

MAKERERE
COLLEGE OF BUSINESS



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SCIENCES

**ANALYSIS OF ACCESS TO BANK FINANCE BY SMALL SCALE ENTERPRISES
(SSEs) IN UGANDA**

A CASE OF SMALL SCALE ENTERPRISES IN WAKISO DISTRICT

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ABSTRACT

Bank finance is a critical concern for economic take off in every country especially in the developing world. Inadequate access to bank finance limits the growth potential of SSEs and the economy as a whole. Despite the availability of finance, Small Scale Enterprises (SSEs) are continuously struggling to access it. In Uganda, SSEs command over 70% of total employment and contribute 20% of the country's GDP. As they grow, most SSEs critically need external finance especially bank finance for growth. At least 48% of SSEs cannot access any form of financing from banking institutions. The overall objective of the study was to analyse access to bank finance by Small Scale Enterprises (SSEs) in Uganda (a case of Wakiso district). Specifically, the study sought to;-(i) determine the rationale for SSEs access to bank finance in Uganda; (ii) establish the challenges facing SSEs in accessing bank finance in Uganda and; (iii) document strategies that would increase SSEs access to bank finance in Uganda. The study found out that access to finance is a challenge to 87% of SSEs with 68% of SSEs that tried being unsuccessful. In accessing bank finance, SSEs are faced with four major limitations originating on the supply side. These are; - high collateral requirements, slow disbursement process, inappropriate loan size allowed and high costs of loan/interest. Demand side (SSEs related challenges) that were identified are;-poor understanding of the business, poor business management skills, absence of cash flow statements and absence of business plans. Therefore, the most prominent strategies that were recommended to increase access to bank finance are; - (i) encouraging SSE ownership of active business accounts, (ii) increasing the credit accompanying services like training and sensitization, guidance on market strategies, preparation of business plans and free spot checks, (iii) regular preparation of key business records, (iv) consolidated and simplified business processes and (iv) Possession of a business plans. From the above findings, the study recommended that;- (i) The role of banks must transform from just lenders to partners. Banks ought to participate in areas of credit and non-credit services of SSEs (ii) SSEs need to improve on their internal organization especially periodic update of key records in order to make access to financing information readily available. (iii) SSEs not only need to initiate a cordial relationship with their bankers, but also need to put in place collateral provisions and guarantors for faster bank financing. (iv) Banks need to review the collateral requirements since they are a fundamental hindrance especially accepting in movable assets, and (v) There is need to create an interface for frequent interaction between banks and SSEs. The initial point would be active SSE accounts, to provide this interface.