AN ANALYSIS OF MICROFINANCE SERVICES AND GROWTH OF SMALL AND MEDIUM ENTERPRISE IN KAMPALA TOWN COUNCIL

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DECLARATION

This research report is my original work and has not been presented for a degree or any other academic award in any university or institution of learning".

Signature: .... Date: .13.|.12.|.2.0.1.6......

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APPROVAL

I confirm that the work reported in this report dissertation has been carried out by the candidate under my supervision".

Signature: .... Date: ... 13|12|2016 ....

MR. MASEMBE   MUZAMIL

DEDICATION

I dedicate this research to my beloved sisters SAHRA Abdullahi Farah, Kaltun Abdullahi Farah and Roda Abdullahi Farah for all the love, understanding, encouragement, material and moral support, without them my studies would not have been a success. Your support and encouragement can never be replaced.

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ABSTRACT

The study sought to establish the relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda. The study was guided by three specific objectives, that included i) establish the microfinance services accessed by the small and medium enterprises owners in Kampala Uganda; ii) determining the level of growth of small and medium enterprises in Kampala Town Council and (iii) establishing the relationship between microfinance services and growth of small and medium enterprise in Kampala Uganda. This research employed descriptive correlation design to describe the relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda, the study used a total population of 220 and a sample size of 142 respondents, and the questionnaire was used as the research instrument. Descriptive statistics used in this study included frequencies, means and PLCC on correlation of variables. Data analysis using means showed that microfinance services was rated satisfactory (overall mean=2.90)and growth of small and medium enterprises in Kampala, Uganda was found to be satisfactory (mean=2.88). Microfinance services and growth of small and medium enterprise are positive and significantly correlated. The researcher concluded that concluding that the microfinance institutions provide financial services in terms of savings services, small loans services which help in the growth of small and medium enterprises in Kampala Uganda, the small and medium enterprises in Kampala Town Council perform well in relation to profitability, sales volume and growth in number of customers through offering a variety of quality services to their customers, and improvement in access of microfinance services increases the level of growth of small and medium enterprises in Kampala, Uganda and failure to access microfinance services reduces growth of small and medium enterprises in Kampala, Uganda. From the findings, the following recommendations were made; microfinance institutions in Kampala Town Council should always allow small and medium enterprises borrow a specific amount of money and pay back through regular monthly payments with no collateral required, small and medium enterprises to carry out promotions in order to increase their business net profit margins, should also always carry out sales forecasting every month, and this will increase in growth of number of customers., should use phone calls, e-mails, and personnel visits to communicate with customers about their products, and this will create a friendly relationship with the customers hence increasing in the number of customers and should always make sure that their services and products are reliable to all groups of customers.

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LIST OF ABBREVIATIONS

GB   Garmen Bank

GDP   Gross Domestic Product

MFI   Microfinance Institutions

NGO   Non Governmental Organizations

SME   Small and Medium Enterprise

SUB   Salam Ugandan Bank

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This part of the research work entails the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, conceptual framework and significance of the study.

1.1 Background of the Study

The 1990s "saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale" (Robinson, 2001). Dichter (1999) refers to the 1990s as "the microfinance decade". Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX, 2005).

Microfinance services refer to the provision of financial services to low-income poor and very poor self-employed people (Otero, 1999). These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance services as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, in this study microfinance services involves the provision of financial services such as savings and micro loans to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Small and medium business growth refers to the extent to which an SME generates significant positive cash flows or earnings, which increase at significantly faster rates (Nieman *et al*, 2003). There are several indicators of SME growth such as profitability, sales growth, growth in number of customers, increase in number of workers employed and so on. Profitability is one of the important measures of growth that must be considered as it is unlikely that firm growth can be

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sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of enterprise as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors, then profitability measures are particularly attractive. This also implies that economic success is required by high performance firms. Small and medium-sized enterprises (SMEs) have played an important role in the world economy and contributed substantially to income, output and employment. However, the recent global financial crisis created a particularly tough climate for SMEs, with a reduction in demand for goods and services and a contraction in lending by banks and other financial institutions. They make a huge contribution to gross domestic product (GDP) and employment. The global financial crisis of 2008, however, created new challenges for SMEs. SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari et al. 2011). Japan has the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises. India, according to its Ministry of Micro, Small and Medium Enterprises, had 13 million SMEs in 2008, equivalent to 80% of all the country's businesses. In South Africa, it is estimated that 91% of the formal business entities are SMEs (Quartey, 2010).

Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and BRI2 began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term "microcredit" came to prominence in development (MIX, 2005). The difference between microcredit and the subsidized rural credit programmes of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (ibid.). It was now clear for the first time that microcredit could provide large-scale outreach profitably.

The contribution made by SMEs does vary widely between countries and regions. Nevertheless, although they play particularly key roles in high-income countries, SMEs are also important to low-income countries, making significant contributions to both GDP and employment. They are also major contributors to innovation in economies, partly through collaboration with the larger corporate sector. As noted, SMEs tend to be more labour intensive and at a macro level, therefore, provide a substantial contribution to employment. A World Bank survey of 47,745 businesses across 99 countries revealed that firms with between 5 and 250 employees accounted for 67% of the total permanent, full-time employment (Ayyagari et al. 2011). SMEs were also creating more jobs than large enterprises. Between 2002 and 2010, on average, 85% of total employment growth was attributable to SMEs.

Zeller (2001) argue that insufficient access to credit by the poor may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

Uganda is a long, narrow country on Africa's eastern coast that has a population of about 10 million (WHO, n.d.). By the 12th century, clan families were established and the widespread conversion to Islam had begun (Putnam & Noor, 1999). Although the government of Uganda's initially socialist republic had a better relationship with the Soviet Union than with the United States, the government still encouraged democratic participation. However, by the late 1960s, the government was widely considered corrupt and inefficient. Shortly after the assassination of Uganda's president in 1969, a coup led by General Mohammed SiadBarre overthrew the civilian government. Barre then ruled Uganda for the next 22 years. Initially, Barre's rule was popular, but nepotism and lack of accountability lead to widespread inequality, which was incompatible with Ugandan egalitarianism. Under Barre's oppressive, autocratic rule, clan-based opposition militias formed and were manipulated by Barre's regime. In 1990, a full-scale civil war broke out and ultimately led to Barre's overthrow and exile in 1991, and to the disintegration of the central government (Putnam & Noor, 1999). The civil war and ongoing clan violence have handicapped the country's infrastructure and economy.

1.2 Statement of the Problem

Many SMEs in Kampala usually experience stagnated growth, which see many exiting business before they mature. Very few of them have expanded sales, profits or opening up branches and few transform to medium enterprises. While several factors account for failure of SMEs to grow, inadequate finances and access to financial services is assumed to be more of a challenge than other factors (Yasin, 2013) and yet few studies have surveyed into the extent to which the microfinance services reach the poor business owners in the SME sector in Kampala Uganda, hence the need for this study. Lack of access to finance has been identified as one of the major constraints to small business growth (Owualah, 1999; Carpenter, 2001; Anyawu, 2003; Lawson, 2007). The reason is that provision of financial services is an important means for mobilizing resources for more productive use. The extent to which small enterprises could access fund is the extents to which small firms can save and accumulate own capital for further investment (Hossain, 1988). Thus, this study examined the extent to which SMEs access financial services and assessed whether accessibility to such services have affected their growth or not in case of SMEs in Kampala.

1.3 Purpose of study

To establish the relationship between microfinance services and growth of Small and Medium Enterprise in Kampala Uganda

1.4 Research Objectives

Specifically, this study aimed at achieving the following objectives:

(i) To establish the extent to which microfinance services are being accessed by the small and medium enterprises owners in Kampala Uganda.

(ii) To determine the level of growth of small and medium enterprises in Kampala Uganda.

(iii) To establish the relationship between microfinance services and growth of small and medium enterprise in Kampala Uganda.

1.5 Research Questions

In order to provide direction and sharpen the focus of this study, the following research questions have been formulated:

(i) To what extent are microfinance services being accessed by the small and medium enterprises owners in Kampala Uganda?

(ii) To what extent do small and medium enterprises owners in Kampala Town Council experience growth?

(iii) Is there any relationship between microfinance services and extent of small and medium enterprise growth?

1.6 Hypothesis

There is no a relationship between microfinance services and extent of small and medium enterprise growth.

1.7 The Scope of the Study

1.7.1 *Geographical scope*

The area chosen for this study was Kampala town council, this comprises the central business town of the largest city in Uganda and includes the areas of Old Kampala, Nakasero and Kololo. These areas are the most upscale business and residential neighborhoods in the city. It is also incorporates low income neighborhoods including Kamwookya, Kisenyi and Kampala's Industrial Area. The coordinates of the division are: 0°19'00.0"N, 32°35'00.0"E (Latitude: 0.316667; Longitude: 32.583333). (*Stephen Ssenkaba, and Andrew Masinde, 2012*).

1.7.2 Content scope

The study examined the microfinance services as the independent variable and growth of small and medium enterprises as the dependent variable. The microfinance services examined included savings services, small loans services and insurance services. Business growth of small enterprises was examined in terms of profitability of enterprises, sales volume and number of customers.

1.7.3 Theoretical Scope

The study employed the business passive learning theory developed by Jovanic (1982) as a principle guide. This theory states that a firm enters a market without knowing its own potential growth. Jovanic added that only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. This theory was employed in this

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study because it is built on the principles that form the variables of this study and these include a firm (microfinance services) and profitability (an element of growth).

1.7.4 Time Scope
This research was fulfilled within a period of 12 weeks that is from august to October 2016

1.8 Significance of the Study
The study examines the credit management practices in small scale business. This study is important for the following reasons:

It will be relevant to scholars, investors, management, and the society at large. It will throw more light on why there is need for putting up proper credit controls in a business.

It will enable the owner-managers of small scale businesses to improve the management of credit in order to attain their business objectives.

The impact of credit control analysis will serve as an invitation to other researchers to dig deeper in this aspect of human endeavor. Thus, this research report will serve as a source of literature and a motivation for further studies.

The recommendation of this study will assist policy makers, educators, shareholders, borrowers and top management to adopt proper techniques of credit controls for small scale businesses.

It will also provide a better understanding of microfinance services and how access to them can contribute to the growth of small and medium enterprises.

The study will generate useful insights that can be used by the government and Non-governmental organization to promote the accessibility of credit to the small and medium enterprise from microfinance institutions and to ensure that policies are institute to facilitate easy access of loans by SMEs from MFIs.

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The findings may also contribute to the existing knowledge of microfinance related to the effect on growth of SMEs and would be value to the future research. Academicians will enrich the literature available on microfinance and their effect on growth of SMEs

Microfinance institutions and governments may benefit from the findings of this study and may help to understand how to improve the microfinance services access.

1.9 Conceptual framework

The conceptual framework below shows a diagrammatic representation of the inter relationship between independent, intervening and dependent variables of the study.

Fig 1: Conceptual frame work

IV –Access to Microfinance services	Intervening variable	DV-Growth of SMEs
• Savings services • Small loans	• Government policy • Economic climate	• Profitability • Growth in sales • Growth in number of customers
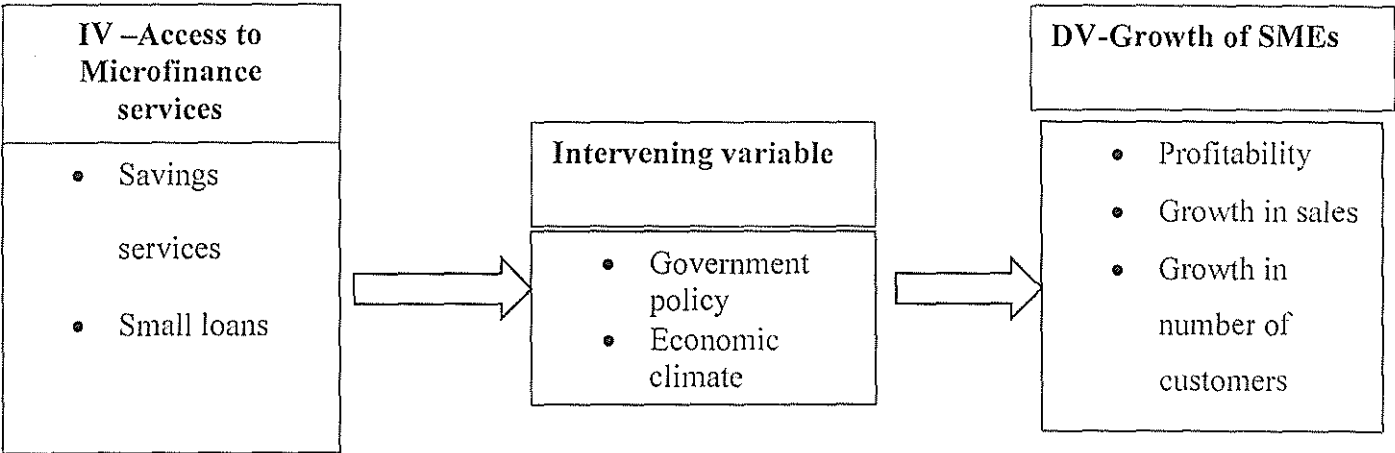
Source: Adopted from Stranova (2001)

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter focused on the concept of microfinance and the role they play in the growth of SMEs. It highlights concepts, ideas, theories, and opinions from Authors/ experts, theoretical perspectives. Also it describes related studies, it involves secondary data obtained from textbooks, journals and internet.

2.1 Theoretical Review

The study based on the business passive learning theory developed by Jovanic (1982) which states that a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates (Stranova, 2001). On the other hand, the borrowers that is SMEs for this case may incur costs ranging from those associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings. The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across, (Stiglitz, 1990).

2.2 Conceptual Review

In this section, the researcher presents a discussion of literature related to the definition and meaning of the concepts in the study variables, namely microfinance services and SME growth. The definitions are based on the ideas of different scholars in the two fields.

2.3 Microfinance Services

Microfinance, according to Otero (1999) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as savings and payment services. Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

The terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998) states "microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs1 supplement the loans with other financial services (savings, insurance, etc)". Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

Microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. These often resulted in high loan defaults, high lose and an inability to reach poor rural households (Robinson, 2001).

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not

have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centers while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004).

Microfinance provides a wide range of financial services to low-income clients, including self-employed and low earning individuals who are working in informal sectors. The core objective of microfinance is to create a favorable environment for the low income self employed and near-poor households in which they have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and general banking services. Microfinance provides a comprehensive range of financial services to the "unbanked people" working in informal sectors which best fits their needs and affordability.

The MFI subsequently provides different services to a client, most commonly in the form of a loan. These services lead to the client modifying her/his microenterprise activities which in turn lead to increased or decreased microenterprise income. The change in microenterprise income causes changes in household income which in turn leads to greater or lesser household economic security. The modified level of household economic security leads to changes in the morbidity and mortality of household members, in educational and skill levels and in future economic and social opportunities. Loans are delivered following the minimalist approach where the requirements for loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).

Collaterals have also been important tools for microfinance lending. Collateral is the method of providing small credits to the poor are most used by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders (Natarajan, 2004).

Microfinance institutions also lend to individuals to individuals with collateral. Besley and Coate (1995), say despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members.

In lending process, additional forms of security which can be used to assure a lender that you have a second source of loan repayment. Assets such as equipment, buildings, accounts receivable, and (in some cases) inventory are considered possible sources of repayment if they can be sold by the bank for cash.

2.4 Growth of Small and Medium Enterprises

A small scale enterprise is a privately owned and operated business, characterized by a small number of employees and low turnover. A small enterprise usually only shares a tiny segment of the market it operates in. Small scale enterprises (also, small scale businesses) are essential to the economy for industrial growth and diversification. The definition of a small scale enterprise may vary in different economies of the world, but the underlying concept is the same. Some measures used to define small scale enterprises include annual sales, asset valuation, net profit, headcount and balance sheet totals. Perhaps the most important measure in defining small scale enterprises is the number of people employed by the business. In African nations, a business is considered to be small scale if it employs less than 30 people.

In Asian countries, it is between 30 and 100, while in the United States it is any number below 500. A medium scale enterprise is a privately owned and operated business characterized by a medium number of employees and low turnover. In Uganda there is no proper agreement the definition medium scale enterprises how ever in African nation a business is considered to be medium scale enterprise if it employs 30 to 50. (Edgcomb& Klein, 2005). The Small and Medium Enterprises (SME) in Uganda constitute the large part of the private sector with specific reference to their numbers and employment figures. Most of these enterprises are indigenously owned and family run, less than five years old and rarely grow beyond medium scale level due to lack of access to markets and finance, limited skills and enterprise -to-enterprise linkages that

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would provide opportunities for growth. The accessibility to microfinance services could be considered difficult to small businesses due to the heavy collateral requirement that MFIs may impose.

Small and medium business growth refers to the extent to which an SME generates significant positive cash flows or earnings, which increase at significantly faster rates (Nieman*et al*, 2003). There are several indicators of SME growth such as profitability, sales growth, growth in number of customers, increase in number of workers employed and so on. Profitability is one of the important measures of growth that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of enterprise as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors, then profitability measures are particularly attractive. This also implies that economic success is required by high performance firms.

O' Farrel&Hitchins (2002) analyzed the major problem in evaluation of growth of small organization declared that first, there is major inconsistency in defining the small firms .Second there are also inconsistencies in the dimensions of grow; employment, profit, Value added , turnover ,market share are the parameter suggested by theorists. High performing small manufacturing firms emphasizes on new product development, product development, product quality, and customer service and efficient and employee welfare (Kotey& Meredith, 1997). Growth also depends on changing industry patterns and management; it is also about sociological evolution of the business (Gaskill, et al., 1993). Keats &Bracker (1988) in an empirical study on U.S. based small and medium enterprises operating in Europe reported new product development, expansion into new international markets and expansions into new European markets are the major growth strategies adopted by them.

SME profitability

Most people use profitability as one of the most common indicators of business growth. The more profits a business realizes, the more it is assumed to be growing and vice versa. A growing

company tends to have very profitable reinvestment opportunities for its own retained earnings. Business growth is also defined as the level and extent to which the venture meets the objectives of the owner and expectations of the society of operation (Cohen, 1993). One of the most popular objectives of most firms is profit. Growth is thus defined according to individual goals set for a given business. For example, if the business is set to serve ten villages and at the current state it is serving only one or two, it has not grown according to the expectations of the founder or society. Adhikary*et al* (1999) in Nieman*et al* (2003) defined successful enterprises as a business serving for longer than two years, having a staff complement of more than five but less than 30, making a profit and expanding in terms of infrastructure and growth.

Economic growth is conceptualised by Begley (1995) as the rate of increase in revenue and can be used to differentiate levels of growth among different small scale firms. Another economic measure is increase in sales. Growth here can be measured by establishing whether sales have increased, remained constant or declined. However, this measure is limited by the fact that sales growth is not an objective of all firms. In such case however, profits are used as a measure.

According to Barreira (2004) growth has different dimensions, including economic and owner's satisfaction. This is supported by Luk's (1996) argument that the highest level of economic growth does not correspond to the highest level of owner's behaviour. He observed that the individual attitude has twice an effect upon economic growth of the venture, as did the firm's characteristics. To him, interpersonal skills are a great asset which facilitates business growth. However Hisrich (2000) says that the firm's characteristics have twice the influence upon owner's satisfaction as individual attitudes do.

Cohen (1993) showed that growth dimensions of an enterprise are grouped into personal and environmental factors. Personal factors include challenges the business owner experiences, self-concepts and adaptability, and previous exposure. Environmental factors include relationships with others (e.g. customers, subordinates, colleagues, family and friends), one's training and education and other environmental hardships. This implies that growth can be internal and external (or personal and environmental). This study considered internal and environmental or external growth. Internal growth involves personal benefits like increased profits, sales, personal

satisfaction, expansion, etc. External growth involves increased employment opportunities, output, improved quality, relations, trained people, increased assets, etc. Factors like long-term survival may be both internal and external growth.

The arguments discussed above indicate that various factors interact to bring about enterprise growth; for example personal perceptions, market forces, environmental conditions, industry trends and dynamics (Baron &Markman, 2003). Many researchers have identified various indicators of venture growth; for example Hisrich (2000) and Bygrave (2004) looked at increase in sales, income, employment and satisfaction; Newton (2001) considered increased productivity, competitiveness, market share, profit and opening branches; Bosma*et al.* (2000) considered increased trained people (human capital), satisfaction and long term survival; while Emeric (1998) considered economic growth (including growth in sales, employment and income) and satisfaction. To Emeric (1998), growth can be measured subjectively using perceptions of enterprise founders and objectively using economic performance such as efficiency, profit, size, liquidity, market share and leverage.

Growth in sales

Trovato (2002) noted that as the deadline for the millennium development goals draws near, the aim of achieving universal and equitable access to quality SME services remains in sharp contrast to the reality of daunting and persistent service gaps across the world. Since the 1980s, a number of international organizations and donors have started to work with the private sector in developing countries, where the private SME sector comprises all providers who exist outside the public sector, whether their aim is philanthropic or commercial. However, support for the private sector in SMEs remains a much-debated and contentious issue (Kopla, 2009). Critics argue that while consumers prefer the private sector due to perceived quality, easier access, and greater responsiveness, in many cases, the care provided in under-regulated developing country settings is of poor quality, with potential adverse implications for individual health outcomes as well as population disease control and drug resistance. Others are concerned about user fees associated with private services. They suggest that increasing the role of the private sector limits the use of services among the poorest, who cannot afford to pay, consequently reducing access and equity in the use of services like health care. On the other hand, proponents of a greater role for the private health sector argue that given the

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resource-constraints of existing health systems, a more realistic approach to improving access to care is to acknowledge and build upon the opportunities and resources of an already operational private health sector (Becchett, 2002).

Growth in number of customers

The number of direct client contacts is always specified in the output measures. In the SME sector, the growth in number of customers can also be indicated by clients directly advised in the business centre, either on a day by day basis or weekly or monthly or annually and also the number of clients who have been exactly serviced through the provision of various business services. Some customers also come not for direct services but to get some guidance or information either by a personal visit, by telephone or visiting the enterprise websites for four minutes or more. We can also count the number of people who have entered the business premises each hour of the day, those who have reached the reception desk, those who have consulted the sales staff/specialists and so on (Zachary, 2010).

2.5 Relationship between Microfinance Services and the Growth for SMEs

Growth is sometimes regarded as the most important, reliable and easily accessible measure of a firm's performance. Small and Medium Enterprises (SMEs) by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their paramount effect on rapid economic growth. The rapid growth of global markets observed over the last decade has stimulated competition in both developed and developing countries, forcing entrepreneurs and policy makers to adopt market-oriented policies. The fact that the share of SMEs has increased in these countries suggests that efficient SMEs have actually been able to deploy new strategies in order to maintain, or even enhance, their competitiveness in a globalised economy. Many different theories have attempted to identify the main factors underlying firm growth. They can be divided into two main schools: the first addresses the influence of firm size, profitability and age on growth, while the second deals with the influence of variables such as strategy, organization and the characteristics of the firm's owners/managers (Heshmati, 2001).

Profits are necessary for survival in the long run in a competitive environment, but SME management may choose not to grow. Long-term profitability derives from the relations between cost and revenue; it is a necessary but not sufficient condition for growth. Revenues may be held up by entry barriers and costs pushed down by management ingenuity. A low-profit firm will lack the finance for expansion, but a high-profit business may conclude the risk and rewards of expansion are inadequate. In a 'life style' SME, an owner may trade profitability today against profitability tomorrow. Dynamic pricing or sequential investment projects may require initially lower profits in order to obtain higher future pay-offs from greater market penetration. An SME manager's time preference is likely to determine the inter-temporal profit trade-off (Becchetti, 2002).

In fact, a huge number of studies have been devoted to examining the relationship between growth and the firm's size and age. For-example, Evans (1987) examined the effects of firm size and age on growth using data on business firms in the United States. Although several previous studies had supported Gibrat's law that hypothesizes that growth is independent of size, Evans (1987) found that firm growth decreases with firm size and age. However, the empirical literature has suggested that firm growth is determined not only by the traditional characteristics of size and age but also by other firm-specific characteristics. For example, Heshmati (2001) found that the degree of indebtedness positively affects sales growth using data on Swedish micro and small firms, while Becchetti (2002) documented the effect of external finance on firm growth in the Italian manufacturing industry, apart from the traditional determinants of age and size.

Diagne and Zeller (2001) noted that the main objective of microfinance institutions is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool forthe eradication of poverty. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. A study of MFIs in seven countries carried out by Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any

significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

Yasin (2013) in his study of microfinance lending relevance to the SMEs growth in Kampala, Uganda, he identifies that small businesses in Kampala are facing challenges to access loan from MFIs and this results many small business to demise soon or may not be started due to lack of ability to overcome the challenges. The finding showed how SMEs in Kampala 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.

Buckley (1997) did a study on the effect of MFI lending to the growth of SMEs and found 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 evangelism". Carrying out research in three countries; Kenya, Malawi and Ghana, Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment.

Markowski (2002) 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, 2004 and Dichter, 1999). They are ignored, yet an objective of the Microcredit Summit is to reach 175 million poor people by 2016 but MFIs do not seem to be on target for meeting this objective. Therefore, the effect of microfinance on small and medium business has not received adequate research attention in Uganda. This means that there is a major gap in the relevant literature on developing countries including Uganda, which has to be covered by the research. This research attempts to fill this gap by studying the situation in Kampala, Uganda and providing more empirical evidence on the effects of microfinance on developing Business.

Kushoka (2013) adapted a research to examine the contribution of microfinance institutions on enterprise development in Tanzania. The article is aimed at moving poor small-scale entrepreneurs and/or would-be entrepreneurs from low-growth enterprises to high-growth Enterprises using Microfinance Institutions (MFIs). The study employed both descriptive and explanatory approaches to seek answers to the research question. The study reveals that there is an increase in the number of employees and amount of working capital of entrepreneurs after using the services of Microfinance Institutions (MFIs). The researcher concludes that Microfinance Institutions (MFIs) are key players in entrepreneurship development; it is recommended that Microfinance Institutions (MFIs) should package their services together (financial and non financial) in order to positively boost growth of Micro Small and Medium Enterprises (MSMEs).

Sakthi (2011) and Praveen Kumar conducted a research study about the role of microfinance institutions in the development of entrepreneurs in Africa. The study is focus for entrepreneurs who want to run a business and yet can't afford a piece of equipment and merchandise. The research whereby providing equipment or merchandise to enable the project to run a self funding profitable project. The research find out that only 6 % of Africans borrow money to start a business where as 13 % borrow to buy food. 50 % of the population live with less than 1US$ or less per day. Most of the Africans lack the understanding of what it would take to successful entrepreneurs. They lack necessary technical management skills and confidence. They lack personal ambition and willingness for fear of sharing ownership and failed to form partnership.

Ekpe (2010) studied the effect of Microfinance factors on women Entrepreneurs' performance in Nigeria. Women play a crucial role in the economic development of their families and communities but certain obstacles such as poverty, unemployment, low household income and societal discriminations mostly in developing countries have hindered their effective performance of that role. It is discovered that women entrepreneurship could be an effective strategy for poverty reduction in a country; since women are the worst hit in such situation. However, it is discovered that women entrepreneurs, especially in developing countries, do not have easy access to microfinance factors for their entrepreneurial activity and as such have low business performance than their men counterparts, whereas the rate of their participation in the

informal sector of the economy is higher than males, and microfinance factors could have positive effect on enterprise performance.

Mamun (2009) investigated the innovation, design and implementation of GB. Besides, this research also examined the adaptation and learning practice of GB and the motivation and contribution of GB and some environmental factors that supported GB especially in Bangladesh. The study findings were in relation to the purpose of this research. This study revealed that some innovation, design and implementation of GB such as group based lending, the collateral free lending system, peer group monitoring system, the designed training staff of GB were the major factors that contributed to the success of micro-finance; the adaptation and learning practice such as flexibility of obtaining a loan, a housing loan with lower interest rate, mandatory and voluntary savings were the most significant issue; the motivation of GB such as incentive schemes to staff, encouragement for financial independent by the borrowers of GB, borrowers motivated to mobilize and allocate resources were also the most leading issue, the contribution of GB such as microfinance programme contributed to female's control over resources and decision making at family level enormously as well as the environmental issues such as ongoing population growth that favoured GB very significantly. Finally, the researcher recommended that GB should necessitate the expansion of the organizational capability to recognize the appropriate innovation, creating the cultural innovation, sustainable development programme on the basis of demands and problems of the borrowers, the initiative for an appropriate macro-economic policy and financial designs in order to alleviate the poverty from the rural economy.

Olu (2003) investigates the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy called Nigeria. The study reveals that (i) there is a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use them; (ii) there is a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and (iii) that there is no significant effect of microfinance institutions activities in predicting entrepreneurial development. The researcher concludes that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the

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government and the economy at large through the services they offer and the functions they perform in the economy.

Yasin (2013) carried out a study of Microfinance relevance to the business in Magadishu, Uganda. The main objective of the study was to examine the challenges facing by small businesses in accessing microfinance services in Kampala. The study identified that Small businesses in Kampala are facing challenges to access loan from MFIs and this results many small business to demise soon or may not be started due to lack of ability to overcome the challenges. Therefore, since the researchers mentioned that there is a challenges facing small business in accessing microfinance, this research will cover the extent of how these challenge of credit from microfinance institutions effect the growth of small and medium enterprise in Uganda.

Adhikary*et al* (1999) in Nieman*et al* (2003) defined successful enterprises as a business serving for longer than two years, having a staff complement of more than five but less than 30, making a profit and expanding in terms of infrastructure and growth. While the role that small business plays is impressive, it is also important to recognize that big business and corporate America is not employing as many people as it has in the past, as evidenced by continuing downsizing and layoffs (Howard, 2001). In addition to representing such a significant portion of the U.S. economy, when young adults move into the workforce, 67 percent obtain their first employment in small businesses (Scarborough &Zimmerer, 2003). Even though the evidence demonstrates that small business accounts for a majority of the U.S. workforce and new job creation, much of the research on small business growth focuses on profits, sales, and market share, largely ignoring growth of the workforce. Most of the research on the growth of the workforce has been either exploratory or descriptive in nature, but has not effectively addressed the issue that growth in the workforce can lead to increased profits, sales and market share (Howard, 2001).

2.6 Summary of Literature Review

The current theories on microfinance postulate that microfinance structures are essential for development which is based on three basic assumptions: one is that poor populations possess the capacity to implement income generating activities. Two is the idea that poor people given

access to capital and guided properly are in a position to implement and manage income generating business enterprises. Three is that once the financial systems are established, the poor people "are able to use it (the financial tools) for productive purposes and progressively incorporate themselves into the financial milieu, repaying the loans, and accumulating savings". This is because microfinance provides the means to generate income that eventually leads to a sustainable development. The informal sector became more important in the 1970s and 1980s as the reliance of household members on formal wage earnings was replaced by informal income generating activities (Tripp, 1996).

The rapid growth was initiated by the informal enterprises themselves as a measure of survival following the failure of the state (Maliyamkono & Bagachwa, 1990; Rutashobya & Olomi 1999). The decline of real wages, persistent inflation, and the decline of the formal sector employment attributed to the rapid expansion of the informal sector (Bagachwa 1995). In addition, commercial banks were encouraged to provide services to this sector through loan quotas, subsidies, tax breaks, training and guarantees against defaults. Despite massive subsidies, development banks created by Governments in developing countries have had little success in reaching the intended beneficiaries (UNCTAD 1995). Finally, the effect of microfinance on small and medium business has not received adequate research attention in Uganda. This means that there is a major gap in the relevant literature on developing countries including Uganda, which has to be covered by the research. This research attempts to fill this gap by studying the situation in Uganda and providing more empirical evidence on the effects of microfinance on the growth of enterprise.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the research design, population, sample size, sampling strategies, data collection instruments, validity and reliability of the data collection instruments, data analysis, ethical considerations and limitations of the study.

3.2 Research Design

This study employed descriptive research design. Cooper (2003) observed that descriptive studies are structured with clearly stated questions to be investigated. The descriptive design was selected in this study because it would allow the researcher to gather numerical and descriptive data to assess the relationship between the variables. Within this design, the researcher described the microfinance services as well as the extent of SME growth in the study area. Using the same design, the researcher described the relationship between microfinance services and growth among SMEs. This was done through a cross sectional approach of data collection from many owners of SMEs in Kampala.

3.2 Population of Study

The study was conducted among the selected Small and Medium Enterprises in Kampala which is one of the fastest developing districts in Uganda with an increasing number of small scale business enterprises. The researcher selected 50 Small and Medium Enterprises. These enterprises were selected because they were among the few that access financial services from microfinance institutions (Uganda Private Sector Foundation Report, 2014). In this regard, it was worthy to consider them in this study so as to find out how such services have helped them to grow in the area. The total research population from the 50 SMEs was therefore 220 and this involved SME owners, their employees and staffs from Salaam Uganda Microfinance Institution in Kampala.

3.3 Sample size

Since the estimated research population was 220, the sample size was determined by the use of sloven's formula as indicated below:

$$n = \frac{N}{1 + N(e^2)}$$

Where; n = the sample size; N = the population size; and e = the level of significance, which is = 0.05. This can further be illustrated as below:

$$n = \frac{220}{1 + 220(0.05^2)} \qquad n = 142$$

Thus, using the above formula, the sample size in this study was 142 and this was divided as below.

Table 1: Population Size and Sample Size

Category	Population	Sample size	Sampling techniques
Business owners	50	50	Purposive sampling
Employees	150	72	Systematic random sampling
Microfinance staff	20	20	Purposive sampling
Total	**220**	**142**	

Based on the distribution of sample size in Table 1, two (2) respondents were selected from every small SME while three (3) of them were selected from the medium ones. This proportionate selection of respondents from various SMEs was done so as to find out diversified information regarding microfinance services and the growth of SMEs in Kampala, Uganda.

3.4 Sampling strategies

The sampling techniques used in this study included systematic random and purposive sampling techniques. Systematic random sampling was employed because it is simple and avoids cases of biasness in sampling. In using systematic random sampling, list of names of different categories of employees from the selected SMEs was obtained from the SME owners. A required number per each SME was selected from them. This was done by computing a systematic random number which was two, such that when two employees in each SME are selected, the third was left out and then the fifth and sixth was chosen until a sample size was reached.

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However, business owners and microfinance staff members were purposively selected as there was need to get detailed information regarding their services they get from microfinance institutions or services offer to SMEs respectively and how these services have helped SMEs to grow.

3.5 Data Collection Instruments

This study employed the following instruments in the collection of data; a questionnaire survey and interview survey. In this study, the researcher used questionnaires and interviews as primary sources of gathering data and documentary analysis as secondary method. The first two tools were preferred because they are the best in determining the affective domain of the respondents. As noted by Amin (2005), they are the best tools for getting views, perceptions, feeling and attitudes of respondents.

3.5.1 Research Questionnaire

The study employed a questionnaire Survey. This was because it is highly suitable as respondents find it easy to answer and allows the researcher to easily identify the main concerns of the respondents. The questionnaires were close-ended, designed in appropriate Likert scales to solicit the opinions of the respondents. A four (4) Likert scales was preferred because they provide standardized sets of response options that represent varying degrees of agreement. The researcher used questionnaire because it is a reliable and dependable instrument for collecting information from respondents who are scattered in a vast areas as noted by Ghosh (2000). The questionnaire that was used in this study constituted the quantitative data. The questionnaire covered certain themes that were derived from the research objectives and it was anonymous and confidential. The questionnaires were self-administered since respondents who participated in this study could read and write. The scoring system of the questionnaire was four scales or Likert type scale of rating involving: 1=strongly disagree (meaning disagreeing with no doubt at all); 2=disagree (meaning disagreeing with some doubt); 3=agree (meaning agreeing with some doubt); 4=strongly agree (meaning that agreeing with no doubt at all) and this was done by ticking (marking) one of the choices outlined above (Creswell, 2003). The questionnaires basically targeted all employees from the selected SMEs, some SME owners and some employees from the Salaam Uganda Microfinance Institution in Kampala.

1.5.2 Interview Guide

The researcher used interview guide as a tool to obtain firsthand information from the key informants on the services they get from Microfinance institutions and how such services have enabled them to grow. As noted by Amin (2005), interview is an appropriate data collection tool, because the researcher is able to explain and clarify the questions being asked. It accessed in depth information on the microfinance services and the growth of SMEs in Kampala. Responses were compared with those from questionnaires. The method had a number of advantages. It ensured interaction and social situation at motivational to both the interviewer and the interviewee. It also gave chance for getting highly personalized data, eases probing and gives a good return rate. This technique was also unique as it aimed at obtaining insights regarding the intricacies of issues regarding the study variables (microfinance services and the growth of SMEs) from the selected SMEs. This study concentrated on face to face interviews. Those interviewed included 2 managers from Salaam Microfinance Institution and 5 SME owners whose businesses had greatly grown in the city.

3.6 Validity and Reliability of the instruments

3.6.1 Testing the validity of the research instrument

The questionnaire was given to three lecturers to judge the validity of questions according to the objectives. After the assessment of the questionnaire, the necessary adjustments were made bearing in mind the objectives of the study. Then a content validity index (CVI) of 0.81 was obtained using the following formula,

$$CVI = \frac{\text{Number of items rated as relevant}}{\text{Total number of items rated in the questionnaire}}$$

$$CVI = \frac{21}{26} = 0.81$$

Thus, since the CVI computed was above 0.7, the standard cronbach alpha, the instruments were considered valid this is also in line with Amin (2005) who noted that the overall CVI for the instrument should be calculated by computing the average of the instrument and for the instrument to be accepted as valid the average index should be 0.70 or above.

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3.6.2 Reliability of the instrument

According to Amin (2005), reliability of an instrument refers to the extent to which the research instruments are without bias thus, presenting consistent measurements especially in data collection process. To ensure reliability for interview guides, recorded interviews, extensive interview notes and field notes were ensured so as determine reliability. These processes highlighted potential problems and areas that might have been omitted. The pre-test was employed to contribute to the credibility, dependability and trustworthiness of a questionnaire. The findings from the test-retest were coded in the SPSS, a computer package to test for reliability at the Cronbanch's alpha coefficient of 0.7 so as to assess the internal consistency and the findings regarding these are presented in Table 2.

Table 2: Results of Reliability Test

Variable	Anchor	Cronbach Alpha Value
Saving services	4-Point	.8134
Small Loans	4-Point	.7624
Profitability	4-Point	.8012
Growth of sales	4-Point	.7310
Number of employees	4-Point	.7012

Source: Pilot Research, 2016

3.7 Data gathering procedures

After authorization from the university the researcher took and sent questionnaires to the respondents for answering the set questions. This took two to three weeks and then the researcher sat down for tabulation of data to get out the useful information to answer the set questions.

During the research, the researcher employed different methods for data collection during the study. Other methods such as questionnaires, interviews, observation and documentary analysis were also used.

3.8 Data Analysis

Data on profile of respondents was analyzed using simple frequency counts and percentage distributions. Means and rank were used to determine the microfinance services and growth of

small and medium enterprises. The following numerical values and response modes were used to interpret the means;

Mean range	Response range	Interpretation
3.26 - 4.00	Strongly agree	Very high
2.51 - 3.25	Agree	High
1.76 - 2.50	Disagree	Low
1.00 - 1.75	Strongly disagree	Very low

The Pearson's Linear Correlation Coefficient (PLCC) and linear regression was used to determine the relationship between microfinance services and SME growth.

3.9 Ethical Considerations

In the course of this research, the principle of anonymity was respected and the researcher tried his best to help respondent with negligence to fill the questionnaires form by motivating them. The respondents and entities were coded instead of reflecting their names. Permission to collected data was solicited through a written request to the concerned officials of Microfinance institutions and SMEs included in the study. The researcher requested the respondents to sign in the Informed Consent Form. All the authors quoted or whose ideas are used in this study were fully acknowledged through proper citations and referencing. Finally the findings were presented in a generalized manner.

3.10 Limitations of the study

Testing: There was use of research assistants in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents.

Extraneous variables were beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

Attrition/Mortality: Not all questionnaires were returned as neither completely answered nor even retrieved back due to circumstances on the part of the respondents such as travel, sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presented the profile information of respondents, the extent of microfinance services, growth of small and medium enterprises and the relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda.

4.1 Profile of respondents

The total number of respondents who participated in this study was 142. Out of the 142 respondents who participated in this study, 135 of them were administered through questionnaires while the remaining 7 were administered through interview guides. Thus, the information presented on the demographic characteristics of respondents in Table 2 reflects the profile of respondents administered through questionnaires only. Those administered through questionnaires were asked to provide information regarding their gender, age, education level and number of years experience, their responses were summarized using frequencies and percentage distributions as indicated in table2 below;

Table 3: Profile of Respondents

Category	Frequency	Percent
Gender Male	90	67
Female	52	33
Total	142	100
Age 20-29 years	18	13.3
30-39years	37	27.3
40-49 years	51	38
50 years	29	21.4
Total	142	100
Educational qualification Certificate	70	52
Diploma	41	31
Bachelors degree	14	10

Category	Frequency	Percent
Gender Male	90	67
Female	52	33
Master degree	7	7
Total	**142**	**100**
Number of years experience Below 2 years	43	32
3-5years	59	44
6 years and above	33	24
Total	**142**	**100**

Source: Primary data, 2016

Table 3 revealed that majority of the respondents in this sample were male 90(67%) as compared to 45 (33%) who were female, hence observing a big gender gap among the small and medium business owners in this sample.

Concerning age, results in table 3 indicated that majority of respondents in this sample ranged between 40-49 years of age, this also implied that majority of small and medium business owners in this sample were in their middle adulthood age and constituted 38%, these were followed by those between 30-39 years of age constituting 27.3%, hence indicating that these were in their early adulthood, 13.3% were between 20-29 years and yet 50 years and above were 21.4%.

With respect to education qualification; the study further showed that certificate holders (52%) dominated the study, diploma holders (31%) and these were followed by bachelor's degree holders (10%) and those with masters' degree were only 7%, hence observing that majority of small and medium business owners in Kampala Town Council are not highly qualified in academics.

Concerning number of years working experience, results in table 3 indicated that majority of workers in this sample had an experience of 3-5years (44%), these were followed by those below 2 years (32%), hence implying that the small and medium business owners had spent a relatively enough experience doing their businesses.

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4.2 Microfinance services

The independent variable in this study was microfinance services and was broken into three parts namely; Savings services (with four questions) and Small loans (with five questions). Each of these questions was based on the four point Likert scale where by respondents were asked to rate the microfinance services by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in table 4;

Table 4: Microfinance services

Items on Microfinance services	Mean	Interpretation	Rank
Savings services			
SMEs always save their money in microfinance institutions such as banks and money lenders	3.27	Very satisfactory	1
SMEs always think on how to open and close their savings account	2.88	Satisfactory	2
SMEs always fear a breakage charge when they move money from the fixed rate account during the fixed term	2.59	Satisfactory	3
The microfinance allows unlimited deposits and withdraws of SMEs' savings	2.37	Unsatisfactory	4
Average mean	**2.78**	**Satisfactory**	
Small loans			
The loan SMEs always obtain has made it easy to put my financial plan in action	3.38	Very satisfactory	1
There is repayment penalty always attached to the small loan obtained from Bank	2.89	Satisfactory	2
SMEs always decide on when and how much to borrow up to approved credit limit	2.74	Satisfactory	3
The credit line is always approved without collateral	2.66	Satisfactory	4
With no collateral required, SMEs can now borrow a specific amount of money and pay back through regular monthly payments	2.32	Unsatisfactory	5
Average mean	**2.80**	**Satisfactory**	
Overall mean	**2.79**	**Satisfactory**	

Source: Primary data, 2016

Mean range	Response range	Interpretation
3.26 - 4.00	strongly agree	very satisfactory
2.51 - 3.25	agree	Satisfactory
1.76 - 2.50	disagree	Unsatisfactory
1.00 - 1.75	strongly disagree	very unsatisfactory

Results in table 4 revealed that the extent of microfinance services is generally satisfactory (overall mean=2.79) and this implies that the microfinance institutions provide financial services in terms savings services and small loan services which help in the growth of small and medium enterprises in Kampala Uganda.

Savings services; this variable was measured by four items and respondents were asked whether they agreed with the statements under investigation. Responses revealed that savings services was rated satisfactory on average (mean=2.78), implying that small and medium enterprise owners always save money from microfinance institutions such banks and money lenders.

Small loans- five items were used to measure this variable and respondents were asked whether they agreed with the statements. Responses indicated that small loans was rated satisfactory on average (mean=2.80), implying that the small and medium enterprise owners always obtain small loans from microfinance institutions such banks and money lenders and this has helped them to put their financial plans and other business activities in action. Apart from the above findings based on questionnaires, oral interviews were also used by the researcher in order to seek for further clarification to the respondents' views on how they would respond to the question on the microfinance services to SMEs in Kampala. The researcher discovered that the views of the key informants in this regard were similar to those that were revealed through questionnaires as over 80 % of the key informants interviewed admitted that microfinance institution services have greatly helped SMEs in the area as regards offering saving facilities and micro loans. One of the key administrators from Salaam Uganda Microfinance Institution was quoted saying:

Many of our services have been designed to target SMEs. As regards to our saving schemes, we have developed some specific products that can enable our SMEs to save their money with us safely. Our recent strategic planning has also focused on providing micro loans to our SMES. We have allocated about 30 % of our money as loans to SMEs such that they can stimulate the socio-economic development in Kampala.

Another key administrator of Salaam Uganda Microfinance Institution was also quoted saying:

Our services have been very instrumental to SMEs in the recent few years. Although we have many services and products that can benefit SMEs, most of them

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have been accessing saving and loan services. We have designed these services to

suit them. Many of them have greatly benefited from our services.

Similar information was also obtained from some of the SME owners. One of them was quoted saying:

I save my money at Salaam Uganda Microfinance Institution on weekly basis. It is

one of the ways through which I can safeguard my money. I have also acquired

some loan from the institution. These services have helped me to boost my business

and stock. I greatly value these services and I hope some of my friends do the same.

In similar way, another SME owner who was interviewed was also quoted saying:

Since Salaam Uganda has been launched as microfinance institution to help the

poor and SMEs in Uganda, we who had no accessibility to banking services have

greatly benefited. Many of us SME owners have accounts with the microfinance

institution and access services such as loans and saving in it. We also benefit from

their extension services to manage our businesses as well. The microfinance

institution is a real business opportunity to many of us.

From these statements, it is clear that, microfinance institution services such as savings and micro loans have been instrumental to many local people in Kampala as well as SMEs in the area.

4.3 Level of Growth of small and medium enterprises

The dependent variable in this study was the growth of small and medium enterprises, this variable was broken into three constructs (profitability with 6 questions, Growth in sales with 5 questions, and growth in number of customers with 6 questions), for which respondents were required to ascertain the extent to which they agree or disagree with the items or statements by indicating the number which best describes their perceptions. This variable was measured using questions with response rate ranging between 1=strongly agree, 2=agree, 3=Disagree and 4=strongly disagree. The responses were analyzed and described using means as summarized below in table 5;

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Table 5: Level of Growth of small and medium enterprises

Items on Growth of small and medium enterprises	Mean	Interpretation	Rank
Profitability			
There is a high return on SMEs' investment	3.31	Very high	1
Shareholders of SMEs' receive relatively high returns	3.28	Very high	2
SMEs business assets give them enough profits	3.21	High	3
SMEs expect profits to remain high in future	2.83	High	4
SMEs' revenue always exceeds the expenditure	2.75	High	5
SMEs' net profit margins are high	2.37	Low	6
Average mean	**2.96**	**High**	
Growth in sales			
SME's sales volume always increase year after year	3.29	Very High	1
Selling new and high quality products can attract a large number of customers from different parts of Uganda	3.27	Very High	2
SMEs' always sell large quantities of goods to their customers	2.82	High	3
SMEs' always offer a variety of quality services to customers	2.64	High	4
SMEs' always carry out sales forecasting every month	2.44	Low	5
Average mean	**2.89**	**High**	
Growth in number of customers			
SMEs' products and services always provide high degree of convenience to customers	3.33	Very High	1
SMEs have always maintained a rigorous customer focus	3.14	High	2
SMEs frequently segment the existing customer groups basing on newly discovered needs and buying patterns	2.73	High	3
SMEs have always responded to customers' changing needs	2.63	High	4
SMEs always use phone calls, e-mails, and personnel visits to communicate with customers about their products	2.55	Low	5
SMEs' services and products are reliable to all groups of customers	2.35	Low	6
Average mean	**2.79**	**High**	
Overall mean	**2.88**	**High**	

Source: Primary data, 2016

Mean range	Response range	Interpretation
3.26 - 4.00	strongly agree	Very High
2.51 - 3.25	agree	High
1.76 - 2.50	disagree	Low
1.00 - 1.75	strongly disagree	Very Low

Results in Table 5 revealed that the growth of small and medium enterprises in Kampala Town Council is generally high (overall mean=2.88), hence implying that the small and medium enterprises in Kampala Town Council perform well in relation to profitability, sales volume and growth in number of customers through offering a variety of quality services to their customers.

The dependent variables represent the perceptions of the respondents regarding these concepts:- Profitability-- This variable was measured by three items and respondents were asked whether they agreed or disagreed with the statements under investigation. Responses revealed that profitability was rated satisfactory (mean=2.96), implying that the small and medium enterprises always get a high return on investment and their business assets help them give them enough profits.

Growth in sales--five items measured this variable and respondents were asked whether they agreed with the statements therein and responses indicated that growth in sales was rated satisfactory on average (mean=2.89), implying that the sales volume for small and medium enterprises always increase year after year through new and high quality products which have attracted large number of customers different parts of Uganda.

Growth in number of customers- six items were used to measure this variable and respondents were asked to measure the growth in number of customers which they agreed with the statements. Responses indicated that growth in number of customers was rated satisfactory on average (mean=2.79), implying that the small and medium enterprises' products and services always provide high degree of convenience to customers and have always maintained a rigorous customer focus.

In addition to the above findings based on questionnaires, oral interviews were also used by the researcher in order to seek for further clarification to the respondents' views on how they would respond to the growth of SMEs in Kampala, Uganda. The researcher discovered that the views of respondents in this regard were similar to those that were revealed through questionnaires as about 70 % of the key informants interviewed revealed that the growth of SMEs in the area in the last few years tremendous.

On the number of branches being opened, it was found out that Omar and Mohamed Ilkweyn Wholesale Companies one of the selected SMEs had opened up 4 branches in the city since 2010; Raliya and Shafia Wholesale Companies had opened up 3 branches in the city since 2011 and had already established plans to open up more; Indho Derro Wholesale Company had opened up 2 branches in the city since 2011. These findings indicate that the SMEs in the area have been able to expand their businesses operation in the last few years.

Regarding the profit levels of the selected wholesale companies, this study found out that the selected SMEs had better profit levels than it was in the last three years. Although none of the selected wholesale company could reveal the exact rate of increase in their profit levels, many of the SMEs ranged the improvement in their profit levels from 5 % to 10 % in the last four years. Many of the respondents attributed the improvement in profit level to having opened up man branches.

One of the key informants interviewed was quoted saying:

We have moved significant steps forwards with this business. We have been very competitive within the city and we want to keep moving forward. Moving forward for us means that we must be able to please our current customers with our services and be able to attract more of them.

Another key microfinance administrator who was interviewed was also quoted saying:

I think, there has been some level of growth realized by the SMEs who are accessing our services. When you compare what they had been saving in the last few years with what they save now and what we have been lending to them with what we now lend them, one can tell that these SMEs have moved higher with their business. This is something good to us and to our business as well.

Similar statements of this nature were also made by other key informants interviewed as many of them tried to show their position as regards to the growth of their companies in the city. This clearly indicates that the selected SMEs have made improvements in their growth and performance as regards to their profit levels, number of customers and growth in sales among others.

4.4 Relationship between microfinance services and growth of small and medium enterprises

The last objective in this study was to establish whether there is a relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda. On this, the researcher stated a null hypothesis that there is a relationship between microfinance services and growth of small and medium enterprises in Kampala in Uganda. To achieve this last objective and to test this null hypothesis, the researcher correlated the overall mean on microfinance services and that on growth of small and medium enterprises using the Pearson's Linear Correlation Coefficient, as indicated in table 6;

Table 6: Pearson correlation between microfinance services and growth of small and medium enterprises

		Microfinance services	Growth of SMEs
Microfinance services	Pearson Correlation	1	.393**
	Sig. (2-tailed)		.000
	N	135	135
Growth of SMEs	Pearson Correlation	.393**	1
	Sig. (2-tailed)	.000	
	N	135	135
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary data, 2016

Results in Table 6 indicated a positive relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda, since the sig. value (.000) was far less than 0.05, which is the maximum level of significance required declaring a significant relationship in social sciences. This therefore implies that access to microfinance services increases the growth of small and medium enterprises in Kampala, Uganda and failure to access microfinance services reduces growth of small and medium enterprises in Kampala, Uganda.

Table 7: Regression between dependent and independent variable

Coefficients[a]							
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Interpretation
		B	Std. Error	Beta			
1	(Constant)	.485	.082		5.903	.000	
	Savings services	.289	.060	.457	5.081	.000	Significant effect
	Small loans	.515	.037	.583	7.683	.000	Significant effect
	a. Dependent Variable: Growth of SMEs						

Source: Primary data, 2016

The coefficients table denoted that of all the aspects of microfinance services as regards to small loans accounted for the biggest increase in growth of small and medium enterprises in Kampala , Uganda (β=0.583, Sig=0.000) and 45.7 % of the growth of SMEs in Kampala is explained by increase in savings among SME owners.

Apart from the above findings on the relationship between microfinance services and the growth of SMEs in Kampala based on questionnaires, oral interviews were also used by the researcher in order to seek for further clarification to the respondents' views on how they would respond to the question on the relationship between the two variables. The researcher discovered that the views of the key informants in this regard were similar to those that were revealed through questionnaires as over 80 % of the key informants interviewed admitted that microfinance institution services have greatly helped SMEs in the area as regards to grow and expand.

Many of the key informants attributed the growth of SMEs in the area to micro loans that SMEs access from microfinance institutions to increase their stock levels and expansion.

One of the SME owners interviewed was quoted saying:

I did not have enough money to open up my second branch but had done the market research in the area. My success to open up this branch comes from the loan that I got from Amal Microfinance. When I finish repaying the loan, I want to get another one to diversify my business.

Many of the SME owners who were interviewed also had such similar testimonies to give and these suggests that microfinance services such as saving, loan and insurance among others have been instrumental to the growth of SMEs in the area.

CHAPTER FIVE

DISCUSSIONS, CONLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the findings, conclusions, recommendations and suggested areas that need further research following the study objectives and study hypothesis.

5.1 Discussions

This study was set to find out the relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda; three specific objectives guided this study and these were i) establish the microfinance services accessed by the small and medium enterprises owners in Kampala Uganda; ii) determining the level of growth of small and medium enterprises in Kampala Town Council and (iii) establishing the relationship between microfinance services and growth of small and medium enterprise in Kampala Uganda.

5.1.1 Microfinance Services Accessed by SMEs in Kampala

On the microfinance services accessed by SMEs in Kampala, data analysis using means indicated that microfinance services was rated satisfactory on average (overall mean=2.79), hence implying that the microfinance institutions provide financial services in terms savings services and small loans services which help in the growth of small and medium enterprises in Kampala Uganda.

This finding is also in line with Schmidt (1997) who noted that MFI subsequently provide different services to a client, most commonly in the form of a loan. These services lead to the client modifying her/his microenterprise activities which in turn lead to increased or decreased microenterprise income. The change in microenterprise income causes changes in household income which in turn leads to greater or lesser household economic security. The modified level of household economic security leads to changes in the morbidity and mortality of household members, in educational and skill levels and in future economic and social opportunities. Loans are delivered following the minimalist approach where the requirements for loans are not often

difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).

Littlefield and Rosenberg (2004) lamented that one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector and this is their social mission. Mainstream banks target clients that have collateral and the poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centers while the majority of the poor in the developing world live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004).

This study found out that savings services as the first construct on the independent variable (IV) was rated satisfactory on average (mean=2.78), therefore implying that small and medium enterprise owners always save money from microfinance institutions such as banks and money lenders, this also agrees with Schreiner and Colombet (2001, p.339) who noted that microfinance attempts to improve access to small deposits and small loans for poor households neglected by banks, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

The study found out that small loans was rated satisfactory on average (mean=2.80), hence confirming that the small and medium enterprise owners always obtain small loans from microfinance institutions such banks and money lenders and this has helped them to put their financial plans and other business activities in action, this finding is also in line with Yasin (2013) who in his study of microfinance lending relevance to the SMEs growth in Kampala, Uganda noted that small businesses in Kampala are facing challenges to access loan from MFIs and this results many small business to demise soon or may not be started due to lack of ability to overcome the challenges. The finding showed how SMEs in Kampala 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

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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.

5.1.2 Level of Growth of SMEs in Kampala

Regarding the growth of SMEs in Kampala, the findings indicated that the growth of small and medium enterprises in Kampala, Uganda (dependent variable) was generally high and this was indicated by the overall mean of 2.88, hence confirming that the small and medium enterprises in Kampala Town Council perform well in relation to profitability, sales volume and growth in number of customers through offering a variety of quality services to their customers, this is in line with Gaskill (1993) who noted that growth of small and medium enterprises also depends on changing industry patterns and management, new product development, expansion into new international markets and expansions into new European markets are the major growth strategies adopted by them.

Profitability– this variable was rated satisfactory (mean=2.96), hence implying that the small and medium enterprises always get a high return on investment and their business assets help them give them enough profits, this is in line with Nieman (2003)who argued that the more profits a business realizes, the more it is assumed to be growing and vice versa. A growing company tends to have very profitable reinvestment opportunities for its own retained earnings.

Growth in sales–this variable was rated satisfactory on average (mean=2.89) and this implied that the sales volume for small and medium enterprises always increase year after year through new and high quality products which have attracted large number of customers different parts of Uganda. This is in line with (Baron & Markman (2003) who argued that that various factors interact to bring about enterprise growth; for example personal perceptions, sales levels, market forces, environmental conditions, industry trends and dynamics. Many researchers have identified various indicators of venture growth; for example Hisrich (2000) looked at increase in sales, income, employment and satisfaction; but Newton (2001) considered increased productivity, competitiveness, market share, profit and opening branches.

Growth in number of customers- this variable was rated satisfactory on average (mean=2.79), hence confirming that the small and medium enterprises' products and services always provide high degree of convenience to customers and have always maintained a rigorous customer focus.

This is in line with Zachary (2010) who noted that in the SME sector, the growth in number of customers can also be indicated by clients directly advised in the business centre, either on a day by day basis or weekly or monthly or annually and also the number of clients who have been exactly serviced through the provision of various business services. Some customers also come not for direct services but to get some guidance or information either by a personal visit, by telephone or visiting the enterprise websites for four minutes or more (Zachary, 2010).

5.1.3 Relationship between Microfinance Services and the Growth of SMEs in Kampala

Regarding the relationship between microfinance services and the growth of SMEs in Kampala, the findings also indicated a positive and significant relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda, this is because the sig-value was less than 0.05 (Sig=0.000), hence implying that improvement in access of microfinance services increases the level of growth of small and medium enterprises in Kampala, Uganda and failure to access microfinance services reduces growth of small and medium enterprises in Kampala, Uganda.

This finding is also in line with Nieman et al (2003) who noted that the small and medium business growth includes the extent to which SME generates significant positive cash flows or earnings, which increase at significantly faster rates. There are several indicators of SME growth such as profitability, sales growth, growth in number of customers, increase in number of workers employed and so on and all these can be affected by microfinance services. Profitability is one of the important measures of growth that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of enterprise as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors, then profitability measures are particularly attractive. This also implies that economic success is required by high performance firms.

5.2 Conclusions

From the findings of the study, the researcher concluded the extent of microfinance services was rated satisfactory on average (overall mean=2.90), hence concluding that the microfinance

institutions provide financial services in terms savings services, small loans services and insurance services which help in the growth of small and medium enterprises in Kampala Uganda.

The growth of small and medium enterprises in Kampala Town Council was found to be satisfactory and this was indicated by the average mean (mean=2.88), therefore concluding that the small and medium enterprises in Kampala Town Council perform well in relation to profitability, sales volume and growth in number of customers through offering a variety of quality services to their customers.

There is a positive and significant relationship between microfinance services and growth of small and medium enterprises in Kampala, Uganda, this is because the significant value was less than 0.05, hence concluding that improvement in access of microfinance services increases the level of growth of small and medium enterprises in Kampala, Uganda and failure to access microfinance services reduces growth of small and medium enterprises in Kampala, Uganda.

5.3 Recommendations

From the above findings, the following recommendations were made;

1. The researcher recommends to the management of microfinance institutions in Kampala Town Council to allow unlimited deposits and withdraws of savings by small and medium enterprises.

2. The researcher recommends to the microfinance institutions in Kampala Town Council to always allow small and medium enterprises borrow a specific amount of money and pay back through regular monthly payments with no collateral required.

3. The researcher recommends to small and medium enterprises to carry out promotions in order to increase their business net profit margins.

4. The small and medium enterprise owners in Kampala Town Council should always carry out sales forecasting every month, and this will increase in growth of number of customers.

5. The researcher recommends to the small and medium enterprise owners to always use phone calls, e-mails, and personnel visits to communicate with customers about their products, and this will create a friendly relationship with the customers hence increasing in the number of customers.

6. The small and medium enterprise owners in Kampala Town Council should always make sure that their services and products are reliable to all groups of customers.

5.4 Areas for further research

Prospective researchers and even students are encouraged to research on the following areas;

1. Microfinance services and profitability of small and medium enterprises Kampala, Uganda.

2. Savings services and growth of small and medium enterprises in Kampala, Uganda.

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APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRE

SECTION A: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Gender (Please Tick)

___ (1) Male

___ (2) Female

Age

___ i) 20-39 years

___ ii) 40-49years

___ iii) 50-59 years

___ iv) 60 years

Education Level (Please Specify):

(1) Certificate_____

(2) Diploma _____

(3) Bachelors _____

(4) Masters _____

(5) Ph.D. _____

Number of Years (Working Experience) (Please Tick):

___ (1) Below 2 years

___ (2) 3-5years

___ (3) 6 years and above

SECTION B: Questionnaire on microfinance services

Response Mode	Rating	Description	Legend
Strongly Agree	4	You agree with no doubt at all.	SA
Agree	3	You agree with some doubt	A
Disagree	2	You disagree with some doubt	D
Strongly Disagree	1	You disagrees with no doubt at all.	SD

Microfinance services	1	2	3	4
Savings services				
SMEs always save their money in microfinance institutions such as banks and money lenders	1	2	3	4
SMEs always think on how to open and close their savings account	1	2	3	4
SMEs always fear a breakage charge when they move money from the fixed rate account during the fixed term	1	2	3	4
The microfinance allows unlimited deposits and withdraws of SMEs' savings	1	2	3	4
Small loans				
The loan SMEs always obtain has made it easy to put my financial plan in action	1	2	3	4
There is repayment penalty always attached to the small loan obtained from Bank	1	2	3	4
SMEs always decide on when and how much to borrow up to approved credit limit	1	2	3	4
The credit line is always approved without collateral	1	2	3	4
With no collateral required, SMEs can now borrow a specific amount of money and pay back through regular monthly payments	1	2	3	4

SECTION C: Questionnaire to determine growth of SMEs

Direction: Please write your preferred option on the space provided before each item. Kindly use the rating guide below:

Response Mode	Rating	Description	Legend
Strongly Agree	4	You agree with no doubt at all.	SA
Agree	3	You agree with some doubt A	
Disagree	2	You disagree with some doubt	D
Strongly Disagree	1	You disagrees with no doubt at all.	SD

o	Growth of SMEs	1	2	3	4
	Profitability				
	There is a high return on SMEs' investment	1	2	3	4
	Shareholders of SMEs' receive relatively high returns	1	2	3	4
	SMEs business assets give them enough profits	1	2	3	4
	SMEs expect profits to remain high in future	1	2	3	4
	SMEs' revenue always exceeds the expenditure	1	2	3	4
	SMEs' net profit margins are high	1	2	3	4
	Growth in sales				
	SME's sales volume always increase year after year	1	2	3	4
	Selling new and high quality products can attract a large number of customers from different parts of Uganda	1	2	3	4
	SMEs' always sell large quantities of goods to their customers	1	2	3	4
	SMEs' always offer a variety of quality services to customers	1	2	3	4
	SMEs' always carry out sales forecasting every month	1	2	3	4
	Growth in number of customers				
	SMEs' products and services always provide high degree of convenience to customers	1	2	3	4
	SMEs have always maintained a rigorous customer focus	1	2	3	4
	SMEs frequently segment the existing customer groups basing on newly discovered needs and buying patterns	1	2	3	4
	SMEs have always responded to customers' changing needs	1	2	3	4
	SMEs always use phone calls, e-mails, and personnel visits to communicate with customers about their products	1	2	3	4
	SMEs' services and products are reliable to all groups of customers	1	2	3	4

APPENDIX 2: INTERVIEW GUIDE

1. What services do microfinance institutions offer to SMEs in Kampala?

2. Why do microfinance institutions offer these services to SMEs in the area?

3. Are these services suitable to the nature of business of SMEs in Kampala? According to your answer, why do you think so?

4. What can you say about the growth of SMEs in Kampala in the last few years?

5. Is there any relationship between microfinance services and the growth of SMEs in Kampala in the last few years? According to your answer, why do you say so?

6. In what other ways can microfinance institutions boost the growth of SMEs in Kampala?

7. What other thing would you like to say about microfinance services and the growth of SMEs in Kampala?