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**RESEARCH ARTICLE**

**Credit and Sustainability of SMEs in Uganda: A Case of SMEs in Nakawa Division Kampala**

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**ABSTRACT**

The study was carried out to establish the relationship between Credit terms, Credit accessibility, and Sustainability of Small and Medium Enterprises in Uganda. The objectives guided the study to examine: the sustainability of SMEs, the level of credit accessibility by SMEs, the credit terms by financial institutions, and the combined impact of credit terms and credit accessibility on the sustainability of SMEs in the Nakawa Division. The study was based on a cross-sectional research design and quantitative research approach of 743 registered SMEs in the Nakawa Division and a sample of 248 SMEs. Primary data was collected using questionnaires. Data from the field was compiled, sorted, and edited for analysis using SPSS. The results indicated significant positive relationships between credit terms and sustainability, credit accessibility and sustainability, and credit terms and credit accessibility of SMEs within the Nakawa Division. Based on the findings, the study recommended that financial Institutions need to relax credit terms which will increase credit accessibility which also automatically lead to sustainability; SMEs should ensure mechanisms that can boost their credit accessibility, and the government should put in place policies that ensure 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.

**KEYWORDS**

Credit, Sustainability, SMEs, Uganda

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**1. Introduction**

The definition of SMEs remains controversial in the literature. SMEs are defined along many parameters, including but not limited to employment size and amount of capital, among others. It also varies from 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-subsiary, independent firms that 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).

Based 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, whereas a medium-sized enterprise is considered a firm that 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 percent 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

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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 favourable 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, 2014). A country like India recorded a good step in development after solving problems of credit accessibility by ensuring favourable credit terms for SMEs; for example, 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 (Mihasonirina, Simon, 2017). The capacity for SMEs to fulfil their potential in an economy depends on the availability of finance (Whincop, 2001). Accessibility to finance is one of the important instruments that help SMEs increase their income and overcome their liquidity constraints (Pandula, 2011). The difficulty in raising capital is one of the factors limiting the sustainability of Small and Medium Enterprises (Kibuka, Kiweewa, Nakate, and Kizza, 2013).

SMEs still remain a back bone for the African economies through massive creation of employment and are critical to contributing to their GDP; however, access to credit by small-scale and medium enterprises is rather inadequate due to unfavourable 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 the high-interest rates charged (Adams, 1984). Only a small fraction of small and 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 (Schiffer and Weder 2001).

According to UIA (2019), 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 programs such as Livelihood Programs, among others. However, much as the government has done all this, credit accessibility is minimized because of unfavourable credit terms; 90% of SMEs still collapse in their first year of startup due to a lack of access to credit (Baguma & Asiimwe, 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 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 SMEs 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 the 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 the major backbone of all economic activities and remain a major source of revenue and employment for Nakawa Division; the sustainability of SMEs continues to decline steadily despite the increasing number of financial institutions and availability of 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 of for failure to fulfil 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 the Nakawa Division.

SMEs are the major backbone of all economic activities within Nakawa Division through massive creation of employment and revenue generation. In an attempt to ensure the sustainability of SMEs, the government has ensured an 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 favourable 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 unfavourable 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, 2007). This study examines the extent to which credit terms and credit accessibility affect the sustainability of SMEs within the Nakawa Division.

## **2. Literature Review**

### **2.1 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. The growth of microenterprises greatly triggers economic growth of the country, which will be seen in the creation of employment opportunities, increased creativity, reduction in poverty leaves, and reduced tension in government, among others.

The sustainability of SMEs can be measured in terms of profitability, increased sales, and increased productivity of the business. Furthermore, Profitability has been the 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 break even. He further agrees that the ability of SMEs to meet all their financial obligations, asset accumulation, and the number of years in a business is a 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. (Thomas and Mason, 2007). 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 highly enhances the acquisition of new machinery and helps to increase productivity through the production of new products, among others.

### **2.2 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 (Nyangoma, 2012). Hence, they are important in determining the creditworthiness 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 favourable 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 financial institutions insist that the value of the 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 that 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 for SMEs due to poor credit discipline, contractual enforcement problems, scarcity of projects, and lack of collateral (IMF report, 2007). Despite SMEs' perceptions of excessively high-interest rates, the cost of finance is found to compare favourably with, and generally, the issue relates to, the amount (monetary value) of the instalment as opposed to the cost of credit. When instalments 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 to animal products which are costly and risky. In the case of Uganda, the acquisition of such credit is difficult for SMEs due to the high lending rates, collateral requirements, and highly bureaucratic operations, and this has constrained the private sector demand for the credit, which limits their progress (Kasekende, 2011).

### **2.3 Credit accessibility**

Generally, the accessibility of a good financial service is considered one of the engines of economic development, and the establishment and expansion of financial services are also one of the instruments to break the vicious circle of poverty (Dube, 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 financial services and also the ease of reaching these credit services are termed Credit accessibility (World Bank, 2015).

Difficulties faced in accessing credit by the SMEs from the lenders may impact their sustainability. Prior studies revealed that in developing countries context, credit is an important instrument for improving and enhancing the productive capacity of any sector. More to these various studies have documented the difficulties faced by micro-credit schemes which include the lack of knowledge in a loan application and high legal documentation (Nubian *et al.*, 2010).

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 problems by Small and Medium-sized Enterprises (Torgler, 2007). In addition to this, Ramirez (2002) notes that the frequency of borrowing is a key indicator of access to credit but notes that this frequency is often for SMEs. This frequency is established by considering the number of times that SMEs access credit. The findings of Berger (2004) also it is similarly indicated further that access to short land and long-term finance is indicated in the 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 the interest rate charged and required collateral. Though on the other part, lenders have several incentives for limiting the 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).

#### **2.4 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 the inability of SMEs to provide collateral required by banks (Beyene, 2002).). The effect of credit terms on the 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 the performance of micro-enterprises along the collateral requirements deter businesses from obtaining finances which affect 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 could 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 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 are favourable, they encourage borrowing and expansion of the capital base, leading to increased business activity (Dietsch and Petey, 2002). On the other hand, unfavourable credit terms not only hinder borrowing but also decrease the business growth of borrowing enterprises because they become huge direct expenses without cash discounts which reduces revenue (Kaplan, 2006). SMEs find it difficult to obtain commercial bank financing, especially long-term loans, for a number of 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.

#### **2.5 Credit terms and Credit Accessibility of SMEs**

Credit is one of the most critical resources 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 an economic boom and to stay afloat during an 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 Kungu *et al.* (2014), when financial institutions set high collateral requirements, unfavourable interest rates, and loan repayment periods for SMEs, many of them become reluctant

to obtain loans. In assessing the creditworthiness of borrowers, banks apply standard and stringent requirements to determine the performance of the business and the ability to repay the loans.

Nkundabanyanga (2014) also highlighted that when the amount of collateral is high, many businesses may not be in a 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 percent 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, a large number of borrowers, and low returns from investments limit micro-enterprises from accessing credit (Berrone, 2014).

A survey by Kinyua (2014) also expressed the magnitude of credit terms towards credit accessibility by indicating that where terms are stringent, firms cannot access financial resources for start-ups. Demirguc-Kunt, Beck, and Honohan (2008) confirm that larger firms enjoy better access to financial services compared to small firms because of the credit terms that favour large and well-established firms over 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 favourable, they encourage borrowing and, therefore, expansion of the capital base, leading to increased business activity (Dietsch and Petey, 2002). Similarly, unfavourable credit terms not only hinder borrowing but also decrease the business growth of a borrowing enterprise because they become huge direct expenses that 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 who 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 SMEs, which gives us a proper basis for comparison.

### **2.6 Credit Accessibility and Sustainability of SMEs.**

Chakraborty (2006) attributes the sustainability of SMEs to easy credit access to 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 (Kira and He, 2012). It also encourages market entry and facilities growth, reduces risks, and fosters innovation and entrepreneurial activity. (Kysucky, 2014).

A study in China by Demiruc, Kunti A., and Maksimovic (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.

### **2.7 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 the loan application and high legal documentation (Nubian, 2010). 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 highly valuable collateral to lenders as a result of their default on repayments (Konare, 2001; Collins, 2002). 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 productive capacity of any sector. Also, in developing countries, credit terms have spiralled in the 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).

### **2.8 Conclusion;**

Despite the crucial role SMEs play for economies across the globe, they still face low credit accessibility due to unfavourable credit terms provided by financial institutions. Credit accessibility among SMEs in Uganda has remained a challenge due to unfavourable terms of credit. Potential challenges that limit credit accessibility are collateral requirements and highly bureaucratic operations (Friends consult, 2008; Kasekende, 2011; Synovate, 2010). Generally, the literature review 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.

### **3. Methodology**

#### **3.1 Research design**

The study applied a cross-sectional research design involving data that is gathered just once or in a snapshot. A cross-sectional survey is also suitable for such a study that collects information at a given point in time rather than from a given period of time (Babbie, 2014). The cross-sectional analysis also has 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 were targeted to base the interpretation and analysis of findings.

#### **3.2 Study population**

The study population constituted 743 registered SMEs in Nakawa Division (Division Commercial Report, 2014), as it is the latest event for 2017. From each of the selected SMEs, the study obtained views from the manager of the Enterprises purposely selected because they are the ones with the right information.

#### **3.3 Sample size and sampling techniques**

The sample for this study was 248 out of 743 SMEs, based on Krejcie and Morgan (1970). The study obtained views from a manager as a unit of inquiry of each SME as the unit of analysis. 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 the population without replacing it until the required number of SMEs was reached.

**Table 1: Sample Size Selection**

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

**Source: Division Commercial Report, (2019)**

#### **3.4 Data collection procedure**

The data for this research was collected using a survey questionnaire. The questionnaire was designed using suitable questions modified through pretesting. In the questionnaires, the Likert scale was used to determine if the respondent agreed or disagreed with a statement. The study variables were all anchored on the 5 Points Likert scale. Under this scale, 1 represented Strongly Disagree, 2- Disagree, 3- Not sure, 4- Agree, and 5 represented Strongly Agree, which 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 the Nakawa division. The researcher ensured the confidentiality of the survey sheets since identities were not important. The researcher understands that people's consciousness may also affect their honesty and effectiveness in answering the survey and so the researcher gives people the option of being anonymous. Participants were given enough time to respond, and then the researcher collected the survey the next day. There were no incentives offered for participating in the research.

#### **3.5 Data sources**

This study used primary data 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 the study. Hence it is accurate and fit for the purpose.

#### **3.6 Validity and Reliability of the Instruments**

To ensure the validity of data collection instruments, the study used the expert judgment technique where the proposed data collection instruments were 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. The reliability of questionnaires was obtained by computing the Cronbach Alpha Coefficient to check the consistency in responses. Data collection instruments must meet a threshold of 0.7 tests to be considered reliable (Cronbach, 1951).

**Table 2: Validity and Reliability of results**

Variable	Scale	Number of items	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.

### 3.7 Measurements of study variables

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

The 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.

### 3.8 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 computer using the IBM SPSS Statistics version 23 for analysis. The study obtained frequency tables for the demographics of respondents as well as organizational characteristics as well as inferential statistics of correlation and regression analysis to determine the relationship between the study variables and the prediction of the independent variables (credit terms and credit accessibility) towards the Sustainability of SMEs.

### 3.9 Ethical consideration

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

## 4. Presentation, Analysis, and Discussion Of Findings

### 4.1 Response rate and description of the sample

Out of the 248 targeted respondents, 238 complete questionnaires were returned, representing a 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 3: 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 3 above indicated that the number of respondents who participated in the study was 238, a 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 more enterprising than females within Nakawa Division.

**Table 4: 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 was 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 SMEs are not youth affairs only in Nakawa Division.

**Table 5: 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 5 above that respondents who had never attended school was 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 the Nakawa Division are controlled and managed by highly educated people, which exposes businesses within the area to high financial literacy.

**Table 6: 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 6 above also indicated that the firms that 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 the 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 the age of the business when approving loans which impedes their sustainability.



**Table 7: 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 7 above indicated that the number of respondents who participated in the study was 238, a total of which 73.9% were from small enterprises that employ from 5 to 50 employees while 26.1% were from medium enterprises that employ from 51 to 100 employees. The results further implied that small enterprises dominate over medium enterprises within Nakawa Division.

#### 4.2 Sustainability of SMEs

**Table 8: 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 turnover	238	1.00	5.00	2.2101	1.49471
Profitability	238	1.00	5.00	2.1513	1.42692
Valid N (listwise)	238				

Source: Primary Data (2017)

Results from Table 8 above indicated that SMEs in the Nakawa Division are not sustainable as both mean and standard deviations for all measurements of sustainability are near the minimum.

#### 4.3 The level of credit accessibility by SMEs

**Table 9: 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 (listwise)	238				

Source: Primary Data (2017)

Results from Table 9 above revealed that the level of credit accessibility in the Nakawa Division is low as both the mean and standard deviations of all measurements for credit accessibility are near to the minimum, with the exception of the location of financial institutions.

#### 4.4 Credit terms offered by financial institutions

**Table 10: 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 (listwise)	238				

Source: Primary Data (2017)

Results from table 10 above indicated that credit terms offered by financial institutions are not favourable as both mean and standard deviations for measurements such as interest rate, loan repayment, and loan processing fees are closer to the minimum, and collateral securities are equal to the maximum which indicated that to get a loan collateral security had to be presented first which is not easy to acquire itself.

**4.5 Correlation of study variables**

To obtain the relationship between study variables, the study used 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 the sustainability of SMEs within the Nakawa Division. Using the zero-order correlation, the study used the Pearson correlation test to come up with the relationships between the variables summarized.

**Table 11: 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)

**4.5.1 Relationship between Credit terms and Sustainability of SMEs**

Correlation results from table 8 above indicated a significant and positive relationship between credit terms and the 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.

**4.5.2 Relationship between Credit accessibility and Sustainability of SMEs**

Results from table 8 above revealed that there was a significant positive relationship between credit accessibility and the sustainability of SMEs ( $r = .288^{**}$ ,  $p > 0.01$ ). This means that a positive change in credit accessibility is associated with a positive change in the Sustainability of SMEs.

**4.5.3 Relationship between Credit term and Credit accessibility**

The correlation results from table 8 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 the credit accessibility of SMEs.

**4.6 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 the Nakawa Division. Results obtained to this effect are summarized in table 12.

**Table 12: 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				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.721 <sup>a</sup>	.520	.516	.99239	.520	127.492	2	235	.000

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

**Coefficients<sup>a</sup>**

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 12 (R Square =.520) indicated that 52.0% of variations in the 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 the sustainability of SMEs.

**4.7 Discussion of findings**

In this section, the researcher compared the findings obtained in this study with the available literature in order to ascertain the agreements therein. This was discussed according to the objectives as indicated below.

**4.7.1 Relationship between credit terms and sustainability of SMEs**

Regression results revealed a positive relationship between credit terms and the 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 with the findings. African Development Bank (2014) also emphasized that financial institutions should strike a balance between both extremes in order to come up with favourable credit terms for borrowers as a mechanism for increasing firms' 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 allow credit only to those customers whose creditworthiness has been ascertained and is 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.

**4.7.2 Relationship between credit accessibility and sustainability of SMEs**

The study revealed a significant and positive relationship between credit accessibility and the sustainability of SMEs. However, the findings revealed that there is little explanation of variations in sustainability compared to credit terms. This is consistent with Richard and Mori (2012), 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 acquire the latest technologies, thus ensuring their competitiveness and sustainability (Dube, 2013).

**4.7.3 Relationship between credit terms and credit accessibility**

Correlation results revealed a significant positive relationship 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 favourable credit terms encourage borrowing while unfavourable 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 credits are conditions set by financial institutions for loan applicants.

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

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

#### **4.7.4 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 a 52.0 % variance in the sustainability of SMEs' other factors at 48.0 %.

The findings are consistent with Smith *et al.* (2014), who noted that in a developing country's context, credit is an important instrument for improving and enhancing the sustainability of any sector. Credit facilitates the flow of savings from surplus units to deficit units.

In developing countries, credit terms have spiralled in the 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 a 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 the success of SMEs to easy credit access. The high and increasing transaction costs in credit procurement and disbursement hinder the effectiveness of credit programs.

On the other hand, easy access to loans encourages resource allocation, thereby regressing towards the sustainability of SMEs, coupled with favourable credit terms facilitates jointly with credit accessibility to predict the vibrant sustainability of SMEs.

### **5. Conclusions**

Specifically, the study examined the relationship between Credit Terms and Sustainability, the relationship between Credit Accessibility and Sustainability, and the Combined effect of credit terms and credit accessibility on the sustainability of SMEs in the Nakawa division.

Findings from this analysis 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.

In relation to the correlation between credit accessibility and the sustainability of SMEs, this study found a positive relationship. Confidently speaking, 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 is improved in Nakawa Division.

The study also shows a positive relationship between credit terms and credit accessibility within Nakawa Division. Therefore, improving credit terms guarantees improvement in credit accessibility for SMEs. In regard to regression analysis, it was revealed that both credit terms and credit accessibility predict variances in the sustainability of enterprises. Hence, whenever the sustainability levels of SMEs are high, they would be accredited to favourable terms of credit which qualify many enterprises from obtaining financial resources from lending institutions. However, while this is the case, credit terms have been observed to contribute the highest portion of variations in the sustainability of SMEs.

Furthermore, there are other factors that were found to influence the sustainability of SMEs not limited to this study, such as the information gap between lenders and borrowers and the transaction costs involved. When there is an information gap, SMEs are unable to know how and where to obtain this finance on acceptable terms, and the risk associated with their failure to pay back funds leads to stringent credit terms and, therefore, difficulty in accessing finance and high transaction costs also influence access to finance and eventually affect firm's sustainability negatively.

The study provides policy alternatives that may be used by financial institutions, the study findings add to the existing literature about the Credit and Sustainability of SMEs, and most importantly, future researchers may use this study as a point of reference while handling similar research.

However, the study was cross-sectional, which measures the intention only at a single point in time; this means that the study does 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 the sustainability of SMEs over a period. This research only covered the Nakawa Division due to majorly resource constraints, but further research to assess the relationship between Credit and Sustainability of SMEs should be carried out in other divisions or areas of Uganda. The study only adopted a 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 and Sustainability of SMEs

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