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal land distribution but not lack of access to credit.

The lending factors which govern the distribution of the available funds are the terms of lending. In a perfectly competitive market the credit is allocated to the prices (interest rates), borrowers are willing to pay. Interest rates influence the movement of credit among the various sectors of the economy (Kimeu, 2008). The factors that affect the structure of interest rates include the availability of collateral to obtain credit, the supply and demand conditions which produce change in interest rates, the opportunity costs and the availability of credit to SMEs, the scope of competition and the services if any, provided by the lenders. Low interest rates are defended on the grounds of being a special incentive for the SME's. Researchers showed how efficient allocation of resources including borrowed Capital and their willingness to seize potentially profitable opportunities.

Access to credit by SMEs is not easy to measure but financial depth can be used as an approximate indictor with direct and indirect effects on financial firms. Greater depth is to be associated with greater access for firms. Demiurge Beck and Martinez (2007) identified geographic and demographic penetration, average size and numbers of deposits as indictors. There has been a number of reasons as to why SMEs have little or no access to credit. The rate of interest is the amount of money the borrower is obligated to pay above the principal sum of money lent. High interest rate discourages SME's from borrowing since they increase the cost of credit and the fact that they usually spread over a short time usually a year.

This reduces the accessibility of credit among them therefore reduction of interest rates reduces the cost of credit and increased accessibility of credits among SME's access to credit from both formula and informal channels require a certain amount of collateral. At times the security required is unaffordable and this becomes a constraint to SME's most of whom may not have deeds to capital assets to present as security against the loans. Institutions may also require the individual or the group goodwill of guarantors which acts as a major hindrance. Most financial institutions do not accept just any guarantor therefore they have to scrutinize them. Due to the fear of the borrower running bankrupt, most people don't agree to be guarantors thereby making it harder for the SME's owner to access funds from the financial institution. Doing way with such strenuous requirements will in a major way of increasing the borrowing rate of SME's.

**2.3Examine the role of training on the growth of SMEs**

In social sciences, it is indispensable to define an abstract concept to be able to operationalise or to measure it. Yet, it seems that large body of financial literacy literature has been lacking in defining financial literacy, Huston, (2010). Indeed, there are limited numbers of studies giving an exact definition. Lusardi and Mitchell (2007b, p.36) used the definition of OECD (2005). Accordingly, financial education is defined as "the process by which financial consumers/investors improve their understanding of financial products and concepts, and through information, instruction, and or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. Servon and Kaestner (2008, p.273) defines financial literacy as “a person’s ability to understand and make use of financial concepts”.

According to Huston (2010, p.306), financial literacy such as health or general literacy might be conceptualized with two main dimensions: understanding personal finance knowledge and using it. Hence, it could be described as “measuring how well an individual can understand and use personal finance-related information”. It is also added that this description is coherent not only with other literacy concepts but also with definitions in the extant financial literature.On the other hand, it would be better to remunerate some prior research. Albeit the absence of an exact or explicit definition, few authors have identified this concept with its important aspects. To exemplify, Wachira and Kihiu (2012, p.42) states that financial literacy helps consumers in being prepared for difficult times by determining risk mitigated strategies, and in using financial products effectively, most importantly in making plausible decisions. Also, in other study, becoming financially literate refers to possessing knowledge in order to handle money well, Kees and Kemp et. al. (2008, p.231).

The capacity of staff in a firm influences the ability to achieve the desired targets particularly in performance driven enterprises. Human resource is recognized as a critical resource for success. In order to sustain performance of the organization, it is important to optimize the contribution of employees towards achievement of the aims and goals of an organization (Armstrong, 1999).

As Reynolds (2004) points out; financial training has a complementary role to play in accelerating learning. It should be reserved for situations that justify amore directed expected approach rather than viewing it as a comprehensive and all-pervasive people development solution. He also commented that financial training has a tendency to emphasize subject –specific knowledge rather than trying to build core learning abilities.Financial training improves the workforce competence in order to create a competitive advantage and contribute to organizational success. Financial training is also a means for employers to address the employees ‘needs. By offering the training employers help employees develop their own competitive advantage and ensure long term employability, Jackson (2008).

Therefore, financial training is used as a pathway for employees to learn new skills and creating advancement towards employee satisfaction (Armstrong, 2009). Financial training strengthens employees to be more active towards their career development, which might lead to employee retention. Choo and Bowley (2007) supported that financial training have an impact on career development, which result to improve organizational brand and to satisfied customer’s needs, to improve employee’s skills. Jehanzeb and Bashir (2013) suggested that financial training and development aims is to improve employee’s skills and helping them understand the culture and understanding the necessary level of career choice.

Yates (2006) outlines the benefit of financial training as way of developing the employees to be active in their roles. Although financial training of employees is quite expenses which involves money. MacLeod and Clarke (2009) highlight that many organizations especially the leading retailers are investing on training financially their skilled employees. The well skilled employees are like an asset to the organization, financial training enable employees to display positively in their roles. Jehanzeb and Bashir (2013) also suggested financial training is a way of improving the skills and products, and reduces turnover.

Seadon et. al (2012) highlights financial training as an instrument to improve employee self-reliance, which can lead to competitive advantage in the organization. While Patel (2010) recommended that, the employers need to invest on financial training in order to build a workforce that will enable the employees to carry out the daily activities. Khalid, Ashraf, Azeem, Ahmed and Ahmad (2012) outlines that to improve an employee skill, they suggested that the employees have to go through financial training in order to improve their capability of performance. This makes them work effectively towards the achievement of the organizational goals. James and Matthew (2012) agreed with the above review, that financial training is an important instrument to achieve organizational goals, to improve the capability and improving the performance to ensure effective management within the organization.

Staff training and development is recognized as crucial element in the attainment of organizational goals and objectives. In order to sustain economic and effective performance, it‘s important to optimize the contribution of employees to the aims and goals of an organization Armstrong (1999). Training and development activities have implications for attempts to motivate and involve the workforce with an aim of improving performance. One of the primary objectives of human resource management is the creation of conditions whereby the latent potential of the employees will be realized and their commitment to the success of the organization secured.

Chang (1994) points out that the scope of evaluating the training effort should explain how training contributes to the ‗big picture as it is implemented to bring about improvement in job performance. The ultimate purpose of training is to help organizations achieve their performance results. Training activities have effect on relative competitiveness and economic performance, at both the aggregate level of the national economy or industrial sector, and at the level of individual enterprises Storey (1999).

Myles (2000), states that a company that seeks to train and develop its employees well and reward them for their performance has its employees in turn motivated and thus are more likely to be engaged in their work hence improving performance and loyalty to their company. These same employees, being the point of contact with customers will provide better service, leading to more business and more referrals from the satisfied customers.

**2.4 The relationship between Microfinance Institutions and Small and Medium Enterprises**

Omeke (2010); emphasized that microfinance institutions provides both financial and non-financial services to SMEs, loans, savings mobilization, micro insurance and money transfer. For accessibility of funds to become a reality a relationship of cooperation between lenders and clients need to coexist. Ozkan (2004); argues that maintaining and building relationships with financial institutions improve firm's ability to access external financing. He suggests that firm's with higher proportion of bank debt enables accessibility of external financing more easily. Establishing MFI relationships with SMEs reduces information asymmetry and agency problems. The valuable information required to be provided by SMEs to MFI are disclosed. Establishing stable links with financial institutions improves availability of funds by lowering their costs. Kumar (2007); concurs with previous studies that good relationship town SMEs and MFI helps them easily access finances and information. He adds that capacity building of staff preparedness is a task MFI enhances as a way of operation rapport between staff and remote clients. In case of emergency, Kumar established that MFI personals were often the first to reach affected communities.

**2.5 Conclusion**

The above chapter has explained literature which is evident that access to microfinance institution services has a significant influence on the growth of SMEs. Micro financing services are credible, effective and play a great role in the poverty alleviation and contribute to the economic growth and performance of SMEs. Financing of small and medium scale enterprises is essential for creating employment and economic growth. The literature review discussed above has shown that microfinance institutions are important for growth of SMEs so it's of importance to note that restrictive microfinance institutions requirements and guidelines in regulatory systems inhibit access to microfinance institution services that's loans, savings and training by borrowers which becomes a constraint to the growth of SMEs. Therefore, the study is geared to examine the contribution of microfinance institution on the growth of SMEs.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter described the methodology that was followed in undertaking the study aimed at achieving the study objectives. Kothari (2004) stated that research methodology has the objective of showing the various pathways that are generally used by a researcher in studying a research problem along with the logic behind them and Mugenda and Mugenda (2008) described a research methodology as the procedure that was followed in conducting a study.

The purpose was to state how this research was carried out and provide evidence of appropriate scientific methods of investigation. It consisted of the research design, area of study, study population, sampling procedures, sample size, sampling techniques, data collection methods and instruments, quality control methods, data management and processing, data analysis, ethical considerations and limitations of the study.

## 3.1 Research design

Carline (2015) defines a research design as a plan that provides the underlying structure to integrate all elements of a quantitative study so that the results are credible, free from bias and maximum generalized and according to (Orodho, 2003) research design is a program that guides the researcher in collecting, analyzing and interpreting observed facts. A survey research design was employed during the study. A survey research design, which according to Cooper and Schindler (2003) involved surveying people and recording their responses for analysis. A survey research design was suitable for this research because it allowed researcher to use variety of methods and instruments like questionnaire and interview methods. It also provides detailed description of rare cases. It involved gathering quantitative data that described the events and then organized, tabulated, depicted and described the data collected. To describe data and characteristic research was the goal of descriptive research. It was an accurate method of collecting information that demonstrated relationships.

## 3.2 Study population

A population is defined as the total collection of elements about which we wish to make some inferences (Oso & Onen, 2008; Blumberg, 2008). This study targeted a total population of 50 respondents from the Masaka Microfinance and Development Cooperative Trust. These comprised of employees (senior level and lower level). This was because all these categories of respondents were believed to be knowledgeable about the contribution of Microfinance Institutions on the Growth of SMEs in Masaka Municipality-Nyendo Ssenyange Division with a case study of Masaka Microfinance and Development Cooperative Trust.

### 3.3 Sample size and selection

According to Sekaran (2003), Orodho and Kombo (2002), a sample is a finite part of a statistical population whose properties are used to gain information about a whole. Ateenyi (2008), Kombo and Tromp (2006) put it that when dealing with people, it can be defined as a set of respondents (people) selected from a larger population for purpose of a survey. The study used a sample size of 44 respondents from a study population 50 respondents from MAMEDICOT – Masaka branch estimated basing on Krejie and Morgan table (1970) as adapted by Sekaran (1999) for decision on sample size selection

$$n = \frac{N}{1 + Ne^2}$$

Whereby n=sample size, N=Population, e=confidence level (0.05).

$$n = \frac{50}{1+50(0.05*0.05)}$$

n= 44.444 which is equivalent to 44 respondents

The study used a sample size of 44 respondents selected from a study population of 50 respondents to generate the needful information.

**Table 1: showing the distribution of the sample size**

| **Employees** | **Number of respondents** | **Sample size** |
|---|---|---|
| Senior level | 05 | 04 |
| Lower level | 45 | 40 |
| TOTAL | 50 | 44 |

**Source: Field study 2020**

### 3.4 Area of study

The study was conducted out at Masaka Microfinance & Development Cooperative Trust (MAMIDECOT) in Buddu Province Kingdom. Its head office is located in Nyendo Trading Centre along Masaka-Kampala road opposite Nyendo Police Station three kilometres (3km) from Masaka Town. Masaka Municipality comprises of three divisions that is to say; Kimaanya-Kyabakuza, Nyendo Ssenyange and Katwe Butego. Some of the SMEs found in MAMEDICOT include manufacturing businesses, schools, communities, whole sale and retail trade businesses and real estate businesses among others.

### 3.5 Sampling techniques

According to Kothari (2004), sampling refers to the process of picking up few or small units out of the whole population of a study. Sampling techniques is a description of the strategies that the researcher used to select representative elements, or subjects or respondent from the target population. During the research study, Simple random sampling technique was used. Cooper and Schindler, (2003) random sampling frequently minimized the sampling error in the population, which in turn increased the precision of any estimation methods used. Simple random sampling meant that all members of the population from which the sample were drawn had an equal chance or equal probability to be included, Ndunguru (2004). With cluster sampling technique, respondents were interviewed by the researcher according to a selected number of respondents the researcher chose to make a group under the study.

### 3.6 Data collection methods and instruments

Both secondary and primary data were collected. Secondary data was collected from published annual reports and website of the selected financial institution. The secondary data provided a reliable source of the information needed by researcher to investigate the phenomenon and sought efficient ways for problem solving situations (Uma, 2003). Primary data was obtained from the respondents by the researcher using questionnaires.

### 3.6.1 Primary data

#### 3.6.1.1 Questionnaires

According to Kothari (2004), a questionnaire is a set of questions which are usually sent to the selected respondents to answer at their own convenient time, and return back the filled questionnaire to the researcher. A questionnaire also refers to a form to be filled by respondents, researchers or research assistants. This was a formulated written set of questions that was used to obtain information about the study objectives from the study population (Sekaran, 2003). The questionnaire was used because respondents can read and write the answers, the respondents were expected to answer the questions honestly and it was less expensive for data collection. The respondents recorded their answers within closely defined demarcations. In this study the questionnaires were hand delivered to the respondents. The questionnaire method helped to get the information and data concerning the topic of my study. The researcher set close and open ended structured questions on a sheet of paper arranged according to the study objectives. These questionnaires were distributed to the employees of MAMEDICOT to fill in the possible answers.

### 3.6.2 Secondary data

According to Hair et al (2007), secondary data is data that is not gathered directly and purposefully for the research project. In other words, the data is gathered from sources that already exist (Sekaran & Bougie, 2010). This was done by assembling the existing information of different authors, using text books, magazines, journals, reports, newspapers and the internet. Secondary sources are so advantageous in that they possess resource efficiency, evaluation capacity, and potential for comparative analysis, avoidance of respondent fatigue, potential for triangulation and potential for new insight (Hair et al, 2007 & Geoffrey et al (2005).

### 3.7 Quality control methods

In order to reduce the possibility of getting the wrong answer, attention was kept to the particulars on the reliability and validity (Saunders et. al; 2003).

#### 3.7.1 Validity

Validity refers to the degree to which study accurately reflect or assesses the specific concepts the researcher is attempting to measure (Fidel, 1993). The types of validity included internal validity which clearly indicated the principles of cause and effects in research as well as external validity which clearly focused on the effects of research that could be generalized. In this case, the researcher measured the variables which were on micro-finance institutions and growth of SMEs. Therefore the researcher administered the questionnaires to the randomly selected respondents to test the validity and accuracy of the instruments. The validity of the questionnaire was determined by ensuring that questions or items in it conformed to the study's conceptual Framework (figure 1 Page 19).

Cooper and Schndler (2003) believe that validity refers to the extent to which a test measures what we actually want to measure. In order to determine the validity the researcher sought guidance from the supervisor to ascertain whether the tool is valid.

#### 3.7.2 Reliability

According to Saunder et al; (2003), reliability refers to the degree to which data collection method yielded consistent findings, similar observations which was made or conclusions reached by other researchers. Cooper and Schindler (2003) had defined reliability as many things to people, but in most contexts the notion of consistency emerged. The researcherpre-tested her research instruments within a fortnight after having distributed a few of the questionnaires to a selected number of supervisors and experts to prove their reliability.

To ensure the reliability and validity of this study, the researcher cautiously in her capacity interpreted all gathered information throughout the entire research. Data that was collected from the microfinance institution was carefully compared and also evaluated to obtain the highest possible level of reliability and validity. In addition, the researcher also established the reliability of the questionnaires by computing the alpha coefficient of the questions that constituted the dependent variable and that of the questions that constituted the independent variable.

### 3.8 Data management and analysis

#### 3.8.1 Data management

Data management is a term that describes the organization, storage, preservation, and sharing of data collected and used in a research project (University of Pittsburg 2017).

Primary data was collected from respondents and this was done by administering questionnaires. The collected data was then sorted (edited for completeness, consistency, clarification) and compiled using a compiler statistical software SPSS (Statistical Package for Social Sciences).

#### 3.8.2 Data analysis

The whole process started immediately after data collection and end at the point of interpretation and processing data and also data analysis, Cooper& Schindler, (2014). It helped to identify statistical patterns and relationships between variables used in the research.

The data was analyzed according to the objectives set for the research and the researcher managed the data as follows; data was cleaned by removing the questionnaires that were partially filled or not filled at all and ones with vividly concocted information. Field notes from the data collection instruments was compiled and edited at the end of each working day thus ensuring accuracy in recording and consistency of information given by respondents (Creswell, 2012). The themes were edited where the researcher checked the completed responses with a purpose of detecting and eliminating errors and identifying vital information that was essential in coding and tabulation which involved mainly the use of simple statistical techniques like the use of tables, percentages which tested the significance of the information from which meaningful information was drawn.

### 3.9 Ethical considerations

Ethical considerations refer to the research principles that were adhered to while conducting the research study. Amin (2005) pointed out that it was always prudent to conduct research studies in accordance with higher moral values. For that reason, the following were the ethical considerations that were adhered to while carrying out the study.

A letter of introduction/ recommendation was obtained from the Faculty of Business Administration and Management of Uganda Martyrs University. This was presented to the respondents so as to allow the researcher to carry out the study.

Consent was sought from the participants/ respondents before the research was undertaken.

Respondents were assured by the researcher that all data provided was treated with high levels of confidentiality.

Respondents were also assured by the researcher that they could be free to withdraw from the process just in case they wished.

On instances where other people's pieces of work were used, acknowledgement of their work was done through the use of in-text citations and referencing so as to avoid plagiarism. All questionnaires were presented and directed to the targeted respondents hence none of the instruments was answered by other non-targeted respondents.

### 3.10 Limitations of the study

The following are the limitations of the study;

Time constraint was a big problem to the researcher while carrying out the study. This limited the success of the study as respondents required enough time to tally and answer the questionnaires as most of them were busy doing their work.

Getting adequate information as pertained to Microfinance Institutions available posed a challenge as micro finances had policies considering such information confidential.

The data collected from the MAMEDICOT – Masaka branch was more general and lacked validity.

Provision of wrong information, some of the respondents provides wrong and incomplete information since they lack facts and some may fear to expose their secrets to the people. This hindered the researcher to get enough and right information needed to carry out the research successfully.

Another limitation of this study was the unwillingness of the respondents to answer the questionnaires. Some respondents are afraid to give information regarding their organization and some may argue that they don't have time.

The researcher faced a problem of the pandemic Covid-19. This came when there was not transport means since all transport means were stopped due to the spread of the pandemic.

By the time I completed this research Masaka had become a city which became a challenge.

### 3.11 Conclusion

This chapter had highlighted the methods that the researcher used in carrying out the research, research design, study population, area of the study, sample size and selection, sampling techniques, methods and instruments of data collection, reliability and validity and ethical considerations and the limitation encountered during data collection and data analysis so as to assess the contribution of micro-finance institutions on the growth of SMEs in Nyendo Ssenyange division-Masaka Municipality, Masaka district.

# CHAPTER FOUR

# DATA PRESENTATION, ANALYSIS AND DISCUSSION

## 4.0 Introduction

This chapter analyses the relevant data obtained through the field survey into the desired information. The analysis of the data collected was under the study objectives. These included analyzing to examine the role of savings on the growth of SMEs in Masaka Microfinance and Development Trust, Nyendo branch, to assess the contribution of loans on the growth of SMEs in Masaka Microfinance and Development Trust, Nyendo branch and to examine the role of training on the growth of SMEs in Masaka Microfinance and Development Trust, Nyendo branch. This was done to enable the establishment of meaningful facts, findings and conclusion on the study.

### 4.1 Demographic features

#### 4.1.1 Gender

In regards to gender, majority of the respondents were female reflecting 55%, and only 45%were male as detailed in the table below;

Respondents were asked to state their gender and the following data was obtained.

**Table 2: Showing gender of respondents**

| | Gender | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Male | 20 | 45.0 | 45.0 | 45.0 |
| | Female | 24 | 55.0 | 55.0 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

According to the research findings revealed that more females participated in the study than males. An implication that 24(55%) who were females are the ones who were ready to respond towards the questions asked to them while 20 (45%) were males. This implies that more and relevant information was retained. This also means more females work in MFIs since they are trust worthy, patient with the clients, knowledgeable about clients' challenges among others.

### 4.1.2 Age of the respondents

**Table 3: Showing the age of respondent**

| Age of the respondents | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | below 20years | 4 | 9.1 | 9.1 | 9.1 |
| | 21-30years | 10 | 22.7 | 22.7 | 31.8 |
| | 31-40years | 28 | 63.6 | 63.6 | 95.5 |
| | above 40years | 2 | 4.5 | 4.5 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

From the findings, most respondents ranged between the age of 31-40 years reflecting 64% and 20-30 years reflecting 23%, less than 20 years reflecting 9%, 40 years and above reflecting 4%. This implies that majority of the respondents were mature enough in handling clients and responding to the questions asked by the Researcher.

### 4.1.3 Marital status of the respondents

**Table 4: Showing the marital status of the respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Married | 26 | 59 | 59 | 59 |
| | Single | 18 | 41 | 41 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

The results showed that majority of the participants who got involved in the research study were married reflecting 59%. Being married many of them had financial resource challenges which they needed to satisfy by way of working with financial institutions such that they could increase their Capital and sustain their SMEs in order to take care of their families. The rest of the respondents were single reflecting 41%.

### 4.1.4 Level of education of the respondents

**Table 5: Showing the education levels of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Primary | 0 | 0.00 | 0.00 | 0.00 |
| | Secondary | 0 | 0.00 | 0.00 | 0.00 |
| | Tertiary | 5 | 11.4 | 11.4 | 11.4 |
| | Postgraduate | 25 | 56.8 | 56.8 | 68.2 |
| | Others | 14 | 31.8 | 31.8 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

The findings revealed that majority of the respondents had post graduate level of education reflecting 56.8% from recognized institutions and universities, 31.8% respondents were not among the listed education levels thus had completed diploma and bachelor levels of education, 11.4% respondents had tertiary level. This implies that majority of respondents had acquired financial skills and knowledge, a requirement to work in and with the financial institutions in order to ensure the sustainability of SMEs.

### 4.1.5 Position in the organization

Respondents were asked their position in the organization and the following was obtained.

**Table 6: Showing position in the organization**

| | Position in the organization | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Lower level | 38 | 86.0 | 86.0 | 86.0 |
| | Senior level | 6 | 14.0 | 14.0 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

According to the research study, results signified that most of the respondents consulted were at lower level for example tellers, receptionists among others of MAMEDICOT reflecting 86% respondents and the rest was at senior level for example General Manager of MAMEDICOT reflecting 14%. This implies that since employee at lower level possessed the largest percentage and they are the ones who had knowledge on the study topic, the information attained was real and up to date.

### 4.1.6 Years worked in the organization

Respondents were asked the period they had worked in MAMEDICOTand the following was obtained.

**Table 7: Showing years spent in the organization**

| Years spent in the organization | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Less than a year | 8 | 18.0 | 18.0 | 18.0 |
| | 1-3 years | 10 | 22.0 | 22.0 | 40.0 |
| | 4-6 years | 2 | 5.0 | 5.0 | 45.0 |
| | 7 years and above | 24 | 55.0 | 55.0 | 100.0 |
| | Total | 44 | 100.0 | 100.0 | |

**Source: Primary data, 2020**

The findings in the table above revealed that most of the respondents reflecting 24 (55%) respondents have worked with or in MAMEDICOT for 7 years and more. This implies that majority of the respondents are competent at what they are doing, they have experience in accessing the clients who need loans from MAMEDICOT, and mastered the policies that can lead them to success consistently and also know acquired customer care for the clients.

### 4.2 Findings on objective one: The role of savings on the growth of SMEs

In order to determine whether micro-savings have an effect on the growth of SMEs, both the employees and clients of MAMEDICOT were asked questions and the findings are as shown below;

**Table 8: Showing descriptive statistics on savings**

| | Variables | N | Mean | Standard deviation | Sum |
|---|---|---|---|---|---|
| 1. | Savings enable SMEs to earn extra money in form of interests which increase the capital structure | 44 | 2.00 | 1.078 | 88 |
| 2. | Savings enable the business to have liquid cash in case of financial distress and emergencies. | 44 | 2.20 | 1.212 | 97 |
| 3. | In case the business has to pay taxes, savings can serve as a great way to hold money for taxes when they time arrives. | 44 | 2.93 | 1.336 | 129 |
| 4. | Savings increase the capital structure of the business in the long run. | 44 | 2.07 | 1.265 | 91 |
| 5. | Savings services have a favorable effect on the realization of desired business goals. | 44 | 2.18 | 1.317 | 96 |
| 6. | Savings can be used for future business projects or for business expansion. | 44 | 1.55 | 0.663 | 68 |
| 7. | Savings may also be used as collateral to obtain a loan for the business. | 44 | 1.43 | 0.501 | 63 |

**Source: Primary data, 2020**

Use the scale of; **Strongly Disagree (SDA)=5, Disagree (DA)=4, Not Sure (NS)=3, Agree (A)=2, Strongly Agree (SA)=1.**

The findings in figure 8 above revealed that, respondents strongly agreed with the research question "savings may be used as collateral to obtain a loan" with mean 1.43 and standard deviation 0.501. This implies that clients of MAMEDICOT who operate small and medium enterprises can get loans and their savings serve as collateral incase one does not have any other collateral. This was in line with Graham & Marguerite (2009); who said entrepreneur savings service involves securing a loan using savings made during the life of the loan

Respondents also strongly agreed with the statement "savings can be used for future projects or for business expansion" with mean 1.55 and standard deviation 0.663. This implies that savings enabled SMEs to expand through opening new branches or enlarging business premises and also capture or tap available.

Findings also revealed that respondents were in agreement with the research question "savings enable SMEs to earn extra money inform interests which increase the capital structure" with mean 2.00 and standard deviation of 1.078. This implies .that with savings SMEs used that money to increase their capital structure. This was in conjunction with Matovu (2006) who stated that saving services can enable clients to deal with severe business crises, cope with the shocks and to reduce vulnerability

Findings revealed that respondents were in agreement with the research question "saving services have a favorable effect on the realization of desired business" With a mean of 2.18 and a standard deviation of 1.317. This implies that MAMEDICOT enables SMEs has enabled several SMEs in realizing their goals due to the saving services they offer. This was supported by Whonderr-Arthur (2009); who emphasized it saying that it was also a known fact that using savings services was the best way of avoiding the cost of capital associated with other types of financing, which many SMEs not only find too difficult to afford but also adverse to the attainment of their business goals as desired

The research question “savings increase the capital structure of the business in the long run”, majority of the respondents was in agreement with the question with a mean of 2.07 and a standard deviation of 1.265. This implies that saving services provided by MAMEDICOT enabled SMEs to increase their capital structure thus enabled them to stay in the industry and also cope with changes thus having sustainable businesses. This was supported by Whonderr-Arthur (2009); who said later on that Savings services generate equity funds that not only boost the capital base of the SMEs but also maintain high levels of leverage that give owners’ enough clout over their business assets and decisions

The findings also revealed that most of the respondents were in agreement with the research question “savings enable the business to have liquid cash in case of financial distress and emergencies” with a mean of 2.20 and a standard deviation of 1.212. This implies that SMEs did not shutdown during times of crisis rather used their savings and solved the problems thus operations went on all the time. This was in line with Matovu (2006); who said it that saving services could enable clients to deal with severe business crises, cope with the shocks and to reduce vulnerability

The findings also found out that majority of the respondents were not sure whether savings enable their businesses to cater for taxes in case they have to pay the taxes at the time they are supposed to be paid. This implies that the information provided to clients by the bank about the importance of serving services was not clear foe them to understand and not enough thus covered a few aspects but not all.

### 4.3 Findings on objective two: The contribution Loans on the growth of SMEs

In order to assess the contribution of loans on the growth of SMEs in MAMEDICOT Nyendo branch, respondents were asked several questions and the findings are presented below;

**Table 9: Showing descriptive statistics on loans**

| | Variable | N | Mean | Standard deviation | Sum |
|---|---|---|---|---|---|
| 1. | Micro-credit is easy to access thus enables SMEs to meet their obligation. | 44 | 3.07 | 1.531 | 135 |
| 2. | Loans enable SMEs to increase their capital structure | 44 | 1.59 | 0.658 | 70 |
| 3. | Loans program increases opportunities of utilizing profitable investments by SMEs. | 44 | 1.73 | 0.924 | 76 |
| 4. | Loans enable SMEs to acquire equipment | 44 | 2.98 | 1.823 | 131 |
| 5. | Loans programs enable SMEs to increase their working capital. | 44 | 1.52 | 0.664 | 67 |
| 6. | Loan programs enable SMEs to target equipped markets to necessitate wider experience by individuals. | 44 | 2.61 | 1.224 | 115 |

**Source: Primary data, 2020**

The findings in table 9 above revealed that, majority of respondents strongly agreed with the research question "loans enable SMEs to increase their capital structure" with mean of 1.59 and standard deviation 0.658. This implies that with the loans MAMEDICOTprovided to its clients, they managed to increase the capital structure of their SMEs thus having sustainable businesses for a long period of time. This was supported by Hiedhues (1995); who pointed it out that when the SMEs are helped access loan, they gain an advantage of overcoming their liquidity constraints and get involved in investments such as the improvement of technology inputs thereby increasing their capital structure and production.

Findings also revealed that majority of the respondents strongly agreed with the research question "loan programs increase opportunities of utilizing profitable investments by SMEs" with a mean of 1.73 and a standard deviation of 0.924.This implies that with loans provided to them, SMEs managed to invest in profitable businesses that enabled them acquire more profits thus being sustainable.

Findings revealed that majority of the respondents also strongly agreed with the research question "loan programs enable SMEs to increase their working capital" with mean 1.52 and standard deviation of 0.664. This implies that SMEs manage to carryout day-to-day activities with the loans provided to them by MAMEDICOT minus relaxing for any day. This was supported by Sebstad and Cohen, (2000); who said it clearly that Assets are increased either through direct loan use, as a benefit of income smoothing, or through the use of profits generated through the investment of a loan

Findings also revealed that respondents were not sure with the research question "micro-credit is easy to access thus enables SMEs to meet their obligations" with a mean of 3.07 and a standard deviation of 1.531. This implies that MAMEDICOT enables SMEs to meet their long and short term obligations through the loans provided to them. This was supported by Love and Fisman, (2003); who stated it that the provision of loans often resulted in significant short-term increase in capital leading to meeting of short term obligations.

The findings revealed that majority of the respondents were in agreement with the research question "loans enable SMEs to acquire equipment and also purchase inventory when needed in case there is no cash available" with a mean of 2.98 and a standard deviation of 1.823. This implies that loans enable the business to purchase inventory and fulfill customer wants and needs which enables them to retain them and increase their sales and profits leading to sustainable SMEs.

The findings also revealed that most of the respondents were not sure about the research question "loan programs enable SMEs to target equipped markets to necessitate wider experience by individuals". This implies that SMEs were not able to reach or target the equipped markets with the loans provided by MAMEDICOT. This was depicted when Guerin, (2006) supported it saying that selecting a target market depend on the micro service provider and the perceived demand for financial services. Microfinance institutions need to supply services that fill the gaps and integrate the underserved group into the market.

### 4.4 Findings on objective three: The role of training on the growth of SMEs

The role of training on the growth of SMEs is examined and the findings are presented below;

**Table 10: Showing descriptive statistics on training**

| | **Variable** | **N** | **Mean** | **Standard deviation** | **2** |
|---|---|---|---|---|---|
| 1. | Financial trainings enable SMEs to prepare better during times of emergencies. | 44 | 1.48 | 0.876 | 65 |
| 2. | Financial trainings enables SMEs to understand the value of money and this handles their finances better | 44 | 2.43 | 1.354 | 107 |
| 3. | Financial training saves SMEs from acquiring too much debt. | 44 | 1.45 | 0.663 | 64 |
| 4. | Financial literacy enables employees to operate effectively and efficiently in order to meet the micro-credit terms if any. | 44 | 1.32 | 0.471 | 58 |
| 5. | Financial literacy is used as a pathway for employees to learn new skills and creating advancement towards employee satisfaction. | 44 | 3.36 | 1.586 | 148 |
| 6. | Financial training enables SMEs to know the proper use of debt. | 44 | 1.77 | 1.118 | 78 |
| 7. | Financial training enables directors to demonstrate their commitment for professional development as well as their career. | 44 | 1.95 | 1.033 | 86 |

**Source: Primary data, 2020**

The findings in table 10 above revealed that, majority of the respondents strongly agreed with the research statement "trainings enable SMEs to prepare better during times of emergencies" with a mean of 1.48 and a standard deviation of 0.876. This implies that MAMEDICOToffers financial training to its clients which training enables them to prepare well for financial crisis and other problems that can hinder business growth. This was in conjunction with Lusardi and Mitchell (2007b, p.36); who said that financial trainings developed the skills and confidence among members to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. Findings also revealed that most of the respondents strongly agreed were with the research statement “financial trainings save SMEs from acquiring too much debt” with a mean of 1.45 and a standard deviation of 0.663. This implies that with financial training from MAMEDICOT, SMEs were educated on how much to acquire from the institution depending on the size of the business and the purpose for acquiring that particular loan. It enabled them get favorable loans that they managed to pay and prevent the closure of their businesses.

Findings revealed that majority of the respondents also strongly agreed with the research statement “financial training enables SMEs to know the proper use of debt” with a mean of 1.77 and a standard deviation of 1.118. This implies that financial trainings offered by MAMEDICOT show clients how the loans given to them can be used in the proper way in order to benefit from them and have sustainable businesses.

Findings revealed that respondents were in agreement with the research statement “financial trainings enable SMEs to understand the value of money thus handle their finances better” with a mean of 2.43 and a standard deviation of 1.354. This implies that the financial trainings from MAMEDICOT enables SMEs to know the value of the money given to them in form of loans that is to say not using it for another purpose. This was supported by Huston (2010, p.306), who mentioned it that financial literacy such as health or general literacy had been conceptualized with two main dimensions: understanding personal finance knowledge and using it.

The findings also revealed that most of the respondents strongly agreed with the research statement "financial literacy enables employees and superiors of SMEs to operate effectively and efficiently in order to meet micro-credit terms if any" with a mean of 1.32 and a standard deviation of 0.471. This implies that with financial training both the employees and bosses work hard in order to fulfill the terms of the loans given to them. This was in line with James and Matthew (2012); who agreed with the above review, that financial training is an important instrument to achieve organizational goals, to improve the capability and improving the performance to ensure effective management within the organization

**4.5 Findings on the growth of SMEs**

In order to know whether SMEs were sustainable, the researcher asked various respondents about the factors or things that led to the growth. Results are presented below;

**Table 11: Showing descriptive statistics on the growth of SMEs**

| | **Variable** | **N** | **Mean** | **Standard deviation** | **Sum** |
|---|---|---|---|---|---|
| 1. | Loans from MAMEDICOT institution have enabled my business's sales volume to increase | 44 | 1.55 | 0.589 | 68 |
| 2. | The market share of my business improved since l started borrowing funds from MAMEDICOT- Nyendo branch. | 44 | 2.18 | 1.018 | 96 |
| 3. | Financial trainings provided by MAMEDICOT to my business have enabled to boost the profitability since l know how to handle my funds. | 44 | 1.50 | 0.902 | 66 |

| | | | | | |
|---|---|---|---|---|---|
| 4. | Saving with MAMEDICOT-Nyendo branch has enabled my business to tap available opportunities for investment and also expand my business. | 44 | 2.43 | 1.354 | 107 |
| 5. | The financial training provided by MAMEDICOT has enabled my business to know when to acquire a loan and how much to acquire. | 44 | 1.82 | 1.402 | 80 |
| 6 | Savings have enabled my firm to minimize financial risks of SMEs. | 44 | 2.16 | 1.363 | 95 |

**Source: Primary data, 2020**

The findings in table 11 above revealed that, majority of the respondents strongly agreed with the research statement "loans from MAMEDICOT have enabled my business's sales volume to increase" with a mean of 1.55 and a standard deviation of 0.589. This implies that SMEs use the loans given to them and purchase more equipment and inventory to prevent losing competent customers thus increasing the sales volume. This was emphasized by Brockhaus, (2001) who said that the ability to borrow a small amount of money to take advantage of a business opportunity, to accumulate enough cash to buy assets such as inventory for a small business enterprise, can increase the volume of commodities sold.

The findings also revealed that majority of the respondents strongly agreed with the research statement "financial trainings provided by MAMEDICOT micro-finance to my business have enabled to boost the profitability since l know how to handle my funds" with a mean of 1.50 and a standard deviation of 0.902. This implies that the financial trainings provided to the clients enabled them to handle the fund given to them properly that is using them for the intended purpose, knowing how much to acquire among others enabled them to attain more profits thus attaining sustainability. This was in line with Mosley and Hulme, (2013) stated it that individuals interested in businesses were naturally motivated by the principle of profit-maximization, with little consideration for the interests of their clients.

Findings revealed that respondents were in agreement with the research question "the market share of my business improved since l started borrowing funds from MAMEDICOT Nyendo branch" with a mean of 2.18 and a standard deviation of 1.018. This implies that loans from MAMEDICOT microfinance enabled SMEs to increase their capital structure, expand their businesses, and tap profitable investment opportunities among others leading to the widening of the market share. On the other hand, most respondents revealed that they were not sure whether their market share had improved with borrowing from Pride micro-finance.

Findings revealed that majority of the respondents strongly agreed with the research statement "financial training provided by MAMEDICOT has enabled my business to know when to acquire a loan and how much to acquire" with a mean of 1.82 and a standard deviation of 1.402. This implies that financial trainings enabled clients to know the amount to borrow and the right time to acquire that loan.

On the research statement "saving with MAMEDICOT Nyendo branch has enabled my business to tap available opportunities for investment and also expand my business" respondents were in agreement with the statement with a mean of 2.43 and standard deviation of 1.354. The implication of this is that business use those savings to tap profitable investments that are legal and important to the business and also expand if need arises.

The findings also revealed that most respondents were in agreement with the research statement "savings have enabled my firm to minimize financial risks of SMEs" with a mean of 2.16 and a standard deviation of 1.363. This implies that these savings can be used in case there is any financial crisis that can eventually lead to the collapse of the business.

## CHAPTER FIVE

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.0 Introduction

This chapter covers a summary of findings of the study and recommendations that the researcher feels should be used ensure growth of SMEs in micro- finance institutions, by comparing what is established in this study with what other scholars have established before in the literature review. It helps to draw conclusions as well as recommendations and other areas for future research.

### 5.1 Summary of the findings

The study was undertaken with the aim of assessing the contribution of micro finance institutions on the growth of SMEs, a case study of MAMEDICOT, Nyendo branch found in Nyendo Ssenyange division, Masaka Municipality-Masaka district.

The study was guided by three objectives;

- To examine the role of savings on the growth of SMEs in MAMEDICOT, Nyendo branch
- To assess the contribution of loans on the growth of SMEs in MAMEDICOT, Nyendo branch
- To examine the role of training on the growth of SMEs in MAMEDICOT, Nyendo branch.

#### 5.1.1 The role of Savings and growth of SMEs

Following the first objective which aimed at assessing the role of savings on the growth of SMEs revealed that saving services from MAMEDICOT moderately enhanced the growth of SMEs due to the findings. The findings showed that majority of the respondents strongly agreed that savings can be used as collateral to obtain a loan from MAMEDICOT for the business, some of the respondents were in agreement sure whether savings increase the capital structure of the business, majority of the respondents were in agreement that savings enable the business to have liquid cash in case of financial distress and emergencies, majority of the respondents also were in agreement that savings increase the capital structure of the business in the long run and most of the total respondents were also in agreement that saving services have a favorable effect on the realization of desired business goals whereas the findings also found out that majority of the respondents were not sure whether savings enable their businesses to cater for taxes in case they have to pay the taxes at the time they are supposed to be paid. This indicated that the saving services of MAMEDICOT moderately enhanced the growth of SMEs.

### 5.1.2 The contribution of loans on the growth of SMEs

The second objective to establish the contribution of loans on the growth of SMEs revealed that majorities of the respondents informed the researcher that loan programs had strongly increased their working capital, majority of the respondents had also strongly agreed that loans enable SMEs to increase their capital structure, majority of the respondents also strongly agreed that loan programs increased opportunities of utilizing profitable investments by SMEs, majority of the respondents were in agreement that loan programs enabled SMEs to target equipped markets to necessitate wider experience by individuals and majority of the total respondents were in agreement that loans enable SMEs to acquire equipment and also inventory when needed in case there is no cash available whereas majority of the total respondents were not sure whether micro-credit is easy to access thus enabling SMEs to meet their obligations.

### 5.1.3 The role of training and growth of SMEs

Finding out the role of training and growth was the third objective of which the following were found. The findings showed that majority of the respondents strongly agreed that trainings enable SMEs to prepare better during times of emergencies, majority of the respondents strongly agreed that trainings save SMEs from acquiring too much debt, majority of the respondents also strongly agreed that financial literacy enables employees to operate effectively and efficiently in order to meet the micro-credit terms. The findings also revealed that majority of the respondents strongly agreed that trainings enabled SMEs to know the proper use of debt, majority of the respondents were not sure whether training is used as a pathway for employees to learn new skills and creating advancement towards employee satisfaction, majority of the respondents were in agreement that trainings enable SMEs to understand the value of money this handle their finances better.

## 5.2 Conclusion

### 5.2.1 Conclusion on the role of savings and growth of SMEs

Basing on the findings from the respondents, saving services moderately enhanced the growth of SMEs. This is because saving services enabled SMEs to earn extra money in form of interests, increased the capital structure which enabled them to stay into business for a long time, used for future business projects or for business expansion, used as collateral to obtain a loan for the business, saving services had a favorable effect on the realization of desired business goals. On the other hand, majority of the respondents were not sure whether savings enable their businesses to cater for taxes in case they have to pay the taxes at the time they are supposed to be paid.

### 5.2.2 Conclusion on the contribution loans and growth of SMEs

Basing on the findings from respondents, Loans had a positive effect on the growth of SMEs because they helped them to increase their capital structure, increase opportunities of utilizing profitable investments and increase their working capital. This implies that provision of sufficient funds could advance the creation of a new class of small entrepreneur leading to the expansion of middle class and a wider distribution of income. Micro finances provided good and affordable financial services and help small and medium enterprises to maintain the self-sufficient financial sustainability, which directly had a positive impact on their livelihood, loans enable most SMEs to acquire equipment and also purchase inventory. However majority of the respondents were not sure whether micro-credit is easy to access thus enabling SMEs to meet their obligations.

**5.2.3 Conclusion on the role of training and growth of SMEs**

Basing on the findings from the researcher, training enabled SMEs to prepare better during times of emergencies, saved SMEs from acquiring too much debt, and enabled employees to operate effectively and efficiently in order to meet micro-credit terms, and also enabled SMEs to know the proper use of debt, training enabled SMEs to understand the value of money since they know how to handle their finances better. However, majority of the respondents were not sure whether training was used as pathway for employees to learn new skills and creating advancement towards employee satisfaction.

**5.3 Recommendation**

The Government should ensure that the institutions adhere to the laws and regulations of the businesses and country in a reasonable manner.

Micro finances and SMEs should be used in consideration to benefit the present and future generation. And this should be integrated into economic and other development plans which should be taken into account by applying financial objectives.

The researcher also suggests that proper and extensive activities should be provided for clients who are granted loans. The loans should be client oriented and not product oriented. Therefore SMEs have a great responsibility to ensure the proper use of loans which is an important tool when it comes to the business acceleration.

The researcher recommends that financial training should be provided by Micro finances on their regular basis. Micro finances can research into very profitable business lines and offer loans to clients who have the capacity to exploit such business in order to reduce the rates in case of any default arise.

Researcher also suggests that it is important to consider the reliability and ethical practices in order to avoid the occurrence of other indirect costs that may never be in knowledge of abilities to SMEs owners.

Clients lack proper written records and how they separate business incomes from their private resources. It becomes complicated to measure incomes based on perception and not written records. Hence it recommended to SMEs to keep records which show their sales, expenses and profit.

## 5.4 Suggestions for further research

The study suggests that similar studies should be done on SMEs that have been operation for long time to establish whether Micro finances contributes negatively or positively on their growth. The study suggests that a representative sample should be used for all SMEs in Uganda to come up with full information on the effect of access to credit facilities on the growth of SMEs. The study suggests that a further study should be done on the effect of trade openness on the growth of SMEs. There should be a further development of support services like technical assistance, specialized microfinance audit and rating services, development of insurance products for MFIs and their clients, strengthening of the credit bureau, promotion of cost- effective distribution channels through technology, to enhance competitiveness and efficiency of the sector.

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**APPENDICES**

## APPENDIX 1: QUESTIONAIRE

## THE CONTRIBUTION OF MICROFINANCE INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NYENDO SSENYANGE DIVISION, MASAKA MUNICIPALITY.

## A CASE OF MASAKA MICROFINANCE AND DEVELOPMENT COOPERATIVE TRUST (MAMIDECOT) -NYENDO BRANCH

Dear Respondent,

I am Byonanebye Gordon a student of Uganda Martyrs University conducting a research in partial fulfillment of the requirements for the award of a Bachelor’s Degree in Business Administration and Management; I am carrying out research on the topic: **The contribution of micro finance institutions on the growth of SMES in Nyend-Ssenyange division, Masaka district using a case study of Masaka Microfinance Development and Cooperative Trust (MAMEDICOT).** As one of the target respondents, your views and opinion are very important to this study since the study will provide current information to all stakeholders in regards to the contribution and relationships between microfinance institutions and SMEs. I hereby request you to spare some time and you fill this questionnaire. The responses obtained will be confidential and strictly be used for academic purpose only.

**Thank you for your co-operation in advance!**

**PART 1**

**Section A: Background Information**

1. Sex Female ☐ Male ☐

2. Age (a) Below 20 yrs. ☐ b) 21-30 yrs. ☐ c) 31-40yrs ☐ (d) above 40yrs ☐

3. Marital Status

(a) Married ☐ (b) Single ☐

4. Level of education (Optional)

(a) Primary ☐ b) Secondary ☐ (c) Tertiary ☐ (d) Postgraduate ☐

Others specify …………………………………………………………

5. Position in the organization

(a) Senior level ☐ (b) Lower level ☐

6. Years of existence

(a) Less than a year ☐ (b) 1-3years ☐ (c) 4-6 years ☐ (d) 7 and above ☐

**PART 2**

In this part, the researcher will use a likert scale of measurement to code and interpret the results of the research. The answers to the questions in the questionnaire shall be coded as follows using a likert scale of measurement;

**Section B: The role of savings on the growth of SMEs**

Use the scale of; **Strongly Disagree (SDA)=5, Disagree (DA)=4, Not Sure (NS)=3, Agree (A)=2, Strongly Agree (SA)=1.**

| NO. | STATEMENT | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| 1. | Savings enable SMEs to earn extra money in form of interests which increase the capital structure | | | | | |
| 2. | Savings enable the business to have liquid cash in case of financial distress and emergencies. | | | | | |
| 3. | In case the business has to pay taxes, savings can serve as a great way to hold money for taxes when they time arrives. | | | | | |
| 4. | Savings increase the capital structure of the business in the long run. | | | | | |
| 5. | Savings services have a favorable effect on the realization of desired business goals. | | | | | |
| 6. | Savings can be used for future business projects or for business expansion. | | | | | |
| 7. | Savings may also be used as collateral to obtain a loan for the business. | | | | | |

**Section C: The contribution of loans on the growth of SMEs**

Use the scale of **Strongly Disagree (SDA)=5, Disagree (DA)=4, Not Sure (NS)=3, Agree (A)=2, Strongly Agree (SA)=1.**

| NO. | STATEMENT | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| 1. | Micro-credit is easy to access thus enables SMEs to meet their obligation. | | | | | |
| 2. | Loans enable SMEs to increase their capital structure | | | | | |
| 3 . | Loans program increases opportunities of utilizing profitable investments by SMEs. | | | | | |
| 4. | Loans enable SMEs to acquire equipment | | | | | |
| 5. | Loans programmes enable SMEs to increase their working capital. | | | | | |
| 6. | Loan programmes enables SMEs to target equipped markets to necessitate wider experience by individuals. | | | | | |

**Section D: The role of training on the growth of SMEs**

Use the scale of **;Strongly Disagree (SDA)=5, Disagree (DA)=4, Not Sure (NS)=3, Agree (A)=2, Strongly Agree (SA)=1.**

| NO. | STATEMENT | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| 1. | Trainings enable SMEs to prepare better during times of emergencies. | | | | | |
| 2. | Trainings enables SMEs to understand the value of money this handle their finances better | | | | | |
| 3. | Training saves SMEs from acquiring too much debt. | | | | | |
| 4. | Financial literacy enables employees to operate effectively and efficiently in order to meet the micro-credit terms if any. | | | | | |
| 5. | Financial literacy is used as a pathway for employees to learn new skills and creating advancement towards employee satisfaction. | | | | | |
| 6. | Training enables SMEs to know the proper use of debt. | | | | | |
| 7. | Training enables directors to demonstrate their commitment for professional development as well as their career. | | | | | |

**Section E: Growth of SMEs**

Use the scale of; **strongly Disagree (SDA) =5, Disagree (DA) =4, Not Sure (NS) =3, Agree (A)=2, Strongly Agree (SA) =1.**

| **NO.** | **STATEMENT** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|---|
| 1. | Loans from MAMEDICOThave enabled my business's sales volume to increase | | | | | |
| 2. | The market share of my business improved since l started borrowing funds from MAMEDICOT- Nyendo branch. | | | | | |
| 3. | Financial trainings provided by MAMEDICOT to my business have enabled to boost the profitability since l know how to handle my funds. | | | | | |
| 4. | Saving with MAMEDICOT-Nyendo branch has enabled my business to tap available opportunities for investment and also expand my business. | | | | | |
| 5. | The financial training provided by MAMEDICOT has enabled my business to know when to acquire a loan and how much to acquire. | | | | | |
| 6. | Savings have enabled my firm to minimize financial risks of SMEs. | | | | | |

**“Thanks for your co-operation”**

# APPENDIX II: INTRODUCTORY LETTER

Uganda
Martyrs
University

VIRTUTE ET SAPIENTIA
DUC MUNDUM
UGANDA MARTYRS UNIVERSITY

making a difference

**Office of the Dean**

**Faculty of Business Administration and Management**

*Your ref.:*
*Our ref.:*

Nkozi, 4th June, 2020

**To Whom it may Concern**

Dear Sir/Madam,

**Re: Assistance for Research:**

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you **BYONANEBYE GORDON** who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a dissertation which involves a field research on a selected case study such as a firm, governmental or nongovernmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

Mr. Cyprian Ssebagala

**Associate Dean**

UGANDA MARTYRS UNIVERSITY
OFFICE OF THE DEAN
04 JUN 2020
P. O. BOX 5498, KAMPALA
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

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## APPENDIX III

## KREJCIE&MORGAN'S (1970) TABLE FOR DETERMINING SAMPLES SIZES(S) FOR FINITE POPULATION (N)

Table 3.1

*Table for Determining Sample Size of a Known Population*

| N | S | N | S | N | S | N | S | N | S |
|---|---|---|---|---|---|---|---|---|---|
| 10 | 10 | 100 | 80 | 280 | 162 | 800 | 260 | 2800 | 338 |
| 15 | 14 | 110 | 86 | 290 | 165 | 850 | 265 | 3000 | 341 |
| 20 | 19 | 120 | 92 | 300 | 169 | 900 | 269 | 3500 | 346 |
| 25 | 24 | 130 | 97 | 320 | 175 | 950 | 274 | 4000 | 351 |
| 30 | 28 | 140 | 103 | 340 | 181 | 1000 | 278 | 4500 | 354 |
| 35 | 32 | 150 | 108 | 360 | 186 | 1100 | 285 | 5000 | 357 |
| 40 | 36 | 160 | 113 | 380 | 191 | 1200 | 291 | 6000 | 361 |
| 45 | 40 | 170 | 118 | 400 | 196 | 1300 | 297 | 7000 | 364 |
| 50 | 44 | 180 | 123 | 420 | 201 | 1400 | 302 | 8000 | 367 |
| 55 | 48 | 190 | 127 | 440 | 205 | 1500 | 306 | 9000 | 368 |
| 60 | 52 | 200 | 132 | 460 | 210 | 1600 | 310 | 10000 | 370 |
| 65 | 56 | 210 | 136 | 480 | 214 | 1700 | 313 | 15000 | 375 |
| 70 | 59 | 220 | 140 | 500 | 217 | 1800 | 317 | 20000 | 377 |
| 75 | 63 | 230 | 144 | 550 | 226 | 1900 | 320 | 30000 | 379 |
| 80 | 66 | 240 | 148 | 600 | 234 | 2000 | 322 | 40000 | 380 |
| 85 | 70 | 250 | 152 | 650 | 242 | 2200 | 327 | 50000 | 381 |
| 90 | 73 | 260 | 155 | 700 | 248 | 2400 | 331 | 75000 | 382 |
| 95 | 76 | 270 | 159 | 750 | 254 | 2600 | 335 | 1000000 | 384 |

*Note: N is Population Size; S is Sample Size* *Source: Krejcie & Morgan, 1970*