



**BUSITEMA
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Pursuing Excellence

**THE IMPACT OF THE ACCESS TO FINANCE ON THE FINANCIAL PERFORMANCE
OF SMALL MEDIUM ENTERPRISES**

**A CASE STUDY OF LIRA CITY,
NORTHERN UGANDA**

BY

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BU/UP/2021/1207


**A RESEARCH REPORT SUBMITTED TO FACULTY OF MANAGEMENT
SCIENCES, DEPARTMENT OF ECONOMICS AND MANAGEMENT IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF BACHELORS DEGREE IN BUSINESS
ADMINISTRATION (ACCOUNTING
AND FINANCE) OF BUSITEMA
UNIVERSITY**

AUGUST, 2024

DECLARATION

DECLARATION

I **ADUK IMMACULATE** hereby declare that the work in this research report is original and has never been published or submitted to any institution of learning for any academic award.

Signature.......... Date... 07/09/2024...

ADUK IMMACULATE

BU/UP/2021/1207

APPROVAL

APPROVAL

This research report titled, "*the impact of access to finances on the financial performance of small medium enterprises*" has been developed under my supervision and is ready for submission for the award of a Degree of Bachelors in business administration of Busitema University.

Signed:  Date: 7/09/2024

Mr. WADAMBISHA BRIAN

(Supervisor)

DEDICATION

This work is dedicated to my family members; mostly my parents (Mr. Awanyo James and Mrs. Acen scovia) and my brother Canan Odur, and my sister Sharon for each and every effort they have put in place both spiritually and financially to make me who I am today. May almighty God bless you and lift you on high forever endeavours.

ACKNOWLEDGEMENT

I am grateful to the almighty God that he has given me the gift of life, the gift of my parents and friends, given me the opportunity to be in school and guided me throughout this study and writing this report. My heartfelt thanks go to my parents Mr Awanyu James and Mrs. Acen scovia who generously provided me with financial, emotional and social support while carrying out this study throughout my entire course.

Great thanks to my supervisor Mr Wadambisha Brian who guided me in the right direction from the beginning till the end of this research report and he has greatly contributed in making a difference in my performance.

Profound thanks to my best friend Kusasira Emmanuel who has never left me out in my academic journey and the good advice he has given to me have really made me reach the climax of my academic journey.

Utmost thanks to the head of department, Busitema University, my sincere thanks go to my sisters, brothers, friends, course mates, and lecturers especially for their dedicated support throughout this research and the entire three years of the course.

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LIST OF ABBREVIATIONS

Short forms	Meaning
CVI	Content validity index
COVID-19	Corona virus disease of 2019
DV	Dependent variable
GDP	Gross domestic product
IV	Independent variable
POT	Pecking order theory
PSFU	Private sector foundation Uganda
PDM	Parish development modal
RDB	Rwanda development bank
SPSS	Statistical package for social sciences
SMEs	Small and medium enterprises

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ABSTRACT

This study examined the effect of access to finance on financial performance of SMEs. The study was guided by the following objectives notably, to examine the effect of cost of credit on financial performance of SMEs, to examine the effect of collateral security on financial performance of SMEs and to assess the effect of access to information on financial performance of SMEs in Uganda. The study used a cross sectional research design, and a quantitative approach. Data was collected from a target population of 100 of employees with accessible unit of 80 operators of SMEs, using simple random and purposive sampling techniques. Data were collected with the aid of closed ended questionnaire and Statistical Packages for Social Sciences was employed for analysing data from which frequency tables, descriptive statistics (mean and standard deviation), reliability, validity, correlation, and regression results were obtained. The study findings revealed that there is a positive and a significant effect of cost of credit and financial performance of SMEs, collateral security and financial performance of SMEs and access to information and financial performance of SMEs. The study concludes that there is a strong predictive power that the dimensions of access to finance contribute towards enhancing financial performance of SMEs in Lira City. Finally, the study, recommends that efforts to improve the financial performance of SMEs depends on access to finance (cost of credit, collateral security and access to information).

CHAPTER ONE

BACKGROUND OF STUDY

1.0 Introduction

This chapter presents the Background of study, Statement of the Problem, Purpose of the study, Research objectives, Research questions, Scope of the Study, Content Scope, Geographical Scope, Time Scope, Significance of the Study and Conceptual Framework.

1.1 Back ground of the study

Financial performance is the process of measuring the results of a firm's policies and operations in monetary terms (Erasmus, 2018). Also (Mark, 2018), defined financial performance a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues, it has therefore been described in various form, such as, profitability, return on Assets and return concerning the sales of any business. However, according to (*National Small Business Survey of Uganda, 2015*), there has been poor and decrease financial performance evidenced by the low profitability, return on assets liquidity, and return on sales of the SMEs, putting the current rate of performance at 60% against the acceptable national standards of 80%. According to Oyeyinka (2019), any business with a turnover of less than 100 million per annum and less than 300 employees are tagged as SME. From a regional perspective, Irene (2017) cited Abor and Quarterly (2010) and provided a Southern African perspective stating that SMEs contributed 57% towards the gross domestic product (GDP) and accounted for 61% of jobs created in the country.

Globally, a study conducted in the UK revealed that out of 500 SMEs surveyed, only 52% reported being able to turn profit Clark (2022). Additionally, The National Bureau of Statistics of China states that though 95% of firms in China are SMEs, the Small and Medium-sized Enterprises Development Index (SMEDI) in 2020 was 76.4%, however, a sharp drop of 16.2 points was released in 2021. This caused a ripple effect on the national tax, caused a 3% reduction in GDP and worsened the unemployment (Su, Guo, Ling, & Fan, 2022). The story is similar in the United States where SMEs were subjected to low sales turnover rates, and a dip in profits largely blamed on the COVID-19 pandemic (Hermes, 2021). Cited by (Henry, 2022)

In sub Saharan Africa, SMEs are facing a similar dilemma with over 70% of SMEs not being able to celebrate their second anniversary (Gulesci, Loiacono, Madestam, & Stryjan, 2020; Prabawani, 2013; RDB, 2020). A study conducted in Rwanda by RDB, (2020) revealed that

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