Access to Finance and Sustainability of Small and Medium Enterprises in Central Uganda

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Abstract: **This paper sought to establish the effect of Access to finance on sustainability of Small and Medium Enterprises (SMEs) in central Uganda. A mixed methods approach (quantitative and qualitative) was adopted. Cross-sectional, descriptive and narrative designs were employed by this study. Self-administered questionnaires and key informant interview guide were the main instruments of data collection on a sample of 281 SMEs as determined by Krejcie and Morgan (1970) table for determining sample size. Data was analyzed using SPSS and content analysis. Results revealed that access to finance has a significant effect on business sustainability in central region in Uganda (R Square = .263; beta = .341). SMEs with limited or no access to finance find it difficult to grow and sustainability has remained a challenge; SMEs that have access to finances are able to ensure sustainability. This research study recommends government financing scheme to entrepreneurs/enterprises initiated to provide finances to SMEs in particular, and a financing policy for SMEs should be developed and then the government should provide financing at fair interest rates. Still SMEs should well be classified by status and sector before advancing them with finances.**

Keywords: **Access to Finance, Sustainability of SMEs.**

I. INTRODUCTION

According to (Ref.1) Sustainability is more than just a trend. It is surfacing a new paradigm that acknowledges the complexity of systems and the inequities or imbalances that can undermine their sustainability. Sustainability is diffusing across all disciplines, from ecology to art, and agriculture to architecture. It challenges decision makers not just to manage resources at a point in time, but manage resources across time. By incorporating time, it also recognizes that the future is not always knowable and controllable, but that such uncertainty is acceptable when systems are resilient.

Since the introduction of the triple bottom line sustainability assessment accounting, a variety of approaches have been developed to quantify sustainability using the three axes of social, economic and environmental sustainability (2). His methodology was based on the notion that businesses should be economically prosperous, promote environmental quality and be champions of social justice to be considered truly sustainable (2).

The concept of sustainability has been described differently by different authors and in different contexts. For instance (Ref.3) restrict sustainability to environmental issues while others use it synonymously with corporate social responsibility (4); (5), whose emphasis on large corporations. For (Ref.6) in their conceptualization maintained that business sustainability can be explained as the process of managing an organization by considering three different aspects, viz. economic, social and environmental. It may also be referred to as the triple bottom line approach. For (Ref.1) Sustainability obliges firms to make inter-temporal trade-offs to safeguard intergenerational equity.

According to (Ref.7), sustainability aims to secure intergenerational equity. Expressed in this way, the principles of sustainability are indisputable. Most people want to live as well as their parents and they want their children to enjoy similar opportunities. The same logic applies in business—most managers want their business to be at least as profitable as in the past and, ideally, for profits to grow. Based on this logic, business sustainability can be defined as the ability of firms to respond to their short-term financial needs without compromising their (or others') ability to meet their future needs. Thus, time is central to the notion of sustainability.

Sustainable competitive advantage has been the primary concern of strategic management theories, garnering attention from industrial organization economics, the resource-based view, and dynamic capabilities. Sustainable competitive advantage is not to be confused with business sustainability (6)

In this study sustainability of SMEs is meant to be stating the business and enabling the business to grow. Thus focusing on business startup and growth. When businesses are started, they should trade off in order to see their future and remain competitive. Sustainability as creating long-term business value. According to Uganda Investment Authority, (8) the inherent challenges faced by SMEs in Uganda includes; limited access to finance.

Finance has been identified in many business surveys as the most important factor determining the survival and growth of SMEs in both developing and developed countries. Despite the importance of SMEs to the economies of both developing and developed countries, they have traditionally had difficulty in obtaining formal credit or equity. (Ref.9) stated that an entrepreneur is one who can transform raw materials into goods and services, who can effectively utilize physical and financial resources for creating wealth, income and employment, who can innovate new products, standardize or upgrade existing products for creating new markets and new customers. SMEs worldwide consider lack of access to finance their greatest obstacle to growth. These entrepreneur perception-based findings strongly correlate with business results. Studies by the International Labor Organization (ILO) and others conclude that the absence of finance is among the greatest constraints to firm growth and job creation (10).

(Ref.11) observed that Indian MSMEs encounter the problems of high-cost credit availability, lack of advancements, research and entrepreneurial skills, poor financial support, and complex labor laws. Mutual exchange of technology, favorable labor laws, and the government's financial and technical assistance will be helpful for the Indian MSMEs to attain the expected growth. Whereas (Ref.12) examining the effect of finance, labor, and tax policy measures on entrepreneurial activity. They used finance, labor, and tax policy to measure the effect of public policy on entrepreneurial activity. GEM's contemporarily emphasize on business churning, such as births, death, expansions, and contractions of firms as the driver of growth (13).

Capital resource can enable the entrepreneurs to have command over factors of production. For this, he needs purchasing power in the form of credit and capital which he can borrow from banks and other financial institutions. Thus, credit and bank plays a vital role in economic development. Credit enables the entrepreneur to buy producer's goods which he needs for conducting new experiments and innovations (www.economicsdiscussion.net). For (Ref.14,15), in their study the results signify that support extended in the form of ensuring access to low cost finance, if extended to SMEs, can enhancing their Survival and growth.

(Ref.16) divided entrepreneurship policy category into two types of intervention. The first aimed to promote the creation of technology-based firms in selected industries and the latter aimed to promote newly-created firms, regardless of sector, by giving better access to the financial, organizational, and technological resources needed to grow. They suggested a role of government in stimulating cultural or social capital and creating appropriate institutional framework at the country level to address the supply side of entrepreneurship, for example, focus on the number of people who have the motivation, ready financially, and skill to launch a new business. This implies that finance among other factors is key to starting new ventures. For (Ref.17) assertion is that financing suitable for Small Medium Enterprises (SMEs) is still insufficient in Uganda, and this results in limited growth and survival of SMEs. Business failures in Uganda have been attributed to inability of managers to plan and control properly the current assets and current liabilities of their respective firms.

These entrepreneur perception-based findings strongly correlate with business results. Studies by the International Labor Organization (ILO) and others conclude that the absence of finance is among the greatest constraints to firm growth and job creation. Firms in Enterprise Surveys that perceived access to finance as their greatest problem were more likely to experience sluggish growth in subsequent years (18).

Conversely, firms that have access to finance have higher job growth rates. Higher proportions of enterprises receiving external finance correlates with higher start-up rates and with higher indirect job creation when firms receiving finance are part of larger supply/value chains. (Ref.10) case study work in Sri Lanka, for example, showed bank clients receiving loans grew jobs at more than twice the country's jobs growth rate between 2009 and 2012. However, (Ref.19) maintains that SME Finance gap remains large, particularly in emerging markets. The gap affects both formal and informal SMEs, with access to credit the biggest problem.

In emerging markets business remains credit constrained in emerging markets, and struggles to raise the financing necessary to invest and create new jobs. A research by (Ref.10) found that 70 percent of the micro, small and medium enterprises in emerging markets do not use any external financing from formal financial institutions, and another 15 percent are underfinanced from formal sources (10).

Availability of finance is critical to the development of SMEs (20), despite wide acclaimed role of SMEs in promoting growth, innovation and prosperity of developing economies, access to and available of needed capital to achieve growth and expansion is a major constraint encountered by SMEs. This is without undermining the importance of targeted government assistance in starting, growing and expanding SMEs business operations. According to (Ref.21), the survival of SMEs in Nigeria is predicated upon appropriate standard credit policy, effective management of working capital (which goes a long way in guaranteeing continuity, growth and solvency), and as well articulated financial report and control system.

According to United Nations (UN) (22) Ugandan SMEs have to grow and compete in the global economy, and the banks have probably the most important role to play. Without finance, SMEs cannot acquire or absorb new technologies, nor can they expand to serve global markets or even establish business linkages with larger firms in the post-Doha period. Finance seems to be the obstacle and/or the key to everything

According to (Ref.23) insufficient capital or lack of financial sources is the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations, since the internal financial sources are normally insufficient. (Ref.24) claim that SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions. According to (Ref.4), financing the firm is essential and getting access to finance plays a crucial role on firm's growth process.

II. METHODOLOGY

Research Approach and Design

Mixed methods approach was adopted by this study. Quantitative and qualitative designs were adopted to help understand the problem using any possible ways as per (Ref.26) recommendation for survey research studies.

The study employed a cross sectional survey, descriptive and narrative design. The survey was considered because it allows collection of data from a sample of respondents at a particular time, using a questionnaire. (Ref.26) maintain that survey research is used to quantitatively describe specific aspects of a given population and involve examining the relationships among variables. Also, the data required for survey research are collected from people who have knowledge about the subject variables. A survey research is used when a selected portion of the population from which the findings can later be generalized back to the population. In survey research, independent and dependent variables are used to define the content scope of study. Thus its application is based on these foundations to make it suitable for this study.

The study was descriptive in that the researcher intended to describe the results on the variables under study in both quantitative and qualitative manner. The survey design is considered appropriate as it allows collection of data at once from a large sample of respondents. (Ref.27) suggest that quantitative and qualitative approaches both have a strong position in research using. (Ref.26) further observed that no single design should be seen as a universal panacea. Therefore, the study employed mixed methods in order to minimize the method effect.

Target Population and Sample Size

Regarding population of the study, the researcher used the government business registration list to select the SMEs. The registered businesses were got from Uganda investment authority (UIA) and the district commercial offices for central region. The district commercial office records were used to confirm that the businesses exists. SMEs that have existed for at least three years were selected as they were considered to have relevant and sufficient data. This duration of existence was considered because according to (Ref.28) everything you do needs to work on a three-year time horizon.

According to UIA central region has 950 Businesses registered that qualified to be considered in this study. However, from the district commercial offices some businesses were not reflected. Therefore, by using the two sources it was appropriate for the researcher to access the right population considered in this study.

The sample size of this study was determined by using Yamane (1973) sample size determination method. According to Yamane, sample size is given by n = N/1+N (e) 2, where: n- is a sample size, N- is total population; and e- is tolerable error. This method is preferred because it yields a fairly representative sample and it is also consistent with Krejcie and Morgan (29) table of sample size determination. Out of the stated study population of 950 a minimum sample of 281. SMEs were drawn and studied. This sample is deemed fit because it was drawn scientifically from the population. The sample size is large and this allows oversufficiency in positive terms as it allowed richer data and findings and enhanced the potential for generalization. The sample size was determined statically as required with quantitative research approach.

Because the population was large five key informants were selected qualitatively. (Ref.30) observes that samples in qualitative research tend to be small in order to support the depth of case-oriented analysis that is fundamental to this mode of inquiry. Additionally, qualitative samples are purposive, that is, selected by virtue of their capacity to provide richly-textured information, relevant to the phenomenon under investigation. Following the logic of informational comprehensiveness (Ref.31) introduced the concept of information power as a pragmatic guiding principle, suggesting that the more information power the sample provides, the smaller the sample size needs to be, and vice versa.

Data Collection Instruments

Questionnaires and interview guide were be used to collect data from the respondents. This is because no single method or tool is sufficient to collect relevant data for a study. Thus it is necessary for mixed methods to allow sufficient data to enable a study to come out with reliable findings.

Reliability of the Instrument

To test the reliability, Cronbach's alpha was used. According to (32), a cut-off alpha coefficient point of 0.7 is sufficient enough to prove that the item scales are consistent and dependable. (Ref.33) contends that the instrument has to be pre-tested and this validation exercise is done to confirm the adequacy and internal consistency of the measurement scales; this, therefore, covered tests for validity and reliability of the instruments.

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
.832	36
.787	12

Source: Primary Data 2020

Results from Table 1 indicate Cronbach's alpha coefficients that are above the cutoff point of 0.7 acceptance. This therefore indicated that the instruments were suitable for data collection

Data Analysis

Statistical Package for Social Scientists (SPSS) and content analysis were used to analyze quantitative and qualitative data respectively.

III. RESULTS

Results of Pearson's linear correlation

Correlations
Table 2: Correlation between access to finance and sustainability

		ACCFIN	Sustainability
ACCFIN	Pearson Correlation	1	.513**
	Sig. (2-tailed)		.000
	N	259	259
Sustainability	Pearson Correlation	.513**	1
	Sig. (2-tailed)	.000	
	N	259	259
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; primary data 2020

Table 2 presents results from Pearson's correlation analysis and findings suggest that there is a significant relationship between access to finance and sustainability of SMEs in central region in Uganda. These results indicate a large significant relationship ($r = .513$; sig.000<.01). Access to finance is highly related to sustainability, entrepreneurs who have access to finances can be able to use such funds to enable them have their businesses sustained in operation.

Regression results for Access to Finance and Sustainability

To achieve this paper's objective, data was analyzed using regression analysis as it was appropriate to enable achievement of this study objective.

Table 3: Regression results between access to finance and sustainability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.513[a]	.263	.260	.36519	1.647
a. Predictors: (Constant), ACCFIN					
b. Dependent Variable: SUSTAINABILITY					

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.220	1	12.220	91.628	.000[b]
	Residual	34.275	257	.133		
	Total	46.495	258			
a. Dependent Variable: SUSTAINABILITY						
b. Predictors: (Constant), ACCFIN						

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.374	.115		20.654	.000
	ACCFIN	.341	.036	.513	9.572	.000
a. Dependent Variable: SUSTAINABILITY						

Source; Primary Data, 2020

Results presented in table 3 tells us how much of the variance in the dependent variable (business sustainability) is explained by the independent variable in this case (Access to finance). In this case the R square value is .263; expressed as a percentage this means that independent variable explains 26.3 per cent of the variance in business sustainability. From the box labeled coefficients, the unstandardized beta coefficient is .341; implying access to finance predicts business sustainability by 34.1% of SMEs in central region in Uganda. These statistical results suggest that access to finance is significantly important to ensure business sustainability in central region in Uganda. Entrepreneurs who have no access to finance find it difficult to grow their businesses and sustainability becomes a challenge. Therefore, those who can access finances they will be able to ensure sustainability of their businesses.

Respondents were asked if access to financial resources determine the level of growth of your business. Below were the responses;

> *"Yes finance is all what a business needs in order to grow. .....but the problem is it is not easy to get the required finances, because there are conditions which are hard to meet. Another respondent noted that… business that have enough money can easily grow because they are able to finance their businesses. For a small business accessing finance is the biggest challenge and it the main challenge I face…most lenders want security which you may not have".*

Testing hypothesis

Ho: There is no significant effect of access to finance on sustainability of SMEs in central Uganda

To assess the statistical significance of the result it is necessary we look at the table labeled ANOVA. The model in this study's objective meet statistical significance (Sig = .000, this really means $p<.05$). This suggests significant effect and the null hypothesis is rejected. Therefore, this study concludes that access to finance has a significant effect on business sustainability in central region in Uganda as per this study's findings.

IV. DISCUSSIONS

From the finding, access to finance significantly affects sustainability of SMEs. This has not differed from earlier researchers. (Ref.10) case study work in Sri Lanka, for example, showed bank clients receiving loans grew jobs at more than twice the country's jobs growth rate between 2009 and 2012. However, (Ref.19) maintains that SME Finance gap remains large, particularly in emerging markets. The gap affects both formal and informal SMEs, with access to credit the biggest problem. These studies both seem to agree that access to finance significantly affect sustainability of SMEs.

Availability of finance is critical to the development of SMEs (20). Despite wide acclaimed role of SMEs in promoting growth, innovation and prosperity of developing economies, access to and available of needed capital to achieve growth and expansion is a major constraint encountered by SMEs. According to (Ref.13,14,15), in their study results signify that support extended in the form of ensuring access to low cost finance, if extended to SMEs, can enhancing their Survival and growth of SMEs.

An empirical study by (Ref.10) In emerging markets business remains credit constrained in emerging markets, and struggles to raise the financing necessary to invest and create new jobs. A research by (Ref.10) found that 70 percent of the micro, small and medium enterprises in these countries does not use any external financing from formal financial institutions, and another 15 percent are underfinanced from formal sources. To this effect it imperative to acknowledge that access to appropriate finance is necessary for the success of SMEs.

V. CONCLUSIONS

This study concludes that Access to finance has a significant effect on business sustainability in central region in Uganda. It is evident that success of SMEs is hard without access to financing.

Entrepreneurs are able to sustain their businesses when they access finances and are able to have a sustainable cash flow. The sustainability of SMEs is hampered if they do not get access to the right financing of their operations.

VI. RECOMMENDATIONS

This paper recommends that; government financing scheme to entrepreneurs should be initiated in order to provide finance to SMEs. Microfinance institutions have not done enough to provide finance to entrepreneurs because most of them are focusing high returns therefore charge high interest rate which discourage entrepreneurs to use such finance. Financing policy for SMEs should be developed and then the government should provide financing at fair interest rates. Still SMEs should well be classified by status and sector before advancing them with finances. While a large scale business can be established with expatriate capital, small scale businesses need to have a domestic entrepreneurial and industrial base.

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