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CREDIT TERMS, CREDIT ACCESSIBILITY AND SUSTAINABILITY OF SMEs IN UGANDA: A CASE STUDY OF SMEs IN NAKAWA DIVISION KAMPALA.

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PLAN A

DECLARATION

I Muhire Francis declare to the best of my knowledge that, this dissertation is my original work which has never been published and / or submitted for any award in any other University.

Signed: ……………………………… Date: 04/08/2018

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APPROVAL

This dissertation has been submitted for examination with our approval as University supervisors and our signature are appended against the respective names below:

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DEDICATION

Special dedication to my family, classmates of MA. EPM 2015 and friends**.**

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ABSTRACT

The study was carried out with the purpose of establishing the relationship between Credit terms, Credit accessibility and Sustainability of Small and Medium Enterprises in Uganda. The study was guided by the following objectives to examine; the relationship between credit terms and sustainability of SMEs, the relationship between credit accessibility and sustainability of SMEs, and the combined effect of credit terms and credit accessibility on the sustainability of SMEs in Nakawa Division.

The study was based on a cross sectional research design and quantitative research approach out of 743 registered SMEs in Nakawa Division and, a sample of 248 SMEs was drawn. Primary data was collected using questionnaires. Data from the field was compiled, sorted, edited for analysis using SPSS.

The results indicated a significant positive relationships between credit terms and sustainability, credit accessibility and sustainability and, a combination of credit terms and credit accessibility and sustainability of SMEs within Nakawa Division.

Based on the findings, the study recommended that financial Institutions need to relax credit terms which will increase credit accessibility that also automatically lead to sustainability, SMEs should ensure mechanisms that can boost their credit accessibility and the government should put in place policies that ensures easy access to credit by SMEs and should further increase funding and come up with more entrepreneurship oriented programs such as capital ventures which well maximized guarantee sustainability of SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The definition of SMEs remains controversial in the literature. SMEs are defined along many parameters including but not limited to employment size, amount of capital, among others. It also varies from country the country, the size of the enterprise can be categorized based on the number of employees, annual sales, assets, or any combination of these. It may also vary from industry to industry. (Sandberg & Susanne, 2012)

SMEs are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. (Susan, 2017).

Basing on the analysis of the study the researcher defines a small-scale enterprise as an enterprise or a firm employing not less than 5 but with a maximum of 50 employees where as a medium sized enterprise is considered a firm, which employs between 50-100 workers (Kasekende, & Opondo, 2003).

Small and Medium Enterprises (SMEs) play a major role in most economies across the globe through job creation and increased revenue, SMEs contribute up to 45 per cent of total employment and up to 33 percent of national income (GDP) in emerging economies regardless of financing constraints. (Altman, 2005). SMEs are less likely to be able to secure bank loans than larger firms; instead they rely on "personal" funds to launch and initially run their enterprises. Improving SMEs access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to be sustainable and provide the needed jobs. Business financing is vital to the sustainability of SMEs through easy credit accessibility by ensuring favorable credit terms (World Bank, 2015).

The rapid development that was achieved by Europe and Asia was highly facilitated by the availability of credit to SMEs (Altman, 2015). A country like India recorded a good step of development after solving problems of credit accessibility by ensuring favorable credit terms for the SMEs for example through the $500 million SME sustainability innovation and inclusive finance project under the world Bank's support has led to start up support financing for early stage SMEs in the service and manufacturing sectors (Simon, Mihasonirina, 2017). The capacity for SMEs to fulfill their potential in an economy depends on the availability of finance (Whincop, 2001). Accessibility of finance is one of the important instruments that help SMEs increase their income and overcome their liquidity constraints (Pandula, 2011). The difficulty to raise capital is one of the factors limiting sustainability of Small and Medium Enterprises (Kato, 2008).

SMEs still remain a back born for the African economies through massive creation of employment and critical to contribution to their GDP, however, access to credit by small scale and medium enterprises is rather inadequate due to unfavorable credit terms. Very few SMEs 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). Only a small fraction of small medium enterprises in many African countries have received formal loans. (Calice, Chando and Sekioua, 2012). 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 (Sinha, Sen, 2011).

According to UIA (2016) SMEs are increasingly taking a major role in the Ugandan Economy through revenue generation and massive job creation , over 2.5 million people for example are employed in this sector and account for approximately 90% of the entire private sector, generating over 80% of manufactured output that contributes 20% of the gross domestic product. They are spread across all sectors, accounting for 49% of the service sector, 33% in commerce and trade, 10% in manufacturing and 8% in other fields. The government has ensured an increasing number of financial institutions to flex credit terms that can boost SMEs across the country coupled with government initiated program such as Livelihood Programs among others. However, much as the government has done all these credit accessibility is minimized because of unfavorable credit terms, 90% of SMEs still collapse in their first year of startup, due to lack of access to credit (Baguma & Zainab,2010).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. Loans that are provided by these institutions to SME's are small, with a short repayment period and with high interest rates (Kulabako, 2010). Credit accessibility is the main constraint for SMEs in Uganda and limited access to meet their operating working capital and long term investments limits sustainability of SMEs (Jaramogi, 2010). The sustainability of SMEs in Uganda has deteriorated because many firms cannot afford most commercial banks' lending rate of 24% and savings and credit corporations' rate of 49% (Adengo, 2017).

SMEs are major backbone of most economic activities and remain a major source of revenue and employment to Nakawa Division. The sustainability of SMEs continues to decline steadily despite the increasing number of financial institutions and availability of the government initiated programs such as Capital Venture, Livelihood Programs among others to provide SMEs with credit on easy and flexible terms, many SMEs cannot meet the market demands because they do not have easy access to credit which has put their sustainability at stake. The Division has had cases in which some of the businesses have been disposed for failure to fulfill their income or tax obligations (Nakawa Division Commercial Report, 2016). Therefore, it is against this background that the study intends to investigate the relationship between credit terms, accessibility and sustainability of SMEs within Nakawa Division.

1.2 Statement of the problem

SMEs are major backbone of most economic activities within Nakawa Division through massive creation of employment and revenue generation. In attempt to ensure sustainability of SMEs the government has ensured the increasing number of financial institutions and government initiated programs such as Capital Venture and Livelihood Programs among others to increase credit accessibility by SMEs on favorable credit terms, Despite the efforts by the government SMEs in Nakawa Division continue to register poor levels of sustainability attributed to constraints that impede their access to credit due to unfavorable terms of credit (Nakawa Division Commercial report, 2016), Generally the rate at which SMEs in Uganda are running out of business stands at

50% annually, up from about 35% (Kiyingi, 2017). This study examines the extent to which credit terms and credit accessibility affect the sustainability of SMEs within Nakawa Division.

1.3 Objectives of the Study

The study aimed at examining the relationship between credit terms, credit accessibility and sustainability of SMEs in Uganda with a focus on Nakawa Division. Specifically, the study examines:

I. The relationship between Credit Terms and Sustainability of SMEs in Nakawa division.
II. The relationship between Credit Accessibility and Sustainability of SMEs in Nakawa division.
III. The Combined effect of credit terms and credit accessibility on the sustainability of SMEs in Nakawa division.

1.4 Research questions

I. What is the relationship between Credit Terms and Sustainability of SMEs in Nakawa division?
II. What is the relationship between Credit Accessibility and Sustainability of SMEs in Nakawa division?
III. What is the combined effect of credit terms and credit accessibility on the sustainability of SMEs in Nakawa division?

1.5 Scope of the study

The study examined the relationship between credit terms, credit accessibility and sustainability of SMEs in Nakawa division.

The study was conducted in Nakawa division as it is a major industrial Division in Kampala district and one of highly populated with both small and medium enterprises.

1.6 Significance of the study

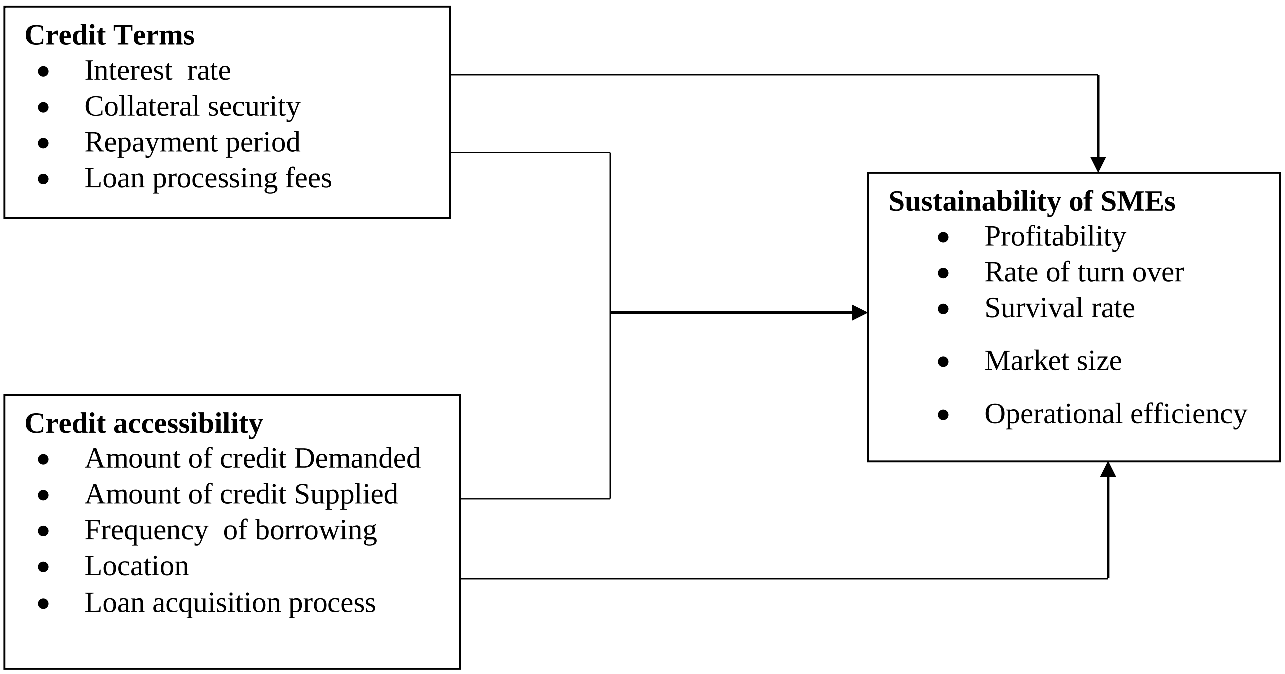
I. The study will provide policy alternatives that may be used by finance institutions in Uganda.

II. The study findings may add to existing literature about sustainability of SMEs, Credit terms and access to Credit in Uganda.

III. Most importantly, future researchers may use this study as a point of reference while handling similar research.

1.7 Conceptual framework

Figure 1: Conceptual framework



Source; Developed from literature (Salahudin, 2006)

Conceptual framework indicates how credit terms and credit accessibility influence the level of sustainability of SMEs. It is also illustrated from the framework that Credit terms attributes through interest rate, collateral security, loan processing fees and repayment period. Credit accessibility through its constructs of amount of credit demanded, amount of credit supplied, location, loan acquisition process and frequency of borrowing were illustrated to influence Sustainability of SMEs. (Nkundabanyanga, *et al.* (2014). Sustainability of SMEs also conceptualized through attributes of profitability, rate of turnover, survival rate, market size and operational efficiency are the key facts for determining sustainability of SMEs (Berrone, *et al*.2014 ; Sinha and Sen, 2011).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section gives a review of literature based on the study objectives in order to check the agreements and disagreements there in. The objectives of the study are: to establish the relationship between credit terms and sustainability of SMEs; examine the relationship between credit accessibility and sustainability of SMEs and examine the relationship between credit terms and credit accessibility among SMEs.

2.2 Sustainability of SMEs

Small and medium enterprises (SMEs) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors. Growth of microenterprises greatly triggers economic growth of the country which will be seen in the creation of employment opportunities, increased creativity, and reduction in poverty leaves and reduced tension on government among others.

Sustainability of SMEs can be measured in terms of profitability, increased sales and increased productivity of the business. Furthermore, Profitability has been most widely used measure of business sustainability of SMEs (Claessens and Tziournis, 2006). Profitability is the excess revenue over expenses, which can be seen by the ratios like gross profit margin and pre-tax profit margin.

Sales growth is a good measure of the SMEs business sustainability because we are able to look at the sales turnover and the market share, increase in profits and customer base maintained for a company to breakeven. He further agrees that the ability of the SMEs to meet all their financial obligations, asset accumulation and number of years in business good measure of business sustainability (Cole and Simpson, 2009). Sales growth is often used as a measure of business sustainability with the assumption that if sales increase, profits will eventually follow. (Beyene, 2002). Furthermore, SMEs need to have access to adequate financial support and reliable management to enhance productivity and in turn facilitate market access. In Uganda, access to credit enhances highly the acquisition of new machinery and helps to increase productivity through production of new products among others.

2.3 Credit terms

Credit terms are standards established by any lending institution to determine the ability of borrowers to repay loans, Credit terms are either lenient or stringent (Nyagoma, 2012). Hence, they are important in determining the credit worthiness of borrowers often used to hedge against credit risk. Credit terms are there to stipulate the conditions under which clients can access financial resources from institutions (Odongo, 2014).Credit terms are the minimum conditions set by lending institutions and which borrowers ought to adhere to in order to qualify for any loan (Bohnstedt, 2000). Credit terms include collateral, loan repayment periods and interest rates (Nkundabanyanga, Kasozi, N. and Tauringana, 2014). Financial institutions should strike a balance between both extremes in order to come up with credit terms that are favorable for borrowers as a mechanism for increasing firm's abilities to seek credit (African Development Bank, 2014)

MFI loans were unsuitable because of the tough terms where interest rates were high and ranged from 28 percent to 48 percent with no grace period and short repayment period (Kato, 2008). Most of the financial institutions insist that the value of collateral pledged must be equivalent to 150 percent of the loan amount applied for and the institution may also need personal guarantors (Gou, Holland and Kreander, 2014).

Empirical studies have also proven that collateral increases accessibility to institutional finance (Lusardi and Tufano, 2008) and long term debt finance (Miller, Godfrey, Le'vesque and Stark, 2009). Young and smaller firms are much more likely to be rejected for a loan or a line of credit than firms who are more established or larger. Moreover, despite confirming their need for improved access to finance, SMEs are discouraged from applying for loans due to excessively high collateral requirements.

Lending is predominantly short term and low to SMEs due to poor credit discipline, contractual enforcement problems, and scarcity of projects and lack of collateral (Symovote, 2010). Despite SMEs' perceptions of excessively high interest rates, the cost of finance is found to compare favorably with and generally the issue relates to the amount (monetary value) of the installment as opposed to the cost of credit. When installments are high, the cost of money is perceived to be high (Ojo, 2009).

The MFIs short term loans are not conducive for rural farmers who rely on climatic conditions to pay the loans and long term loans are not available to cater for animal production which are costly and risky. For the case of Uganda, acquisition of such credit is difficult for SMEs due to the high lending rates, collateral requirement and highly bureaucratic operations and this has constrained the private sector demand for the credit which limits their progress (Kasekende, 2011).

2.4 Credit accessibility

Generally the accessibility of a good financial service is considered as one of the engines of economic development, the establishment and expansion of financial services is also one of the instruments to break the vicious circle of poverty (Dube, Alupeilo, 2013). Not surprisingly, financial development and economic growth across countries are highly correlated (Harash, Al-Tamimi and Alsaadi, 2014). Credit accessibility is critical for the sustainability of SMEs and the availability of external finance is positively associated with productivity and sustainability (Cecchetti and Kharroubi, 2012).

The absence of price and non-price barriers in the financial services and also the ease of reaching these credit services are termed as Credit accessibility (World Bank. 2015).

Difficulties faced in accessing credit by the SMEs from the lenders may impact on their sustainability. Prior studies revealed that in developing countries context, credit is an important instrument for improving and enhancing the productivity capacity of any sector. More to this various studies have documented the difficulties faced by micro-credit schemes which include the lack of knowledge in loan application and high legal documentation (Leone, 2014).

Access to credit affects the growth of any business including SMEs (World Bank, 2015). Access to financial services remains a key constraint to Small and Micro Enterprises' sustainability especially in emerging economies and credit accessibility dimensions according to recent studies include lending terms and financial literacy (Nkundabanyanga, 2014).

The type of financial institution and its policies will often determine the access to credit problem by the Small and Medium sized Enterprises (Susan, 2017). In addition to this, Ramirez (2002) notes that the frequency of borrowing is a key indicator of access to credit but noted that this frequency is often for SMES. This frequency is established by considering the number of times that SME access credit. In the findings of Berger (2004) also it is similarly indicated further that access to short land long term finance is indicated in size of borrowed loans. Availability of loan finance on an enterprise's capital amount, and the enterprise's level of assured financial assistance from lending financial institutions.

Lenders are constrained on the amount of credit they can extend to any potential borrower due to factors beyond their control which are a function of limitation in the supply of funds available for credit (Diagne, 2000). Consequently, any borrower is constricted on the size of loans he can borrow regardless of interest rate charged and required collateral. Though on the other part lenders have several incentives for limiting credit they can lend out due to the possibility of default and enforcement complications (ECB, 2014a).

In Uganda, small enterprises are often least considered by banks when extending credit. It is evident that even if the lender can grant any amount applied for, given the constraint set by the lender, the borrower ends up optimally borrowing an amount applied for, given the constraint set by the lender, the borrower ends up optimally borrowing an amount strictly less than what the lender is willing to lend hence lacking access to credit, without being credit constrained (Mugume, 2003).

2.5 Credit Terms and Sustainability of SMEs

The majority of SMEs still face inadequate financing to support their private initiatives. This is due to the high transaction costs and inability of SMEs to provide collateral required by banks (Beyene, 2002).). The effect of credit terms on growth of enterprises is embodied in the specific components of credit terms. Indeed, Nkundabanyanga, (2014) and Harash, Al-Timimi and Alsaadi, (2014) noted a positive association of credit terms on performance of micro enterprises along the collateral requirements deter business from obtaining finances which affects their growth in the long run. This is in line with Dube, (2013) who noted that micro enterprises hesitate to seek credit when they do not understand why requirements like collateral are imposed on them. This is also consistent with Pukar, (2012) who observed that higher availability of collateral can mitigate the informal asymmetries between the borrower and lender which increase enterprises chances of boosting their profitability resulting from their additional investments.

Credit constraint limits the size of firms as well as their growth and their scope of the operation may as well be limited. Since microenterprises are the back-borne of most developing economies, credit constraint to the sector is of first order importance for the performance of these economies as capital market imperfections can therefore impair the aggregate accumulation of capital, the rate of return on investment, innovation and accumulation (Galinda, Arturo and Fabio 2003).

When credit terms favorable, they encourage borrowing and expansion of capital base, leading to increased business activity (Dietsch and Petey, 2002) On the other hand, unfavorable credit terms not only hinder borrowing but also decrease the business growth of a borrowing enterprises because they become huge direct expenses without cash discount which reduce revenue (Kaplan, 2006). SMEs find it difficult to obtain commercial bank financing, especially long-term loans, for number reasons, including lack of collateral, difficulties in providing creditworthiness, small cash flows, and inadequate credit history, high interest rates (Beck and Demirguc-Kunt 2006) which therefore limits their chances of growth and business success.

2.6 Credit Terms and Credit Accessibility of SMEs

Credit is one of the most critical resource for business survival. Small businesses in particular, are constantly battling with the stresses and strains of not having adequate credit to grow their businesses during economic boom and to stay afloat during economic recession. However, several studies have revealed that having such access to credit is dependent on the credit terms prevailing in the market (Nyangoma, 2012; Sinha and Sen, 2011). According to Kinya et *al*., (2014) when financial institutions set high collateral requirements, unfavorable interest rates and loan repayment periods to SMEs, many of them become reluctant to obtain loans. In assessing the credit worthiness of borrowers, bank apply standard and stringent requirements to determine the performance of the business and ability to repay the loans.

Nkundabanyanga, (2014) also highlighted that when the amount of collateral is high, many businesses may not be in position to obtain credit even when a financial need arises. For example in Uganda, it was observed that micro enterprises are required to present collateral of at least 150 per cent of the loan amount, something that many small entrepreneurs cannot afford. Suppliers of credit may also choose to offer high interest rates and credit rationing that would leave significant numbers of potential borrowers without access to credit (Harash, Al-Timimi and Alsaadi, 2014). Lack of available external finance can result in firms being unable to adequately fund operations and pursue market opportunities. High transaction costs, large number of borrowers and low returns from investments limit micro enterprises from accessing credit (Berrone, 2014).

A survey by Kinya (2014) also expressed the magnitude of credit terms towards credit accessibility by indicating that where terms are stringent, firms cannot access financial resources for tart ups. Demirguc-Kunt, Beck and Honoham, (2008) confirm that larger firms enjoy better access to financial services compared to small firms because of the credit terms that favor large and well established firms than small ones. Turyahebwa (2013) also emphasized that access to credit from both formal and informal channels is contingent on a certain amount of collateral. At times, the security required is unaffordable. This becomes a constraint to SMEs most of whom may not have deeds to capital assets to present as security against loans.

When credit terms are favorable, they encourage borrowing and therefore expansion of capital base, leading to increased business activity (Dietsch and Petey, 2002). Similarly, unfavorable credit terms not only hinder borrowing but also decrease the business growth of a borrowing enterprise because they become huge direct expenses which reduce revenue (Kaplan, 2006).

Financial institutions' lending policies often determine the access problem, where credit terms and provisions of supplementary services do not suit borrowers they will not apply for loans. Even where it exists of course when they do, their applications will be rejected (Guirkerger, 2008). It's worth noting therefore that credit terms of lending institutions are considerable determinants of credit accessibility by SME which gives us a proper basis of comparison.

2.7 Credit Accessibility and Sustainability of SMEs.

Chakraborty (2006) attributes sustainability of SMEs' to easy credit access other ethnic resources (finance from within) and opportunities provided by the emergence of niche markets to satisfy the demands. Credit access allows SMEs to utilize productive assets to enhance productivity and economy of scale (Dube, 2013). It also encourages market entry, facilities growth, reduces risks, and fosters innovation and entrepreneurial activity. (Kysucky, 2014).

A study in China by Demiruc, Kunti A., and Maksimovic's (2006) revealed that firms that have bank loans or use retained earnings grow faster than firms borrowing from informal sources. In most cases, a firm that is constrained by finances will be limited in its level of productivity, sales growth and profitability thereby having no significant level of growth.

2.8 Credit terms, Credit Accessibility and Sustainability of SMEs

Various studies have documented the difficulties faced by micro-credit schemes which include the lack of knowledge in loan application and high legal documentation (Miller, 2009). Availability of proper credit information, loan size and frequency of borrowing directly stipulate the conditions under which credit is given based on the borrowing charges related to the loan. Borrowers who proceed to access loans at such high rates have undergone liquidation or lost the highly valuable collateral to lenders as a result of their default on repayments (Jaramogi, 2010). We also note that Credit constraints limit the size of the firm as well as their growth, profits and liquidations as well as their scope of operations.

Other studies revealed that in developing countries, credit is an important instrument for improving and enhancing the productivity capacity of any sector. Also in developing countries, credit terms have been spiral in determination of capital requirements of SMEs as set by commercial banks and other lending institutions (Leon, 2014).

Salahuddin (2006) emphasizes that credit accessibility enhances business sustainability which means that SMEs will register poor performance due to the inaccessibility problem. In this regard, access to credit affects the growth of any business including SMEs (World Bank, 2015).

2.9 Conclusion;

Despite the crucial role SMEs play for economies across the globe, they still face low credit accessibility due to unfavorable credit terms provided by financial institutions. Credit accessibility among SMEs in Uganda has remained a challenge due to unfavorable terms of credit. Potential challenge that limit credit accessibility are collateral requirements, highly bureaucratic operations (Kasekende, 2011; Synovate, 2010). Generally, literature reviewed indicates how credit terms sent by lending institutions determine the level of credit accessibility and how this consequently affects the sustainability of SMEs in the country.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter provides the methodology used in this study. It provides the research design, population of the study, sample size and sampling techniques, data sources, data collection instrument, validity and reliability test methods, measurement of study variables, ethical consideration, data processing, Data collection procedure and analysis as well as the limitations of the study.

3.2 Research Design

The study applied a cross sectional research design involving data that is gathered just once or in a snapshot. This approach was selected because it accords equal chance for each member within a given population to become part of the sample from which data is collected. A cross-sectional survey is also suitable for such a study that collects information at a given point in time, rather than over a given period of time (Berrone, 2014). Cross-sectional analysis has also the advantage of avoiding various complicating aspects of the use of data drawn from various points in time. The study also adopted a quantitative research approach where only numerical data was used for interpretation and analysis of findings.

3.3 Study Population

The study population constituted 743 registered SMEs in Nakawa Division (Division Commercial Report, 2014). This is the latest record for 2017.

3.4 Sample Size and Sampling Techniques

The sample for this study was 248 out of 743 SMEs basing on Kreijce and Morgan, (1970). The study obtained views from a manager as a unit of inquiry of each SME as the unit of analysis, a manager of each selected SME was purposely selected because they are the ones with the right information.

Simple random sampling was used to obtain the unit of inquiry giving each firm opportunity to be selected. The researcher randomly selected the sample from population without replacing until the required number of SMEs was reached.

Table 3.1: Sample Size Selection

Category (SME)	**Population (SME)**	**Sample Size (SME)**
Trading	267	74
Manufacturing	183	53
Agriculture	109	41
Health	61	27
Education	59	24
Others	64	29
Totals	**743**	**248**

Source: Division Commercial Report, (2016)

3.5 Data Collection Procedure

The data for this research was collected using survey questionnaire. The questionnaire was designed using suitable questions modified through pretesting. A likert scale was used to determine if the respondent agree or disagree in a statement. The study variables were all anchored on 5 Points Likert scale. Under this scale, 1 represented Strongly Disagree, 2- Disagree, 3- Not sure, 4- Agree and 5 represented Strongly Agree that allowed the study to determine the magnitude of the variables on the dependent variable of the study. The likert scale was used because it allows the quantitative data obtained to be analyzed with relative ease by allowing degrees of subjective opinion. The questionnaires were distributed to the managers of the SMEs in Nakawa division. The researcher ensured confidentiality of the survey sheets since identities were optional. It is understood that people's consciousness may also affect their honesty and effectiveness in answering the survey and thus people had the option of being anonymous. Participants were given enough time to respond and then the questionnaire collected the next day. There were no incentives offered for participating in the research.

3.6 Data Sources

In this study primary data was collected using the questionnaires that were designed according to the research objectives and distributed to the different respondents for filling. This form of data was selected because it provides first-hand information concerning opinions for the variables of study. Hence it is accurate and fit for the purpose.

3.7 Validity and Reliability of the Instruments

To ensure validity of data collection instruments, the study used the expert judgment technique where the proposed data collection instruments was presented to the SMEs supervisors and other experts' advice for instance board members. Their comments were taken into consideration while designing the final questions. In addition, the Content Validity Index (CVI) was also computed to check the validity of the questions that were posed to respondents. Reliability of questionnaires was obtained by computing the Cronbach Alpha Coefficient to check the consistence in responses. Data collection instruments must meet a threshold of 0.7 tests to be considered reliable (Cronbach, 1951).

Table 3.2: Validity and Reliability of results

Variable	Scale	Number of item	Cronbach's Alpha	Content Validity Index
Credit Terms	1-5	4	.791	.75
Credit Accessibility	1-5	5	.819	.8
Sustainability	1-5	5	.897	.85

Source: Primary Data

As indicated in Table 2 above, Cronbach's alpha coefficients for credit accessibility, credit terms and sustainability are all above 0.7 implying that the Likert scales used to measure the study variables were consistent and reliable (Cronbach, 1951). This means that the instrument used to collect data in this study was acceptable. For validity, the instrument was anchored on a five point Likert scale arranged from strongly agree to strongly disagree and the content validity index when computed, all items scored above 0.7.

3.8 Measurements of Study Variables

Credit terms were measured using constructs which include interest rate, collateral, loan processing fees and repayment period where as Credit accessibility was measured through amount of credit demanded, amount of credit supplied, frequency of borrowing, location and loan acquisition process all in line with Nkundabanyanga, (2014).

Sustainability of SMEs was measured using profitability, rate of turnover, market size, survival rate and operational efficiency. These are equally indicated by Berrone, 2014; Sinha and Sen, 2011.

3.9 Data Analysis

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. Then it was entered into the data base using the IBM SPSS Statistics version 23 for analysis. The study obtained frequency tables for demographics of respondents as well as organizational characteristics as well as inferential statistics of correlation and regression analysis were estimated to determine the relationship between the study variables and the prediction of credit terms and credit accessibility to Sustainability of SMEs.

3.10 Ethical Consideration

The researcher ensured at most confidentiality of respondents/ participants. First, the data collection instruments were not given an option of the name to ensure that participants' identity is not revealed. Second, Participants were also informed of their voluntarily participation before they could actually participate in the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter provides the presentation and analysis of the findings based on the research objectives which were to establish the relationship between credit terms, credit accessibility and sustainability of SMEs in Nakawa Division.

4.2 Response Rate and Description of the Sample

Out of the 248 targeted respondents, 238 complete questionnaires were returned representing 96% response rate. The demographic characteristics of the respondents analyzed include gender, age bracket, education, duration in business, number of employees and the nature of business. The summary of these results is indicated in the table below.

Table 4.1: Gender of the respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	134	56.3	56.3	56.3
	Female	104	43.7	43.7	100.0
	Total	238	100.0	100.0	

Source: Primary Data (2017)

Results from Table 4.1 above indicated that the number of respondents who participated in the study were 238 in total of which 56.3% were males while 43.7% were females. This therefore implies that the study was gender sensitive as it sought views from both male and female managers. The results further implied that males are slightly more enterprising than females with in Nakawa Division.

Table 4.2: Age Bracket of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 – 22	9	3.8	3.8	3.8
	23 – 27	21	8.8	8.8	12.6
	28 – 32	36	15.1	15.1	27.7
	33 – 37	75	31.5	31.5	59.2
	38 & Above	97	40.8	40.8	100.0
	Total	238	100.0	100.0	

Source: Primary Data (2017)

The results from Table 4 above indicated that the number of respondents who participated in the study aged between 18 and 22 years were 3.8%, between 23 years and 27 years were 8.8%, between 28 years and 32 years were 15.1% while those aged between 33 years and 37 years were 31.5%. The respondents whose age was at least 38 were 40.8%. The results therefore implied that the majority managers were 33 years and above in Nakawa Division.

Table 4.3: Education Level of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never Attended	3	1.3	1.3	1.3
	Primary	18	7.6	7.6	8.8
	Secondary	66	27.7	27.7	36.6
	Diploma	32	13.4	13.4	50.0
	Degree	92	38.7	38.7	88.7
	Others	27	11.3	11.3	100.0
	Total	238	100.0	100.0	

Source: Primary Data (2017)

It is indicated from Table 4.3 above that respondents who had never attended school were 1.3%, those who had attended primary were 7.6%, those that had attended secondary were 27.7%, those that had attained diploma were 13.4%, while those that had attained degree were 38.7% and others were 11.3%. The results therefore implied that the majority of SMEs in Nakawa Division are controlled and managed by people who had attained the minimum education standards which exposes businesses with in the area to high financial literacy.

Table 4.4: How long has the Firm Been in Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 6 months	46	19.3	19.3	19.3
	6 months and less than 1 year	62	26.1	26.1	45.4
	1 year and less than 2 years	100	42.0	42.0	87.4
	2 years and above	30	12.6	12.6	100.0
	Total	238	100.0	100.0	

Source: Primary Data (2017)

The results from Table 4.4 above also indicated that the firms who had spent more than 2 years in business were 12.2% while those that had spent between one year and two years in business were 42.4%. Those who had spent between 6 months and 1 year in business were 26.1% while those that had spent less than 6 months were 19.3%. The implication of the above result is that the majority of SMEs in Nakawa Division had spent less than 2 years in business which limits the biggest number of SMEs from accessing financial services since most banks consider age of the business when approving loans which impede their sustainability.

Table 4.5: Number of Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 – 50	176	73.9	73.9	73.9
	51 – 100	62	26.1	26.1	100.0
	Total	238	100.0	100.0	

Source: Primary Data (2017)

Results from Table 4.5 above indicated that the number of respondents who participated in the study were 238 in total of which 73.9% were from small enterprises that employ from 5 to 50 employees while 26.1% were from medium enterprises who employ from 51 to 100 employees. The results further implied that small enterprises dominate over medium enterprises with in Nakawa Division.

4.3 Sustainability of SMEs

Table 4.6: Descriptive Statistics for Sustainability

	N	Minimum	Maximum	Mean	Std. Deviation
Survival rate	238	2.00	5.00	3.8782	.62799
Operational Efficiency	238	1.00	5.00	2.6134	1.45312
Market size	238	1.00	5.00	2.4538	1.37026
Rate of turn over	238	1.00	5.00	2.2101	1.49471
Profitability	238	1.00	5.00	2.1513	1.42692
Valid N (list wise)	238				

Source: Primary Data (2017)

Results from Table 4.6 above indicated that both survival rate, operational efficiency, market size, rate of turnover and profitability of SMEs in Nakawa Division were very low and thus not sustainable.

4.4 The Level of Credit Accessibility by SMEs

Table 4.7: Descriptive Statistics for Credit Accessibility

	N	Minimum	Maximum	Mean	Std. Deviation
Location	238	2.00	5.00	4.6134	.56043
Frequency of borrowing	238	1.00	5.00	3.7437	.92176
Amount of credit Supplied	238	1.00	5.00	2.2815	1.39338
Loan acquisition process	238	1.00	5.00	2.2605	1.12480
Amount of credit demanded.	238	1.00	5.00	2.2185	1.38198
Valid N (list wise)	238				

Source: Primary Data (2017)

Results from Table 4.7 above revealed that location to access credit was not a problem but the frequency of borrowing, amount of credit supplied and demanded were very low and the loan acquisition process was complicated, and this implied that the level of credit accessibility in Nakawa Division was very poor.

4.5 Credit Terms Offered by Financial Institutions

Table 4.8: Descriptive Statistics for Credit Terms

	N	Minimum	Maximum	Mean	Std. Deviation
Collateral security	238	2.00	5.00	4.5882	.51822
Loan Repayment period	238	1.00	5.00	2.2269	1.02242
Loan Processing fees	238	1.00	5.00	2.1765	1.20230
Interest Rate	238	1.00	5.00	2.1681	1.30445
Valid N (list wise)	238				

Source: Primary Data (2017)

Results from table 4.8 above indicated that credit terms offered by financial institutions for SMEs to obtain credit included providing collateral security which was hard to get, short repayment period, high processing fees and high interest rates. This implied that credit terms offered by financial institutions were not favorable.

4.6 Correlation of study variables

To obtain the relationship between study variables, the study used the Pearson's correlation analysis which measures the degree of relationship between two or more variables. The correlations were computed to show the relationships between the variables with reference to the research objectives to examine the relationship between credit terms, credit accessibility and sustainability of SMEs with in Nakawa Division. Using the zero order correlation, the study used Pearson correlation test to come up with the relationships between variables as indicated in the table below.

Table 4.9: Correlation between study variables.

Correlations

		Credit Terms	Credit Accessibility	Sustainability
Credit Terms	Pearson Correlation	1	.349**	.207**
	Sig. (2-tailed)		.000	.001
	N	238	238	238
Credit Accessibility	Pearson Correlation	.349**	1	.288**
	Sig. (2-tailed)	.000		.000
	N	238	238	238
Sustainability	Pearson Correlation	.207**	.288**	1
	Sig. (2-tailed)	.001	.000	
	N	238	238	238

**. Correlation is significant at the 0.01 level (2-tailed).
Source: Primary Data (2017)

4.6.1 Relationship between Credit terms and Sustainability of SMEs

Correlation results from table 4.9 above indicate a significant and positive relationship between credit terms and Sustainability of SMEs (r = .207**, p>0.01). This implies that a positive change in credit terms is associated with a positive change in the sustainability of SMEs.

4.6.2 Relationship between Credit accessibility and Sustainability of SMEs

Results from table 4.9 above revealed that there was a significant positive relationship between credit accessibility and sustainability of SMEs (r = .288**, p>0.01). This means that a positive change in credit accessibility is associated with an improvement in Sustainability of SMEs.

4.6.3 Relationship between Credit term and Credit accessibility

The correlation results from table 4.9 above, also revealed that there was a significant positive relationship between credit terms and credit accessibility (r =.349**, p>0.01). This indicates that credit terms are positively associated with credit accessibility of SMEs.

4.7 Regression Analysis

Regression analysis was carried out to examine the extent to which the independent variables of credit terms and credit accessibility predict the sustainability of SMEs within Nakawa Division. Results obtained to this effect are summarized in table 12.

Table 4.10: Regression of credit terms, credit accessibility and sustainability of SMEs.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					hdf1	df2	Sig. F Change
1	.721[a]	.520	.516	.99239	2	235	.000

a. Predictors: (Constant), Credit accessibility, Credit terms

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.494	.278		-1.775	.077		
	Credit Terms	.967	.066	.693	14.718	.000	.921	1.086
	Credit Accessibility	.131	.073	.085	1.803	.073	.921	1.086

a. Dependent Variable: Sustainability

Source: own computation (2017)

Regression results in table 4.10 (R Square =.520) indicate that 52% variations in sustainability of SMEs are due to variations in a combination of credit terms and credit accessibility.

In addition, the regression model was found to be significant (sig .00). The regression analysis further revealed that (Beta =.693, sig<0.05) for credit terms which implies that credit terms alone explain 69.3% variations in Sustainability and (Beta = .085, sig<0.05) for credit accessibility which also implied that credit accessibility alone explain 8.5% variations in Sustainability, and they all are significant predictors of Sustainability. This further indicates that a positive increase in credit terms and credit accessibility leads to a positive change in sustainability of SMEs.

The regression estimates also show that credit terms and credit accessibility significantly predict sustainability both at 5 percent level.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusion and recommendations of the study based on the research objectives which were to establish the relationships between credit terms and sustainability of SMEs, the relationship between credit accessibility and sustainability of SMEs as well as establishing the relationship between credit terms and credit accessibility among SMEs within Nakawa Division. This chapter also provides areas that require further analysis following the gaps that were identified in this study.

5.2 Discussion of Findings

Under this section, the findings obtained in this study were compared to the literature in order to ascertain the consistence. This was discussed according to objectives as indicated below.

5.2.1 Relationship between Credit Terms and Sustainability of SMEs

Regression results revealed a positive relationship between credit terms and sustainability of SMEs. According to the findings credit terms dominated the explanation of variations in sustainability. The findings were also found to be consistent with Odongo, (2014) who highlighted that credit terms by their nature can determine the level of sustainability of SMEs. Consistent. African Development Bank (2014) also emphasized that financial institutions should strike a balance between both extremes in order to come up with favorable credit terms for borrowers as a mechanism for increasing firm's levels of sustainability. Similarly, Kakuru, (2008) also indicated that lenient or stringent credit terms affect firms differently. Stringent credit terms are restrictive and selective in nature and allows credit only to those customers whose credit worthiness have been ascertained and are financially strong while lenient terms on the other hand are likely to qualify many customers towards acquiring credit which is important in boosting their level of sustainability.

5.2.2 Relationship between Credit Accessibility and Sustainability of SMEs

The study revealed a significant and positive relationship between credit accessibility and sustainability of SMEs, However the findings revealed that there is little explanation of variations in sustainability compared to credit terms. This is consistent with Ramirez (2002) who noted that ensuring credit accessibility among firms enables enterprises to build up inventories to avoid stocking out during crises, while the availability of credit increases the sustainability potential of the surviving firms during periods of macroeconomic instability, which is one of the fundamental attributes sustainability. The results were also consistent with Cecchetti and Kharroubi (2012) who emphasized that credit accessibility of external finance is positively associated with sustainability. Credit accessibility is important because it allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and sustainability (Dube, 2013).

5.2.3 Relationship between Credit Terms and Credit Accessibility

Correlation results revealed a significant positive correlation between credit terms and credit accessibility among SMEs in Nakawa Division. However, credit terms are stronger than credit accessibility in explaining variations in Sustainability because credit terms hinder credit accessibility.

This means that favorable credit terms encourage borrowing while unfavorable credit terms limit access to finance. This relationship is significant and is in conformity with scholars like Kasekende and Opondo (2004) who pointed out that at least three of credit are conditions set by financial institutions for loan applicants.

The acquisition of credit is difficult for SMEs due to unfavorable terms of credit and this has constrained the SMEs' demand for credit which limits their sustainability (Kasekende, 2011 and Synovate, 2010).

The results also concurs with the findings of Guikerger (2006) who noted that access to credit by SMEs is a constraining limit from financial institutions as a result of lending policies which determine the access problem, where credit terms do not favor borrowers thus limiting SMEs to access credit.

5.2.4 The Combined effect of Credit Terms and Credit Accessibility on the Sustainability of SMEs.

The research findings indicated that a combination of credit terms and credit accessibility predicted 52% variance in sustainability of SMEs.

The findings are consistent with Sandberg (2012) who noted that in developing countries context, credit is an important instrument for improving and enhancing sustainability of any sector. Credit facilitates the flow of savings from surplus units to deficit units.

In developing countries, credit terms have been spiral in determination of capital requirements of SMEs as set by commercial banks and other lending institutions (Leon, 2014). Kato (2008) established that MFI loans were unsuitable because of the tough terms, where interest rates were high and ranged from 28% to 48% with no grace period and short repayment period. This means that SMEs will have to register low growth due to the inaccessibility problem. The above statements by different scholars are in agreement with the findings of the study, most of the managers complained of the exorbitant interest rates charged by financial institutions. The study results also confirm the findings by Chakraborty (2006) who attributes success of SMEs to easy credit access. The high and increasing transaction costs in credit procurement and disbursement hinder effectiveness of the credit programs.

On the other hand, easy access on loan encourages resource allocation there by regressing towards sustainability of SMEs, coupled with favorable credit terms facilitates jointly with credit accessibility to predict vibrant sustainability of SMEs.

5.3 Conclusion

Findings show a significant and positive relationship between credit terms and sustainability. Hence improving credit terms would imply that many SMEs would improve their levels of sustainability. This is true based on the fact that such enterprises would improve their chances of accessing financial resources to boost sustainability.

This study also found a significant positive relationship between credit accessibility and sustainability of SMEs, this means that SMEs would stand higher chances of boosting their levels of sustainability as long as access to credit is guaranteed. Hence, it’s viable that credit accessibility be improved for SMEs in Nakawa Division.

In regard to regression analysis the research findings further indicated a significant positive relationship between sustainability and a combination of credit terms and credit accessibility, Therefore, improving both credit terms and credit accessibility guarantees sustainability of SMEs as it was revealed that both credit terms and credit accessibility predict variances in sustainability of SMEs. Thus, whenever sustainability levels of SMEs are high, they would be accredited to a combination of favorable terms of credit which qualify many SMEs from obtaining financial resources from lending institutions. However, while this is a case, credit terms have been observed to contribute the highest portion of variations in sustainability of SMEs.

5.4 Recommendations

The findings imply that financial Institutions in Uganda need to relax credit terms which guarantees an increased levels of sustainability.

SMEs should ensure mechanisms that can boost their credit accessibility. It is important that good relations with financial institutions and credit worthiness is highly exercised to build confidence of financial institutions dealing with their enterprises. It is equally necessary that owners consider applying for finances on time to avoid delays which could have vast effects on the business’ operations.

The government should put in place policies that ensures easy access to credit by SMEs. The government should further increase funding and come up with more entrepreneurship oriented programs such as capital ventures which if well maximized guarantee sustainability of SMEs.

5.5 Limitation and area for further study

i. 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 to assess the relationship between credit terms, credit accessibility and sustainability of SMEs over a period.

ii. This research only covered Nakawa division due to majorly resource constraint but further research to assess the relationship between credit terms, credit accessibility and sustainability of SMEs should be carried out in other divisions or areas of Uganda.

iii. The study only adopted quantitative research approach yet some of the responses were peoples' perceptions that would require a qualitative research approach, therefore further studies should adopt a qualitative research approach to assess the relationship between credit terms, credit accessibility and sustainability of SMEs.

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APPENDICES

APPENDIX I: QUESTIONNAIRE FORM

Dear Sir/Madam

I am Muhire Francis, a student pursuing a Master's Degree of Arts of Economic Policy and Management at Makerere University. As one of the requirements, I am undertaking study on: "Credit terms, Credit accessibility and Sustainability of SMEs in Uganda: A case of SMEs in Nakawa Division Kampala". You have been identified as a resourceful person since you are part of this sector. I humbly request that you spare some of your time towards filling this questionnaire. I will ensure that your views are kept with ultimate confidentiality. Thank you so much in advance for your support

SECTION A: DEMOGRALPHICS OF RESPONDENTS

Please tick the option that best describes you.

Q.1. Gender of respondent

Male	Female
1	2

Q.2. In which age bracket do you fall?

18 – 22 Years	23 – 27Years	28 – 32 Years	33 – 37 Years	38 and above
1	2	3	4	5

Q.3. Highest Education level you have attained

Never attended School	Primary	Secondary	Diploma	Degree	Others
1	2	3	4	5	6

Q.4. For how long has the firm been in this business?

Less than 6 months	6 months –less than 1year	1year and less than 2years	2 years and above
1	2	3	4

Q.5. Number of employees in this enterprise?

5- 50 employees	51 – 100 employees
1	2

Q.6. Nature of business?

Trading	Manufacturing	Agriculture	Health	Education	Others
1	2	3	4	5j	6

SECTION B:

This section is intended to explore your understanding on the objectives of this study, to establish the relationship between credit terms and Sustainability of SMEs, credit accessibility and sustainability of SMEs within as well as examining the relationship between credit terms and credit accessibility among SMEs within your area. You are required to fill following the key for which 1- means Strongly Disagree (SD), 2 – Disagree (D), 3 – Not Sure (NS), 4 –Agree (A) and 5 – represents Strongly Agree (SA).

	STATEMENT	**SD**	**D**	**NS**	**A**	**SA**
	CREDIT TERMS					
1	The interest rates charged whenever we seek credit are favorable	1	2	3	4	5
2	We have to present collateral security before we can access credit from financial institutions	1	2	3	4	5
3	It is easy focus to acquire the collateral securities asked by financial institutions within our area	1	2	3	4	5
4	Financial institutions are flexible when it comes to determining the loan repayment period	1	2	3	4	5
5	Financial institutions offer some discounts whenever we fulfill our loan obligation as required.	1	2	3	4	5
6	We can pay the loan monthly installment anytime within the loan cycle.	1	2	3	4	5

7	Non repayment of loan monthly installments attracts penalties by our lending institutions	1	2	3	4	5
8	The loan processing fees charged whenever we seek credit are favorable	1	2	3	4	5
9	The loan period offered to our enterprise is favorable.	1	2	3	4	5
10	We pay our loans on a declining interest method	1	2	3	4	5
	CREDIT ACCESSIBILITY					
11	Financial institutions provide us with the actual amount of credit demanded.	1	2	3	4	5
12	Financial institutions do supply us with an adequate amount of credit	1	2	3	4	5
13	We often use borrowed funds within our business	1	2	3	4	5
14	Financial institutions are located within our reach	1	2	3	4	5
15	The loan acquisition process is favorable for us.	1	2	3	4	5
	SUSTAINABILITY OF SMEs					
16	Our enterprise consistently generate profits throughout the year	1	2	3	4	5
17	Our sales have increased consistently throughout the year.	1	2	3	4	5
18	This business can survive amidst other businesses offering similar products.	1	2	3	4	5
19	We are operationally more efficient than in the previous periods	1	2	3	4	5
20	The customer base of our enterprise has increased.	1	2	3	4	5