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Improving Credit Accessibility among SME's in Uganda

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Abstract

The purpose of this paper is to establish the ways of Improving Credit Accessibility among Small Medium Enterprises in Uganda. The paper adopts both quantitative and cross sectional research designs. Using simple random sampling procedures, a sample of 92 SME's was drawn from Kampala of which a response rate of 78.3 percent was obtained. Data was collected using self administered questionnaires. The study however employed only a single research methodological approach and future research through interviews could be undertaken to triangulate. Results show that lack of collateral security by SME's, lack of audited books of accounts and financial institutions regarding SME's as high risk borrowers. Results further show that high interest rates charged by financial institutions limits Small Medium Enterprises from accessing credit. In order to improve credit accessibility of SME's in Uganda, financial institutions should reduce on interest rate to enable Small Medium Enterprises access credit. Financial institutions should design loan packages for SME's. There should be a national business policy that recognizes the importance of small businesses and incentives to encourage growth of Micro Finance Institutions which cater for the Small Medium Enterprises sector.
Keywords: SMEs, Access to Credit

Introduction

Business financing is vital to the growth and performance of Small Medium Enterprises. Kasekende and Opondo, (2003) noted however that one of the most difficult problems that the small medium enterprises face is obtaining financing. IFC (2011) confirms that SMEs often have great difficulty accessing financial services in many emerging markets. Kibuka, Kiweewa,Nakate and Kizza (2013) further highlighted that the difficulty to raise capital as one of the factors limiting growth of Small and Medium enterprises. The capacity for Small and Medium sized Enterprises (SMEs) to fulfill their potential in an economy depends on the availability of finance (Whincop, 2001). Availability of finance is one of the important instruments that help small medium enterprises increase their income and overcome their liquidity constrains (Pandura, 2011). Advocates of credit as a poverty mitigation measure (Howse 1978, Adam et.al 1984, Boomgard 1989, and Mutua 1996) contend that limited availability of credit services has undermined small scale enterprise activities to adopt improved and modern practices because of their inability to purchase the necessary inputs required in the production. SEDF (2006) further observed that low productivity in agriculture, livestock, fishing and other sectors is generally attributed to the use of poor technology resulting from limited access to credit. Fatchamps (1997) also noted that with insufficient funds, small and medium enterprises cannot invest in the new equipment and machinery, and it becomes difficult to reach out to new markets and products. He contends that without financial assistance, small scale enterprises cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand.

Extant literature by Gilla and Lassalle (1994) demonstrate that rapid development reached in Europe and Asia was highly facilitated by the availability of credit to the majority. Countries like India, Indonesia, Burma and even China were reported to have recorded a good step of development after managing to solve problems of credit availability for the majority. In Africa, access to credit by small scale enterprises is rather inadequate. Very few small scale enterprises have been integrated into formal financial markets and many do not use credit or if they do, they continue to borrow from informal market lenders who are rather too expensive as a result of high interest rates charged (Adams, 1984). Gonzalez-Vega (1983) reports that only a small fraction of small medium enterprises in many African countries have received formal loans. Schiffer and Weder (2001) show that SMEs find accessing financing in Africa more difficult than larger firms. They rank all the obstacles firms face in doing business and financing was found to be a top problem for SMEs as compared to large firms.

In Uganda, ninety percent of small and micro enterprise collapse in their first year of startup, due to lack of access to credit, (Baguma, 2010). Baguma (2010) further noted that although MFIs have become popular among the underserved population in Uganda, the reach is still low with only 2 million people accessing finances out of a population of over 35 million people. Despite SME's importance in Uganda's economy, many of them do not have sufficient access to credit from formal financial institutions and their major source of finance is the informal sector. Thus, solving the major financial constraint of this important sub-sector of the economy in Uganda led to emergence of several Financial Institutions with the aim of helping thousands of the poor out of poverty as well as providing financial services to Uganda's lowest-income entrepreneurs so that they can create jobs, build assets and improve their standard of living. However, these financial institutions have been biased towards large corporate borrowers, who provide better business plans, have credit ratings, more reliable financial information, better chances of success and higher profitability. Generally, there have been minimal efforts by financial institutions in Uganda to facilitate credit to small scale and medium enterprises. When Financial Institutions do lend to SMEs, they tend to charge them a high interest rates for assuming a high risk and apply tougher screening measures which drive up costs on all sides. More so, maturities of loans extended by financial institutions in Uganda to SMEs are often limited to a period far too short to pay off any sizeable investment (Kulabako, 2011). Loans that are provided by these institutions to SME's are small, with a short

repayment period and with high interest rates (Kazooba, 2006). Small Medium Enterprises are regarded riskier by financial institutions than large ones for reasons often related to the difficulty in obtaining accurate information about them due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates. Reliance on collateral by financial institutions often, however, excludes many otherwise creditworthy small-scale borrowers in Uganda where land titles are not well documented or readily transferable. Thus this study therefore seeks to address the challenges of credit accessibility of SME's in Uganda.

Literature Review

Small and Medium Enterprises

Small and medium enterprises are considered to be the life blood of any economy. They are at the fore front of the government effort to promote enterprise, innovation and increased productivity. SMEs are widely defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share. Country context plays a major role in determining the nature of these characteristics, especially, the size of investment in capital accumulation and the number of employees (Kasekende and Opondo, 2003). For developing countries, small-scale enterprises would generally mean enterprises with less than 50 workers and medium size enterprises would usually mean those that have 50-99 workers. In Uganda, a small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ug.shs 50 million (US$ 30,000), and the annual income turnover of between Ugshs.10-50 million (US$6,000-30,000). A Medium sized enterprise is considered a firm, which employs between 50-100 workers (Kasekende and Opondo, 2003).

The main argument for favoring SMEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation (Sarapaivanich, 2003). In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms. Therefore sustainable development and employment cannot be achieved without SMEs.

In Uganda, SMEs are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore, have been tools for poverty alleviation. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources (Kasekende & Opondo, 2003).

Credit Accessibility

The access to finance by SME's is a subject of significant research to academics and policy makers and issue of great importance to policy makers for both developing and developed economies for many years. One of the factors is that there is some empirical evidence that the expansion of access may reduce prevailing poverty in developing countries (World Bank, 2008). Access to finance represents one of the most significant challenges for entrepreneurs and for the creation, survival and growth of small businesses. Financial access help SME's start up and expand their businesses through inter alia development of new products and production processes, and investment in human capital. A variety of financial services are crucial for growth in the SME. Ensuring that SME's have adequate access to financial resources is a key tenet of successful development strategies. When SME's are unable to make the necessary upfront investments or cannot bear additional risk, they have to forgo opportunities to boost their productivity, enhance their income and improve their well-being (Besley, 1995; and Boucher et al., 2008). Furthermore, without adequate access to loans, SME's face negative shocks, such as droughts, illness or a significant drop in the prices they receive, can lose some of the few assets they do have (Diagne & Zeller, 2001).

Most Low Income Countries' economies are agriculturally based and thus credit is as a major component of agricultural and rural development programmes and also considered as an important instrument in helping small farmers and micro- entrepreneurs increase their income. Advocates of credit as a poverty alleviation measure (Howse 1978, Adam et.al., 1984, Boomgard 1989, & Mutua 1996) contend that limited availability of credit services has undermined rural micro-enterprise activities due to lack of capital for investment and has prevented farmers to adopt improved farming practices because of their inability to purchase the necessary inputs required in the production. Low productivity in agriculture, livestock and fishing is generally attributed to the use of poor technology resulting from limited access to credit. Moreover, it is perceived that inadequate credit facilities has to a large extent discouraged the entry of youth to the farming and fishing sectors, and leave majority of them unemployed because of lack of investment capital and incentive. Fatchamps (1997) noted that with insufficient funds, farmers and fishers cannot invest in new equipment and machinery, and it becomes difficult to reach out to new markets and products. Fatchamps further contends that without financial assistance, small farmers and artisanal fishermen cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. The general perception is that access to external finance is critical for poor entrepreneurs, who may never have funds proportional to their ambitions.

Gilla and Lassalle (1994) show that rapid development reached in Europe and Asia was highly facilitated by the availability of credit to the majority. However, Gulli and Berger (1999) point out that access to credit is important for micro-enterprise development but not necessarily the main constraint. This view is shared by Von Pischke (1992), who observed that lack of funds is not the most important problem of small farmers and micro-entrepreneurs noting that product prices, poor education system and training, low output, land tenure, modern input costs and availability and risk turn out to be more important factors limiting small farmers and micro- enterprise development.

The access to credit by small producers in many African countries is rather disappointing. Very few small farmers and rural micro-entrepreneurs have been integrated into formal financial markets and many do not use credit or if they do, they continue to borrow from informal market lenders (Adams, 1984). Gonzalez-Vega (1983) reports that only a small fraction of farmers in Low Income Countries have received formal loans. It is estimated that just five percent in Africa are financed through formal credit sources (Gonzalez-Vega 1983, Braverman and Huppi, 1991).

Due to their characteristics, however, SMEs in Uganda suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts.

Furthermore, SME's that have access to well-designed credit services can avail themselves of capital to finance the inputs, labour and equipment they need to generate income; can afford to invest in riskier but more profitable enterprises and asset portfolios; can reach markets more effectively; and can adopt more efficient strategies to stabilize their food consumption (Zeller et al., 1997).

Challenges of accessing credit by SME's

Access of SMEs to external finance has attracted much attention from academics and policy makers worldwide. Various studies (Kibera and Kibera, 1997; Thembe et al, 1997; Alila and McCormick, 1994) have enumerated the factors that are generally agreed on as the challenges of accessing of credit by SME's especially in the African setting. Previous studies have shown that a number of factors hamper the credit accessibility of Small Scale Enterprises. According to Cosh and Hughes (2000), the majority of SMEs have experienced rapid rates of growth and funding shortages during their embryonic years. The absence of adequate funding represents a major obstacle to a firm's survival and chance of success during this start-up period (Westhead and Wright, 2000). Empirical evidences suggest that financial institutions do not sanction credit to the SMEs for lack of collateral and high transaction cost (SEDF, 2006; Khan et. al., 2003; Khalily et. al. 1994). This poor credit access from formal financial source arises partly from biased financial policy, due to the operational practices and procedures of the formal financial institutions and the internal problems of small scale enterprises themselves (Asrat, 1989). Beck (2007) argues that the availability of finance to new SMEs can be influenced by both borrower-specific (internal factors) and systemic factors (external factors). Barbosa and Moraes (2004) point out that borrower specific factor include variables largely controllable by a firm such as managerial competencies, quality of business information, availability of collateral and networking etc. Coco (2000) points out that collateral helps to reduce informational asymmetries and moral hazard problems that arise between banks and entrepreneurs. SMEs are usually more credit constrained than other segments of the economy because of the following:

Firm size is also one of the most important variables in literature related to access to credit. This was true for both developed as well as developing countries. Numerous studies have discussed that small and medium enterprises are financially more constrained than large firms. For example, Calomiris & Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater. In addition, the small firms face with information opacity such as unable to provide financial information (Binks & Ennew 1996). When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts.

Mutua (1994) argues that since lender takes calculated risk, borrowers must demonstrate their good faith by showing that they too have something at stake in the deal. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. The collateral is an assurance to the bank in case of default and it also ensures the borrowers commitment to the loan repayments. Berger and Udell (1995) found smaller and younger firms are more likely to face higher cost of financing and they are required to offer collateral.

There is high risk involved because small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. In contrast, Lopez- Gracia and Aybar Arias (2000) came up with a different explanation stating that the smaller firms may themselves limit their financial structure with the aim of avoiding the need to share control of the business with others. More so, Suppliers of external funds regard SME as riskier enterprises for a number of reasons. First, SME face a more uncertain competitive environment than larger companies—they experience more variable rates of return and higher rates of failure. Second, SME are comparatively less equipped in terms of both human and capital resources to withstand economic adversities. Third, there is the problem of inadequate accounting systems, which undermines the accessibility and reliability of information concerning profitability and repayment capacity. In developing countries, there is the added problem of a more volatile operating environment, which has a negative impact on the security of transactions. There is a greater risk that lenders/investors will not get paid, or that assets will not be properly registered.

Information availability is one of the reasons affecting SME's to access credit. The reason is information required by the lenders to evaluate and process applications is readily available because these businesses have an established reputation or track record. The absence of information on their financial records makes difficult to lenders to assess lending proposals submitted by new firms. Bass & Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long term relationship between borrower and bank exists. In a situation like this, having audited financial statements play a major role. Audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. For example, Berry et al (1993) found that lenders in the UK pay much attention to accounting information in order to deal with the loan applications of small firms. Given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders. However, most of the SMEs in the Uganda have difficulty in getting credit from the formal financial institutions because they lack proper financial records. Most of the businesses in these countries often keep multiple sets of books and do not have audited financial statements based on reliable accounting

standards. On the other hand, these firms end up getting loans at higher interest rates because banks considered them as high risk borrowers.

Furthermore, Ownership structures in the small scale enterprises can influence the ability to have access to finance. For example, previous research has found that listed firms and foreign owned firms face lesser financial constraints (Beck et al, 2006). Storey (1994), found that legal status influence the bank lending. He further states that corporate status at start up appears to be associated with a greater likelihood of bank lending. Lack of business and management skills can magnify financial barriers for SMEs. Low levels of financial literacy can prevent SMEs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Capacity building of SMEs in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, is shown to have positive impact on SME development.

Strategies to Improve Credit Accessibility

Previous researchers suggested several strategies for improving credit accessibility by SME's as shown below; For example, Curran et al (1993) argue that networks help to provide advice, information and capital to small firms. Applying this idea in the context of banking, it can be also argued that, having associated with a professional, trade or social associations such as Chambers of Commerce, Clubs and Societies may also lead to having access to bank loans. Talavera, Xiong and Xiong (2010). Financial institutions should design products that are flexible and meet SME's needs (Matin et al., 2002). Some SME's may need long-term housing loans; others may be interested in consumption loans to meet more immediate needs. Some women may be interested in products that require compulsory savings as a strategy that ensures they save, others may be afraid or unable to make that commitment. Some may want their savings to be publicly known to gain status in their families or communities; others may prefer this information to be kept private so that they can retain control over the funds. Financial institutions should conduct a thorough review of the products currently offered and identifies features in their design, promotion or delivery that can affect women's demand for those products or their ability to access them.

Financial institutions should design products that are convenient and accessible (Matin et al., 2002). Locate services close to where Sme's are and in places they can easily frequent. Disseminate information and promotion materials in places or through channels women can access. Simplify procedures. Make application requirements appropriate for SME's literacy and numeracy levels.

Financial institutions should consider ways in which branchless banking and IT developments can be leveraged to lower transaction costs and to address some of the obstacles sme's face due to constraints in their mobility or in their social interactions. India, Brazil, Kenya, the Philippines and South Africa offer examples in which financial institutions have been able to reach rural customers at a lower cost by relying on post offices, gas stations, stores and input providers (World Bank, 2008). Financial institutions should offer financial literature training to ensure sme's can compare products and make decisions based on a clear understanding of the characteristics and conditions of the products available (Mayoux and Hartl, 2009).

Financial institutions should design loan packages that support SME's engagement in more profitable, but non-traditional, economic activities by bundling credit with additional services, or by helping SME's connect with agencies or groups where they can obtain that support (Quisumbing and Pandofelli, 2009 and World Bank, 2008).

Financial institutions should improve the availability of information targeted to SME's by supporting efforts to create affordable sources of information and media (a successful example is the Grameen Bank's Village Phone initiative); to develop information content that is culturally appropriate and relevant to the needs of SME; and to train and mentor SME's extension, agricultural, veterinary and financial agents. Ensure that these efforts take into account SME's restricted mobility and their time constraints by, for instance, locating sources of information in the communities and scheduling informational meetings or radio programs. Levitt & March (1988) have acknowledged that networking sometimes called external relations, of firms among industry, trade associations and other forms of association create learning by facilitating the sharing of knowledge, providing a means for organizations to learn from the experience of others in the industry. It is therefore clear that small business owner managers use networking to obtain key information, learning opportunities and problems and to gain access to, or enhance understanding of sources of finance. Thus, it is logical to assume that businesses with networks are more likely to have easy access to bank credit compared to those who do not have such networks. Financial institutions should introduce efforts to develop SME's basic literacy skills, and beyond that, their basic information skills in accessing, processing and using the information available to them (Fletschner and Mesbah, 2010).

Methodology

A cross sectional and quantitative research designs were adopted in this study (Yin, 1994). The study population covered 120 selected SME's in Kampala Uganda. The sample size of 92 SME's was selected basing on the table for determining sample size by Krejcie and Morgan, (1970). Data was collected from 72 SME's in Kampala representing 78.3%. Simple random sampling was employed to select SME's from the entire population. It was preferred because all of them had equal chances of being selected in the sample.

Primary data were collected by the use of self-administered questionnaires (Churchill, 1979). Data was collected using well formulated questionnaires that were hand delivered to the respondents. The questionnaires were self-administered, validated and pre-tested. Structured Adjusted Questionnaires' helped to cover a large number of respondents in a short time and generate reliable data since respondents answer the questions without the interference from the researcher's presence. The self-administered questionnaire was used as a tool for data collection because it was quicker in getting data from the respondents (Bakkabulindi, 2004). Validity of instruments was obtained using the Content Validity Index (CVI). The questionnaires were assessed to ensure that the scale items are meaningful; the statements are generally understandable and capture all issues under study. Reliability of the instruments was determined using the Cronbach's coefficient alpha to test for the internal consistence of the scales used to measure the variables.

Alpha coefficient of above 0.7 for individual test variables was accepted meaning the instrument was reliable (Nunnally, 1978). Scales from previous studies were used to measure credit accessibility. A widely used 5-Likert scale was employed for scoring responses (1: strongly disagree; 2: disagree; 3: neutral; 4: agree; 5: strongly agree). Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. During data editing, errors were detected and eliminated (for instance questionnaires that were not filled up at least three quarters were dropped; Structured Adjusted Questionnaires with obvious inconsistencies e.g. respondents whose ages were inconsistent with position occupied were dropped; other errors checked for included carelessness, non-uniformities in recording answers, eligibilities, etc.). During data categorizing, the responses to each question in the completed Structured Adjusted Questionnaires were categorized and each category given an identification code. Data was entered into the computer system using the Statistical Package for Social Sciences (SPSSv16.0) for analysis and findings were presented in form of tables according to the study objectives.

Findings of the Study

The results show that the majority of the respondents were males (68%) while the females comprised 32% of the sample implying a male dominance in SME's. It was also noted that the respondents over 31-30 years dominated the sample (52.8%) while those of 40 years age group comprised the least percentage (2.8%). The results show that few respondents were single (16.7%) while majority of the respondents were married representing (83.3%). It was noted that the respondents in the 6-10 years group dominated the sample (33.3%) while those below 1 year group comprised the least percentage (6.9%). In addition, respondents in the 1–5 and over 11 years brackets comprised 29.2% and 30.6% respectively. The outcome of the study showed that respondents who attained Bachelors Degree dominated the sample (55.6%) and those who attained PhD were the least (1.3).

Examining Credit accessibility in Uganda

Table 1: Credit Accessibility

	N	Min	Max	Mean	Std. Deviation
The need for witnesses by Financial institutions affect SME's from accessing credit.	72	2.00	5.00	3.78	0.79
Delays to obtain loan from Financial institutions affect SME's from accessing credit	72	2.00	5.00	3.71	0.83
Short repayment time of a loan affect SME's from accessing credit	72	1.00	5.00	3.35	0.92
Poor perception of SME's as riskier businesses affect them from accessing credit	72	1.00	5.00	3.28	1.08
SME's are not always given the full amounts applied for.	72	1.00	5.00	3.27	0.90
High transportation costs from home to source of loan affect SME's to access credit	72	2.00	5.00	3.52	0.87
SME's need to buy and process application forms before obtaining loan	72	1.00	5.00	2.88	0.98
Delay in approving and obtaining the loan affect SME's to access credit	72	1.00	5.00	3.84	0.90
High transaction costs affect SME's from accessing credit	72	2.00	5.00	3.74	0.95
Complicated Procedures by financial institutions limit SME's from accessing credit	72	2.00	5.00	3.77	0.76
A lot of time spent by financial institutions affect SME's to access credit	72	1.00	5.00	3.23	1.00
High interest rates charged limit SME's from accessing credit	72	1.00	5.00	3.65	1.12

Source: Primary Data

The results in the table above indicate that the need for witnesses by Financial institutions affect SME's from accessing credit (Mean = 3.78) and delays to obtain loan from Financial institutions affect SME's from accessing credit (Mean = 3.71). Results also indicate that short repayment time of a loan affect SME's from accessing credit (Mean = 3.35) and Poor perception of SME's as riskier businesses affect them from accessing credit (Mean = 3.28). In addition, the results indicated that SME's are not always given the full amounts applied for (Mean = 3.27). Furthermore, the researcher noted that high transportation costs from home to source of loan affect SME's to access credit (Mean = 3.52) and SME's need to buy and process application forms before obtaining loan (Mean = 2.88). In addition, results indicate that delays in approving and obtaining the loan affect SME's to access credit (Mean = 3.84) and high transaction costs affect SME's from accessing credit (Mean = 3.74). Complicated Procedures limit SME's from accessing credit (Mean = 3.77). However, results show that a lot of time spent by Financial institutions affect SME's to access credit (Mean = 3.23) and High interest rates charged limit SME's from accessing credit (Mean = 3.65).

Findings on challenges to credit accessibility

Table 2: challenges to credit accessibility

	N	Min	Max	Mean	Std. Deviation
Lack of collateral security by SME's limit them to access credit	72	2.00	5.00	3.94	0.73
Lack of audited books of accounts affect SME's from accessing credit	72	1.00	5.00	3.71	0.94
Financial institutions regard SME's as high risk borrowers	72	1.00	5.00	3.20	1.02
Failure to keep proper books of accounts limit SME from accessing credit	72	1.00	5.00	3.70	1.07
Lack of business plans hinder SME's from accessing credit	72	1.00	5.00	3.48	0.93
Low levels of technical and management skills affect SME's to access credit	72	2.00	5.00	3.52	0.87
The use of outdated technologies affect SME's from getting credit	72	2.00	5.00	2.62	0.87
lack of professionalism limit SME's to access credit	72	1.00	5.00	3.42	1.13
Limited knowledge of business opportunities affect SME's to access credit	72	1.00	5.00	3.51	0.81
The low levels literacy affect SME's from accessing credit	72	1.00	5.00	3.57	0.80
Internal problems of small medium enterprises affect them from accessing credit	72	1.00	5.00	3.94	0.92
Small size of SME's limit them to access credit	72	1.00	5.00	3.24	0.94
Poor ownership structures of small scale enterprises influence their ability to access finance	72	2.00	5.00	3.33	1.01
Lack of networks affect SME's to access credit from Financial institutions	72	2.00	5.00	2.99	0.86

Source: Primary Data

The results in the table above indicate that Lack of collateral security by SME's limit them to access credit (Mean = 3.94) and that Lack of audited books of accounts affect SME's from accessing credit (Mean = 3.71). Results also indicate that Financial institutions regard SME's as high risk borrowers (Mean = 3.20). In addition, the results indicate that Failure to keep proper books of accounts limit SME from accessing credit (Mean = 3.70) and Lack of business plans hinder SME's from accessing credit (Mean = 3.48). Furthermore, results indicate that Low levels of technical and management skills affect SME's to access credit (Mean = 3.52), The use of outdated technologies affect SME's from getting credit (Mean = 2.62) and lack of professionalism limit SME's access to credit (Mean = 3.42). Also it was noted that Limited knowledge of business opportunities affect SME's to access credit (Mean = 3.51) and The low levels literacy affect SME's from accessing credit (Mean = 3.57). Internal problems of small medium enterprises affect them from accessing credit (Mean = 3.94) and Small size of SME's limit them to access credit (Mean = 3.24). Poor ownership structures of small medium enterprises influence their ability to access finance (Mean=3.33). Lack of networks affect SME's to access credit from Financial institutions (Mean = 2.99).

Findings on the credit accessibility strategies

Table 3: The results in the table below show the credit accessibility strategies

	N	Min	Max	Mean	Std. Deviation
Financial institutions should reduce interest rates to enable SME's access credit	72	2.00	5.00	3.66	0.72
SME's should be encouraged to form groups in a bid to guarantee each other of credit.	72	2.00	5.00	3.59	0.90
There should be a national business policy that recognizes the importance of small businesses.	72	2.00	5.00	3.47	0.77
There should be incentive to encourage growth of MFI's which cater for the SME's sector.	72	1.00	5.00	3.30	1.05
Licensing of more financial institutions should be done to improve credit access	72	1.00	5.00	3.63	1.01
Financial institutions should design products that are flexible and meet SME's needs	72	1.00	5.00	2.79	1.06
Financial institutions should design loan packages that support SME's engagement in more profitable	72	2.00	5.00	3.84	0.92

Financial institutions should avail information to SME's	72	2.00	5.00	3.89	0.93
Financial institutions should encourage small business managers use networking to obtain key information	72	2.00	5.00	3.89	1.03
Financial institutions should introduce efforts to develop SME's basic literacy skills	72	2.00	5.00	3.63	0.84
Time taken to grant a loan should be reduced	72	2.00	5.00	3.54	0.76
SME's should keep proper books of accounts in order to access credit	72	2.00	5.00	3.43	0.75
SME's management skills should be improved in order to enable them access credit	72	1.00	5.00	3.67	0.84
Transaction costs should be reduced in order to enable SME's access credit	72	2.00	5.00	3.55	0.79

Source: Primary Data

The results in the table above show that Financial institutions should reduce interest rates to enable SME's access credit (Mean = 3.66). This implies a reduction in interest rates will motivate SME's access credit from financial institutions in Uganda. However, it was noted that Small and medium businesses should be encouraged to form groups in a bid to guarantee each other of credit (Mean = 3.59). Results further show that there should be a national business policy that recognizes the importance of small businesses. (Mean = 3.47) and there should be incentive to encourage growth of MFI's which cater for the SME's sector (Mean = 3.30). It was further noted that Licensing of more financial institutions should be done to improve credit access (Mean = 3.63). More so, results show that Financial institutions should design products that are flexible and meet SME's needs (Mean = 2.79). Financial institutions should design loan packages that support SME's engagement in more profitable (Mean = 3.84) and Financial institutions should avail information to SME's (Mean = 3.89). Financial institutions should encourage small business managers' use networking to obtain key information (Mean 3.89). It was further noted that Financial institutions should introduce efforts to develop SME's basic literacy skills (Mean = 3.63) and Time taken to grant a loan should be reduced (Mean = 3.54). Results further show that SME's should keep proper books of accounts in order to access credit (Mean =3.43) and SME's management skills should be improved in order to enable them access credit (Mean = 3.67). Findings also reveal that transaction costs should be reduced in order to enable SME's access credit (Mean =3.55).

Discussion of Findings

Findings on Credit Accessibility

Findings indicate that the need for witnesses by Financial institutions affect SME's from accessing credit and delays to obtain loan from Financial institutions affect SME's from accessing credit. Results also indicate that short repayment time of a loan affect SME's from accessing credit and Poor perception of SME's as riskier businesses affect them from accessing credit. In addition, the results indicated that SME's are not always given the full amounts applied for. Furthermore, the researcher noted that high transportation costs from home to source of loan affect SME's to access credit and SME's need to buy and process application forms before obtaining loan. In addition, results indicate that delays in approving and obtaining the loan affect SME's to access credit and High transaction costs affect SME's from accessing credit. Complicated Procedures limit SME's from accessing credit. However, results show that a lot of time spent by Financial institutions scrutinizing SME's affect them to access credit and high interest rates charged limit SME's from accessing credit.

Findings on Challenges to Credit Accessibility

Findings indicate that Lack of collateral security by SME's limit them to access credit. This finding is in line with SEDF, (2006); Khan et. al., (2003); Khalily et. al., (1994) who noted that financial institutions do not sanction credit to the SMEs for lack of collateral and high transaction cost. This finding is also in line with Coco (2000) points out that collateral helps to reduce informational asymmetries and moral hazard problems that arise between banks and entrepreneurs and that Lack of audited books of accounts affect SME's from accessing credit. Results also indicate that financial institutions regard SME's as high risk borrowers. In addition, the results indicate that Failure to keep proper books of accounts limit SME from accessing credit and lack of business plans hinder SME's from accessing credit. Furthermore, results further indicate that low levels of technical and management skills affect SME's to access credit. The use of outdated technologies affects SME's from getting credit and lack of professionalism limit SME's to access credit. Also it was noted that Limited knowledge of business opportunities affect SME's to access credit and the low levels literacy affect SME's from accessing credit. Internal problems of small scale enterprises affect them from accessing credit and small size of SME's limit them to access credit. Poor ownership structures of small scale enterprises influence their ability to access finance. Results further reveal that Lack of networks affect SME's to access credit from financial institutions. This finding is in line with Curran et al (1993) who argued that networks help small firms to provide advice; information in regard to accessing credit is concerned.

Findings on the Strategies to Access Credit

Findings reveal that financial institutions should reduce interest rates to enable SME's access credit. This implies a reduction in interest rates will motivate SME's access credit from financial institutions. However it was noted that Small scale and medium businesses should be encouraged to form groups in a bid to guarantee each other of credit. Results further show that there should be a national business policy that recognizes the importance of small businesses and there should be incentive to encourage growth of MFI's which cater for the SME's sector. It was further found out that

Licensing of more financial institutions should be done to improve credit access. More so, results show that financial institutions should design products that are flexible and meet SME's needs. Financial institutions should design loan packages that support SME's engagement in more profitable and that financial institutions should avail information to SME's. Financial institutions should encourage small business managers' use networking to obtain key information. This finding is in line with Curran et al., (1993) argued that networks help to provide advice, information and capital to small firms. It was further noted that Financial institutions should introduce efforts to develop SME's basic literacy skills and time taken to grant a loan should be reduced. Results further show that SME's should keep proper books of accounts in order to access credit and SME's management skills should be improved in order to enable them access credit. Findings also reveal that transaction costs should be reduced in order to enable SME's access credit.

Conclusion

Finance plays a central role in enterprise development but this is only possible if it is accessible and reasonably priced. While SMEs are increasingly seen as playing a strategic role in economic growth and development of Uganda, they suffer from financial accessibility problems. SME's experience difficulties in accessing loans from financial institutions to finance working capital and for capital investment expenditure. Some of the reasons advanced by financial institutions explaining why SMEs find difficulties in accessing finance are internal to SMEs and they include limited management and technical skills, lack of collateral, poor technology, and lack of credible financial accounts. Reasons that are external to SMEs include poor physical infrastructure, limited market, and the distance from SMES to financial institutions in rural areas. Where SMEs succeed in accessing financial resources, the cost of funds (interest rates) is high, sometimes leading to non-performing loans.

Therefore, while credit, would play a crucial role to enhance enterprise development and economic development of the country, they need to overcome constraints that would impede their access to financial resources. Uganda, therefore, should create the necessary policy, legal, and regulatory environment to overcome this challenge. This should be supported by the establishment of effective information dissemination systems such as credit reference bureaux to provide information on the credit history of borrowers. In addition to that, SMEs should improve their management systems and adopt modern management techniques if they are to benefit from the opportunities offered by the formal sector. SME's should improve their financial records and accounting systems. Proper records need to be kept and maintained and the books of accounts have to be clear and should reflect a realistic picture of their operations and financial conditions. A good system and books of accounts are not only helpful to the banks; they are also crucial in managing and monitoring business as well as guiding tax authorities. SMEs should network and build linkages with other entrepreneurs to acquire credit from financial institutions. Furthermore, strengthening the horizontal linkages with other SMEs and vertical linkages with larger firms would improve SMEs' to access credit from financial institutions. SMEs should improve their operating efficiencies and capabilities as this impact on production costs and profits. Material wastage is a major source of high costs in small businesses. To increase their capacities and minimize wastage, SMEs need to invest in skills development and infrastructure to be able to benefit from e-finance. SMEs should improve capacity building in terms of preparing financial statements and business plans, as well as improving their financial literacy and management training, is shown to have positive impact on SME development. Access to information about SMEs should be increased to ensure that all providers and potential providers of finance have sufficient knowledge to assess the risk of SME applications for finance. Similarly, it would be important to ensure that the control over information on SME exposures is not utilized by dominant players (and banks in particular) to inhibit competition for the provision of finance to SMEs, or to inhibit the entry of new providers of finance. Risk assessment mechanisms should be put in place by financial institutions. Any intervention that improves the ability of financial service providers to accurately assess SME risk would increase their willingness to extend credit and other financial services to SMEs.

Limitations of the Study

This study was cross-sectional, which measures the intention only at a single point in time. This means that the study do not provide findings over a long period of time. Future studies should take a longitudinal direction. There was also the failure to receive the filled questionnaires back and on time because of the busy schedule of most managers of SME's. Measurements tools that used were adopted from previous studies and therefore any limitations that were embedded in them could have equally affected this study.

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