

**GOVERNMENT INCENTIVES AND PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES .ACASE STUDY OF KANSANGA
MARKET ,KAMPALA UGANDA.**

BY

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DECLARATION

I, Namugenyi Fazira declare that this work is entirely mine and solely a result of my own effort. It has never been submitted in any institution for the academia award.

Signed by 

Date 14th/08/2019

APPROVAL

This is to certify that this research report has been under my supervisor and is now ready for submission to College of Economics and Management department of Accounting and Finance.

Signature 

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Date 

DEDICATION

This research report is dedicated to my family especially my ,My mother, Mrs. Namuddu Margret, my guardian Mr. Lukwago Edward and my dad Mr. Muhamed Jombwe and my friend Peronie who have greatly played a good role in making me what I am as far as my education is concerned.

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I would also like to thank my family whose encouragement, support and pride in me has been constant not only throughout my degree, but right throughout my life. I believe that the independence and strength that I possess is due to my upbringing and surroundings. You are, and have always been, the central point of this. Thank you for always being there for me.

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ACRONYMS

SME	Small and Medium Enterprises
UBOS	Uganda Bureau of statistics
GDP	Gross Domestic Product
FDI	Foreign Direct Investment

ABSTRACT

The study sought to determine the effect of government incentives on the performance of small and medium enterprises in Uganda and the specific objectives were; to determine the government incentives given to small and medium enterprises in Uganda, to determine the level of performance of small and medium enterprises in Uganda and to determine the relationship between government incentives and performance of small and medium enterprises in Uganda.

The study used a survey research design and data was collected from 80 respondents from kansanga business area.

The findings of the study revealed that the government provides incentives to the small and medium enterprises except that it does not give them free land, it does not completely subsidize them and it does not give tax holidays to them. The findings of the study also revealed there is an improvement in the performance of Small and medium enterprises in Kansanga and the study revealed that the government policies on taxation do not favor the growth of SMEs. Furthermore, the findings of the study revealed that there is a strong positive relationship between government incentives and performance of SMES as it was revealed that an improvement in government incentives improves the performance of SMEs by 75%.

The study recommended that the government should try to give free land to SMEs as they contribute to the Gross Domestic Product of the country, the government should give tax holidays to Small and medium enterprises in order to enable them to expand quickly, the government should completely subsidize domestic SMEs to enable their rapid growth, the government should formulate favorable tax policies that can favor the growth of small and medium enterprises as the finding revealed that the current policies are unfavorable and that the government should provide more incentives to SMEs as it was revealed that an improvement in government incentives improves the performance of SMEs.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter brings forth the introduction to the research paper as it tackles the background of the study, the statement of the problem, purpose of the study, study objectives, research questions, the scope of the study in terms of geography, content/variables and time, the significance of the study conceptual framework and definition of key terms

1.1 Background of the Study

According to Storey (1994), there is no generally agreed definition of small and medium scale enterprises (SMEs) due to the wide diversity of business globally. However, SMEs are businesses whose personnel numbers fall below certain limits. The Central Bank of Uganda defines small and medium enterprises in Uganda according to asset base and number of staff employed. The criteria are an asset base not less 5m -10m and between 10 and 100 employees.

Government incentive is the use of government spending and tax policies to influence the level of national income. Taxation itself is the process or means by which communities or group are made to contribute part of their income for the purpose of administering the society (Appah, 2004). Appah (2004) believes that tax studies have become increasingly sophisticated especially during the past decade and have yielded conflicting results as regards the tax matter. Some studies focus on the cost and benefit of tax incentives while a few look at whether public funds could have been better spent or if tax incentives were economically justified. Tax studies offer little guidance to policy makers who are concerned about tax rates or tax offerings and the effectiveness of employing tax incentives as an economic and developmental tool (Appah, 2004). Amadiogwu (2008), argued that the mode by which SMEs development and economic growth can be effectively and efficiently stimulated and developed is very demanding. As a result of this, the government charges less tax and gives tax holidays in order to encourage investments and economic activities in those areas which help to improve production capabilities, activate economic growth as well as the allocation of resources in a socially desirable manner. Investors often emphasize on the relative importance of a good tax system in investment decisions compared with other considerations such as political and

economic stability, availability of social infrastructure, security of the life and property and also the general cost of doing business and so on (Dotun & Sanni, 2009). To the prospective investor, the general feature of a tax system (tax base rate) is more important than the tax incentives in many developing countries. Aguolu (2004) is of the opinion that tax laws are not clearly written and may be subject to frequent review which makes long-term planning difficult for businesses and add to the perceived risks of undertaking major capital intensive projects. Tax incentive scheme encourages the springing up and gradual growth of new enterprises by the reduction of profit tax, which in turn encourages production, influences the production level and curbs unemployment (Aguolu, 2004). So, the government should provide such tax incentives in order to boost development which will bring about an increase in employment opportunities and also cause an improvement in the economy.

Amadiogwu (2008), a tax expert wrote that the objective of tax incentive is that by borrowing rather than taxing, the government has a better chance of expanding investment spending which is essential in enlarging production possibilities and attaining a sustainable improvement in the standard of living of the people.

In Uganda, tax incentives can be targeted on the low income earners, local and developing industries, farmers, which will increase their savings and is necessary for higher investment. Tax incentives create employment opportunities for the people, helps to fight economic depression and inflation thereby increasing the equitable distribution of income and wealth. Therefore the objective of the study is to evaluate the performance of tax incentives on the growth and development of small and medium scale enterprises in Uganda using a case study of Kansanga Market.

1.2 Statement of Research Problem

Empirical studies have shown different views on tax incentives as a catalyst for economic growth and industrial development. A school of thought believes that tax incentive encourages economic growth and industrial development while another believes that it reduces revenue accruable to the government. As a result of this, it does not stimulate the economy. According to the International Journal of Humanities and Social sciences (2016), the poverty alleviation programme was aimed at reducing the rate of poverty among the masses and this programme covered the provision of jobs for able and unemployed youths, provision of loans for small and medium scale enterprises at a minimum lending rate.

The government of Uganda through her programs has continued to provide tax incentives like tax holidays on women and youth businesses in order to stimulate the growth of their small and medium enterprises and it has also continued to give youth loans on the program of Bona baggagawale as means of improving the performance of small and medium enterprises in the country (Mujasi,2018).

Despite all these measures and policies taken so far, the economy has not shown any appreciable progress and Uganda still remains one of the developing nations of the world and the number of small and medium enterprises in Uganda is very few as even the existing ones are performing below the expected standards.

Therefore this study sought to determine the effect of tax incentives on the performance of small and medium enterprises in Uganda using a case study of Kansanga market.

1.3. Research objectives

1.3.1 General Objective

The study sought to determine the effect of government incentives on the performance of small and medium enterprises in Uganda.

1.3.2 Specific objectives

1. To determine the government incentives given to small and medium enterprises in Uganda.
- ii To determine the level of performance of small and medium enterprises in Uganda
- iii To determine the relationship between government incentives and performance of small and medium enterprises in Uganda.

1.4 Research Questions

- i. What are the government incentives given to small and medium enterprises in Uganda?
- ii what is the level of performance of small and medium enterprises in Uganda?
- iii Is there a relationship between government incentives and performance of small and medium enterprises in Uganda?

1.6 Scope of Study

1.6.1 Subject Scope

This study was limited to government incentives and performance of Small and medium enterprises in Uganda. Government incentives was the independent variable and performance of Small and medium enterprises was the dependent variable of the study. The study went further to determine the government incentives given to small and medium enterprises in Uganda, level of performance of small and medium enterprises in Uganda and determining the relationship between the variables of the study.

1.6.2 Geographical Scope

The study was carried out at Kansanga Market located in Kansanga, Kampala District in the central part of Uganda. This location was chosen as it was the most appropriate area of study for the researcher in terms of time and costs spent during the process of data collection.

1.6.3 Time scope

The study was carried out in a period of two months that is from May 2019 to June 2019 as it was the most appropriate time for the researcher for carrying out the entire study.

1.7 Significance of the Study

The study will help the researcher to improve her knowledge on government incentives and performance of SMEs in Uganda.

The study will help the researcher to attain a bachelors' Degree of Business Administration since its part of the requirements for attaining that award.

The study will add to the existing literature on government incentives and performance of Small and medium enterprises in Uganda.

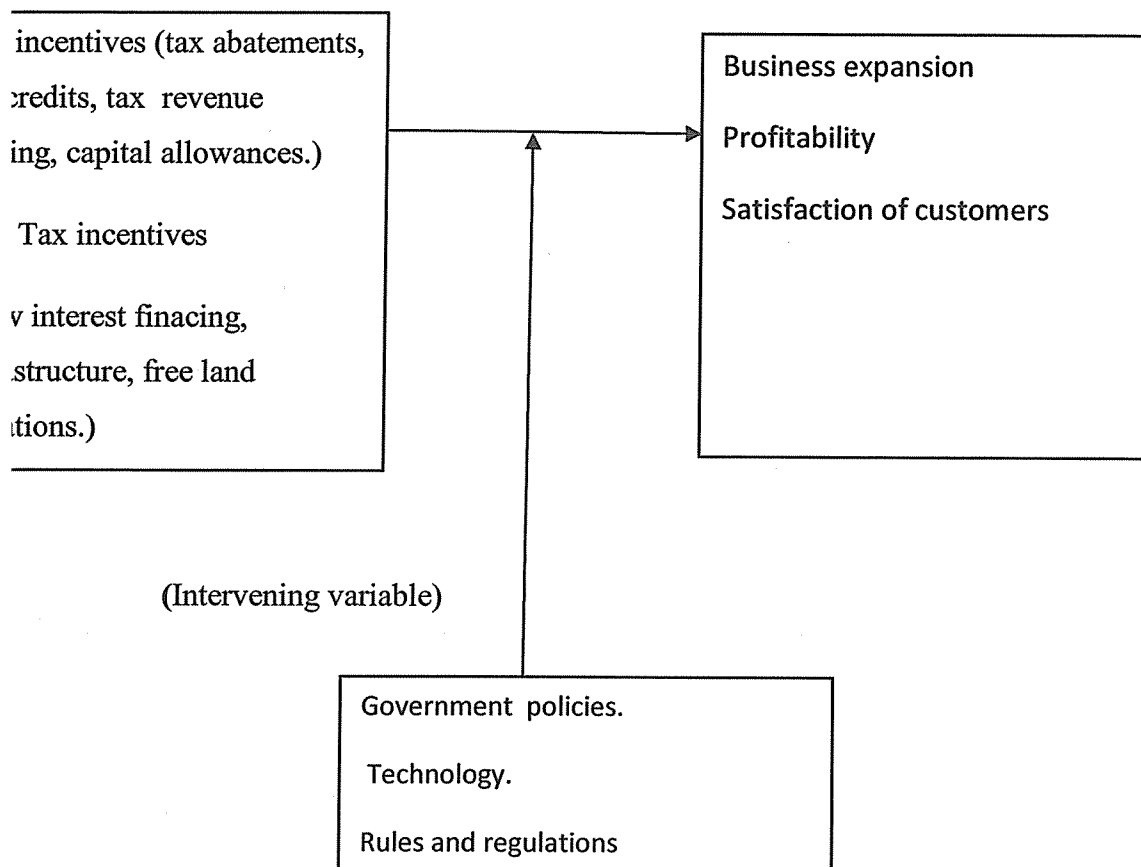
1.8 Conceptual Framework

Government incentives

Performance of Small and medium enterprises

(Independent variable)

(Dependent variable)



Source: Adopted and modified basing on information from Adams (2002).

The figure above clearly explains how the independent variable, intermediate variable and the dependent variable were measured in this study. The independent variable was measured in terms of tax and non tax incentives, the intermediate variable was measured in terms of government policies, level of technology and finally the dependent variable was measured in terms of Business expansion, profitability and Satisfaction of customers.

1.9 Definition of Key terms

Performance

Burney (2007) defines performance as how efficiently and effectively a firm utilizes its resources in generating economic outcomes.

Small and medium enterprises

Denis (2017) defines the term Small and medium enterprises as a business that employs a maximum of 10 employees with a minimum annual turnover of over 500000.

Tax incentives

Both Okauru (2009), and Aguolu (1999) described tax incentive as an exemption or relief granted to an individual or a company to reduce the effect of taxation and thus encourage savings and investment.

Government incentive

According to Ogundipe (2000) Government incentive refers to the financial assistance given to private businesses making investment through the use of economic incentives.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents the theoretical review and the related literature about the objectives of the study.

2.1 Theoretical Review

This takes a look at the theoretical reviews or background of this study. It is necessary to note that tax matter and tax must be friendly for SME development. In order for SME's sectors to grow, the level of taxation set must be friendly (incentives) and not stifle the running of the business. The theories associated to this study are closely examined.

Theories of taxation: According to Bhartia (2009), a taxation theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. There two theories, namely:

- (i) The expediency theory (Bhartia, 2009)
- (ii) The socio-political theory (Anyanfo, 1996)

A taxation theory may be based on a link between tax liability and state activities. It would assume that the state should charge the members of the society for the services provided by it. This reasoning, on the one hand, justifies imposition of taxes for financing state activities and on the other, by inferences, provides a basis, for apportioning the tax burden between members of society. This logic therefore, yield two theories, namely,

- (i) Benefit received theory
- (ii) Cost-of-service theory

The final theory of taxation is the ability to pay theory. There is also Ibn Khaldun's theory of taxation.

(i) The expediency theory: This theory asserts that every tax proposal must pass the test of practicability. It must be the only consideration weighing with the authorities in

choosing a tax proposal. Economic and social objectives of the state as also the effects of a tax system should be treated as irrelevant (Bhartia, 2009). This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on.

(ii) The socio-political theory: Wagner (1893) advocated that social and political objectives should be the deciding factors in choosing taxes. Furthermore, Wagner (1893) did not believe in individualist approach to a problem. He wanted that each economic problem should be looked at in its social and political context and an appropriate solution found thereof. The society consisted of individuals, but was more than the sum total of its individual members. It had an existence and entity of its own which needed preservation and taking care of. Accordingly, a tax system should not be designed to serve individual members of the society, but should be used to cure the ills of society as a whole. Wagner (1893), in other words, was advocating a modern welfare approach in evolving and adopting a tax policy. He was specifically in favor of using taxation for reducing income inequalities. He maintained that private property and inheritance were the result of state policies and not because of any God-given rights. The State, therefore, had the right to control the ownership of property and its inheritance in the interests of the society as a whole. Wagner's ideas, though much criticized at that time, are now the hall-mark of fiscal policies of modern state.

(iii) The benefits-received theory: This theory proceeds on the assumption that there is basically an exchange or contractual relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009). In this quid pro quo set up, there is no place for issues like equitable distribution of income and wealth. Instead, the benefits received are taken to represent the basis for distributing the tax burden in a specific manner. Ayanfo (1996) argues that taxes should

be allocated on the basis of benefits received from government expenditure. This theory overlooks the possible use of the tax policy for bringing about economic growth or economic stabilization in the country.

(iv) The cost of service theory: This theory is very similar to the benefits-received theory. It emphasizes the semi-commercial relationship between the state and the citizens to a greater extent. The implication is that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, the state is being asked to give up basic protective and welfare functions. It is to scrupulously recover the cost of the services and therefore this theory, unlike the benefits-received one, specifically implies a balanced budget policy. In the process, the state is not to be concerned with the problems of income distribution. No effort is to be made to improve income distribution; and no notice is to be taken if the policy of levying taxes according to the cost of service principles deteriorates it further.

(v) Ability to pay theory: According to Anyanfo (1996), this theory states that one should be taxed according to the ability to pay. It is simply an attempt to maximize an explicit value judgment about the distributive effects of taxes. This approach considers tax liability in its true form, that is, compulsory payment to the state without quid pro quo. It does not assume any commercial or semi-commercial relationship between the state and the citizens. Bhartia (2009) argue that a citizen is to pay taxes just because he can and his relative share in the total tax burden is to be determined by his relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. A good account of its history is found in Seligman. This theory was bound to be supported by socialist thinkers because of its conformity with the ideas and concepts of justice and equity. However, the doctrine received an equally strong support from non-socialist thinkers also and became a part of the theory of welfare economics. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitates that the tax burden is apportioned according to their relative ability to pay.

(vi) Ibn-khaldun's theory: Ibn-khaldun's theory of taxation has been considered one of Ibn khaldun's most important contributions to economic thought. In the muqaddimah, Ibn-khaldun (1345) relates the theory of taxation with the government expenditure and argued for low tax rate so that incentive to work is not killed and taxes are happily paid.

According to Ibn-khaldun (1345), at the beginning of a dynasty, taxation yields a large revenue from small assessment, but at the end of a dynasty, taxation yields a small revenue from large assessment.

The theory adopted is Ibn-Khaldun's theory of taxation. This is because the theory advocated for a low tax rate in order to stimulate the economy. According to Ibn-Khaldun(1332-1406), it is the nature of government spending and its policy of taxation that determine whether the economy is passing through the period of formation, prosperity and stability, or depression and decay. If the tax policy is favourable, it shows that prosperity and stability. Furthermore, the theory pointed out various principles of taxation, such as equity and efficiency, justice and neutrality, ability to pay, economy, benefit and convenience, attributed to Adam Smith, multiplier effect of government spending, incidence of taxation, in addition to a number of fundamental economic theories.

2.2 Related Literature

2.2.1 Government incentives given to small and medium enterprises in Uganda

According to Eniaki 2008 government incentives can be grouped into tax incentives and non tax incentives. The tax incentives involve tax holidays, tax abatements, tax credits, capital allowances and tax revenue sharing. The non tax incentives involve free land, infrastructure assistance, grants and no or low interest financing.

Tax incetives

Tax Holiday

According to Joseph (2011), this is an incentive granted to pioneer companies. Such companies who are given the pioneer status are exempted from tax for three years. This tax holiday can be expanded to five years, but the company is not entitled to any extension of any loss incurred by any pioneer company within the relief period. A tax holiday is a temporary reduction or elimination of a tax. It is synonymous with tax abatement, tax subsidy or tax reduction. Governments usually create tax holidays as incentives for business investment.

Tax Abatements

According to Marvin 2009, tax abatement is a reduction granted by the government to encourage economic development. The most tax abatement that is commonly given by the government is the property tax abatement. This commonly given to Small and medium enterprises to come to the city or expand the existing operations within the city. He further suggested that when the business is satisfied with the tax abatements allowed by the policy, expansion and efficiency are realized and growth in general. For developing countries to boost the SME sector, tax abatements should be put into consideration.

Capital Allowances

Capital allowances are allowances claimable by tax payers and business organizations in respect of capital asset which they use in the business to trade, profession or vocation in earning their income and which have suffered diminution in values during an accounting period. It has been described as repayment of the cost of assets by the government to the traders in order to encourage automation in industries with a resultant decrease in the taxes paid by these asset owners. The higher the rates of capital allowance, the lower the tax and capital allowance as allowable grant by the act on business expense for tax purpose (Jovan ,2016).

Tax revenue sharing

According to According to (Dorris, 2015, Tax revenue sharing is the distribution of revenue that is the total amount of income generated by the sale of goods and services among the stake holders or contributors. In Developed countries, governments usually share revenue with Small and medium enterprises as means of boosting their performance and protect them from deliberately refusing to pay taxes. Tax revenue sharing greatly improves the performance of small and medium enterprises since it adds on the available resources and reduces the cost of expenditure. Forexample the government can practice in constructing roads to business areas as a way of sharing the collected revenue.

Tax credits

Tax credit is an amount that tax payers can subtract from taxes owed to them by their government. The nature of the tax credit depends on the nature of the credit. Certain tax credits are granted to individuals basing from the specific locations, classifications or industries. Unlike the deductions and exemptions which reduce the amount of taxable income, tax credits reduce the actual amount of the tax owed. Tax credits are more favourable for the growth of Small and medium enterprises as they reduce on the tax liability of such businesses mostly in case of losses. (Libit, 2007).

Non Tax incentives

Infrastructure assistance

According to Janan, Infrastructure as a service has turned out to be the most effective, efficient (both technically and economically) and excluding high performance in the present day scenario. He further revealed that economies with highly developed infrastructure are bound to succeeding quickly as it aids both importation and exportation of commodities. He emphasizes developing countries to invest in infrastructure in order to enable the small scale business owners to have access to the markets both locally and internationally. The government of Uganda is developing infrastructure in form of roads to enable quick access of commodities both raw material and finished products from villages to towns (Ministry of finance planning and economic development report 2018).

Grants

According to stephane (2008), grants are non repayable funds or products given or disbursed by the government department, corporation, or trust to the recipient or trust. The NRM government under the scheme of bona bagawale has given grants to the youth to establish small and medium enterprises and form community based organizations. Enterprises that have taken advantage of such government funds have greatly improved (Parliament of Uganda 2017)

Low interest financing

According to the ministry of finance planning and economic development (2018), the government of Uganda gives low and no interest loans to Small and medium enterprises

as an incentive to boost their performance these loans are given from centenary bank and some are legalized from the district headquarters upon approval of the enterprise one is doing.

Free land

According to the Uganda Investment Authority (2018), the government of Uganda promised to give 10 acres of land in all government industrial parks to accommodate small and medium enterprises that are involved in value addition activities. It is generally accepted that free land is a great government incentive as it enables the business to commence without experiencing a lot of initial expenditure on liabilities.

2.2.2 Performance of Small and Medium Enterprises

It is estimated that 7.5 Million SMEs in Uganda provide employment and income generating opportunities in low income sectors of the economy. The sector has contributed to country's gross domestic product (GDP) with an increase from 13.8 % in 1993 to 40 % in 2008. They earn 14 % of the country's GDP (Mullei and Bokea, 2009). However not many SMEs grow into firms whose contribution is accredited to the economy as over 60% of small businesses are estimated to fail each year (UBOS, 2017).

There are approximately 157,846 registered SMEs in Uganda (Gitau, 2011). The SMEs business categories consists of general trade, comprising wholesale and retail stores, transport communication and storage, accommodation and catering, professional and technical services, private education, health and entertainment and last but not least industrial factories and workshops (Bowen *et al.*, 2009).

Firm performance is arguably the most important construct in management research. Barney, (2007) refers performance as how efficiently and effectively a firm utilizes its resources in generating economic outcomes. In the business strategy literature there are two major streams of thought on the determinants of firm performance. One is based on factors that exist in the firm's external environment, and the other is based on internal organizational factors. Performance can be determined in various ways. It might stand for financial performance, market performance, customer performance or overall performance (Smith *et al.*, 2001).

Most firms measure performance based on monetary success which is measured by sales turn over and profitability. Hofstrand (2009) posit that profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. Businesses who gain profit are destined for success. The harsh environment however limits the ability of SMEs to constantly earn these profits hence the need to adjust to operations that allow them perform at a limited cost. The use of tax incentives allows them to maintain customer loyalty while expanding their niches hence improving their chances of sales turn over and profitability.

The firm's ability to gain profit is established after returns are made on investment. Return on Investment is important to firms for continuity for their ability to return that which was borrowed. Hofstrand (2009) explains expansion is subject to the firm's ability to sustain itself on initial capital; for expansion businesses require to borrow further and their ability to return previously acts as a guarantee to the financier.

Other measures are based on the market share established in an industry by these firms with market leaders gaining most favor from the shared clientele. A market share is the percentage of an industry or market's total sales that is earned by a particular company over a specified time period. The growth share matrix explains the market share and market growth rate of a firm where the Boston Consulting group (1970) analyzes a firm's business units, and their product lines. This helps the company allocate resources and is used as an analytical tool in brand management, product management, strategic management, and portfolio analysis.

Customer loyalty is a key contributor in ensuring success which is a measure of performance in SMEs. Loyalty guarantees sales for certain periods a concept that has allowed firms major onloyalty schemes like in Supermarkets in Ugandan Markets. The loyalty business model used in strategic management in which company resources are employed so as to increase the loyalty of customers and other stakeholders in the expectation that corporate objectives will be met or surpassed. A typical example of this type of model is: quality of product or service leads to customer satisfaction, which leads to customer loyalty, which leads to profitability.

Increased number of accessed customers will increase the potential sales for the firm's hence better performance. Burke et al (2004) explains that the use of internet has allowed

the globalization of economies which has lessened the geographical barriers previously experienced by firms. This also allowed an increased market niches for firms through internet marketing. Firms today are exposed to international standards so as to cater to all clientele across the world.

Performance is both measurable and perceptive which allows firms a competitive advantage over their counter parts in the industry. Use of Internet marketing by SMEs can enhance their performance for better branding and access to customers. This ensures more sales and loyalty by these firms.

2.2.3 Relationship between Tax incentives and performance of SMEs

Taxation is very fundamental to sustainable development and the growth of small and medium scale enterprises especially where natural resources are relatively scarce. Tax incentives are basically designed to attract new investment into the country and to expand existing ones in priori industries which is based on the country's development plan capable of stimulating industrial growth.

In a field research conducted by Aharoni (2006) on the way foreign investment decision was made by the United States manufacturing firms, it was ascertained that the concession given by the host country brings about the decision to invest. It was observed that small investors are generally more responsive to tax incentives than large ones. This implies that tax incentives play an important role in small businesses and industries because it enables them generate enough capital for their investment/expansion. It was concluded that tax incentive is a core stimulant for investment.

Rolfe(2013), in a study on the "Determinants of foreign direct investment (FDI) Incentives Preferences of MNEs", differentiated between the preferences of incentive schemes as it applies to new and existing firms. Using a survey of managers of US firms, it was observed that start-up firms will prefer incentives that reduce their initial expenses (equipment and material exemption), while expanding firms will prefer tax incentives that target profits, and manufacturing industries will prefer tax incentives related to depreciable assets because they utilize more assets than service industries.

Olabisi (2009) conducted an empirical study using a well structured questionnaire survey, the work assessed the relationship that exists between tax incentive and performance of SMEs in Uganda. The study was undertaken primarily to evaluate the effectiveness of tax

incentive in developing the economy of Uganda. It concluded that tax incentive would enhance economic performance of SMES in Uganda, if such incentives are well focused and extended to all deserving companies in the country. Suggestions were made as to variables moderating the tax incentive and economic development.

Mayende (2013), in a study on the 'Effects of Tax Incentives on Firm Performance' attempted to analyse the effects of tax incentives on the performance of Ugandan manufacturing firms in terms of gross sales and value added employing panel data estimation techniques. The study findings show that firms with tax incentives perform better in terms of gross sales and value added than their counterparts. The major policy implication of the study findings indicates that Government needs to streamline the provision of tax incentives for better firm performance. Access to quality and technical education and skills development is necessary in order to have qualified managers with high level of management skills to utilize the available tax incentives so as to improve firm performance. The recommendation was that provision of tax incentives needs to be transparent, non- discriminatory of ownership of firms and a criterion of accessibility is clear. Furthermore, comprehensive information on procedures and criteria for obtaining tax incentives under each existing programs need to be frequently availed to the public. This will lead to increased output of different firms and ensure accountability and guard against miss-use of the incentives.

According Davinda (2014),the desirability of using tax incentives to facilitate new investment is a necessary condition for developing an avenue for improving performance of SMEs in Uganda. Thus, effective tax systems are not only central to promoting SMES but also crucial for achieving macroeconomic goals.

Oriakhi and Osemwengie (2013) examined tax incentives and revenue productivity of the Nigerian tax system from 1981 to 2009 periods in order to identify the short-run performance of various taxes.. The data used for this study was subjected to a buoyancy test to determine the leading or lagging tax revenues with respect to their contributions to total tax collections.. The study concluded that a well articulated tax incentives will not only promote increased economic activity in the country but also stimulate foreign investors into the economy thereby improving revenue productivity and tax base of Nigeria's tax system.

In other to examine the relationship between tax incentives and performance of SMES, Ogbonna and Ebimobowei (2012) examined the impact of tax reforms and SME performance in Nigeria from 1994 to 2009. The result showed that tax incentives is positively and significantly related to the performance of Small and medium enterprises.

Munyanyi (2015) researched on 'Tax Incentives and Investment Expansion: Evidence from Zimbabwe's Markets'. The study was prompted by the realization that many less developed countries use tax incentives as means for luring investors into their countries yet there is a general lack of analysis on whether such tax incentives have any impact on social and capital growth. The study employed face to face and telephone interviews with key stakeholders in the tourism sector that were selected through stratified and random sampling methods. Secondary data were used as a bedrock for detailed analysis. The study established and concluded that most there is a strong positive relationship between tax incentives and performance of the entire economy of the country.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 Introduction

This chapter describes the research methodology that was used in the study. The research design, population and sample were described. The instrument used to collect the data, including methods implemented to maintain validity and reliability of the instrument, were also described.

3.1 Research Design

Research design is the plan and structure of investigation conceived so as to obtain answers to the research questions. A descriptive survey design was used. A survey is used to collect original data for describing a population too large to observe directly (Mouton, 1996). A survey obtains information from a sample of people by means of self-report, that is, the people respond to a series of questions posed by the investigator (Polit and Hungler, 1993). In this study the information was collected by using a self-administered questionnaire that was distributed personally to the subjects by the researcher. A descriptive survey was selected because it provides an accurate portrayal or account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group. This design was chosen to meet the objectives of the study.

Table 1: Research approach and relevance of the approach.

Research Approach	Relevance of the approach
Quantitative approach	Numeric data
Qualitative approach	Descriptive data like sex

3.2 Population of the study

According to Burns and Grove (1993), a population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study. The target population for this study consisted of 25 business owners of Kansanga market.

3.3 Sampling techniques and Sample Size

Sampling is a key component of any investigation and involves several considerations. The aim of most investigations is to obtain information about a population.

In the study, simple random sampling was used to obtain the sample size of the study and also purposive sampling was used to select the respondents with the relevant information of the study. The sample size of the study was established using the Slovene's (1967) formula given a finite population and the degree of precision (reliability) desired by the study.

The Slovene's formula states;

$$n = \frac{N}{1 + Ne^2} = \frac{25}{1 + 25(0.05)^2} = 24 \text{ Respondents.}$$

$$n = 30$$

With n=number of sample
 N=total population
 e=level of significance 0.05

Using the formula above, a sample of 24 respondents was obtained

3.4 Data Collection Method

The study relied on both primary and secondary data. Primary data was collected with the use of questionnaires and secondary data was obtained from external sources such as the internet, Journals of change and other documentations. The purpose of sourcing for secondary data helped in the formation of problems, literature review and construction of questionnaire.

3.4.1 Primary Sources

Primary data refers to data collected by the researcher for a particular need as is encapsulated in the research objectives. The study was conducted using the case study method of research. A Self-administered questionnaire was used in gathering data.

3.4.2 Secondary Sources

The researcher gathered data from unpublished articles. Data was also gathered from the websites, journals, books, newspapers, magazines of different institutions along with different related studies about change within the industry to supplement the research.

3.5 Data Collection Instrument

A questionnaire was chosen as the main data collection instrument. A questionnaire is a printed self-report form designed to elicit information that can be obtained through the written responses of the respondents (Burns and Grove, 1993). Data was collected with the aid of questionnaires to evaluate the management and staff knowledge and views the subject matter and how it affects service delivery and financial performance in general of SMEs. The questionnaire was designed to meet the objectives of the study. It was adopted from previous works (Oballah et al., 2015 and Anichebe and Agu, 2013) but the researcher designed it to suit the objectives of the study in order to solicit answers for the research questions.

3.5.1 Interview guide

For the purposes of obtaining deep-rooted and concise data, the researcher used an interview guide to conduct interviews. These were conducted in a period of 30 minutes per selected respondent. The researcher based on the interviews to probe further to get relevant data.

3.6 Reliability and Validity of the Instruments

Reliability

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of setting or when it is administered to the same group on different occasions. The reliability of research questionnaire will be tested using Cronbach's alpha coefficient test for its internal consistency to measure the research variables. Data was analyzed and the correlation results were taken and after a period of one week, the researcher administered the same questionnaire to the selected group from the previous respondents and the results were also correlated to find out whether they related with the first results.

Validity

Validity in qualitative interviews is only achieved through the relaxed conversational approach when gathering information. In contrast to strict survey interviews in which interaction is sometimes restricted, qualitative interviewing allows opportunity for both parties to clarify what is being said. To establish validity, the designed instruments were availed to the supervisor for review and he gave an approval for administration in a pilot survey. The study will employ content validity whereby the researcher will specify the indicators which will be relevant to the concept which will be measured. A representative sample of indicators was selected from the domain of indicators of the concepts of government incentives incentives and performance of SMEs in Kansanga.

Content Validity Index(CVI) = the number of relevant questions.

Total number of questions

3.7 Data Processing and Analysis

Collected data was edited, coded, and entered into the computer using the excel analysis package. The analysis involved the use of frequency tables, graphs and percentages to present the findings of the study.

3.8 Ethical Considerations of the Study

The researcher formed a questionnaire which was approved by the supervisor and she obtained an introductory letter from the head of department which was presented to the respondents during the process of data collection. The researcher administered the

research tools to the respondents while making all the necessary introductions and assuring the respondents that the data collected would be treated with utmost confidentiality and used only for academic purposes and she gathered the filled questionnaires after two days and started report compilation.

3.9 Limitations of the study

The researcher was limited by enough funds especially for supporting her in the process of Data collection as this entailed choosing less sample size which might have affected the results of the study.

Some respondents deliberately refused to answer questionnaires because of limited time as they were busy attending to their customers.

CHAPTER FOUR

STUDY FINDINGS AND PRESENTATION

1.0. INTRODUCTION

The data was collected using both quantitative and qualitative methods, which was then analyzed and processed to make it useful and understandable. Data was collected, tabulated and then analyzed

4.1 The Social Demographic Characteristics

4.1.1 The Age of the respondents

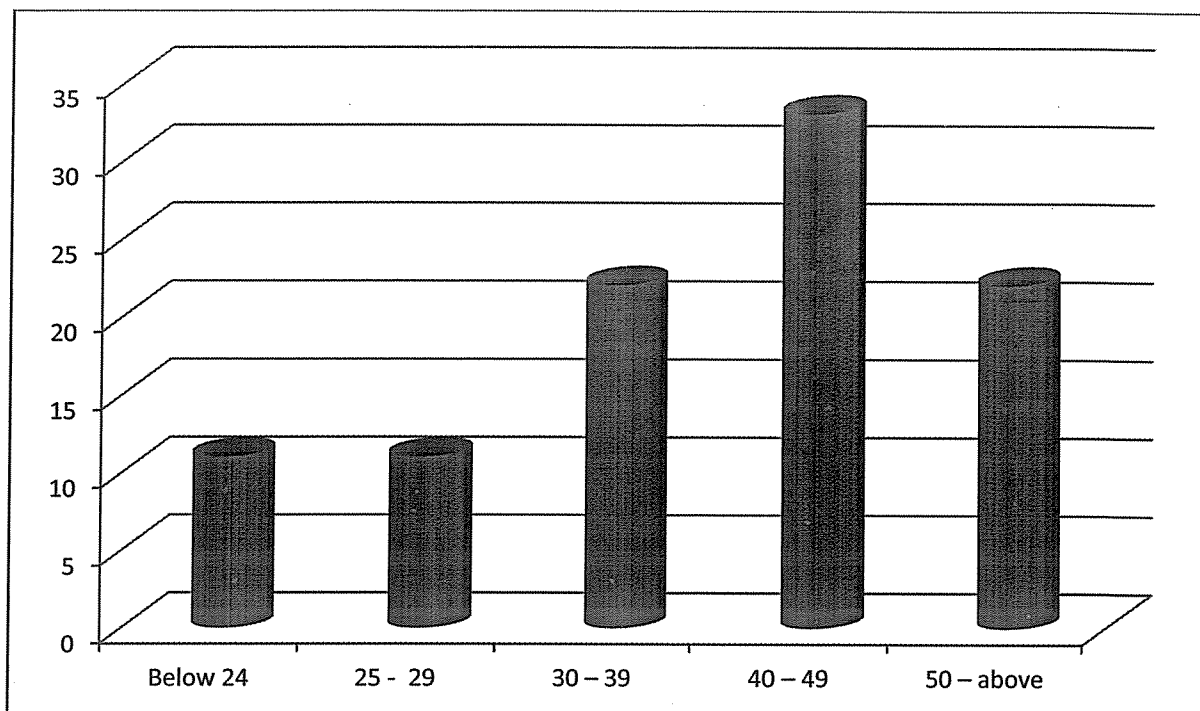
Table 4. 2: Age distribution of respondent

Respondents were asked questions related to their age and the results are shown in the table below:

Age group	Frequency	Percentage
Below 24	3	11%
25 - 29	3	11%
30 – 39	4	22%
40 – 49	8	33%
50 – above	6	23%
TOTAL	24	100%

Source: Primary Data 2019

Figure 4.1: The Age distribution of respondent



Source: Primary data

Table 4.1 and figure 4.1, show that 11% of the respondents were below 24 years, 11% were between 25-29 years of age, 22% were between 30-39 years of age, 33% were between 40-49 years and 22% were above 50 years of age. This implies that most of the people who participate in SMEs are in the age of 40-49.

4.1.2 The Marital Status of the respondents

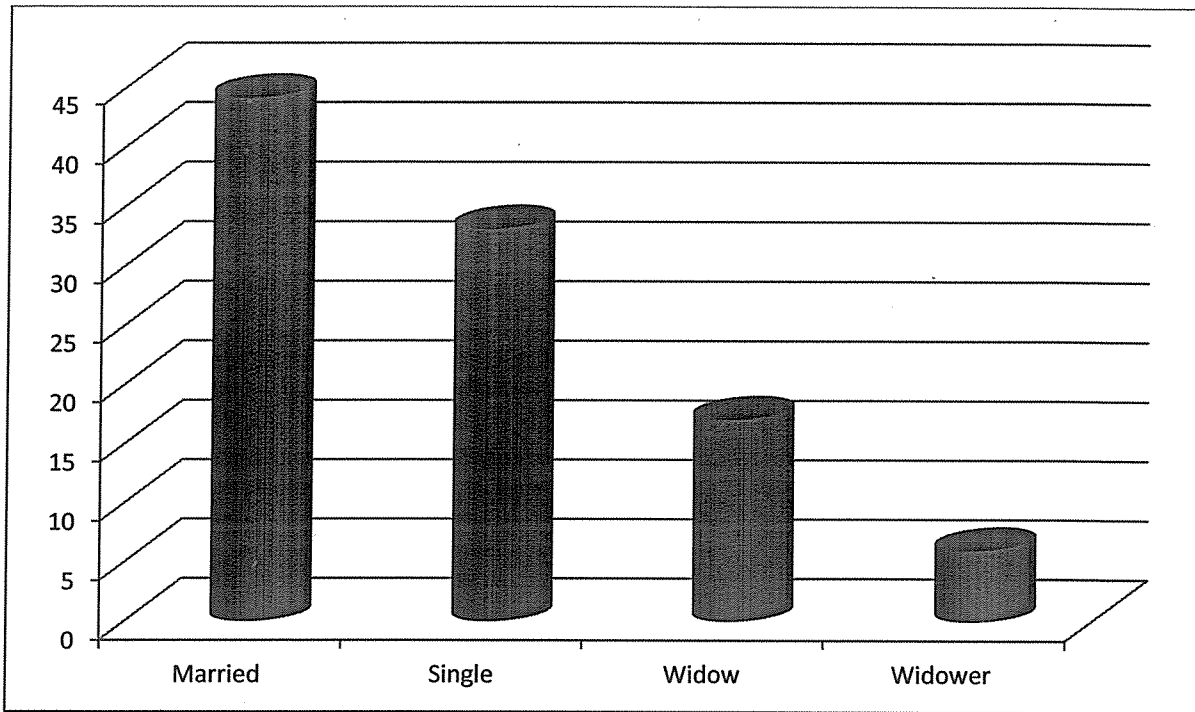
Another variable which was important in respect to the situation of the people in the area was marital status. Information regarding marital status of the respondents was obtained by asking them whether they were married, single, widowed or separated.

Table 4. 3: Marital status of the respondents

Marital Status	Frequency	Percentage
Married	11	44%
Single	8	33%
Widow	4	18%
Separated	1	6%
TOTAL	24	100%

Source: Primary Data 2019

Figure 4.2: Marital status of the respondents



Source: Primary data

Table 4. 2 and figure 4.2, show that 44% of the respondents were married, 33% single, and 18% were widowed and 6% had separated.

4.1.3 The Sex of the respondents

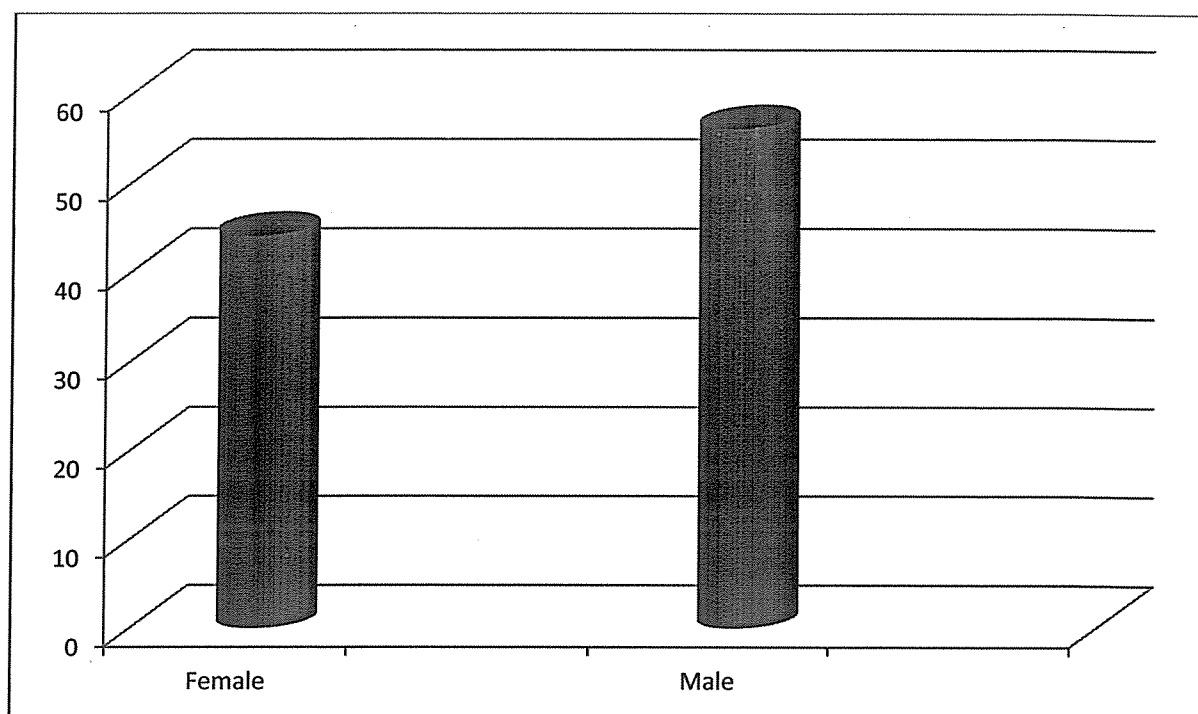
Sex was also another factor which was considered during the study. This is because the researcher was interested in finding out the number of females and males in the whole of the population, and compared the percentage composition of the two.

Table 4.4: Sex of the respondents

Sex	Frequency	Percentage
Female	11	44%
Male	13	56%
Total	24	100%

Source: Primary data 2019

Figure 4.2: Sex of the respondents



Source: Primary data 2019

Table 4.3 and figure 4.3 show the sex of the respondents and it was found out that 44% of the respondents were females and 56% were males. This implies most of the participants in SMEs in Kansanga are males.

4.1.4 The Educational status

Respondents were asked questions related to their educational status and their responses are shown in the table below;

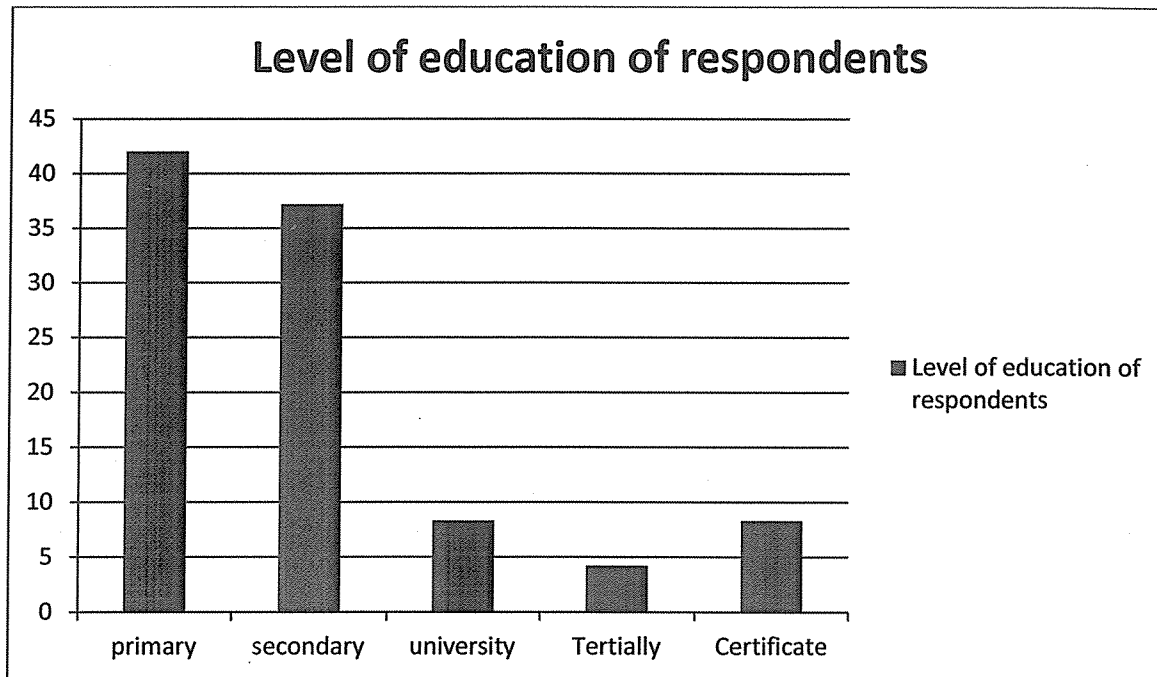
Table4. 5: Educational level of the respondents

Education levels	Frequency	Percentage
Primary	10	42
Secondary	9	37.2
University	2	8.3
Tertiary	1	4.2

Certificate	2	8.3
Total	24	100

Source: Primary Data 2019

Figure 4.3: Education level of respondents



Primary data 2019

The findings in table 4.4 and figure 4.4 show that 8.3 % of the respondents had attained university level, 37.2% had attained secondary level, 42% had attained primary level and those who had certificates and tertially institution as their highest levels of education contributed 8.3% and 4.2% respectively. This implies that most of the respondents had relevant knowledge concerning the variables of the study.

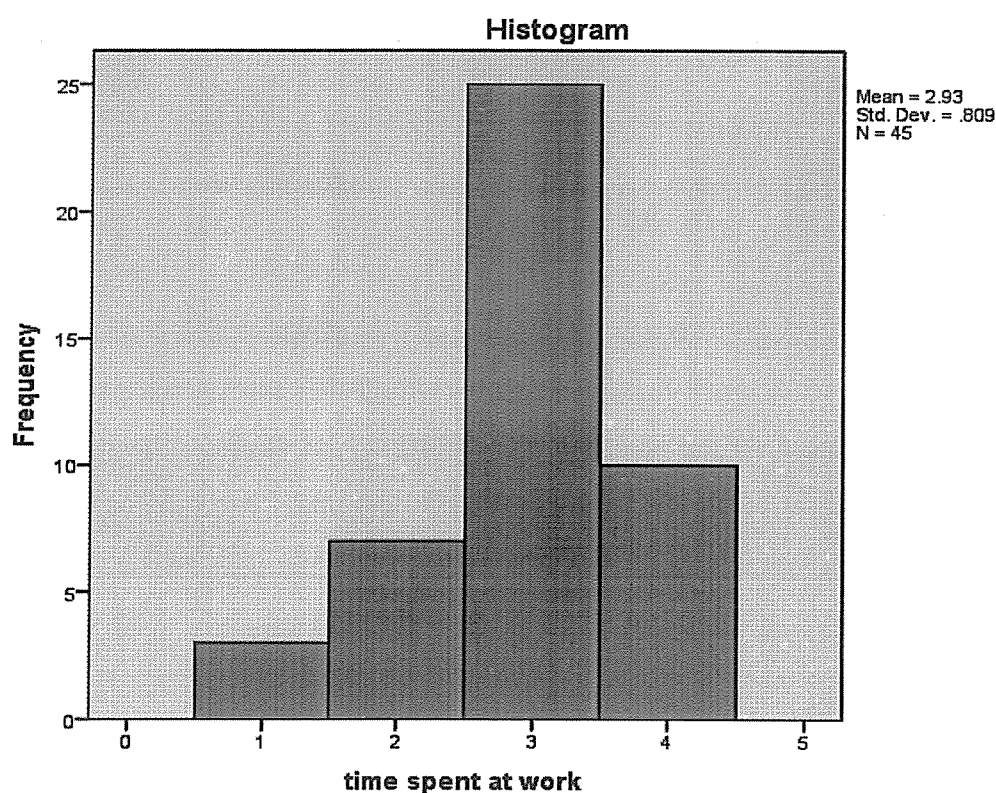
4.1.4 Time spent running the business

The respondents were asked to state the period they had spent running their businesses to find out their experience and knowledge about effect Government incentives on the performance of SMEs and the findings showed a high level of experience in running businesses by the respondents as captured in table 5 and figure 4 below

Table 4.6: Time spent running the business

	Frequency	Percent
Less than 2years	2	6.7
2-3 years	4	15.6
3-4 years	13	55.6
4 years and above	5	22.2
Total	24	100.0

Figure 4.4: Time spent running the business by the respondent



1:- Less than 2 years 2:- 2-3 years 3:- 3-4 years 4:- 4 years and above

Source: Primary data, 2019

The findings in table 4.6 and figure 4.6 above indicated that out of the 80 respondents, the majority had spent 3-4 years running their businesses (13)55.6%, they were followed by those who had spent 4 years and above running their businesses (5)22%, those who had spent 2-3 years were (4)16% and the least number of respondents had spent less than 2 years running their businesses (2)7%. This implies that most of the respondents had relevant experience and knowledge about the effect of government incentives and performance of SMEs in Uganda.

4.2: Government incentives for SMEs

Table 4.7: Distribution of the responses on the government incentives given to SMEs

Statements	N	Responses (%)				
		SD	D	NS	SA	A
I get low interest loans from the government	24	5	10	15	50	20
I get a tax holiday for my business	24	52	23	10	10	5
I get capital allowances from the government to support my business	24		7.5	7.5	60	25
The government gives tax abatements to my business	24	10	10	15	37	28
The government gives free land to SMEs	24	75	10	5	5	5
The government gives tax credits to some SMEs	24		5		70	25
There is tax revenue sharing in Uganda	24	15.8	10		35	39.2
The government has greatly improved the infrastructure	24	10.3	10	10	30.7	39
The government completely subsidizes SMES	24	21	50.6		28.4	
There is no hash penalty on failure to pay the levied tax	24	10	8.6		60.4	21

N- sample size SA – Strongly Agree, A – Agree, NS – Not Sure, D – Disagree SD – Strongly disagree

The findings of the study in table 4.7 revealed that the government gives incentives to SMEs. This is from the fact that of the 24 respondents who were involved in the study, 70% agreed that they get low interest loans from the government, 85% agreed that they get capital allowances from the government to support their businesses, 65% agreed that they get tax abatements for their businesses, 95% agreed that the government gives tax credits to some SMEs, 74.2% agreed that there is tax revenue sharing in Uganda, 69.7% agreed that the government has greatly improved the infrastructure and 81.4% of the

respondents agreed that there is no hash penalty on failure to pay the levied tax whereas 75% of the respondents revealed that they don't get a tax holiday for their businesses, 85% also revealed that the government does not give free land for SMEs and also 71.6% of the respondents revealed that the government does not completely subsidize SMEs.

4.3: Level of performance of small and medium in Kansanga

Table 4.8: Distribution of the responses on the Level of performance of small and medium in Kansanga.

Statements	N	Responses (%)				
		SD	D	NS	SA	A
The business has expanded in size	24	10	3.0		50	37
The market share has increased	24	8	1.4	2	50	38.3
The business has gained reputation in the society	24	2	4.24	3	44	40.8
The rate of return on investment has increased	24	28.4			21	50.6
The profitability of the business has increased	24	5	8.6	5	60.4	21
The government policies on taxation favor the growth of my business	24	53.8	30		6.2	10
The business can serve all the customers timely	24	10.4	4.4	10	50	25.2

N- sample size SA – Strongly Agree, A – Agree, NS – Not Sure, D – Disagree SD – Strongly disagree

The findings in table 4.8 show that the level of performance of SMEs in Kansanga has improved. This from the fact that 87% of the respondents agreed that their businesses have expanded in size, 88.8% agreed that the market share has increased, 84.8% agreed that their businesses have gained reputation in the society, 71.6% agreed that the rate of return on investment has increased, 81.4% agreed that the profitability of their businesses has increased, 75.2% of the respondents agreed that their businesses can serve all their customers whereas 83.8% of the respondents rejected that the government policies on taxation favor the growth of their businesses.

4.3: Relationship between government incentives and performance of small and medium enterprises

Table 4.9: Distribution of the responses on the Relationship between government incentives and performance of small and medium enterprises

Statements	N	Responses (%)				
		SD	D	NS	SA	A
There is a positive relationship between government incentives and performance of SMES	24	3.6	4	8	44.4	40
government incentives generally improve the performance of SMEs	24	2.2	5	2	62	30.8
Government incentives encourage business startup	24	10	8.4	10	50	21.6
Government incentives aid smooth running of the business	24	9.8	10		50.2	30
Government incentives stimulate the growth of SMES	24	8	6.6	2	40.4	43

Source: Primary data 2019

SA – Strongly Agree, A – Agree, NS – Not Sure, D – Disagree SD – Strongly disagree

From table 4.9, the findings show that 84.4% of the respondents agreed that there is a positive relationship between government incentives and performance of SMES, 92.8% agreed that government incentives generally improve the performance of SMEs, 71.6% of the respondents agreed that government incentives encourage business startup, 80.2% agreed that government incentives aid smooth running of the business and also 83.4% agreed that government incentives stimulate the growth of SMES.

Table 4.10: Pearson correlation analysis.

Correlation	Government incentives	Performance of SMES
Pearson Correlation	1	0.75**
Sig. (2-tailed)		.004
N	24	24
Pearson Correlation	0.75**	1
Sig. (2-tailed)	.004	
N	24	24

**. Correlation is significant at the 0.05

The findings in table 4.10 show that there is a strong positive correlation of 0.75 with a significant value of 0.04; this means that government incentives have a strong positive impact on the overall performance of SMEs in Uganda. This means that if the government provides more incentives, the performance of Small and medium enterprises improves by 75%.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter dealt with the discussion of the findings, conclusion and presents recommendations of the study.

5.1 Discussion of the findings

5.1.1 Government incentives given to SMEs in Uganda

The findings of the study revealed that the government gives incentives to SMEs .This is from the fact that 70% of the respondents agreed that they get low interest loans from the government,85% agreed that they get capital allowances from the government to support their businesses,65% agreed that they get tax abatements for their businesses,95% agreed that the government gives tax credits to some SMEs,74.2% agreed that there is tax revenue sharing in Uganda,69.7% agreed that the government has greatly improved the infrastructure and 81.4% of the respondents agreed that there is no hash penalty on failure to pay the levied tax whereas 75% of the respondents revealed that they don't get a tax holiday for their businesses,85% also revealed that the government does not give free land for SMEs and also 71.6% of the respondents revealed that the government does not completely subsidize SMEs.

5.1.2 Level of performance of Small and medium enterprises in Uganda

The findings of the study showed that the level of performance of SMEs in kansanga has improved. This from the fact that 87% of the respondents agreed that their businesses have expanded in size,88.8% agreed that the market share has increased,84.8% agreed that their businesses have gained reputation in the society,71.6% agreed that the rate of return on investment has increased,81.4% agreed that the profitability of their businesses has increased,75.2% of the respondents agreed that their businesses can serve all their customers whereas 83.8% of the respondents rejected that the government policies on taxation favor the growth of their businesses.

5.1.3 Relationship between Government incentives and performance of SMEs in Uganda

From table 4.7, the findings show that 84.4% of the respondents agreed that there is a positive relationship between government incentives and performance of SMES, 92.8% agreed that government incentives generally improve the performance of SMEs, 71.6% of the respondents agreed that government incentives encourage business startup, 80.2% agreed that government incentives aid smooth running of the business and also 83.4% agreed that government incentives stimulate the growth of SMEs. The findings further showed that there is a strong positive correlation of 0.75 with a significant value of 0.04; this means that government incentives have a strong positive impact on the overall performance of SMEs in Uganda. This implies that if the government provides more incentives, the performance of Small and medium enterprises improve by 75%.

5.2 conclusions

5.2.1 Government incentives given to SMEs in Uganda

The findings of the study revealed that the government provides incentives to the small and medium enterprises except that it does not give them free land, it does not completely subsidize them and it does not give tax holidays to Small and medium enterprises.

5.2.2 Level of performance of Small and medium Enterprises

The findings of the study revealed there is an improvement in the performance of Small and medium enterprises in Kansanga. However, the study revealed that the government policies on taxation do not favor the growth of SMEs.

5.2.3 Relationship between government incentives and performance of SMES

The findings of the study revealed that there is a strong positive relationship between government incentives and performance of SMES as it was revealed that an improvement in government incentives improves the performance of SMEs by 75%.

5.3 Recommendations

5.2.1 Government incentives given to SMEs in Uganda

The government should try to give free land to SMEs as they contribute to the Gross Domestic Product of the country.

The government should give tax holidays to Small and medium enterprise in order to enable them to expand quickly.

The government should completely subsidize domestic SMEs to enable their rapid growth.

5.3.2 Level of performance of SMEs

The government should formulate favorable tax policies that can favor the growth of small and medium enterprises as the finding revealed that the current policies are unfavorable.

5.3.3 Relationship between government incentives and performance of SMEs

The government should provide more incentives to SMEs as it was revealed that an improvement in government incentives improve the performance of SMEs.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear Respondent,

I am Namugenyi Fazira, as part of my course at KIU, I am carrying out research on the topic **Of Government incentives and performance of Small and Medium Enterprises in Uganda**". As one of the target respondents, your views and opinions are very important to this study. I hereby request you to spare some time and you fill this questionnaire. The responses obtained will be confidential and will strictly be used for academic purposes only.

Thank you .

Section A: Background Information.

SECTION A

1) Sex

(a) Male ☐ (b) Female ☐

2) Age

(a) below 24 ☐ (b) 25-29 ☐

(c) 30-39 ☐ (d) 40-49 ☐

(e) 50 and above ☐

3 Marital Status

(a) Married ☐ (b) Single ☐

(c) Widowed ☐ (d) Separated ☐

4) Educational Level

(a) primary ☐ (b) Secondary ☐

(c) University ☐ (d) Tertially ☐

e) Certificate ☐

4 How long have you been running your business?

less than 2 years ☐

2-3 years ☐

3-4 years ☐

4years and above ☐

Please tick according to the code provided below for the variables below:

Strongly Agree 5.....Agree 4.....Not sure 3.....Disagree 2.....Strongly Disagree 1.....

Section B: Government incentives for SMES

Statement	1	2	3	4	5
I get free interest loans from the government					
I get a tax holiday for my business					
I get capital allowances from the government to support my business					
The government gives tax abatements to my business					
The government gives free land to SMEs					
The government gives tax credits to SMEs					
There is tax revenue sharing in Uganda					
The government has greatly improved the infrastructure					
The government completely subsidizes SMES					
There is no hash penalty on failure to pay the levied tax					

Section B: Level of business performance of small and medium enterprises

Statement	1	2	3	4	5
The business has expanded in size					

The market share has increased					
The business has gained reputation in the society					
The rate of return on investment has increased					
The profitability of the business has increased					
The government policies on taxation favor the growth of my business					
The market share has increased					
The business can serve all the customers timely					

Section E: Relationship between Tax incentives and performance of SMES in Uganda

Statement	1	2	3	4	5
There is a positive relationship between government incentives and performance of SMES					
government incentives generally improve the performance of SMEs					
Government incentives encourage business startup					
Government incentives aid smooth running of the business					
Government incentives stimulate the growth of SMES					
Government incentives attract foreign investors who use raw materials					

Suggest any other comments about this topic?

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THANK YOU FOR YOUR COOPERATION.

Dear Respondent,

I am Namugenyi Fazira, as part of my course at KIU, I am carrying out research on the topic **Of Government incentives and performance of Small and Medium Enterprises in Uganda**". As one of the target respondents, your views and opinions are very important to this study. I hereby request you to spare some time and you fill this questionnaire. The responses obtained will be confidential and will strictly be used for academic purposes only.

Thank you .

1. Are you given government incentives?

1 Yes 2 No

2. Are you given tax incentives ?

1 Yes 2 No

3 If yes mention the tax incentives that you get?

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.....

.....

.....

4. Are you given non tax incentives?

1 Yes 2 No

5. If yes , Mention the government incentives that you are given?

.....

.....

6. Government incentives promote the growth of small and medium enterprises.

1 Yes 2 No

7. Is there a positive relationship between government incentives and performance of Small and medium enterprises?

1 Yes 2 No

APPENDIX III: Estimated budget;

Activity	Cost/amount(UGX)
Stationary, typing and printing	150,000
Internet bundles and air time	50,000
Transport	40,000
Others	30,000
Total amount	270,000