ACCESSIBILITY TO LONG-TERM FINANCE: ITS DETERMINANTS AND EFFECT ON GROWTH OF EIB-FUNDED SMALL AND MEDIUM SIZE ENTERPRISES IN UGANDA'S HOTEL INDUSTRY

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DECLARATION

I, Godfrey Sekyewa, declare that the work presented in this dissertation is truly my own work and that it has never been submitted for a degree award to any other University.

Signature……………………………………………………………..……Date: ………………

GODFREY SEKYEWA

APPROVAL

This is to certify that this dissertation has been submitted with our approval as University supervisors.

Signed ………………………………………………………. Date………………………….

Dr. Geoffrey Bakunda

Signed……………………………….………………… Date ………………………………..

Dr. Nkote Nabeta

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I remember with admiration the efforts of my mother, Mrs. Mary Kavuma, when she was struggling to lay a strong education foundation for me. I extend my sincere gratitude and appreciation this foundation that I cherish up to this point in my life. I cannot forget my wife, Mrs. Hawah Sekyewa, and children, Rodney and Ryan, for tolerating the long hours of my absence from home during the period when I was undertaking this study. Thank you for inspiring me and being there for me always.

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DEDICATION

This study is dedicated to all members of my family, especially my wife Hawah and children Rodney and Ryan for tolerating the long hours of my absence from home during the period when I was undertaking this study. Thank you for inspiring me and being there for me always. This work is also dedicated to my mother, Mrs. Mary Kavuma, in appreciation of the educational foundation that I cherish up to this point in my life. My God bless and reward you abundantly.

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ACRONYMS

ACCA:	The Association of Chartered Certified Accountants
ACP:	African Caribbean Pacific Countries
AFI:	Approved Financial Institutions
ALS:	Apex Loan Scheme
ANOVA:	Analysis of Variance
BOU:	Bank of Uganda
DFCU:	Development Finance Company of Uganda
EIB:	European Investment Bank
EIB-APEX:	European Investment Bank Apex Loan Scheme
EU:	European Union
MFPED:	Ministry of Finance, Planning and Economic Development
MTT1:	Ministry of Tourism, Trade and Industry
SMEs:	Small and Medium Enterprises
SPSS:	Special Package of Social Scientists
UHA:	Uganda Hotel Association
UBOS:	Uganda Bureau of Statistics
UTA:	Uganda Tourism Association
UTB:	Uganda Tourist Board

ABSTRACT

The purpose of the study was to examine not only the level at which SMEs in Uganda's Hotel sector access long-term finance extended by the EIB-APEX and the factors influencing this level but also the relationship between them and the level of the SMEs' business growth. This was as a result of the observation that most of the SMEs were achieving dismal business growth yet it was not clear whether this was due to the level of their accessibility to long-term finance.

The study was conducted as a cross sectional survey involving an analytical design. Its objectives were to examine the level of business growth of the SMEs in Uganda's Hotel industry, to investigate the level at which these SMEs access long-term finance extended by the EIB-APEX, to establish the factors influencing the level of this access, and to examine the relationship between the level of business growth of these SMEs and their level of access to long-term finance. Data was collected from SME managers using questionnaires and analyzed using the descriptive, ANOVA, factor analysis, correlation and regression methods of the SPSS programme.

The findings show that the level of business growth of the SMEs in Uganda's Hotel industry was 46.3% predicted by the level of the SMEs' access to EIB-APEX long-term finance. SME competences were established to have the most significant influence on the level of SMEs' access to this finance. The level of this access and that of the business growth of the SMEs were both reported as low. The study, thus, concluded by emphasizing the need to improve the level of business growth of the SMEs. To achieve this, it was recommended that SME management and lending institutions should improve the SMEs' access to loan finance by solving the flaws in the factors influencing this access.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Long-term finance refers to loans payable in a period longer than a borrower's accounting period (ACCA, 2006a). It is a form of credit extended by various lending institutions using different schemes, and its accessibility refers to easy or difficult it is acquired by borrowers for various purposes such as enhancing business growth (Salahuddin, 2006). Access to long-term finance affects the growth of any business, be it of a Small or Medium Enterprise (SME) (World Bank, 2004). For this reason, Bank of Uganda (BOU) adopted in 1995 the Apex Loan Scheme (APEX) in accordance with the Continuo Agreement, and injected Euros 3.9 billion as long-term finance to be extended to SMEs operating in sectors earmarked as propellers of Uganda's economy (BOU, 2006). The scheme had been hatched out of the ACP-EU partnership and was to be managed by the European Investment Bank (EIB); hence the name EIB-APEX (Continuo Agreement, 2000).

The EIB-APEX was later sanctioned by Statutory Instrument No. 6 of 1996 to function as a direct credit line providing long-term finance to SMEs identified by the EIB through the Development Finance Department of BOU. EIB has since identified SMEs from many sectors one of which is the Hotel sector. BOU has also been channelling loans to the identified SMEs through Approved Financial Institutions (AFIs) such as DFCU Ltd, Stanbic Bank, and others (BOU, 2006). SMEs in the Hotel industry were eligible for EIB-APEX long-term finance because this industry had been earmarked as a key accelerator of Uganda's economic growth (Holland, Burian & Dixey, 2003). Indeed, UTA (2007) indicates that the Hotel industry employs 70,967 people, representing 15% of the total workforce engaged in non-farm activities. Since 2000, it has contributed 39% of Uganda's foreign exchange inflows and enhanced the growth of the country's Tourism sector through encouraging tourist inflows, now rising at 20% per annum (UTB, 2007; UBOS, 2006; Waweru, 2003). It has also enhanced the expansion of Uganda's Transport sector (World Bank, 2004). Further, not only has this industry's overall growth been steady at average of 34.6% for the last five years, its economic potential is also promising once viably tapped (Kaferanjira, 2002).

Unfortunately, such benefits have been contributed by less than 10% of over 300 hotel service providers in Uganda, the topmost contributors being Speke Resort Hotel Munyonyo, Kampala Sheraton Hotel, Serena Hotel, Hotel Africana, and Entebbe Resort Beach Hotel (Kasanga, 2005). The majority of the sector's SMEs, which include motels, inns and lodges with average capacity of 10-50 rooms and normal occupancy rates of between 70-90%, are making negligible contribution as a result of dismal growth in business (UHA, 2007). It has been reported that many of the sector's SMEs have so deteriorated in business growth that some have ended up closing down at average rate of 25% every five years (UHA, 2008). While 156 SMEs closed down between 2000 and 2004, those that quit business between 2004 and 2008 were 219 (UHA, 2008). This shows that a rising number of SMEs are failing to growth in business. Many factors have been cited to explain this situation, including internal management weaknesses and inadequate capital (MTTI, 2006) but the determinants of the firms' access to the less costly long-term finance provided by EIB-APEX and the effect of this access on their business growth have not been given attention. This leaves one wondering whether these variables can explain the growth of the SMEs. This study was therefore conducted to clarify the situation.

1.2 Statement of the Problem

Despite the enormous actual and potential contribution of the Hotel industry to Uganda's economic growth and its overall steady growth, the majority of the SMEs in the industry are making negligible contribution as a result of achieving dismal growth in business (UHA, 2007). If this situation persists, Uganda's economic growth will continue to be constrained since the contribution of the Hotel industry is earmarked as one of key promoters of this growth. The situation therefore needs to be addressed. Now, in view of the fact that many enterprises in Uganda have owed their growth to accessibility to long-term finance provided by EIB-APEX to a tune of Euros 110 million now, the dismal business growth of SMEs in Uganda's Hotel industry could be explained by the level of this accessibility and factors influencing it. This study was therefore an attempt to establish the empirical situation by investigating this level, factors influencing it, and the relationship that both have with the growth of the SMEs in this industry.

1.3 Purpose of the Study

The purpose of the study was to examine not only the level at which SMEs in Uganda's Hotel sector access long-term finance extended by the EIB-APEX and the factors influencing this level but also the relationship they have with the level of the SMEs' business growth.

1.4 Objectives of the Study:

1) To examine the level of business growth of the SMEs in the hotel sector.

2) To investigate the level at which SMEs in Uganda's Hotel industry access long-term finance extended by the EIB-APEX.

3) To establish the factors influencing the level of access to long-term finance extended by the EIB-APEX that SMEs in Uganda's Hotel industry achieve.

4) To examine the relationship between the level of business growth of SMEs in Uganda's Hotel industry and their influenced level of access to long-term finance extended by the EIB-APEX.

1.5 Research Questions

The study was guided by the following questions:

1) What is the level of business growth of the SMEs in the hotel sector?

2) At what level do SMEs in the hotel sector access long-term finance extended by the EIB-APEX?

3) What are the factors influencing the access level of the Hotel sector's SMEs to long-term finance extended by the EIB-APEX?

4) What is the relationship between the level of business growth of SMEs in Uganda's Hotel industry and their influenced level of access to long-term finance extended by the EIB-APEX?

1.6 Scope of the Study

- **Geographical scope**

The study was carried out in Kampala district because this where most of the beneficiaries of the EIB – Apex funds scheme were located.

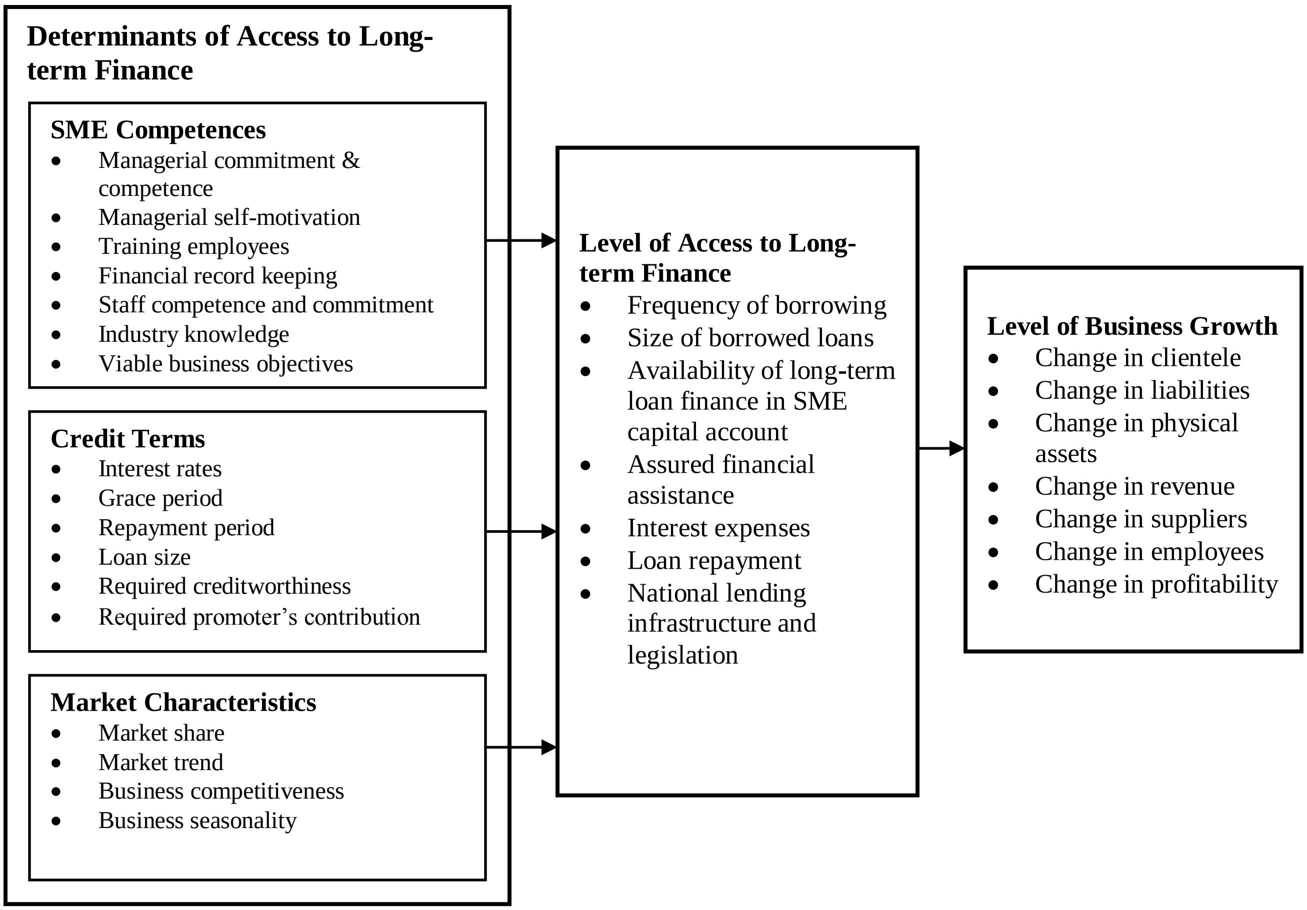
- **Subject Scope**

The subject scope of the study was confined to examining not only the level at which SMEs in Uganda's Hotel sector access long-term finance extended by the Apex Loan Scheme and the factors influencing this level but also the relationship between these two variables and the level of the SMEs' growth in business.

1.7 Significance of the Study

The study can be used by EIB-APEX and lending institutions to understand more about the level of accessing the extended loans and the factors influencing it. This can help them take action necessary to address these factors in a manner that will boost loan access levels as desired. It can also be useful in sensitizing hotel owners and operators about increasing their access to long-term finance from AFI's in order to boost the growth of business operations and outcomes. The study can also be used by SME's in the Hotel industry to appreciate the role of long-term finance in boosting business growth. Further, it can be used by researchers and academicians to carry out further research on finance and business growth.

1.8 Conceptual Framework



Source: *Developed based on Literature cited in Waweru, R. (2003); Pandey (1996); Salahuddin, A. (2006).*

Description of the Conceptual Framework

The diagram above indicates the study is conceptualised following literature cited in Waweru (2003), Pandey (1996), Salahuddin (2006) and World Bank (2004). This literature indicates that the level of SMEs' access to long-term finance is affected by a number of determinants, including the SMEs' competences, credit terms, and the characteristics of the market in which SMEs operate. These determinants are conceptualized to affect the SMEs' access to long-term finance and in so doing, influence the level of business growth that the enterprises achieve. They are therefore conceptualized as constituting the independent variable whose influence on business growth is felt through the effect that they have on access to the finance.

Although level of access to long-term finance has an effect on the business growth of SMEs, this effect is influenced by other factors. As such, access to long-term finance is conceptualized as a mediating variable. Accordingly, the level of business growth is conceptualized as the dependent variable. In other words, the level of business growth achieved by the SMEs depends on their level of access to long-term finance, which, itself, is influenced by other factors such as SMEs competences and others shown in the conceptual framework.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relevant to the study. The literature is cited from various scholarly works, journals, periodicals and quarterly publications, and is organized according to the variables of the study.

2.2 SME Competences

SMEs represent up to 70 percent of the hotel and restaurant industry in the developed world but the proportion could be higher in developing countries (Christie & Compton, 2002). In such SMEs, competences refer to the abilities to manage and succeed in business in various operational and remote environmental circumstances (ACCA, 2006b). The competences are gauged according to the level of entrepreneurship (ability to design a viable project), managerial skills, commitment, negotiating capacity, and industrial knowledge possessed and/or demonstrated by the SME's management; organizational and strategic design of the SME; and level of keeping records about an enterprise's financial transactions, position and level of going concern (Chaston & Mangles, 2000; Smith, Herbig, Milewicz & Golden, 2006). It is also established from the SME's extent of analyzing and forecasting its future financial and business prospects (ACCA, 2006a).

According to ACCA (2006b), the level of managerial skill is gauged based on the level of not only education but also natural administrative talent and practical experience possessed by an enterprise's managers in the given business area. Whereas administrative talent is measured using the manager's innate managerial capacity (Aaron, 2004; Warren, 2004), the level of education is established basing on the educational qualifications possessed by the manager and employees (Kayongo, 2005). The practical experience, which indicates the level of the SME's industrial knowledge, is determined in terms of period of time spent in the business, which is usually measured in terms of number of months or years spent by the SME in a given business (Kayongo, 2005). The enterprise is considered to be competent if its managers are educated in the relevant field of the enterprise's business, and if the managers have accumulated enough practical experience in the field (Myers, 1997). Otherwise, the SME is considered incompetent (Ibid)

Pearce & Robinson (1996) noted that an SME is said to be competent if its management demonstrates a good knowledge of the industry in terms of how to position the SME in the market; how and where to mobilise start up and/or development capital; and how to deal with the SME's suppliers and competitors. Zhang *et al*., (2002) made similar observations emphasizing that only when an SME's management possesses enough of this knowledge that the SME can be assured of not only seeking and getting viable financing but also operating profitably and growing in business. Keith & Malcolm (1997) had earlier on sounded a similar voice, arguing that with such knowledge, an SME's management can strategically access available financing sources to acquire capital required to develop business assets and premises, thereby overcoming restrictions imposed by environmental and financing constraints; hence propelling business operations and desired growth, as articulated by the World Bank (2004).

Keith & Malcolm (1997) also underscored the importance of educational attainment and previous work experience of the promoters of the SME, noting that these are significant determinants of business growth in the hotel and manufacturing sectors. Keith & Malcolm (1997) added that the objectives pursued by the SME and the level at which its staff members are motivated at work are equally important indicators of a SME’s competence. Keith & Malcolm (1997) added that the objectives pursued by entrepreneurs could also be differentiated into two broad groups: personal objectives that include providing a livelihood, maintaining quality of life or life style; and business objectives, which focus on building a profitable growing enterprise coupled with promotion of a reputation for quality of service, using either own funds, bank lending or a combination of both.

According to Cragg & King (1998), not all levels of employee motivation show SME competence. Employee motivation of the “push” kind indicates SME incompetence because push factors demoralize employees. Such factors include redundancy, job insecurity and supplementary income (McGivern & Tvorik, 2005). Only when there is presence of “pull” factors is an SME considered to be competent as these factors represent the desire to make high levels of profit, spotting a business opportunity, and expanding the business. Pull factors are actually employee attributes which promote or contribute to the growth of an SME (Appelbaum & Honnegar, 1998).

In general, literature indicates that competent SMEs are those enterprises whose financial position indicates assets greater than liabilities and whose business operations are based on a strong and well coordinated management characterized by not only educated, experienced, strategic and business-oriented managers but also highly motivated employees and a high level of preparing and keeping financial accounts. Only when an enterprise is run by such management can it convince lenders that it is competent enough to access loan finance from them.

2.3 Credit Terms.

Generally, credit terms are the minimum conditions set by lending institutions and which borrowers must adhere to in order to qualify for any loan (Bohnstedt, 2000). Credit terms are important in that they help lenders to reduce risks of default and to operate profitably in the lending business (Ditcher & Kamuntu, 1997). They are determined according to estimated portfolio volatility and risk, depending on the type of targeted clients and business (Kasibante, 2000; Micro Finance Forum, 2003). In general, the following are the credit terms commonly used by financial institutions:

Creditworthiness

Creditworthiness, from a lender’s view, refers to the extent to which a borrower qualifies for a loan applied for (Martin, Reyna & Jorgensen, 2006). It is determined based on a borrower’s ability to secure the required loan as gauged from the level of presented collateral or group guarantee as well as trustworthiness and cooperation that lenders have in and with the borrower (Kagwa-Pafula, 2000; Meeker, 1998; Micro Finance Forum, 2004; Martin, 1996). In practice, creditworthiness is a measure used by many financial institutions to determine the capacity of the project and its promoters to meet loan obligations (Van Horne, 1996). It is normally established by considering the previous, present and/or projected business performance of a project or business for which a loan is being applied (Van Horne, 2002). According to Klapper *et al.* (2004), the importance to financial institutions of establishing creditworthiness is rooted in the fact that they base their lending decision on the ability of the proprietor to service and repay the extended loan finance.

The business performance of any enterprise is established using its balance sheet(s), income statement(s) and cash flow statement(s). Indeed, the balance sheet indicates the current financial position of a business enterprise in form of comparing the SME’s asset base to its liabilities (ACCA, 2006c). It therefore indicates to the lenders the financial strengths and weaknesses of the enterprise and therefore its ability to secure, service, and repay the loan (Pandey, 1996). The income statement indicates the summary of the promoters' business operations in form of revenue inflows, expenses or costs incurred and profits or losses made during a given period of time. It therefore shows the financial decisions and experiences of the SME's promoters in the field of business (UNDP, 1997). Cash flow statement indicates the way cash flows in and out of the enterprise (Uganda Micro Finance Union, 2004). It thus shows the cash position of an SME.

According to Pandey (1996), an enterprise preparing and keeping each of the above described financial statements is at an advantage because its financial strengths and weaknesses can easily be established and a decision taken to either extend a loan to it or not. However, Kaggwa-Pafula (2000) noted that such statements are normally non-existent in various SMEs and this makes it difficult to assess their creditworthiness and thus extend required loans to them. In fact, SMEs that do not prepare financial statements have been earmarked as the enterprises that find it difficult to meet the criteria for accessing loan finance needed to enable them achieve their goals and objectives and grow in business (Berger, Klapper & Udell, 2001). Does this also apply to the SMEs in the Hotel industry of Uganda?

Berger *et al*. (2004) noted that apart from failure to keep necessary financial records, many SMEs face difficulties in using the financial technologies required by lending institutions. This further complicates the assessment of such SMEs' creditworthiness because it effectively implies that the SMEs miss out on the financial information needed to assess their creditworthiness in transparent way. This is why Berger *et al*. (2004) referred to such SMEs as informationally opaque small businesses.

Interest Rates

According to Loan Analytics (2004) and Kasibante (2000), an interest rate refers to the cost of borrowing and it is calculated basing on the risk of the project in question and profit expected by a lending institution. The terms used to calculate interest rates usually favour bigger companies, because these companies tend to keep books of accounts required by lenders as a condition for qualifying for discounted interest rates (Berger & Udell, 1995). According to Berger & Udell (1998), most of the SMEs do not keep up-to-date financial records and because of this, interest charged on the loans they acquire tends to be high, the net effect of which is to find it difficult to meet the loan servicing and repayment obligations.

According to Conttareli *et al.* (1995), the determinants of interest rates are divided into macro and micro economic factors. Where the key macro determinants include money market rates and inflation rates, the key micro factors are discount rates and the proportion of bad loans in the portfolio of a lending institution. Conttareli *et al.* (1995) believed further that the determinants of interest rates can be derived by analyzing micro level evidence of the individual or particular groups of financial institutions. Their findings showed that the effects of interest rates on business growth varied from bank to bank across different geographical areas. This suggests a possibility of a varying relationship between interest rates and specific growth levels of SMEs in different geographical areas and economic sectors. It is in view of this observation that this study investigates the relationship between the interest rates charged by EIB-APEX and the business growth of SMEs in Uganda’s Hotel industry.

Loan Size

According to De Bodt & Statnik (2002), the size of the loan constitutes another important condition that determines SMEs’ access to loan finance. At the beginning, most of the SMEs need small loans to boost their start up capital and as they operate they start to require loans of sizes that help them grow and expand from small and medium to large business enterprises (Degryse & Van Cayseele, 2000). Lending institutions, however, set loan sizes that minimise risk and therefore yield the required profit; moreover, they do this without putting into account the sizes needed by SMEs (Dietsch & Petey, 2002). In the end, many SMEs end up failing to get the required sizes of loans. Is this the case with the SMEs in the Hotel industry in Uganda?

According to Fazzari, Hubbard & Petersen (1988), SMEs normally need small loans which are suitably disbursed in sub portfolios that tend to be unprofitable to the lending institutions. In addition, it has been observed that loan sizes that can be adequately secured by SMEs are sometimes too small to reach even the minimum loan size provided by a lending institution (Frame, Srinivasan & Woosley, 2001; Gertler & Gilchrist, 1994; Guiso, Sapienza & Zingales, 2002; Gordy, 2000; Guiso, 1997). In fact, the loan sizes applied for by many SMEs in Uganda have been noted to be in portfolio phases lower than those set by EIB-APEX (ECB, 2002; European Union Specialist Supplement, 2003).

Indeed, whereas the minimum loan size that should be extended by EIB-APEX is Euros 50,000, those applied for by the majority of Uganda’s SMEs are much lower (B.I.S, 2001; B.I.S, 2002). This consequently leaves out most of the targeted SMEs (B.I.S, 2003a). Further, SMEs which have grown to the level of utilizing a loan size of Euros 50,000 do not meet other requirements like the right statements of accounts (B.I.S, 2003b). What is not clear, however, is whether this applies to the SMEs in the Hotel industry or not; hence the need to establish the empirical situation.

Contribution to the Project

Most of the lending institutions set it as a condition for promoters of any business project requiring funding in form of loan finance to make a contribution towards the establishment and/or growth of the project (Guiso, Sapienza & Zingales, 2002; Holmström & Tirole, 1997; Hoshi, Kashyap & Scharfstein, 1991; Kasekende & Opondo, 2004). Indeed, Bank of Uganda (2006) indicates that promoters of a project for which long-term finance is applied are required to demonstrate their ability to have contributed at least 50% of the project cost before the project is considered for funding. This, however, has been found to be too high for most SMEs to afford (B.I.S, 2003b). It could therefore be one of the factors constraining SMEs' access to long-term finance provided by EIB-APEX. However, as to whether this situation holds in the case of SMEs in the Hotel industry of Uganda remains to be established; hence the need for this study.

2.4 Market Characteristics

Market characteristics may be conceived of as factors that delineate the market within which SMEs not only access their financing but also operate their business (Meeker, 1998). The following are pointed out as the market characteristics that tend to affect SMEs' access to loan finance:

Market Share

Buick (2003) noted that the market share an enterprise possesses determines its ability to access loan finance. The higher the market share possessed by an enterprise the higher are the chances of the enterprise to qualify for loan finance. According to Keith & Malcolm (1997), a large market share implies that an enterprise has a significant number of clientele and therefore makes a sizeable amount of revenue. This means that the financial performance of the enterprise is promising (King

& Levine, 1994). The enterprise may thus not find it difficult to meet the expenses on loan servicing and repayment (Kumar, Rajan & Zingales, 1999). Accordingly, if an enterprise's market share is convincing to the lenders, the enterprise is considered eligible for loan finance, including long-term or development finance (Myers, 1997). Berger *et al.,* (2004) noted that the market share of an enterprise may also be determined using the enterprise's level of market promotion activities undertaken; forms of advertising used, and areas advertised in.

Market Trend

According to Storey (1994), SMEs intending to obtain loan finance need to analyze and have knowledge of the market trends of their business areas or sectors. These trends help to understand whether an enterprise's business market is expanding, shrinking, or stagnant and therefore helps an enterprise to forecast its likelihood to service and repay required loans. Whereas an expanding market trend provides better opportunities for an enterprise to access loan or development finance, a shrinking or stagnant market trend narrows the opportunities (Edwards, Franks & Storey, 1994; Guiso, Sapienza & Zingales, 2002). Important to note, however, is that the case for the SMEs in the Hotel industry of Uganda is yet to be established; hence the need for this study.

Competition

According to the Small Business Services (2001), competition is one of the market characteristics that affect an enterprise's chances to access loan finance. Competition may be established in terms of the number of enterprises seeking loan finance at a time (Small & Medium Enterprises, 2008); or it may be determined in terms of establishing the competitiveness of an enterprise by comparing its chances of business success with those of its potential competitors (Pearce & Robinson, 1996).

The criteria for comparison may include quality of provided services, their reliance and promptness in their provision to the clients (Keith & Malcolm, 1997).

According to Holloway (2002), enterprises dealing in hotel services tend to be many in number but the majority of them require loan finance to boost their start up capital or to improve their services. Holland *et al.*, (2003) added that such a large number of enterprises tend to produce stiff competition which may limit profit margins, and consequently the enterprises' ability to qualify for loan finance. To note, however, is that the observations of Holloway (2002) and Holland et al., (2003) were made based on enterprises in Europe but not in Uganda. As to whether the observations also hold in the case of SMEs in Uganda's Hotel industry is thus important to establish.

Business Seasonality

Murrinde, Agang & Mullineux (2000) observed that the chances of an enterprise to access loan finance tend to also depend on the seasonality of the enterprise's business activities. An enterprise has more chances to access loan finance in periods of high business activity and the chances lower as its business activity goes down. This is because a period of high business activity guarantees a high inflow of revenue and large profit margins as opposed to periods of low business activity. This suggests that an enterprise whose business activity is constantly high is guaranteed access to required loan finance. What then is the case for the SMEs in the Hotel industry of Uganda?

2.5 Access to Long-term Finance

Barnett (2000) pointed out the frequency of borrowing as a key indicator of access to loan finance but noted that this frequency is often low for most of the small and medium scale enterprises. He noted that this frequency is established by considering the number of times that SMEs access loan finance. Similar observations appear in the findings of Berger *et al.,* (2004) that indicate further that access short and long-term finance is also indicted in size of borrowed loans, availability of loan finance on an enterprises' capital account, and the enterprise's level of assured financial assistance from lending financial institutions.

According to ACCA (2006c), if an enterprise's books of accounts are incomplete or not properly prepared, access to loan finance can also be established by asking whether or not the enterprise has ever obtained long-term loans, or asking about payment of interest or about loan repayment. This is because, added ACCA (2006c), it is difficult for an enterprise that does not access loan finance to incur interest expenses or loan repayments.

Berger *et al.,* (2004) observed further that the level of assured financial assistance from lending institution is also another key indicator of access to loan finance. By assured financial assistance, Berger *et al.,* (2004) meant the level of assurance demonstrated by an enterprise that a given lending institution will extend the required loan finance. The findings of these scholars indicate that as regards this assurance, SMEs that are transparent in terms of information about their financial operations and records tend to have a comparative advantage over those that are informationally opaque.

The findings of Berger *et al.,* (2004) indicate further that with the assuredness of funding assistance, enterprises that use hard information on all conducted business transactions have a comparative advantage to access loan finance from financial institutions using transaction lending technologies. This is because transaction lending technologies are primarily based on hard quantitative data that may be observed and verified at about the time of credit origination. Indeed, such data are used to calculate required financial ratios because it consists of certified audited financial statements, credit scores assembled by bureaus from data on the payments histories of the SME and its owner; or information about accounts receivable from transparent, low risk obligors that may be pledged as collateral by the SME or sold to the financial institution (Berger *et al.*, 2004).

In contrast, the findings of Berger & Udell (1995) show that even small scale enterprises that are informationally opaque have a comparative advantage when borrowing is based on relationship lending. Berger & Udell (1995) argues that the relationship lending technology is significantly based on the soft qualitative information gathered through the contact overtime with the SME and often with its owner and members of the local community. The soft information may include the character and reliability of the SME's owner based on direct contact overtime by a lending institution's loan officer. It also includes the payment and receipt history of the SME gathered about the lending institution's past provision of loans, deposits, or other services to the SME or about the future prospects of the SME garnered from the past communications with SME's suppliers, customers or neighbouring businesses.

Other research on financial institution structure and SME access to funding, approaches the level of assured financial assistance by focusing not only on the comparative advantage that foreign SMEs tend to have over domestic SMEs (Salahuddin, 2006) but also on the comparative advantage which state-owned SMEs tend to have over privately owned SMEs (Petersen & Rajan, 1995). Research by Jappelli & Pagano (2002) shows that as far as this assuredness is concerned, large scale enterprises tend to have a comparative advantage over small and medium scale enterprises. Research, however, has not covered the specific case of the SMEs in the Hotel industry of Uganda.

According to La Porta, Lopez-de-Silanes, Shleifer & Vishny (1998), an additional area of concern regarding SME's access to credit is about the lending infrastructure of a nation. This is because it is this infrastructure that defines the rights and flexibility of financial institutions to fund SMEs using the lending technology that best fits the institution and the borrower. La Porta *et al.*, (1998) observed further that this infrastructure also includes the commercial and bankruptcy laws that affect creditor rights and their enforcement; the regulation of financial institutions, including restrictions on lending, barriers to entry, direct state ownership of financial institutions, and the information infrastructure, including accounting standards to which potential borrowers must comply, as well as organization and rules for sharing information; and taxes that directly affect credit extension in a given nation.

La Porta *et al.*, (1998) noted further that in some countries, the lending infrastructure is such that banks are reluctant to expand their credit portfolio to include SMEs because they consider lending SMEs as an unattractive and unprofitable undertaking. The reason is that SMEs are regarded as high risk borrowers due to their low capitalization, insufficient assets and inability to raise the collateral required by the banks. The administrative costs incurred in maintaining close monitoring and supervision over that is deemed necessary are always higher attributed to (La Porta *et al.*, 1998).

2.6 Level of Business Growth

The growth of an enterprise is indicated by changes in a number of measures, including the number of employees, revenue inflows, profitability, clientele, asset base compared to the level of liabilities including capital base, and technological innovativeness (ACCA, 2006c; Kayongo, 2005). In the Hotel sector, an enterprise's growth is particularly indicated by changes in staff, size of tourist inflows, asset base that supports hotel services like provision of meals, recreation, transport facilities, and accommodation and other room services (Christie & Crompton, 2002; Holland *et al.*, 2003). Salahuddin (2006) added changes in the number of people trained by an enterprise as another indicator of growth.

2.7 Access to Long-term Finance and Level of Business Growth

According to Salahuddin (2006), availability of finance is a major contributor to the formation and growth of SMEs in the world over. This is because access to long-term finance provides low interest financial boost to the capital needed by an enterprise for both start up and enhancing further business growth.

2.8 SME Competences, Access to Long-term Finance and Level of Business Growth

Competences of a business enterprise have been found to be a major determinant of the enterprise's access to loan finance and consequently of the enterprise's business growth (Cragg & King, 1998). No rational lending institution can consider extending any amount of loan finance to an enterprise that does not have business objectives (Keith & Malcolm, 1997); yet as Pandey (1996) aptly argued, an enterprise without clear and focused objectives lacks direction of what to do, where to go and how to go there. It is therefore clear that an enterprise without clear objectives cannot expand and grow.

According to Myers (1997), the knowledge of the industry within which an enterprise operates is an important determinant of its access to loan because this knowledge helps to predict business trends and to conduct financial forecasts of the enterprise both of which are, moreover, usually required by lending institutions before extending loan finance. At the same time, this knowledge helps to know how to position the business in the market, thereby attracting customers, sales revenue and subsequent business growth (Pearce & Robinson, 1996).

World Bank (2004) pointed out the educational level and managerial experience of the people constituting the management of an enterprise as another determinant of access to loan finance; yet Zhang l. *et al.,* (2002) noted that this level and experience also determine the extent to which the enterprise grows in business. Salahuddin (2006) added the level of preparing financial statements and keeping books of accounts as another major determinant of access to loan finance since most of the lending institutions use the information obtained from the prepared financial statements and books of accounts to assess creditworthiness of the loan applicants and approve the loans being applied for (Van-Horne, 2002; Von Thadden, 1995). Further, Smith *et al.,* (2006) observed that the current financial position of and enterprise is also an important factor that determines access to loan finance. The current financial position indicates the financial strengths and weaknesses of an enterprise both of which are used by lenders to ascertain the creditworthiness of a loan applicant (Chaston & Mangles, 2000).

Hoshi, Kashyap & Scharfstein (1991) pointed out the level of employee motivation as another SME competence that determines the level of business growth of an enterprise. Hoshi *et al.,* (1991) observed that the more motivated employees are the more are chances of an enterprise to grow in business. This observation was underscored by Cragg & King (1998) adding that a motivated workforce carries out assigned business tasks enthusiastically and synergistically and this leads to increased employee performance and eventual business growth. Accordingly, lending institutions are reluctant to extend loan finance to enterprises whose workforce is demoralized; they tend to prefer extending loans to enterprises whose employees are highly motivated (Kayongo, 2005).

2.9 Credit Terms, Access to Long-term Finance and Level of Business Growth

Credit terms determine the extent to which SMEs access loans required to finance their business operations and growth (Bond & Meghir, 1994). When credit terms are favourable, they encourage borrowing and therefore expansion of the capital base, leading to increased business activity (Dietsch & Petey, 2002). In contrast, unfavourable credit terms not only discourage borrowing but also decrease the business growth of a borrowing enterprise because they become huge direct expenses which reduce revenue (ACCA, 2006c).

In particular, Salahuddin (2006) observed that interest rates charged by banks and financial institutions constitute a cost of borrowing and using loan finance. In effect, interest rates are an expense to an enterprise and therefore have a negative effect on the enterprise’s profitability, survival and growth (ACCA, 2006c). The effect becomes even more debilitating if charged interest rates are high (Kayongo, 2005). Unfortunately, this tends to be the case in most of the developing countries (Kamuntu, 2004; Kasibante, 2000; Kasekende & Opondo, 2004). As opposed to sales maximization, banks and financial institutions in the developing world tend to consider profit maximization and in the process charge high rates of interest, which decrease the profitability of borrowing enterprises, especially of those dealing in innovative projects (OECD, 2002; Von Thadden, 1995). High interest rates increase the cost of loan servicing and may sometimes even eat into the principle loan, thereby adversely affecting the loan repayment capacity of a borrower (Kayongo, 2005).

However, interest rates charged on long-term loans have been reported to be generally low and not so constraining to the growth of a business (Hubbard, 1998). None the less, whether this holds in the case of the interest rates charged on the loan finance extended by EIB-APEX to the SMEs in the Hotel sector is yet to be established.

According to Fazzari *et al.*, (1988), the length of the grace and repayment periods and the size of the loan size are significant factors in the level of accessing loan finance. Longer grace and repayment periods encourage access and business growth because they give a borrower adequate time to effectively use borrowed funds without meeting the expenses that reduce business revenue (Gertler & Gilchrist, 1994). In contrast, short grace and repayment periods discourage access to loan finance and business growth because they in effect start reducing business revenue in a short time (Guiso *et al.*, 2002). Creditworthiness required by lending institutions ensures that enterprises are organized in the recording and following of their financial operations. This encourages systematic and prudent business operation which enhances access to loan finance and therefore expansion of the business through increased capital base (Kumar *et al.*, 1999).

Further, required promoter's contribution to a business project has a positive effect of reducing the loan size that would have been applied for to start the project. This effectively reduces expenses that would have been incurred to service and repay a large loan size (Mayer & Schaefer, 2001). It has, however, been found that large long-term loan sizes have a comparative advantage over small loan sizes because the long-term large loan sizes not only increase an enterprise's capital base considerably but also give the enterprise longer grace and repayment periods, which have been found to support business growth (Myers, 1997).

2.10 Market Characteristics, Access to Long-term Finance and Level of Business Growth

Market characteristics such as an enterprise's market share, market trend, competitiveness and the seasonality of its business have been identified as factors that significantly determine access to loan finance (Berger *et al.*, 2004; Keith & Malcolm, 1997; Storey, 1994; Murrinde *et al.*, 2000). Most of the leading institutions consider the market characteristics of an enterprise applying for loan finance because these characteristics are helpful when assessing and approving the creditworthiness of an enterprise as they have been reported to be significant determinants of business growth (Small Business Services, 2001). It is, however, not clear whether these factors are also significant in determining access to loan finance extended by BIE-APEX and business of enterprises applying for this finance.

2.11 Conclusion

In general, therefore, literature indicates that the level of competence an enterprise possesses, the nature of market characteristics within which the enterprise operates, and the credit terms set by lending institutions determine the level of the enterprise's access to loan finance and, in so doing, determine the level of business growth achieved by the enterprise. Literature, however, is not articulate on how these factors affect not only access of the SMEs in the Uganda's Hotel industry to long-term finance extended by EIB-APEX but also the business growth of these enterprises.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The study sought to determine the relative importance of the level of access to finance by SMEs to their growth in the Hotel industry in Uganda. The study solicited people opinions about the level of access to finance and growth of SMEs in the Hotel industry in Uganda.

3.2 Research Design

The study was designed as a cross-sectional survey involving an analytical design. This is because the study was based on first hand data collected at one point in time using questionnaires administered to a sample that included different SMEs selected from Uganda's Hotel industry. It was analytical because it was carried out to establish not only the level of the SMEs' access to long-term finance extended by EIB-APEX and the factors influencing this level but also the relationship between this level, the factors influencing it and business growth of the SMEs.

3.3 Study Population

The population of the study consisted of 100 SMEs eligible for long-term finance provided by EIB-APEX and operating in the Hotel industry of Uganda.

3.4 Sample Size

The total size of the sample included 30 SMEs. Five (5) officials who were working with lending institutions affiliated to EIB-APEX, and 124 top, mid-level and lower managers of SMEs took part in providing information. Accordingly, the SMEs that took part in the study acted as sources of respondents who were needed to provide the data about them. The SMEs were 30 in total and were a good representation of all the SMEs in the hotel industry in Kampala district.

3.5 Sampling

Selection of SMEs

The 30 SMEs that took part in the study were selected using purposive sampling. This sampling technique helps to select subjects, which are considered to be key sources of the data needed to accomplish a study (Sekaran, 2000). It was therefore used to select the SMEs because only those that had applied for long-term finance provided by EIB-APEX and operating in Kampala district were needed to act as sources of the required data. Others operating outside Kampala district were left out because of time and logistical limitations plus the need to avoid overstretching the selected geographical scope.

Selection of Respondents

The respondents who participated in the study were selected using purposive sampling. This was because only those working in the selected SMEs as top, mid-level and lower managers. The officials from lending institutions were also selected using purposive sampling as only those dealing with EIB-APEX were targeted.

3.6 Data Sources

3.6.1 Primary Sources

Data was collected from primary sources only and these included the selected top managers, mid-level managers and lower level managers of the selected SMEs, as well as the officials from lending institutions.

3.7 Data Collection Methods and Instruments

Data was collected using an interview schedule and a structured questionnaire designed according to the main variables of the study. Accordingly, interviewing and questionnaire administration were the methods used to collect the data. The interview schedule was administered to officials selected from lending institutions while the questionnaire was administered to the selected respondent top, mid-level and lower level managers of the selected SMEs. An interview schedule and a structured questionnaire were preferred because respondents were literate enough to read and respond accordingly. Moreover, the questionnaire made data collection from the relatively many respondents easy because it allowed the respondents to answer all the questions on their own.

3.8 Measurement of Variables

Variables were measured using Likert response scales suitable for establishing time-periods and respondents' perception of the variables. The specific indicators used to measure the variable were as highlighted forthwith:

(a) SME Competences were measured by establishing an SME's managers' level of industry knowledge, education, managerial competence, skills and experience in the hotel business, presence of business objectives, level of keeping books of accounts regarding financial transactions and position of an SME, and level of manager's self-motivation.

(b) Credit terms were measured in terms of interest rates charged by EIB-APEX, set grace and loan repayment periods, loan size, required creditworthiness, and promoter's contribution.

(c) Market characteristics were measured in terms of an SME's market share, market trend, level of competitiveness in the market, and business seasonality

(d) Level of access to long-term finance was measured in terms of frequency of borrowing, size of borrowed loans, availability of long-term loan finance on an SME's capital account, level of assured financial assistance, presence of interest expenses, loan repayments, and perceived supportiveness of the national lending infrastructure and legislation

(e) Level of business growth was measured in terms of perceived changes in an SME's physical asset base, number of employees, size of clientele, and total revenue realized

3.9 Data Quality Control

Data quality control was carried to ensure that questionnaire items were valid and reliable in measuring the variables of the study. This exercise was carried out are described henceforth:

- **Validity**

The validity of the questionnaire and interview schedule was established using the content validity test. Three people knowledgeable about the themes of the study were used to judge the items of the questionnaire and interview schedule by rating each of them as either relevant or irrelevant to the study. Using the ratings, content validity indices were computed as shown in Appendix 3. The computed indices are shown in Table 3.1

Table 3.1: Content Validity Indices for the Administered Instruments

Research Instrument	Content validity index
Questionnaire	0.840
Interview schedule	0.667

Table 3.1 indicates that the computed content validity indices of the instruments were greater than 0.5. This implies that the instruments were generally valid and therefore ready for data collection

- **Reliability**

The Cronbach Alpha method of internal consistency was used to compute the reliability of the measures of the variables of the study using the various questionnaire items administered to respondents. The Alpha coefficients for each measure are shown in Table 3.2.

Table 3.2: Reliability Coefficients of Measures of Study Variables

Variables	Measures	Alpha
SME Competences:		
	Managerial competence and commitment	0.732
	Training employees	0.693
	Financial record keeping	0.671
	Staff competence and commitment	0.631
	Industry knowledge	0.552
	Having viable business objectives	0.532
	Managerial self-motivation	0.412
Market characteristics:		
	Competitiveness in the Hotel industry	0.730
	Business seasonality	0.611
	Market share	0.530
	Market trend	0.301
Credit Terms:		
	Creditworthiness required of project promoters	0.781
	Interest rates	0.721
	Grace period	0.425
	Loan size	0.414
	Repayment period	0.361
	Promoter's contribution	0.360
Accessibility of Long-term finance:		
	Availability of long-term loan finance in SME account	0.701
	Assured financial assistance from financial institutions	0.601
	Frequency of borrowing	0.410
	Size of borrowed loans	0.389
	Loan repayment	0.350
	Interest expenses	0.302
	National lending infrastructure and legislation	0.201
Business Growth		
	Perceived increase in clientele	0.883
	Perceived increase in business liabilities	0.779
	Perceived increase in physical assets	0.664
	Perceived increase in revenue	0.632
	Perceived increase in suppliers	0.609
	Perceived increase in quality of employees	0.601
	Perceived increase in profitability	0.444

Table 3.2 indicates that while the Alpha coefficients corresponding to size of borrowed loans, loan repayment, interest expenses, national lending infrastructure and legislation, and perceived increase in profitability were less than 0.5, those corresponding to other measures of the variables were greater than 0.5. This implies that apart from the fore-mentioned indicators, the measures shown in the table were dependable as far as measuring the variables of the study was concerned. The reliability of all the questionnaire items was 0.749, which implies that most of the items in the questionnaire were reliable measures of the variables of the study.

3.10 Data Processing and Analysis

Data was analyzed using qualitative and quantitative techniques of analysis:

(a) **Qualitative Analysis**: This involved the use of the content analysis technique. All interview responses obtained from officials from the lending institutions were content analyzed. Interpretative techniques were used to transcribe and semantically construe the given responses according to the context of the study. The process involved editing the responses and presenting them qualitatively in the text of the study.

(b) **Quantitative Analysis**: Data from the administered questionnaire was processed using coding, which helped to enter it into the SPSS computer program. The entered data was then analysed using the descriptive, factor analysis, ANOVA, correlation and regression analysis methods of the SPSS program.

3.11 Problems encountered during the Study

Most of the respondents expressed mistrust and suspicion about the motive of the study. They were hesitant to participate and some of them did not want to divulge information regarding their business competences and level of preparedness in terms of keeping books of accounts. However, attempts were made to convince them that the study was purely for academic purposes. Many respondents then agreed to fill in the questionnaires. However, 6.2% of the expected number of SMEs did not respond. Financial constraints were also faced because the principle researcher was a student. This problem was overcome by appealing to parents and well wishers who provided the necessary financial assistance.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents findings of the relative importance of SME competences, credit terms and conditions, market factors and access to finance in the hotel industry. It also presents the level of access to finance and its influence on the SME growth in the hotel industry.

4.2 Sample Characteristics

This section contains results obtained about the response rate and the characteristics of the sample that were considered relevant for the study. The characteristics of the sample that were considered relevant for the study included the position held by a respondent, his/her educational level and period spent employed in the selected enterprise. Results obtained about each of them together with their relevance to the study are presented henceforth.

4.2.1 Response Rate

Results obtained about the response rate are shown in Table 4.1

Table 4.1 Response Rate

	Target	Actual	Response Rate = Actual/Target x 100%
SMEs	*32	*30	93.8%
SME Managers: Top Managers	32	26	81.3%
Mid-level managers	96	30	31.3%
Lower-level managers	96	68	70.8%
Sub total	**224**	**124**	**55.4%**
Lenders: Bank of Uganda official	1	1	100.0%
Approved Financial Institutions Officials	6	3	50.0%
Project Monitoring Unit Official	1	1	100.0%
Sub Total	**8**	**5**	**62.5%**
Grand Total	**232**	**129**	**55.6%**

* Not included in the total

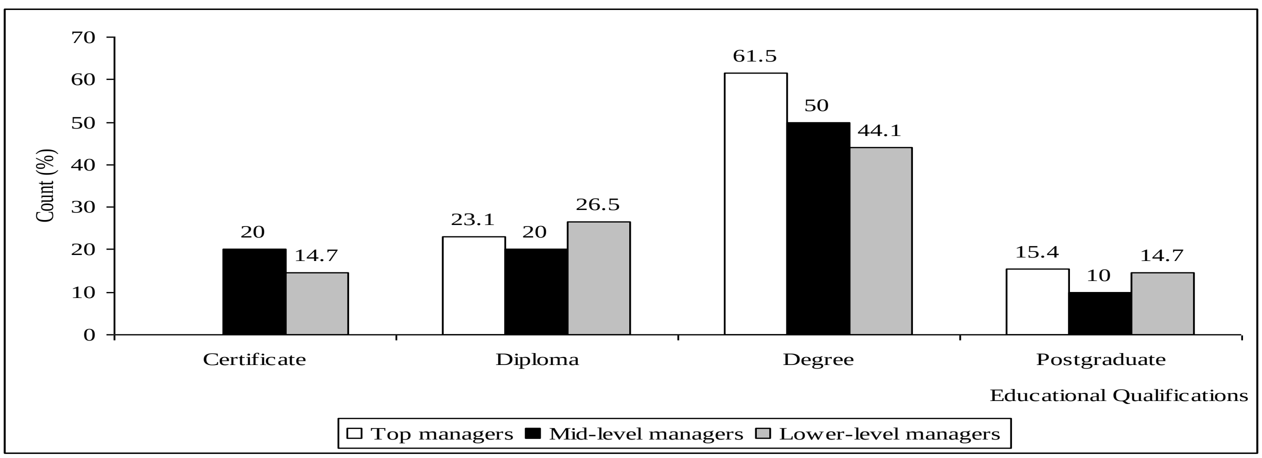
Source: Primary Data

The response rates in Table 4.1 indicate that 93.8% of the targeted SMEs responded. From these enterprises, the majority of the targeted top managers (81.3%) and lower-level managers (70.8%) responded. However, only a few of the mid-level managers (31.3%) responded. This was because most of the SMEs did not have mid-level managers in their management hierarchy. Their management structure was made up of top managers and lower-level or first level managers. Accordingly, this lowered the overall response rate from SMEs to 55.4%. In addition, table 4.1 indicates that lenders responded at 62.5% and this gave an overall response rate of 55.6%. This rate indicates that a larger proportion of the targeted sample was realized.

4.2.2 SME Managers' Level of Education

The analysis of responses to the level of education led to results shown in Figure 1.

Figure 1 SME Managers by Educational Level (N = 124)



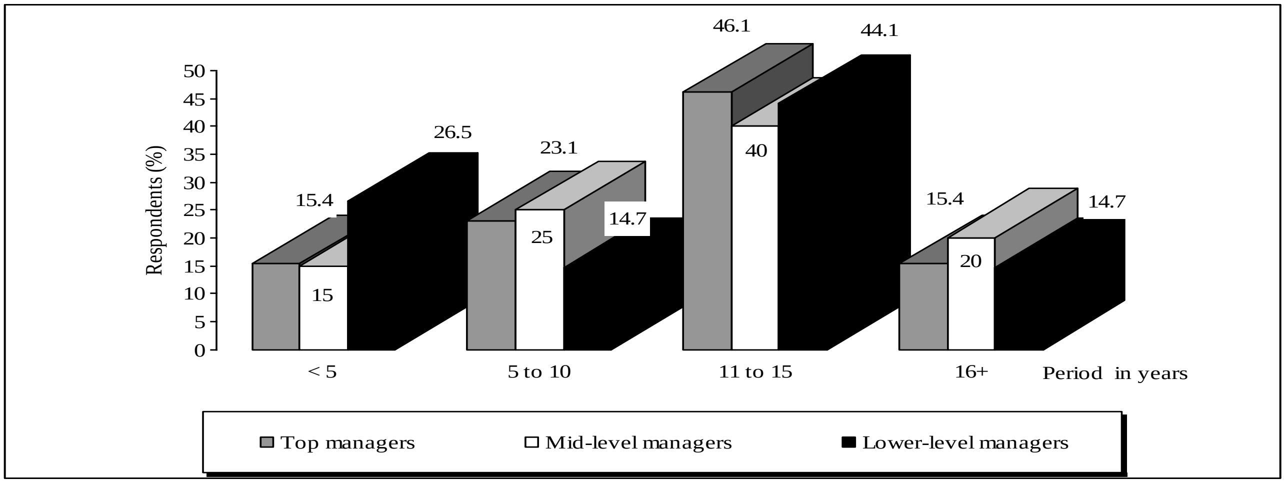
Note: Percentages are row percentages, that is, they are taken per category of respondent
Source: Primary Data

Figure 1 indicates that the majority of the top managers (76.9%), mid-level managers 60%) and lower-level managers (58.8%) were at least degree holders. This implies that the management of most of the SMEs in the hotel industry was handled by graduates with a minimum of a degree. This suggests that most of the selected managers had the educational qualifications needed to scan and understand the business environment in Uganda's Hotel industry, and to accordingly plan for and operate the enterprises in the industry.

4.2.3 Employment Period Spent by SME Managers in the Hotel Industry

Findings about the period that respondents had spent in the Hotel industry are shown in Figure 2.

Figure 2 Respondents by Employment Period Spent in Uganda's Hotel Industry (N = 124)



Source: Primary Data

Figure 2 indicates that the majority of the top managers (84.6%), mid-level managers (85%), and lower-level managers (73.5%) had worked in Uganda's Hotel industry for at least five years. This indicates that the period that the majority of the respondents had spent was long enough for them to be well acquainted with the business and financing operations of the enterprises in the industry. Data was thus from a largely informed respondents and may be considered reliable.

4.3 Factor Analysis Results

Factor analysis was applied to reduce the various questionnaire items administered to SME managers into fewer and reliable principle components of the study variables. Results obtained are presented in the sections that follow hereunder.

4.3.1 Factor Analysis Results on Business Growth of SMEs in Uganda's Hotel Industry

When the responses to the various questionnaire items regarding the level of business growth were factor analyzed to reduce them into fewer principle components, results obtained are shown in Table 4.2.

Table 4.2 Rotated Matrix of the Principle Components of Level of Business Growth of the SMEs in Uganda's Hotel Industry

Questionnaire items	Components						
	Perceived increase in clientele	Perceived increase in business liabilities	Perceived increase in physical assets	Perceived increase in revenue	Perceived increase in suppliers	Perceived increase in quality of employees	Perceived increase in profitability
We have more orders from our customers.	.851						
The amount of deliveries has increased	.743						
Our contacts with new customers have increased.	.720						
The number of employees has increased in the hotel.	.706						
Our supply outlet chances have increased	.655						
Different customers/clients we serve have increased	.691						
Our supply chains have increased	.667						
The number of existing customers/clients we serve has increased.	.652						
We have expanded so much because of acquiring credit.		.631					
The hotel has an accumulated amount of debts		.603					
Credit has strongly contributed to our growth		.600					
The hotel's creditors have increased		.530					
We have opened up more outlets			.519				
We now have more assets in the hotel			.474				
We have been able to re-invest our profits			.451				
Our sales have increased over the years				.483			
Our daily sales volumes have increased.				.460			
Our supply linkages have also increased					.443		
The number of new suppliers has increased.					.411		
Our employees have been able to acquire some additional skills						.396	
Our employees understand more about the needs of our clients						.343	
The profit margins have increased							.319
Eigen values	5.305	4.280	4.242	2.558	1.845	1.657	0.102
Alpha	0.883	.779	0.664	0.632	0.609	0.601	0.444
% Variance explained	33.153	12.747	8.77	3.514	3.091	2.354	1.354

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization
Source: Primary Data

Table 4.2 indicates that seven principle components were extracted from the responses to the administered questionnaire items. These were identified as changes in the: perceived increase in clientele, perceived increase in business liabilities, perceived increase in physical assets, perceived increase in revenue, perceived increase in suppliers, perceived increase in quality of employees, and perceived increase in profitability. The Alpha values shown in table 4.4 show the reliability of each extracted component in measuring the level of business growth. A look at these values in table 4.2 reveals that apart the Alpha value corresponding to perceived increase in profitability, they values were greater than 0.5. This implies that with the exception of perceived increase in profitability, the components were reliable measures of business growth of the SMEs in Uganda's Hotel industry, with a perceived in clientele as the most reliable measure. The perceived increase in profitability can be ignored since it was not a reliable measure of the SMEs' business growth.

Eigen values show how the extracted components claimed the administered questionnaire items while the percentage of variance explained indicates how the components accounted for the variation in the level of SME business growth. The Eigen values in table 4.2 indicate that it was again changes in the size of clientele that claimed most of the questionnaire items (Eigen value = 5.305). Further, the percentage of variance explained in table 4.2 indicates that it was still the perceived increase in clientele that accounted for most of the variation in the level of business growth of SMEs in Uganda's Hotel industry (Variance = 33.153%). Factor loadings indicate how each questionnaire item contributed to the extracted principle component. Accordingly, those shown in table 4.2 reveal that most respondents considered having orders from customers as the best indicator of perceived increase in the SMEs' clientele (Factor Loading = 0.851).

Similarly, table 4.2 indicates that most respondents showed that growth in the business of the SMEs resulted from liabilities realised in form of acquiring credit (Factor Loading = 0.631) and that a change in their asset base was realized in form of opening up more outlets (Factor Loading = 0.519). Further, most respondents indicated that an increase in suppliers resulted most from expanded supply linkages (Factor Loading = 0.443). They also showed that an increase in the quality of employees was most revealed by the employees' acquisition of additional skills (Factor Loading = 0.396). Generally, results in table 4.2 indicate that most SMEs in Uganda's Hotel industry determine their growth in business basing largely on perceived increase in clientele established from increases in customer orders. Their increase in asset base was also perceived to take the form of opening up more outlets. Further, increases in most of the SMEs' suppliers resulted perceivably from expanded supply linkages. Increases in the quality of the SMEs' employees are realized by ensuring that the employees acquire more skills. Results also show that business growth of most of SMEs resulted from increasing liabilities by acquiring credit. Results on the level at which the SMEs accessed such credit are presented in the next section.

4.3.2 Factor Analysis Results on the Level of SMEs' Access to Long-term Finance

When the responses to the various questionnaire items regarding accessibility to long-term finance provided by EIB-APEX through financial institutions were factor analyzed to reduce them into fewer principle components, results obtained are shown in Table 4.3.

Table 4.3 Rotated matrix of the Principle Components of Level of Access to Long-term Finance

Questionnaire items	Components						
	Availability of long-term finance in SME accounts	Assured financial assistance from financial institutions	Frequency of borrowing	Size of borrowed loans	Loan repayment	Interest expenses	National lending infrastructure and legislation
A part of our capital account is made up of a loans	.930						
We re-schedule payments with the financing institutions.	.919						
There is room for adjustments in loan payment mechanisms.	.812						
We rely on loans to increase our sales.	.806						
There is good relationship between the hotel and financing institutions		.813					
We get loans using the most favourable credit products		.809					
We are informed about new credit products whenever they are introduced		.745					
We get loans from financial institutions whenever we need them			.724				
We get loans from financial institutions of any size we want				.711			
We repay loans as scheduled					.679		
We service loans from financial institutions as schedule						.672	
The laws governing loans are supportive to getting a loan							.543
Eigen values	3.28	2.10	0.524	0.506	0.461	0.452	0.295
Alpha	0.701	0.601	0.410	0.389	0.350	0.302	0.201
% Variance explained	16.53	10.94	8.71	4.62	4.07	4.00	1.49

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization

Source: Primary Data

Table 4.3 indicates that seven components were extracted as measures of level of access to long-term finance. These were identified as: availability of long-term loan finance in SME capital account, assured financial assistance from financial institutions, frequency of borrowing, size of borrowed loans, loan repayment, interest expenses, and national lending infrastructure and legislation. A look at the Alpha values reveals that the only values that were all greater than 0.5 corresponded to availability of long-term loans in SME capital account and, assured financial assistance from financial institutions. This implies that these were the only reliable measures of the SMEs' level of access to long-term finance. Accordingly, other components identified in Table 4.3 were not reliable indicators of this level of access and can be ignored. The availability of long-term finance in SME capital accounts the most reliable indicator. The Eigen values and the percentage of variance explained in table 4.3 indicate that this was again the indicator that not only claimed most of the questionnaire items (Eigen value = 3.28) but also accounted for the largest variation in the level of access to long-term finance (Variance = 16.53%).

A look at the factor loadings in table 4.3 reveals that most of the respondents showed that the level of the SMEs' access to long-term finance was mostly manifested in the capital accounts the SMEs (Factor Loading = 0.930). Most respondents also showed that having an SME having a good relationship with financial institutions contributed most to its assuredness of financial assistance from the institutions (Factor Loading = 0.813). Generally, results show that the level of access to long-term finance of most of the SMEs in Uganda's Hotel industry was shown by the availability of long-term loans in SMEs' capital accounts. Results also show that keeping a good relationship with financial institutions made most of the SMEs assured of accessing financial assistance from financial institutions.

4.3.3 Factor Analysis Results on Factors Influencing the Level of SMEs' Access to Long-term Finance provided by EIB-APEX

The considered factors included SME competences, credit terms, and market characteristics of the SMEs in Uganda's Hotel industry. Results on each factor are presented separately.

(a) Factor Analysis Results on Competences of SMEs in Uganda's Hotel Industry

The responses to the various questionnaire items administered to establish the competences of SMEs in Uganda's Hotel industry were reduced into fewer, reliable and independent components. Results obtained are shown in Table 4.4.

Table 4.4 Rotated matrix of the Principle Components of SME Competences

Questionnaire items	Components						
	Managerial competence and commitment	Training employees	Financial record keeping	Staff competence and commitment	Industry knowledge	Having viable business objectives	Managerial self-motivation
The company's managers at all levels have adequate managerial skills.	.934						
We have experienced managers.	.885						
We have committed managers.	.872						
We negotiate with the financing institutions for loans at affordable interest rates.	.799						
We are aware of the hidden search fees involved while obtaining credit.	.748						
Loan management is easy, we can repay any loan	.697						
My colleagues demonstrate understanding of what they are supposed to do.	.646						
1 am always well informed about my work requirements	.597						
I can do my work without close supervision.	.575						
I am professionally trained personnel in my field of work.	.563						
I keep close attention on my tasks and ensure all procedures are done correctly.	.559						
I have enough experience to execute my task in this hotel.	.554						
I have the capability to achieve the set targets by departmental heads.	.521						
I understand the fundamental principles of my work.	.502						
I always perform my tasks to satisfactory standards.	.501						
Am able to execute my tasks because I posses the required skills and knowledge.	.468						
The hotel accountant (s) is professionally trained	.451						
I monitor staff activities to ensure tasks are performed according to set objectives	.447						
I have the required skills to perform work effectively.	.429						
I pay close attention to my tasks to ensure that all procedures are done correctly.	.368						

Staff members are sent for trade fairs to learn how to perform their tasks better.	.348						
Employees have professional training in the roles they are engaged at in this hotel.		.903					
The hotel organizes seminars for staff to make them more competitive		.827					
This hotel has special training centres for that enhance the skills of its staff.		.785					
Interdepartmental meetings are held to facilitate knowledge exchange among staff		.739					
Job rotation is done for staff to know what goes on in all company departments		.709					
We undergo training at work n form of. job rotation, on the job, off job etc		.733					
This hotel has consultants helping its staff members to improve their skills.		.761					
I do personal training in order to update myself with work practices.		.577					
Staff members are often sent for study visits to learn how perform their tasks better.		.401					
We keep proper sales records.			.901				
We provide proper financial records regarding our business to financing institutions			.846				
The company has more assets than liabilities			.785				
We provide timely records to the financing institutions.			.783				
We provide accurate records to the financing institutions.			.717				
We anticipate increasing profitability from the hotel.			.665				
The company depends more on loan finance than equity			.638				
Staff members have knowledge for their work				.889			
In-house personnel are an important source of knowledge and skills for the hotel				.798			
Staff members perform assigned tasks without close supervision.				.717			
The company operates following clear objectives and realistic business plans.					.865		
We provide enough attractive investment proposals to the financing institutions.					.644		
We have knowledge about our contacts						.783	
Recruitment has been a major source of knowledge and skills for in the hotel.						.438	
I use my initiative to execute my work effectively and efficiently.							.596
Eigen values	6.28	5.30	4.07	1.75	0.79	0.66	.355
Alpha	0.732	0.693	0.671	0.631	0.552	0.532	0.412
% Variance explained	16.53	13.94	10.71	5.62	5.47	4.22	1.49

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization

Source: Primary Data

Table 4.4 indicates that seven principle components were extracted. These were identified as: managerial competence and commitment, training employees, financial record keeping, staff competence and commitment, industry knowledge, having viable business objectives, and managerial self-motivation. A look at the Alpha values reveals that they were greater that 0.5, except the one corresponding to managerial self-motivation. This implies that apart from managerial self-motivation, the components were reliable measures of SME competence, with managerial competence and commitment as the most reliable measure.

Table 4.4 indicates further that both the largest Eigen value, which is 6.28, and the largest percentage of variance explained (which is 16.53%) corresponded to managerial competence and commitment. This implies that managerial competence and commitment not only claimed most of the questionnaire items but also accounted for the largest variation in SME competence. Using similar interpretative logic, Table 4.4 indicates that this component was followed by training employees, financial record keeping, staff competence and commitment, industry knowledge, having viable business objectives, with managerial self-motivation accounting for the least variance in SME competence.

Factor loadings in Table 4.4 indicate that most of the respondents showed that the best contributor to the SMEs' managerial competence and commitment was the SME having managers at all levels of management possessing adequate managerial skills (Factor loading = 0.934). Similarly, most respondents showed that employees having professional training in the roles assigned to them contributed most to employee training as an SME competence (Factor Loading = 0.904). In the same way, most SMEs showed that keeping proper sales records contributed most to financial record keeping as an SME competence (Factor Loading = 0.901), and so forth.

Generally, the findings in table 4.4 indicate that managerial competence and commitment contributes most to the competence of SMEs operating in Uganda's Hotel industry. It is closely followed by the SME's level of training its employees, keeping financial records; level of the SME's staff competence and commitment; the level of industry knowledge possessed by the SME's managers; and the SME having viable business objectives. The least contributor to SME competence in this industry is reportedly managerial self-motivation. The results also show that managerial competence and commitment make an SME more competent when its managers at all levels possess adequate managerial skills and when the SME's employees are professionally trained in the roles assigned to them. The results imply further that the SME is considered more competent when its management ensures proper keeping of sales.

(b) Factor Analysis Results on Satisfying Credit Terms Set by Financial Institutions

When the responses to the various questionnaire items on credit terms were factor-analyzed to reduce them into principle components, results obtained are shown in Table 4.5.

Table 4.5 Rotated matrix of the Principle Components of Credit Terms

Questionnaire items	Components					
	Creditworthiness required of project promoters	Interest rates	Grace period	Loan size	Repayment period	Promoter's contribution
The Hotel directors/owners are credit worthy	.817					
Our hotel does not find it difficult to get a loan from Financial institutions scheme	.812					
Our hotel has no outstanding debts with Financial institutions scheme	.758					
There are no restrictions on the Loans sizes that our hotel obtains from financial institutions	.756					
We meet the collateral required by financial institutions	.716					
We get the loans from financial institutions whenever we apply for them	.622					
The hotel considers interest rates set by financial institutions appropriate		.806				
Interest rates charged by financial institutions are appropriate for the hotel business to meet		.789				
We appreciate the interest rates set by financial institutions		.780				
We are offered sufficient grace periods for the loans borrowed from financial institutions			.882			
We receive the loan sizes applied for from financial institutions				.661		
We appreciate the repayment period of the loans obtained from financial institutions					.547	
We contribute to the projects for which we apply for financial institutions loans as required						.502
Eigen values	2.406	2.186	.778	.437	.299	.252
Alpha	0.781	0.721	0.425	0.414	0.361	0.360
% Variance explained	24.15	22.85	5.64	4.40	4.21	3.16

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization
Source: Primary Data

Table 4.5 indicates that six components were extracted out of the responses to the credit terms set by financial institutions. These were identified as: creditworthiness required of project promoters, interest rates, grace period, loan size, repayment period, and promoter's contribution. The Alpha values indicate that only two of these components were reliable indicators of credit terms. These were creditworthiness required of project promoters as the most reliable and interest rates. Such creditworthiness not only claimed most of the questionnaire indicators of credit terms (Eigen Value = 2.406), it also accounted for the largest variation in the credit terms set by financial institutions. The factor loadings in Table 4.5 indicate that most respondents revealed that the best contributor to the creditworthiness required of SMEs by financial institutions was when an enterprise's directors or owners were creditworthy (Factor Loading = 0.817). Similarly, most respondents revealed that the perceived appropriateness of the interest rates set by financial institutions for the loans was the best measure of these interests as credit terms (Factor loading = 0.806).

In general, results in table 4.5 show that the credit term that most financial institutions set for SMEs in Uganda's Hotel industry to qualify for a long-term loan is the creditworthiness of the promoters of the project for which the loan is being applied and that these promoters should include the SME's directors or owners. The results show further the loan terms set by the financial institutions in form of interest rates charged for borrowing long-term finance were appropriate to most of the SMES.

(c) Factor Analysis Results on Market Characteristics of SMEs in the Hotel Industry

Factor analysis of the responses to the various questionnaire items on market characteristics led to results shown in Table 4.6.

Table 4.6 Rotated matrix of the Principle Components of Market Characteristics

Questionnaire items	Components			
	Enterprise's competitiveness in the Hotel industry	Business seasonality	Market share	Market trend
Overall, we are satisfied with our position in the hotel industry	.932			
We have adequate knowledge about other hotels in the industry	.864			
We market our hotel business properly.	.839			
Our hotel remains among the leading ones in the industry	.739			
This hotel is well known to both clients and competitors	.667			
It is easy to get a loan in periods of high business activity		.843		
It is easy to get a loan during periods of low business activity		.839		
A loan is easily obtained when a project's business activity is consistently high		.709		
We use information from marketing department in determining our market share			.682	
We enjoy a substantial share of the hotel industry			.564	
Our client base has been increasing over the years				.467
Eigen values	1.71	0.87	0.78	0.22
Alpha	0.730	0.611	0.530	0.301
% Variance explained	38.50	19.21	18.84	2.80

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization
Source: Primary Data

Table 4.6 indicates that four principle components were extracted. These were identified as level of an enterprise's competitiveness in the Hotel industry, business seasonality, market share, and market trend. The Alpha values indicate that the components were reliable in measuring market characteristics apart from market trends. The level of an enterprise's competitiveness was the most reliable characteristic. Also, it was this characteristic that not only claimed most of the questionnaire items (Eigen value = 1.71) but also accounted for the largest variation in the market characteristics (Variance = 38.5%).

Factor loadings in table 4.6 indicate that most respondents showed that their overall satisfaction with the position of their SME in the hotel industry contributed most to the level of the SME's competitiveness in the industry (Factor Loading = 0.932). As far as business seasonality was concerned, most SMEs felt that it was easy to get a loan in periods of high business activity (Factor Loading = 0.843). On the whole, results in table 4.6 show that the level of an SME's competitiveness is the most important market characteristic to the majority of the SMEs in Uganda's Hotel industry; and that this level is considered adequate if the SME's overall position in the industry is satisfactory to the SME's managers. Results show further that business seasonality affects the SMEs in such a way that most of them find it easy to get long-term loans in periods of high business activity.

4.4 Correlation Analysis Results

Specially, bivariate Pearson correlation analysis was used to respond to the fourth objective and research question of the study. That is, to establish the relationship between the level of access to long-term finance, factors influencing this level, and the level of business growth of the SMEs in Uganda's hotel industry. Results obtained are shown in table 4.7.

Table 4.7 Relationship between the Level of Accessibility to Long-term Finance, Factors influencing this Level and the Level of Business Growth of the SMEs in Uganda's Hotel Industry

Variables	Level of access to long-term finance	Market characteristics	SME competences	Credit terms	Level of business growth
Level of access to long-term finance	1.000				
Market characteristics	.408*	1.000			
SME competences	.634**	.342	1.000		
Credit terms	.567**	.052	.700**	1.000	
Level of business growth	.657**	.405*	.561**	.445*	1.000
	* Correlation is significant at the 0.05 level (2-tailed).				
	** Correlation is significant at the 0.01 level (2-tailed).				

4.4.1 Relationship between Access to Long-term Finance and Factors Influencing this Level.

From results in table 4.7, each factor correlated significantly and positively with the level of SMEs' access to long-term finance provided by EIB-APEX through specified financial institutions. Specifically, SME competences related positively and significantly with the level of

SMEs' access to this finance ($r = 0.634$, Sig. < 0.01); credit terms related positively and significantly with this level ($r = 0.567$, Sig. < 0.01); and so did market characteristics ($r = 0.408$, Sig. < 0.05). These results imply that each factor influenced the level of SMEs' access to long-term finance provided by EIB-APEX in a significant and positive manner, with an SME's competences having the strongest influence relationship.

4.4.2 Relationship between the Influenced Access to Long-term Finance and of SME Business Growth

Results in the table 4.7 indicate that there was a significant positive relationship between the influenced level of access to long-term finance and level of business growth of the SMEs in Uganda's Hotel industry ($r = 0.657$, Sig. < 0.01). This relationship implies that the extent to which SMEs in Uganda's Hotel industry grow in business depends significantly on the level of their access long-term finance as influenced by not only by an SME's competences and nature of market characteristics but also the credit terms set by financial institutions specified by the EIB-APEX.

Generally, the results in table 4.7 suggest that the level of business growth achieved by SMEs in Uganda's Hotel industry is significantly and positively related to their level of access to long-term finance as influenced not only by their competence and market characteristics but also credit terms set by financial institutions. Further analysis was carried out to establish whether level of access to long-term finance and the factors influencing it predicted the level of business growth of the SMEs in Uganda's Hotel industry as explained in the next section.

4.5 Regression Analysis Results

Regression analysis was carried out for purposes of establishing whether or not the level of access to long-term finance influenced by specified factors predicted the level of business growth of SMEs in Uganda's Hotel industry. Results obtained are summarised in table 4.8.

Table 4.8 Prediction of the Level of Business Growth of the SMEs in Uganda's Hotel Industry by the Influenced Level of Access to Long-term Finance

Independent variables	Standardized coefficients			Dependent variable: Business Growth
	Beta	T	Sig.	R-Square = 0.546 **Adjusted R-Square = 0.463** **F-value = 6.614** **Sig. = 0.001**
(Constant)		2.296	0.032	
Level of Access to long-term finance	0.426	2.456	0.022	
Credit terms	0.198	0.949	0.353	
SME competences	0.342	2.099	0.041	
Market characteristics	0.179	1.081	0.291	

Source: Primary Data

Table 4.8 indicates that the level of access to long-term finance influenced not only by SME competences and market characteristics but also by credit terms set by financial institutions identified by EIB-APEX linearly and significantly predict 46.3% of the level of business growth of the SMEs in Uganda's Hotel industry (Adjusted $R^2 = 0.463$, $F = 6.614$, Sig. < 0.01).

A critical look at the standardized Beta coefficients in table 4.8 reveals that 42.6% of the level of business growth achieved by SMEs in Uganda's Hotel industry is significantly predicted by the level of SME's access to long-term finance level (Beta = 0.426, t = 2.456, sig. < 0.05), especially when the access level is influenced by SME competences (Beta = 0.342, t = 2.099, Sig. < 0.05).

The Beta coefficients in table 4.8 show further that the level of access to long-term finance influenced by credit terms and SME market characteristics predicts SME business growth in an insignificant though positive manner. This implies that the influence that credit terms and SME market characteristics have on the level of access to long-term finance provided by EIB-APEX has an insignificant effect on the level of business growth achieved by SMEs in Uganda's Hotel industry.

Generally therefore, the results indicate that when the level of SMEs' access to long-term loan finance is collectively influenced by SME competences, market characteristics and credit terms, it predicts a significant proportion of the level of business growth of the SMEs. However, the prediction is significant only when the access is influenced by SME competence.

4.6 Regression Formula

From results in Table 4.8, the following in the Standardized regression formula (Model)

$$\underline{y = 0.426x_1 + 0.198x_2 + 0.342x_3 + 0.179x_4.}$$

Where y is the level of SME business growth

x_1 is the level of access to long-term finance

x_2 represents credit terms

x_3 stands for SME competences

x_4 represents market characteristics

It is important to not that this equation was not based on quantitative but qualitative data. It therefore cannot be used to determine quantitative levels of SME growth resulting from attending its combined determinants. The determinants are combined using coefficients generated from qualitative data. The coefficients can thereby be meaningful only in a qualitative sense. Accordingly, they can only convey qualitative implications to SME managers. In particular, the coefficients indicate to SME managers which factors deserve more management attention than others if the desired business growth is to be pursued and realised.

4.7 Other Findings

4.7.1 ANOVA Results

This section contains results regarding the one-way Analysis of Variance (ANOVA). The ANOVA was conducted to establish whether or not there were differences in the main variables of the study resulting from the characteristics of respondents considered relevant for the study.

(a) ANOVA Results on Respondents by Position held in the Company

Results obtained about how respondents differed in their perception of study variables as a result of the positions they held in their respective SMEs are shown in Table 4.9.

Table 4.9 Variables of the Study as Assessed by Respondents according to Position held in SME

Variables	Mean scores of Respondents according to Position held in SME						
	Top Managers n = 26	Mid-Level Managers n = 30	Lower-level Managers n = 68	Total N = 124	**df**	**F**	**Sig.**
SME Competences	4.83	4.17	3.30	4.13	2	3.557**	0.001
Level of Access to Finance	4.75	4.42	3.42	4.17	2	4.250**	0.000
Market Characteristics	4.17	4.33	3.20	4.12	2	8.931**	0.000
Credit Terms	4.08	2.30	2.75	4.46	2	4.589**	0.012
Level of Business Growth	4.33	3.33	2.92	3.62	2	7.296**	0.000

**significant at 0.01
Source: Primary Data

Looking at the F-values in table 4.9, results indicate that as a result of position held in an enterprise, respondents significantly differed in their perception of all the variables of the study. They particularly differed in their perception of SME competences (F = 3.557, Sig. < 0.01); level of access to long-term finance (F = 4.250, Sig. < 0.01), nature of market characteristics of their enterprises (F = 8.931, Sig. < 0.01), credit terms (F = 4.589, Sig. < 0.01), and level of their enterprises' business growth (F = 7.296, Sig. < 0.01).

Basing on the scoring of the strongly-agree-strongly-disagree response scale used to assess the variables, the higher the mean value, the more positive was the perception of a variable and vice versa. This is because '5' represented 'Strongly agree', '4' stood for 'agree', '3' for 'uncertain', '2' for 'disagree' and '1' represented 'strongly disagree'. Accordingly, results in table 4.9 indicate that generally, whereas the top and mid-level managers of the SMEs strongly agreed and therefore had a very positive perception of their enterprises' competences, level of access to long-term finance, and nature of market characteristics, the lower-level were perceivably uncertain of these variables. Regarding credit terms and level of business growth, top managers agreed and therefore showed a positive perception of these variables but the middle and lower-level managers were uncertain about them.

(b) ANOVA Results on Respondents by Education Level

Results obtained about how respondents differed in their perception of study variables as a result of their education levels are shown in Table 4.10.

Table 4.10 Variables of the Study as Assessed by Respondents according to Education Level

Variables	Mean scores by Respondents according to education levels					df	F	Sig.
	Postgraduate n = 23	Degree n = 61	Diploma n = 24	Certificate n = 16	Total N = 124			
SME Competences	4.90	4.71	3.01	3.11	4.46	3	21.740**	.000
Level of Access to Finance	4.80	4.83	3.43	3.34	4.04	3	17.931**	.000
Market Characteristics	4.80	3.93	3.33	3.21	3.45	3	10.510**	.000
Credit Terms	4.60	3.61	3.31	3.19	3.87	3	68.714**	.000
Level of Business Growth	4.78	3.70	3.20	2.68	3.69	3	31.863**	.000

**significant at 0.01
Source: Primary Data

Table 4.10 summarizes the way respondent differed in their perception of the variables of the study as a result of their education levels. A look at the F-values reveals that the perceptions of respondents differed significantly on all the variables. A critical comparison of the mean scores reveals that whereas postgraduate and degree holders had a positive perception of all the variables, diploma and certificate holders were uncertain.

(c) ANOVA Results on Respondents by Period of Employment

ANOVA results regarding how the respondents assessed the variables of the study according to their period of employment in Uganda's Hotel industry are in Table 4.11.

Table 4.11 Variables of the Study as Assessed by Respondents according to Period of Employment in Uganda's Hotel Industry

Variables	Mean scores of respondents according to period in years of employment in Uganda's Hotel industry					df	F	Sig.
	16+ n = 20	**11-15** n = 53	**5 – 10** n = 24	**< 5** n = 27	**Total** N = 124			
SME Competences	4.60	4.30	4.25	4.02	4.42	3	1.179	0.056
Level of Access to Finance	4.00	4.70	4.79	3.02	3.89	3	7.227**	0.001
Market Characteristics	4.30	4.70	3.56	3.38	3.48	3	3.259*	0.020
Credit Terms	4.07	4.30	3.88	3.09	3.82	3	2.563*	0.024
Level of Business Growth	4.69	4.10	4.00	3.34	3.89	3	9.029**	0.000
	**significant at 0.01 *significant at 0.05							

Source: Primary Data

Table 4.11 summarizes the way respondent differed in their perception of the variables of the study as a result of their period of employment in Uganda's Hotel industry. A look at the F-values reveals that the perceptions of respondents did not significantly differ in the perception of SME competences as a result of this period (F = 1.179, Sig. = 0.056). However, they significantly differed in their perception of other variables. A critical comparison of the mean scores reveals that whereas respondents who had spent more than five years working in Uganda's Hotel industry had a generally positive perception of the variables, those that had worked for less than five years were generally uncertain except on SME competences where the perception of these respondents was also positive.

4.7.2 Interview Results from Lending Institutions

When the officials from lending institutions dealing with the EIB-APEX were asked to explain the level at which SMEs in the Hotel industry was generally low, the official from the Project Monitoring Unit replied as follows:

> Most of the projects we get do not qualify on the criteria set by EIB. First of all, whereas EIB considers only projects established to be already in business and keeping all relevant books of accounts, most of the projects received from the Hotel industry are almost start-up projects requiring start-up capital. EIB-APEX does not give start-up loans. Secondly, the financial institutions through which EIB-APEX finance is channelled are required to sign a promissory note committing them to repay the finance at some specified future date. In order to ensure that the money is not lost through default, these institutions set collateral conditions that many SMEs in Uganda's Hotel industry cannot meet....

The official selected from the Development Finance Department of Bank of Uganda replied:

> Bank of Uganda has to ensure that EIB funds are disbursed on a revolving basis. It therefore sets conditions for financial institutions which will enable the Bank to achieve this. The money should be disbursed to as many projects as possible so as to achieve the overall objective of sending it to Uganda: That is, boosting Uganda's economic growth through supporting viable small and medium-scale enterprises identified as drivers of the economy. In order to satisfy the conditions, particularly one of promising to repay the loan at a specified future debt, financial institutions set credit terms which very few SMEs qualify for.

One of the officials selected from the financial institutions had this to say:

> The whole problem lies with the criteria that we have to follow in order to qualify a project for a loan. Whereas the essence of the EIB funds is to accelerate economic growth through supporting SMEs, it is defeated by the very conditions set by EIB. Can you imagine supporting an SME on the basis of going concern? How many SMEs do we have in Uganda's Hotel industry that can qualify on this criterion?

Another official from another financial institution replied, "Most of the SMEs cannot access EIB loans because as starters, they lack the required collateral…"

These findings suggest that from the lenders' perspective, the explanation behind the low level at which SMEs in Uganda's Hotel industry access EIB revolves around the terms set by EIB for qualification for the loans.

When the officials were asked to suggest strategies that would help boost the level at which the SMEs access EIB loans, they responded as shown in Figure 3.

Figure 3 Strategies to Improve the Level of Access to EIB-APEX Finance by SMEs in Uganda's Hotel Industry, as Suggested by Officials from Lending Institutions

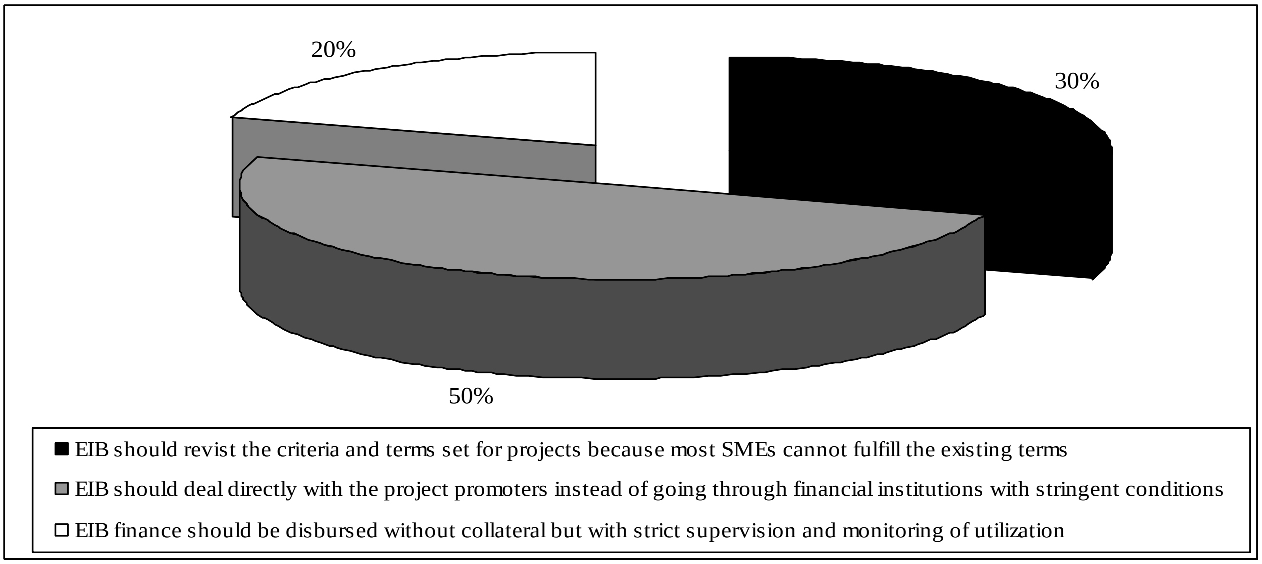


Figure 3 indicates that the largest proportion (50%) of officials from lending institutions felt that EIB should deal directly with the project promoters instead of going through financial institutions with stringent conditions. The detailed implications of these results are discussed in the next chapter.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on the discussion of findings presented and interpreted in the previous chapter. The conclusions and recommendations derived from the findings are also presented in this chapter.

5.2 Discussion of Findings

In this section, attempt is made to examine the implications of the findings while highlighting any consistency or contrast that they have with the existing literature. The section is organized according to the objectives of the study.

5.2.1 Level of Business Growth of the SMEs in Uganda's Hotel Industry

The first objective of the study focused on examining the level of business growth of the SMEs in Uganda's Hotel industry. Results show that this level was revealed in terms of changes in the size of clientele, business liabilities, physical assets, revenue, suppliers, quality of employees, and profitability realized by their respective SMEs. The results therefore concur with the observations made by ACCA (2006c), Christie & Crompton (2002), Holland *et al.*, (2003), and Kayongo (2005) that a firm's level of growth is reflected in changes in the firm's size of clientele, level of business liabilities, physical assets, realized revenue, suppliers, quality of employees, and amount of realized profits.

Results revealed further that the measure used by most of the SMEs in Uganda's Hotel industry to ascertain their business growth constitutes changes in the size of clientele as determined using orders made by customers. Establishing the level of business using changes in clientele means that when most of the SMEs in the Hotel industry get more orders from customers, they consider themselves to be growing in business and vice-versa.

However, further analysis revealed that managers selected from most of the SMEs disagreed that their size of clientele was increasing as desired. This implies that the level of business growth of most SMEs was below expectation as far as their customer size was concerned. Since customers are the source of cash, revenue and profits, a less than desired level of customer size means less than expected expansion in revenue, cash and profit, all of which imply failure to grow in business as desired.

Important to note is that there were a few SMEs whose managers agreed to an increase in customer size resulting from increased client orders. Such an increase may be considered as reflecting positive business growth because, as argued before, it is from client orders that an enterprise, especially in a Hotel industry, gets its cash, revenue and profits. It is also from increased client base that an enterprise can realize more capital used to expand its asset base in form of opening up more outlets, as a few managers reported, and to also increase the quality of its employees through facilitating acquisition of additional skills. However, such increase is not a sufficient measure because some orders may turn out to be un-honoured. Care has to therefore be taken to ensure that the increase in clientele is considered together with other measures.

In particular, increased customer orders realized after an SME has accumulated liabilities as a result of acquiring more credit may not result into an automatic positive business growth: For as Pandey (1996) argued, an enterprise cannot claim to be positively growing in business when its liabilities are greater than assets. Growth occurs but only in a capital or liability sense and this is not tenable growth, especially when repayment of liabilities starts before a firm reaches its break-even point. Actually, an enterprise's level of business growth remains low when the enterprise's liabilities are greater than assets; and lowers further when the grace and repayment periods are shorter than the period that the firm requires to reach its break-even point. More about this will be discussed later.

This situation was aggravated by the fact that although most of the SMEs ascertained the level of their business growth in form of changes in the size of their suppliers determined according to changes in supply linkages, such changes were largely based on credit. Indeed, most of the SME managers agreed and therefore showed that their SMEs kept a desired level of suppliers on credit. This indicates that as SMEs increased their client base in form of customer orders, the services they provided as a way of honouring the orders were largely obtained from suppliers on credit. This is not a good situation because surviving on credit offered by suppliers is not prudent. Should suppliers choose to demand immediate payment; a business can run out of capital and close down.

Generally, therefore, results indicate that the level of business growth achieved by most of the SMEs in Uganda's Hotel industry was generally below expectation. Most of the SMEs used customer orders as a measure of their business growth to reveal that they failed to realize the desired level of business growth. They had high levels of liabilities generally and those accumulated from their suppliers in particular.

5.2.2 Level of SMEs' Access to Long-term Finance provided by EIB-APEX

Results indicate that the level at which SMEs in Uganda's Hotel industry accessed long-term finance provided by EIB-APEX through specified financial institutions was established in terms of availability of long-term loan finance in an SME's capital account, assured financial assistance from the financial institutions, frequency of borrowing, size of borrowed loans, loan repayment, interest expenses, and national lending infrastructure and legislation.

In particular, the most reliable indicator and one that accounted for the largest variation in the level of access to the provided long-term finance was established as the availability of long-term loan finance in an SME's capital account. This was revealed in terms of a part of the SMEs' capital accounts being made up of a loan obtained from financial institutions. The results therefore support the argument raised by ACCA (2006c) and Berger *et al*., (2004) that the availability of long-term loan finance in an enterprise's capital account is one of the indicators of accessibility to long-term finance.

Unfortunately, further analysis of SME managers' responses revealed that most of these managers disagreed that their SMEs' capital accounts had loans obtained from financial institutions. Even when most SME managers agreed that having a good relationship with these institutions contributes much to an enterprise's level of assuredness of financial assistance from the institutions, thereby concurring with Berger *et al.*, (2004), they disagreed that they could obtain a loan from the institutions whenever they needed it. This means that the SMEs' frequency of borrowing was low and is therefore in agreement with Barnett's (2000) observation that the frequency borrowing from financial institutions is often low for most of the small and medium scale enterprises.

Further, most of the SME managers disagreed that they borrowed loans of desired sizes from the institutions, repaid loans or even incurred interest expenses. They were also uncertain about the enabling national lending infrastructure and legislation. These results imply that the level of accessing long-term finance was low for most of the SMEs in Uganda's Hotel industry.

Generally, results show that the level of accessing long-term finance was low. This was revealed in terms of the fact that the availability of long-term loan finance in most SMEs' capital accounts was reportedly nil, frequency of borrowing was negligible, and that most of the SMEs were neither repaying loans nor paying interest to financial institutions. This was so despite the fact that most of the SME managers appreciated that keeping a good relationship with financial institutions could make them assured of accessing financial assistance from these institutions. Further attempts were made to establish factors explaining this low level of access and results are discussed in the next section.

5.2.3 Determinants of SMEs' Level of Access to long-term Finance provided by EIB-APEX

The factors established to influence the level of SMEs' access to long-term finance provided by EIB-APEX included: SME competences, credit terms and market characteristics.

(a) SME Competences

As far as SME competences were concerned, results indicate that to most of the SMEs in Uganda's Hotel industry, the competence that had the strongest influence on an enterprise's level of access to long-term finance provided by EIB-APEX constituted managerial skills and commitment. This suggests that for an SME applying for long-term finance provided by EIB-APEX to be considered, its managers at all levels had to possess and demonstrate adequate managerial skills, commitment to the success of the enterprise’s business, and self-motivation. This is in line with the observations made by ACCA (2006b) that managerial skills and commitment are considered by lending organizations because they are important to the success of any business enterprise.

As Aaron (2004) and Warren (2004) argued, an enterprise is likely to be successful and to give confidence to lenders if its managers not only have entrepreneurial ability needed to design viable business projects, demonstrate commitment and administrative agility to ensure business success, but also possess negotiating capacity. Lending institutions find it difficult to trust enterprises whose managers lack these business abilities. Fortunately, most of the SME managers agreed that they had the necessary managerial skills. This was further confirmed by the fact that most of them were at least degree holders. This, according to ACCA (2006b) and Kayongo (2005), indicates that the education that most SME managers had attained was adequate for them to successfully run the business. However, as Myers (1997) argued, only when the degrees possessed by managers are in the relevant field of the enterprise’s business can the enterprise be considered competent.

In addition to managerial skills and commitment, training employees was another SME competence considered important in influencing the level of the SME’s access to long-term finance provided by EIB-APEX through financial institutions. With this factor, an SME was reportedly considered to be in a better position to access long-term finance if its competence also included providing employees with professional training, especially in the roles assigned to the employees. The level of access would be enhanced if an SME’s competence included competent and committed staff members. Further, results indicate that if an enterprise's managers demonstrated an adequate level of industry knowledge, this would also increase the enterprise's competence and therefore boost its level of access to long-term finance.

The preceding findings concur with the observations made by Pearce & Robinson (1996), Keith & Malcolm (1997) and Zhang *et al.*, (2002) that the industry knowledge of an enterprise's managers is one of the key competences that influence the enterprise's access to loan finance. It is important to recall that most of the SME managers showed that they had spent at least five years employed in the Uganda's Hotel industry. As Kayongo (2005) and Keith & Malcolm (1997) argued, this was enough practical experience to qualify these managers as possessors of a high level of industry knowledge.

The level of financial record keeping was another factor established to influence the level of SMEs' access to long-term finance. This was revealed as the third most important factor, thereby supporting Chaston & Mangles (2000) and Smith *et al.*, (2006) who noted that one of the major competences of an enterprise that determines the SME's access to loan finance is the level of keeping proper financial records or books of accounts. However, despite the fact that most of managers recognized this as an SME competence that influences and an enterprise's level of accessing long-term finance, they disagreed to presenting proper financial records to financial institutions. This was the case even when the managers agreed that they kept proper sales records. This situation implies that SME managers kept proper sales records not for purposes of presenting them to the financial institutions for loans but rather for their own internal use. Indeed, as argued earlier, the level of SMEs' access to loans provided by financial institutions was reportedly negligible.

Last but not least, having viable business objectives was another competence revealed to influence the level of accessing long-term finance by the SMEs in Uganda's Hotel industry. This supported the observations of Keith & Malcolm (1997) that the objectives pursued by the SME can boost or ruin an enterprise's access to long-term finance. Viable objectives enhance this level while unviable objectives ruin it. Unfortunately, most of the SME managers disagreed that their enterprises operated on well stated and clear objectives, which implies that they could not easily access long-term finance even if it was deemed necessary for them to do.

Generally, findings indicate that managerial competence and commitment had the strongest influence on the level of an enterprise's access to long-term finance. It was followed by the SME's level of training its employees, keeping financial records; level of the SME's staff competence and commitment; the level of industry knowledge possessed by the SME's managers; and the SME having viable business objectives.

(b) Credit Terms

Results revealed six credit terms that reportedly influenced the level at which SMEs in Uganda's Hotel industry access to long-term finance. These included not only creditworthiness required of project promoters by financial institutions but also interest rates, loan size, grace period, repayment periods and promoter's contribution set or required by these institutions. Accordingly, results are in line with Bohnstedt (2000), Ditcher & Kamuntu (1997), Kasibante (2000), De Bodt & Statnik (2002), Degryse & Van Cayseele (2000), Dietsch & Petey (2002), Guiso *et al.,* (2002), Holmström & Tirole (1997), Hoshi *et al.,* (1991) and Kasekende & Opondo (2004) each of whom pointed out at least three of these credit terms are the conditions set by financial institutions for loan applicants.

Results indicate that the credit term that had the strongest influence on the level of access to long-term finance was the creditworthiness required of project promoters, especially the project's directors or owners. Fortunately, most of the SME managers agreed that the directors and owners of the SMEs in Uganda's Hotel industry were creditworthy; implying that the SMEs would easily qualify for loans as far as this credit term was concerned. However, despite having creditworthy managers, the level of the SMEs' access to loan finance provided by EIB-APEX was low because, as explained by officials selected from lending institutions, the conditions and terms that EIB set were reportedly too difficult to enable most of the SMEs to access the loans as they would have wanted. Indeed, most of the selected officials indicated that terms like the going concern required of loan applicants and the promissory notes that financial institutions had to make to Bank of Uganda as security for loan repayment at a specified future date were too stringent to boost the SMEs' access to the loans.

The second term considered to have influence on the level of the SMEs' access to long-term finance was the interest rates set by financial institutions. This credit term was revealed in a positive manner since most of the SME managers, especially the top managers felt that the interest rates charged on long-term loans provided by EIB-APEX were affordable. This was in contrast with the findings of Kagwa-Pafula (2000), Kasibante (2000), and Kasekende & Opondo (2004) that showed that the interest rates set by Uganda's financial institutions are too high to be afforded by business enterprises. However, as ACCA (2006c) showed, interest rates on long-term loans tend to be low and affordable compared to interest rates on short-term commercial loans that most of the financial institutions in Uganda tend to offer. Since the fore-cited scholars were mainly concerned with commercial and micro-finance loans, their observations were holding in that context.

Most of the SME managers were uncertain about the influence of loan sizes, grace periods, repayment periods and promoter's contribution set or required by these institutions, reason being that their level of access to the loans was negligible. They could not tell how each of these credit terms affected their access to the long-term finance provided by EIB-APEX.

In general, results show that the credit term that reportedly had the strongest influence on the level of access to long-term finance provided by EIB-APEX through financial institutions was the creditworthiness of the promoters, particularly the directors or owners of the project for which the loan was applied. Results also show the interest rates charged for borrowing long-term finance from EIB-APEX were perceivably affordable and therefore had a positive influence on the level of access to this finance by most of the SMES.

(c) Market Characteristics

Results show that four factors were an enterprise's market characteristics that reportedly had influence on the level at which small and medium scale enterprises in Uganda's Hotel industry accessed long-term finance. These were: the level of an enterprise's competitiveness in the Hotel industry, business seasonality, market share, and market trend. Of these factors, the competitiveness of an enterprise had the strongest influence on the access level, implying that the more competitive the enterprise was judged to be in Uganda's industry the higher were its chances to access long-term finance from the financial institutions through which the EIB-APEX operated. Accordingly, results concur with the observations made by Small Business Services (2001), Small

& Medium Enterprises (2008), Keith & Malcolm (1997) and Pearce & Robinson (1996) that a competitive firm is in a better position to access loan finance than a non-competitive enterprise.

It is important to note that SME managers' overall satisfaction with the position of an SME in the Hotel industry was the major indicator of the level of the SME's competitiveness in the industry. However, most of the SME managers disagreed that they were satisfied with the market position of their enterprises. This means that the competitiveness of most of the SMEs in Uganda's Hotel industry was below expectation. This is why the level of the enterprises' access to the loans was negligible. No sound financial institution could provide a loan to a non-competitive business project.

To recap, results show that as a market characteristic, the competitiveness of an SME had the strongest influence on the level at which the majority of the SMEs in Uganda's Hotel industry accessed long-term finance. However, most of the SMEs considered their competitiveness to be below expectation.

5.2.4 Relationship between the Influenced Level of SMEs' access to Long-term Finance and Level of Business Growth.

Results show that although SME competences, credit terms and market characteristics had significant influence-relationships with the level of SMEs' access to long-term finance provided by EIB-APEX, most significant influence-relationship was between SME competences and this level. This means that in relative terms, SME competences had the strongest influence on the level at which SMEs in Uganda's Hotel industry accessed long-term finance. This supports the observations made by ACCA (2006b) that SME competences constitute the most influential factor considered when determining whether or not to provide a loan to an enterprise.

Further, results show that the level of access influenced by the factors mentioned above also had a significant relationship with the level of business growth of the SMEs in the Hotel industry. This implies that the extent to which SMEs in Uganda’s Hotel industry grow in business depends significantly on the level at which they access long-term finance, and that this level is largely influenced by an SME’s competences.

Indeed, the level of access to long-term finance influenced significantly by an SME’s competences was established to determine over 46% of the level of business growth achieved by the SME. Results therefore support the observations made by Cragg & King (1998), Keith & Malcolm (1997), Pandey (1996), Zhang l. et al., (2002), Salahuddin (2006), Hoshi *et al.,* Kashyap & Scharfstein (1991), Bond & Meghir (1994), Berger *et al.,* (2004), Storey (1994), and Murrinde *et al.*, (2000). Each of these scholars found out that the level of access to loan finance influenced by an enterprise’s competences determines a significant portion of the business growth achieved by the enterprise.

As Cragg & King (1998) and Keith & Malcolm (1997) argued, findings show that an enterprise achieves better business growth with loan finance if it is managed by managers who not only possess industry-relevant managerial skills, commitment to work and self-motivation but also demonstrate entrepreneurial, negotiating and administrative capacity as well as strategic design, organization and positioning of the business in the market. For these are the competences required of managers of an enterprise considered to be competent.

Generally, results indicate that when the level of SMEs' access to long-term loan finance is collectively influenced by SME competences, market characteristics and credit terms, it predicts a significant proportion of the level of business growth of the SMEs. Business growth is, however, strengthened when access to loan finance is based more on an SME's competence than its market characteristics and set credit terms.

5.3. Conclusions

The following are the conclusions reached according to preceding discussion of findings.

5.3.1 Regarding the first objective of the study, results indicate that the level of business growth achieved by most of the SMEs in Uganda's Hotel industry was generally below expectation. Customer orders that most of the SMEs used to establish their business growth revealed that the SMEs failed to realize the desired level of business growth. Results also show that most of the SMEs recorded business in terms of high levels of liabilities, particularly those accumulated from suppliers.

5.3.2 Results obtained in response to the second objective of the study show that the level at which most SMEs accessed long-term finance was generally low. This was because most of the SMEs could not qualify on the criteria and terms set by EIB for them to access the finance. The frequency of their borrowing the long-term finance provided by EIB-APEX was therefore negligible.

5.3.3 Findings obtained in response to the third objective of the study show that:

- Among the studied SME competences, the demonstrated managerial skills and commitment to business had the strongest influence on the level at which SMEs in Uganda's Hotel industry could access long-term finance. Most SME managers possessed this competence. Other competences that reportedly had influence on this level included an SME's level of training its employees, keeping financial records; level of the SME's staff competence and commitment; the level of industry knowledge possessed by the SME's managers; and the SME having viable business objectives. Most SMEs were lacking in each of these competences, except in the level of industry knowledge.

- The credit term that reportedly had the strongest influence on the level of access to long-term finance provided by EIB-APEX was the creditworthiness of the promoters, particularly the directors or owners of the project requiring loan finance. Results also show the interest rates charged for borrowing long-term finance from EIB-APEX were perceivably affordable. Most of the SME managers were uncertain about the influence of loan sizes, grace periods and repayment periods of the loans offered by EIB-APEX because they were not using these loans.

- As a market characteristic, the competitiveness of an SME had the strongest influence on the level at which the majority of the SMEs in Uganda's Hotel industry accessed long-term finance. However, most of the SMEs considered their competitiveness to be below expectation.

5.3.4 When the level of SMEs' access to long-term loan finance is collectively influenced by SME competences, market characteristics and credit terms, it predicts a significant proportion of the level of business growth of the SMEs. Business growth is, however, strengthened when access to loan finance is based more on an SME's competence than its market characteristics and set credit terms.

5.4 Recommendations

The following are the recommendations made on the basis of the conclusions reached in the previous section.

- The management of SMEs in Uganda's Hotel industry should improve the level of business growth of the SMEs. This can be achieved by using low cost long-term finance borrowed from EIB-APEX to reduce the high cost liabilities by using the finance to pay off the credits accumulated from suppliers.
- To implement the above recommendation, SME management should increase the SMEs' level of access to long-term finance provided by EIB-APEX. The fact that this finance does not form part of the capital accounts of most of these SMEs implies that the SMEs do not use the finance. Since the interest charged on borrowing this finance is affordable, using the finance to boost capital and business growth is a prudent strategy to pursue. The level of access to this finance can be increased by the SMEs improving their frequency of borrowing.
- The level of SMEs' access can also be improved if
    - EIB-APEX starts to deal directly with the project promoters instead of going through financial institutions with stringent conditions
    - EIB-APEX starts to disburse the funds without collateral but with strict supervision and monitoring of utilization
    - EIB revisits the criteria and terms set for projects because most SMEs cannot fulfil the existing terms.

- To improve the frequency of borrowing, SME management should improve their SMEs' competences by increasing the level of training, competence and commitment of their employees. They should also improve the keeping of financial records or books accounts by not stopping at keeping sales records only. They should also set clear and viable business objectives.

- The SME directors or owners should also improve their creditworthiness. This can be achieved by keeping all records regarding the financial transactions and business operations carried out by their enterprises.

- SME management should improve the competitiveness of their SMEs. This can be achieved by providing better hotel services, advertising and offering competitive prices

5.5 Recommendations for further study.

- The study has shown that accessibility to loan finance influenced by SME competence, market characteristics and set credit terms determines only 46.3% of business growth of the SMEs in Uganda’s Hotel industry. This shows that such accessibility does not explain 100% of the business growth of these enterprises. a study is therefore needed into factors explaining the remaining proportion of business growth.

- It has been recommended that SME management should improve the SMEs’ competences by increasing the level of training, competence and commitment of their employees. However, the contents of the training programme have not been given. A study is recommended into which contents should be in this programme.

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APPENDIX I: QUESITIONNAIRE FOR MANAGERS

MAKERERE UNIVERSITY BUSINESS SCHOOL

Dear respondent,

This questionnaire is intended to facilitate the study on "accessibility to long-term finance and the growth of small and medium enterprises in the hotel industry" The study is for *academic purposes only*. Your response will also be treated with *utmost confidentiality*. Thank you very much for your valuable time.

Instructions: Please put a tick in the cell corresponding to the option that best suits your situation

SECTION A: Background Information

1. Name of Hotel……………………………………………………………..……... (Optional)

2. How would you rank your position within the Hotel?

Position	Top management	Middle Management	Lower Management

3. What is your Highest Level of Education?

Qualification	Certificate	Diploma	Degree	Postgraduate	Other (Please specify)

4. How long have you been worked in the hotel industry?

Employment Period	Less than 5 years	5-10 years	11- 15 years	Over16 years

	Competences	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly Agree*
1	The company has more assets than liabilities					
2	The company depends more on loan finance than equity					
3	The company operates following clear objectives and realistic business plans.					
4	We provide enough attractive investment proposals to the financing institutions.					

5	The company's managers at all levels have adequate managerial skills.					
6	We have experienced managers.					
7	We have committed managers.					
8	We keep proper sales records.					
9	We provide proper financial records to our financing institutions regarding our business					
10	We provide timely records to the financing institutions.					
11	We provide accurate records to the financing institutions.					
12	We negotiate with the financing institutions to offer us loan at affordable interest rates.					
13	We are aware of the hidden search fees involved while obtaining credit.					
14	Loan management is easy, we can repay any loan					

	SME Competences contd…	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly*
15	Staff members of this hotel are often sent for trade fairs to learn how to perform their tasks better.					
16	Staff members of this hotel are often sent for study visits to learn how perform their tasks better.					
17	The hotel organizes conferences and seminars for staff with a view to make them more competitive in the hotel industry					
18	Interdepartmental meetings are often held to facilitate knowledge exchange among staff of the various departments					
19	The hotel management ensures that there is job rotation for staff so that staff don't only know what goes on in their department					
20	This hotel's affiliation with consultants and advisers has helped its staff members to improve their skills.					
21	1 am always well informed about my work requirements					
22	I can do my work without close supervision.					
23	I am professionally trained personnel in my field of work.					
24	I always keep close attention on my tasks and ensure all procedures are done correctly.					
25	I have enough experience to execute my task in this hotel.					
26	I have the capability to achieve the set targets by departmental heads.					
27	I understand the fundamental principles of my work.					
28	I always perform my tasks to satisfactory standards.					
29	I use my initiative to execute my work effectively and efficiently.					
30	Am able to execute my tasks because I posses the required skills					

	and knowledge.					
31	I always monitor my fellow staff activities to ensure the tasks are performed according to company objectives					
32	I have the required skills to perform work effectively.					
33	I always pay close attention to my tasks to ensure that all procedures are done correctly.					
34	Staff members in this hotel have professional training in the roles they are engaged at in this hotel.					
35	We normally undergo training at my place of work in this hotel for instance i.e. job rotation, on the job, off job etc					
36	I do personal training in order to update myself with work practices.					
	Staff members have knowledge for their work					
37	Staff members perform assigned tasks without close supervision.					
38	The hotel accountant (s) is professionally trained in their field of work and consequently, the hotel's financial records are properly managed					
39	My colleagues demonstrate understanding of what they are supposed to do.					
40	Recruitment of personnel with required competences has been a major source of knowledge and skills for in the hotel.					
41	In-house personnel already in the hotel are an important source of knowledge and skills for the hotel					
42	This hotel has special training centres for different departments in order to enhance the skills of its staff.					
43	We have knowledge about our contacts					
44	We anticipate increasing profitability from the hotel.					

	Credit Terms	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly Agree*
1	The Hotel directors/owners are credit worthy					
2	Our hotel does not find it difficult to get a loan from EIB-Apex scheme					
3	Our hotel has no outstanding debts with EIB-Apex scheme					
4	There are no restrictions on the Loans sizes that our hotel obtains from EIB-APEX					
5	We meet the collateral required by EIB-APEX					
6	We get the loans from EIB-APEX whenever we apply for them					
7	The hotel considers interest rates set by EIB-APEX appropriate for the loans we are given					
8	The interest rates charged by EIB-APEX are appropriate for the					

	hotel business to meet					
9	We appreciate the interest rates set by EIB-APEX					
10	We are offered sufficient grace periods for the loans that we borrow from EIB-APEX					
11	We receive the loan sizes applied for from EIB-APEX					
12	We appreciate the repayment period of the loans obtained from EIB-APEX					

	Market Factors	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly Agree*
1	We use information from marketing department in determining our market share					
2	We enjoy a substantial share of the hotel industry					
3	This hotel is well known to both clients and competitors					
4	Our client base has been increasing over the years					
5	Our hotel remains among the leading ones in the industry					
6	We have adequate knowledge about other hotels in the industry					
7	We market our hotel business properly.					
8	Overall, we are satisfied with our position in the hotel industry					
9	It is easy to get a loan in periods of high business activity					
10	It is easy to get a loan during periods of low business activity					
11	A loan from EIB-APEX is easily obtained when a project's business activity is consistently high					

	Accessibility	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly Agree*
1	There is good relationship between the hotel and financing institutions					
2	We rely on loans to increase our sales.					
3	We re-schedule payments with the financing institutions					
4	There is room for adjustments in loan payment mechanisms.					
5	We are able to get loans using the most favourable of the various credit products offered by EIB-Apex scheme					
6	We are informed about new credit products whenever they introduced by financial institutions					
7	We get loans from EIB-Apex scheme whenever we need them					

8	We loans from EIB-Apex of any size we want					
9	We repay loans from EIB-Apex as schedule					
10	We service loans from EIB-Apex as schedule					
11	The laws and regulations governing EIB-Apex loans are supportive to getting a loan from this scheme					
12	A part of our capital account is made up of a loan obtained from EIB-Apex scheme					

	Business Growth	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly Agree*
1	Our sales have increased over the years					
2	Our daily sales volumes have increased.					
3	We have opened up more outlets.					
4	Our supply outlet chances have increased					
5	Our supply chains have increased					
6	Our supply linkages have also increased.					
7	The number of existing customers/clients we serve has increased.					
8	The number of new suppliers has increased.					
9	Different customers/clients we serve have increased.					
10	We have more orders from our customers.					
11	The amount of deliveries has increased.					
12	Our contacts with new customers have increased.					
13	The number of employees has increased in the hotel.					
14	Our employees have been able to acquire some additional skills.					
15	Our employees understand more about the needs of our customers/clients.					
16	We now have more assets in the hotel					
17	The hotel has an accumulated amount of debts					
18	The hotel's creditors have increased					
19	The profit margins have increased					
20	We have been able to re-invest our profits.					
21	We have expanded so much because of acquiring credit.					
22	Credit has strongly contributed to our growth.					

APPENDIX 2: INTERVIEW SCHEDULES FOR LENDING INSTITUTIONS AND AUTHORITIES

MAKERERE UNIVERSITY BUSINESS SCHOOL

Dear respondent,
This instrument is intended to facilitate the study on “accessibility to long-term finance and the growth of small and medium enterprises in the hotel industry” The study is for academic purposes only. Your response will also be treated with utmost confidentiality. Thank you very much for your valuable time.

1. Why do you think the level at which SMEs in Uganda’s Hotel industry access EIB finance is low?

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2. What strategies can be adopted to improve the the level at which SMEs in Uganda’s Hotel industry access EIB finance?

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APPENDIX 3: COMPUTATION OF CONTENT VALIDITY INDICES FOR QUESTIONNAIRE AND INTERVIEW SCHEDULE

The content validity indices for the administered instruments were computed using the following formula:

$$CVI = R/Total;\ Total = (R + IR)$$

The indices were computed as shown in the Table below:

Table Computation of content validity Indices for the administered instruments

	Rating of questions			Computation
Research Instrument	Relevant (R)	Irrelevant (IR)	Total (R + IR)	CVR= R/(R + IR)
Questionnaire	105	20	125	0.840
Interview schedule	2	1	3	0.667

It is important to note that all items rated irrelevant were eliminated from the questionnaire and interview schedule finally administered to respondents.