FINANCIAL CHARACTERISTICS, AGE OF THE FIRM AND ACCESS TO FINANCE BY SMALL AND MEDIUM ENTERPRISES IN UGANDA; A CASE OF NAMANVE INDUSTRIAL AREA

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DECLARATION

I, **Thomas Luganda**, do hereby declare to the best of my knowledge that this dissertation titled "***Financial Characteristics, Age of the Firm and Access to Finance by Small and Medium Enterprises in Uganda; A Case of Namanve Industrial Area*",** is my original work and has not been published or submitted to any university or institution of higher learning before for any award.

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APPROVAL

This is to certify that this dissertation has been prepared and compiled by Thomas Luganda and that was done under our supervision. It is now ready for submission to the Graduate School Kyambogo University in partial fulfilment for the requirements of the award of a Master's degree of Business Administration.

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DEDICATION

This dissertation is dedicated to my parents for the support they have rendered to me throughout my entire academic journey.

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First of all, I glorify the Almighty God for this far he has brought me and the favour upon my life throughout the entire period of my master's studies.

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LIST OF ACRONYMS

BOU	Bank of Uganda
BUBU	Buy Uganda Build Uganda
DFCU	Development Finance Company of Uganda
EC	European commission
FY	Financial Year
GDP	Gross Domestic Product
IFC	International Finance Corporation
IFRS for SMEs	International Financial Reporting Stands for Small and Medium Enterprises
MoFPED,	Ministry of Finance Planning and Economic Development
OECD	Organisation for Economic Co-operation and Development
PSFU	Private Sector Foundation Uganda
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
VIF	Variance Inflation Factors

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ABSTRACT

The study examined Financial Characteristics, Age of The Firm and Access to Finance by Small and Medium Enterprises in Uganda; A Case of Namanve Industrial Area. The study was motivated by the observed low rates of access to finance by SMEs in Uganda. The objectives of the study were to assess the effect of quality of financial statements on access to finance by SMEs in Namanve industrial area, to examine the effect of collateral availability on access to finance by SMEs in Namanve industrial area, to analyse the moderating effect of age of the firm on the relationship between quality of financial statements and access to finance by SMEs in Namanve industrial area and to assess the moderating effect of age of the firm on the relationship between collateral availability and access to finance by SMEs in Namanve industrial area. Four alternative hypotheses were tested based on the objectives. The study adopted the Resource based Theory and Life Cycle Theory of consumption to conceptualize the variables as used in the study. A cross sectional survey design was adopted where both quantitative and qualitative data was collected. A sample of 166 SMEs determined using Krejcie & Morgan table out of a population of 212 SMEs was selected. Using quota sampling and stratified sampling methods 166 questionnaires were administered to collect quantitative data, only 140 questionnaires were filled and returned constituting a response rate of 84.34%. Qualitative information was collected using an interview guide for triangulation purposes from SME owners, financial institutions, and auditors using an interview guide and a purposive sampling method on the selection of respondents. Prerequisite tests were carried out were data was tested for normality and multicollinearity. In the study, analysis was done at different levels first with descriptive statistics, followed by a multiple regression analysis and hierarchical regression analysis. The findings of the study revealed a positive significant effect of quality of financial statement on access to finance (Beta =0.119, P value =0.024), a positive significant effect of collateral availability on access to (Beta =0.772, P value =0.000), age of the firm had no moderating effect on the relationship between quality of financial statements and access to finance (Beta =0.003, p value =0.969, Adjusted $R^2 = .371$, $F(1, 136) = 0.002$, $p>.05$) while results also revealed that age of the firm has a significant moderating effect on the relationship between collateral availability and access to finance (Beta =-0.123, p value =0.020, Adjusted $R^2 = .678$, $F(2, 137) = 147.463$, $p < .05$). The study recommended that efforts should be made to ensure that the financial statements of the enterprises are prepared by qualified accountants and interim audits conducted to ensure quality reports are presented following the International Financial Reporting Standard. In addition, the operators of SMEs have to own more tangible assets that can create higher value on their firm to accelerate borrowing security. Age of the firm need to be given attention, younger firms (less than 4 years) should rely less on bank financing and more on informal financing as it is often difficult and expensive for young SMEs to access bank financing due to less collateral availability. Future studies should be directed to finding other factors that determine access to finance by SMEs. Studies in future can also extend to other parts of the country and also involving comparative studies with other countries

Key words: Financial characteristics, Quality of financial statements, Collateral Availability, Age of the firm and Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Uganda is one of the countries that has a large percentage of the population being young and energetic yet the current job opportunities don't meet the demand and in a bid to fill this gap the government of Uganda is encouraging its population to start up Small and Medium Enterprises (SMEs) with the goal of eradicating poverty and improve the standards of living by 2030 according to sustainable development goals (Ministry of Trade Industry and; Cooperatives, 2014). The small and Medium Enterprises are engine of growth for the economic development, innovation and wealth creation of Uganda (Obanda, 2018). Fatoki (2019) asserts that small and Medium Enterprises are probable to be an imperative vehicle to discourse the encounters of job creation, sustainable economic growth, equitable distribution of income and the overall inducement of economic development. The government of Uganda through policies like BUBU (Ministry of Trade Industry and; Cooperatives, 2014) is encouraging the population to establish SMEs in order to become entrepreneurs and job creators.

However, most SMEs in Uganda do not get a chance to celebrate their first birthday and one possible explanation for this is the struggle of obtaining access to finance externally especially in form of debt finance from financial institutions which makes most of these SMEs to rely mostly on their owners' financial resources which are probable to be limited, and on retained earnings which given the universal poverty of the populations that they serve, cannot be huge enough to be able to invest in their businesses which impended their creation and growth eventually leading the collapse of these SMEs in Uganda (Abitekaniza, 2017) . Therefore, this research intended to analyse the financial characteristics that effect access to finance among SMEs in Uganda and this is contingent to age of the firm using a case of SMEs in Namanve Industrial area. This introductory chapter discussed the background, the statement of the problem, purpose of the study, the specific objectives of the study, research hypothesis, conceptual framework, the significance of the study, justification of the study, scope of the study, and operational definitions of terms and concepts. The background, which was presented under four perspectives, was dealt with first before other issues we covered.

1.1 Background of the Study

1.1.1 Historical Background

Over time, small and medium sized enterprises (SMEs) have been seeming to be the spine of any economies worldwide by their main aids to national income, job creation, poverty alleviation, export promotion, etc. For instance, the annual report from European commission (EC, 2011) showed that, despite the delicate economic environment, SMEs have retained the key-led growth of the European economy, accounting for more than 98% of all enterprises, making 67% of total employment and 58% of gross value added in 2012. Data and reports from SMEs sub-group also point out that SMEs in developing countries also play vital role with their input to employment of 45% and to annual GDP of 33%.

Unrelatedly to their major contributions worldwide, SME segment still remains helpless and very few SMEs manage to endure due to shortage of finance. SMEs are generally well-thought-out as being riskier than large firms because they have lower survival rate, larger variance of profitability and growth (OECD, 1996). As a result, SMEs frequently ache from credit rationing or higher interest rate and financing constrictions indeed edge their growth (Beck & Demirguc-Kunt, 2006). In least developed countries, such as Sub-Sahara Africa, access to finance is the most significant obstacle to SME entrance and growth investment (Sveinung & Fjose, 2010), this is what has stirred attention of academicians and policy makers worldwide for many years and access to finance has constantly ranked as one of the highest constraints cited by firms.

In the context of Uganda, 90% of small and micro enterprise breakdown in their opening year of start-up, due to lack of access to credit (Kamukama & Natamba, 2013). He added that although Micro finance institutions have become prevalent among the underserved population in Uganda, the reach is still low with only 2 million people accessing finances out of a population of over 35 million people. Despite SME's standing in Uganda's economy, many of them do not have satisfactory access to credit from formal financial institutions (Arinaitwe & Mwesigwa, 2015). Thus, answering the major financial constraint of this significant sub-sector of the economy in Uganda led to advent of several Financial Institutions with the aim of providing financial services to Uganda's lowest-income entrepreneurs. However, these financial institutions have been predisposed towards large corporate borrowers, who deliver better business plans, have credit ratings, more reliable financial information, better chances of success and higher profitability. Small and Medium Enterprises are viewed riskier by financial institutions for reasons often related to the struggle in obtaining accurate financial information about them due to vulnerability to market fluctuations, low capitalization, insufficient assets, and high impermanence rates (Arinaitwe & Mwesigwa, 2015).

1.1.2 Theoretical background

This study was steered by two theories namely the Resource Based Theory and Lifecycle Theory of Consumption. These two theories were select since they contain key constructs that have informed the study in terms of resources that the SMEs use to have access to finance as well as explaining the moderating effect of age on the relationship between financial characteristics and access to finance.

Resource Based Theory

Resource Based Theory was advanced by (Barney 1991 & Dicksen, 1996) who contends that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals. Barney (1991) in his studies explained that an organization has a bundle or a pile of assets and resources that are both tangible and intangible in nature that if effectively and efficiently utilized, an organization becomes a going concern entity. Tangible resources include financial capital (e.g., liability capital, reserved earnings, equity capital,) and physical capital (Land & buildings, Machinery, Cars,). Intangible resources consist of organizational procedures and reputation, entrepreneurial knowledge, skills, experiences, among others (Barney, 1991). For purposes of this study, the focus was on financial resources particular liability capital.

Resource – Based Theory involves the ability of business managers to put importance on effective management of assets of the business to yield good financial position of the organisation (Alvarez & Busenitz, 2001). The theory therefore implies that business managers, whose resources are specified, can facilitate and ensure recognition of new opportunities and assembling resources in an effective manner that enable a firm to do things and act in ways that lead to low costs, high margins, high sales or in others conducts add financial value to the firm (Barney, 1991). Therefore, basing on the above explanations and constructs of the Theory, this study was guided by this Theory because these Small and medium-sized enterprises can depend on resources owned by the firm like buildings, land titles, cars, reputation, and use them as collateral securities to access finance inform of demand deposits, credit, payments, or insurance that in long run help to increase sales growth leading increased profitability levels of the firm.

Life Cycle Theory of Consumption

This Theory was first introduced by Modigliani in the early 1950s and later revised in 1980 by Modigliani and Brumberg (Ando, 2005) . The Theory points out key aspects being lifecycle hypothesis and its relationship in putting aside earned income / saving so that later the savings can be used to acquire assets. This theory was mainly advanced toward the relationship between peoples' behaviours towards savings, expenditure and incomes but later advanced to other aspects like business. Berger and Udell (1998) noted that younger firms are frequently characterised by informational opacity as a result of not having an established financial track record, this may lead to the unwillingness of banks and other financial institutions to advance credit to these firms.

The Theory assumes that lifecycle planning necessitates people to guise into an uncertain future. It also assumes that growths in life- tie resources lead to equal increases in consumption in all periods of life as a consequence, consumption is proportionate to life time resources. However, the Theory holds some criticisms like being difficult for people to learn how to behave financially because the future is uncertain and failing to recognise that there are costs or cost centres on which people or organisations spend on their income and this reduces the saving levels (Deaton, 2011).

Despite the cited critics mentioned above, this Theory was key to this study in a way that the length of existence in a business determines access to finance given to the SMEs and also its assumed that SMEs that have been in business for a long time through saving and operation there are able to acquire assets that can be used as security in accessing finance from financial institutions, additionally as a firm endures longer in business, it establishes itself as an ongoing business, maintain quality financial statements that can be used to access credit from lending institutions unlike the firms at early stages of operation. It can thus be presumed that the relationship between financial characteristics and access to finance is contingent to age of the firm.

1.1.3 Conceptual background

This study's key concept were financial characteristics as the independent variable which was measured by quality of financial statements and collateral availability and access to finance as a dependent variable operationalized in terms of flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition. Age of the firm was conceptualised as the moderating variable. These concepts were applied and defined differently by previous studies and scholars as elucidated below;

Financial characteristics were measured using into two variables namely, quality of financial statements and collateral availability. Rendering to studies conducted by Von Pischke (1991) and Epstein (2007), quality of financial statements refers to transparency and fair representation. Quality of financial statement is also defined as the degree to which accounts/ financial statements prepared are perceived as reliable, relevant, accurate, understandable, and comparable (Nanyondo, Tauringana, Kamukama, & Nkundabanyanga, 2014). In the same vein, the current study understood and measured quality of financial statements as contended by (Nanyondo et al. 2014)

Claessens (2014) defines credit accessibility as the accessibility of a supply of reasonable quality financial services at reasonable costs. However, Akudugu et al. (2009) define access to credit as a condition in which an individual has the right, makes an effort to possess and makes decisions regarding the use of funds in the short term and to repay with interest at a time schedule that is convenient to both the borrower and the lender. He adds that a person lacks access to credit if such a person makes efforts to acquire it and fails. Therefore, access to finance was operationally defined as the flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition.

Collateral availability is used as a communal term to refer to the sum of investments in fixed assets, inventories and other intangible assets. On the other hand, tangibility is sometimes used only in the sense of tangible assets (Frank, Murray & Goyal, 2010).Considering that our main dependent variable includes both medium and long-term borrowings, we choose to define collateralisation in terms of collateral value. This is bearing in mind that medium-term loans may not necessarily be collateralised by fixed assets, but sometimes by inventories and other non-fixed assets.

Age of the firm is defined as the number of years the business has been in operation (Ssentamu, 2016). Age of the firm can also be defined in terms of years of formation, incorporation or listing. The three definitions reveal an interesting trend in a firm's life cycle. The first stage of a firm's existence is at formation. This is followed by incorporation and then being listed on a stock exchange if it meets the listing requirements of the exchange. In each of the three stages of existence has some implications on the financing structures of the firm. Thus, the relationship between age and leverage may be dependent on the definition adopted. In the current study age of the firm was understood as defined by (Ssentamu, 2016).

1.1.4 Contextual background

The study context is SMEs in Uganda and particularly in the industrial area of Namanve under Mukono Municipality. According to Uganda Investment Authority (2018) these enterprises contribute over 90% of Uganda's private sector and their contribution per sector stands at 49% in service sector, 33% in commerce and trade, 10% in manufacturing and a small portion of these enterprises at 8% in other. These SMES are a key driver in strengthening and fostering wealth creation, innovation as well as job creation for the increasing young population. However, majority of these enterprises in Uganda fail to persist for more than two years in operation (Ministry of Finance Planning and Economic Development, 2017) regardless of substantial financial support received from the government and financial institutions (DFCU, 2018).

Namanve Industrial area has a big number of SMEs over 592 about 380 are foreign and 212 are local based (Uganda Investment Authority, 2019). This study targeted SMEs that are local based which comprised of a total of 212and employed 5-200 employees. The study area was chosen because Namanve Industrial area is a new industrial area where many industries have been established which has also effectd a lot of SME development in the area and this justified the study. Government of Uganda is injecting a lot of money in industrialization but SMEs start but don't last long due to constraints faced in accessing finance yet most of them don't have owner's equity which leaves them to depend on liabilities from financial institutions whose access is still a challenge.

1.2 Statement of the Problem

Access to finance by Small and Medium enterprises continues to be a major challenge in Uganda, amidst the increase in financial institutions (Auditor General's Report, 2019 & PSFU Annual Report, 2018). Despite efforts to increase SMEs' access to finance such as the reduction of the Central Bank rates for instance in FY2018/19, the shilling denominated lending rates declined further to an average of 20 percent, relative to 20.3 percent in FY2017/18 and 22.6 percent in FY 2016/17 (Bank Of Uganda, 2019), worsening situation regarding SMEs' access to finance in Uganda suggests that initiatives engaged by the government to improve access to finance by SMEs are not having the anticipated effect. This situation has not left SMEs in Namanve exceptional of this, moreover, the literature in Uganda is replete with reasons why SMEs' access rates to finance are low.

The array of factors accountable for sub-optimal access to finance recognized in the literature suggest that the quest for efficient predictors of access to finance by SMEs is still incipient. Though empirical studies have been carried out to enlighten the limited access to finance using different predictor variables, the moderating effect of age of the firm on the relationship between financial characteristics that is to say quality of financial statements and collateral availability on access to finance has been unduly ignored and this promoted a study in this regard.

1.3 Purpose of the Study

The objective of this study was to examine the effect of financial characteristics on access to finance by SMEs contingent to age of the firm in Namanve Industrial area.

1.4 Objectives of the study

(i) To assess the effect of quality of financial statements on access to finance by SMEs in Namanve Industrial area.

(ii) To examine the effect of collateral availability on access to finance by SME in Namanve Industrial area.

(iii) To analyse the moderating effect of age of the firm on the relationship between quality of financial statements and access to finance by SMEs in Namanve industrial area.

(iv) To analyse the moderating effect of age of the firm on the relationship between collateral availability and access to finance by SMEs in Namanve industrial area.

1.5 Hypotheses of the study

(i) H_1 1- Quality of financial statements has a positive significant effect on access to finance by SMEs in Namanve Industrial area.

(ii) $H_1$2-Collateral availability has a positive significant effect on access to finance by SMEs in Namanve Industrial area

(iii) $H_{1\ 3}$-The moderating effect of age of the firm on the relationship between quality of financial statements and access to finance by SMEs in Namanve industrial area is significant.

(iv) $H_1$4- The moderating effect of age of the firm on the relationship between collateral availability and access to fiancé by SMEs in Namanve industrial area is significant.

1.6 Scope of the study

1.6.1 Content scope

The study concentrated on Financial characteristics of quality of financial statements and collateral availability and their effect on access to finance that is contingent to age of the by Small and Medium Enterprises.

1.6.2 Geographical Scope

The study covered Small and Medium Enterprise located in Namanve Industrial Area. The SME of interest were those which are fully registered for business and are locally based that employs 5-200 employees. Namanve is an area in Central Uganda, most of which lies in southeastern Kira Municipality, in Wakiso District with portions in Mukono Municipality in Mukono District. The SMEs of interest were those that lie in the portions of Mukono Municipality. It is located approximately 15 kilometers (9.3 mi), by road, east of downtown Kampala, Uganda's capital and largest city.

1.6.3 Time Scope

The research was conducted in 2020. The study reviewed literature from various documents, reports, journals and other data collected from 2009 to 2019 in order to establish the relationship between financial characteristics and access to finance of SMEs contingent to age of the firm. This period was considered so as to be to acquire enough information and experience of the SMEs that still find it as a challenge to obtain access to finance.

1.7 Justification of the study

Most of the small and medium enterprises in Uganda are challenged with financing their businesses as their equity is usually inadequate to meet operating cost leaving them with only one chance of getting capital from financial institutions which has turned out to be hard. Literature in Uganda is chockfull with reasons why SMEs' access rates to finance are low, the studies suggest collateral requirements for loans and insufficient financial disclosure (Berg, 2005), quality of financial statements (Nanyondo et al., 2014), collateral requirements for loans and insufficient financial disclosure (Berg, 2005), credit worthiness and firm size (Eton, 2019) just to mention but a few.

Even though these empirical studies have been carried out to explain the limited access to finance using different predictor variables, the moderating effect of age of the firm on the relationship between financial characteristics that is to say quality of financial statements and collateral availability on access to finance has been unduly ignored. Therefore, this study aimed at assessing the effect of financial characteristics on access to finance contingent to age of the firm by small and medium enterprises in Namanve Industrial area.

1.8 Significance of the Study

The study would significantly add to the already existing theories and the body of knowledge by showing the effect of firm characteristics that is to say quality of financial statements and collateral availability on access to finance among SMEs contingent to age of the firm. This would expand the theoretical and empirical development on literature as different studies have been made though using different variables and proxies without assessing the moderating effect of age of the firm on the relationship among those variables.

The findings of this study would inform the policy makers such as the members of Uganda Small Scale Industries Association, Uganda Investment Authority, accountants, and members of the Private Sector Foundation to develop and the government at large to come up with a concrete policy and support strategies to enhance access to credit by SMEs in Uganda.

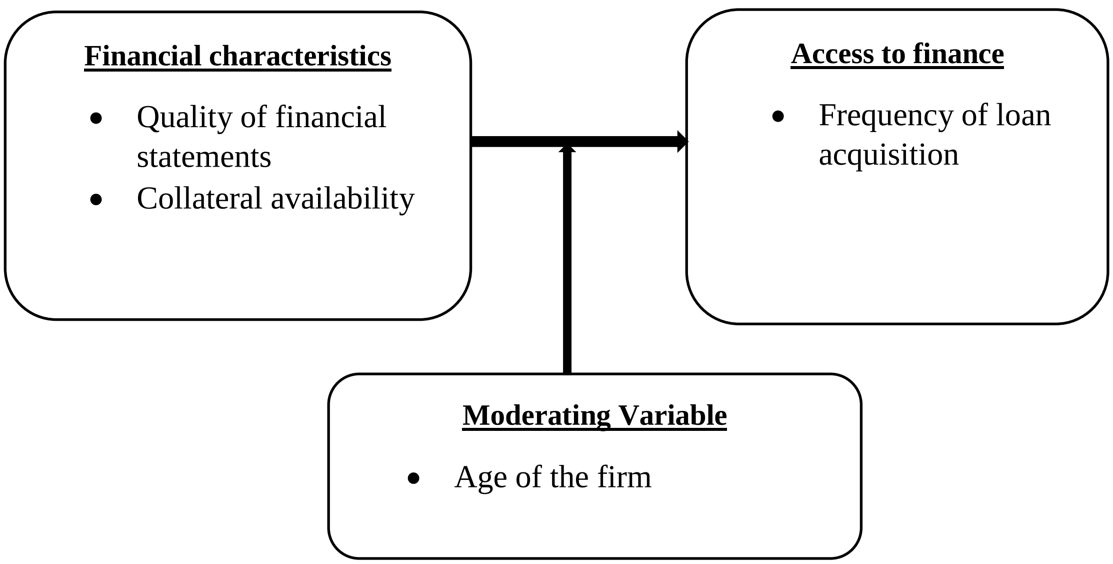
The recommendations of this study would create room for future research on the relationship among the above variables and as a result, the study may be used as a diagnostic tool to determine specific areas which may require improvement in connection to access to finance by SMEs.

1.9 Conceptual Framework for financial characteristics, age of the firm and access to finance

The model below shows the effect of financial characteristics on access to finance for SMEs contingent to age of the firm as depicted in figure 1 below;

Figure 1: **Conceptual framework showing the relationship among variables**

INDEPENDENT VARIABLE **DEPENDENT VARIABLE**



Source:*Ssentamu, 2016; Mwihaki, 2015 & Nanyondo et al., 2014 as modified by the* researcher

The conceptual framework above considers the Financial characteristics as the independent which were measured in terms of Quality of financial statements (Nanyondo et al., 2014 & Mwihaki, 2015) and Collateral availability (Mwihaki, 2015 & Ssentamu, 2016).The dependent variable was access to finance that has been measured by flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition following previous related empirical studies such as ***(***Claessens, 2006; Akudugu et al., 2009 & Nanyondo et al., 2014) . The study intended to assess the moderating effect of age of the firm on the relationship between financial characteristics and access to finance as guided by the life cycle consumption Theory and measured in terms of number of years the business has been in operation (Ssentamu, 2016)

1.10 Operational definitions of the study

Quality of financial statements

Quality of financial statements under this study meant preparing the statements of profit or loss and other comprehensive income, Statement of changes in equity, Statement of cash flows and Statement of financial position according to the approved accounting standards. This means that fair presentation of financial statements reflects transparency in these financial statements to enhance lending parties' informed decisions to extend finance.

Collateral availability

Collateral availability under this study meant property or other assets that SMEs offer to financial institutions to secure finance to run their business.

Access to finance

Access to finance refers to flexibility and ease with which SMEs can obtain credit in form of frequency of loan acquisition from institutions such as commercial banks, money lenders, micro finance institutions and SACCOs. It includes long-term debt and short-term loans.

Age of the firm.

Age of the firm under this study meant the duration SMEs have been in business.

Small and Medium-size Enterprises (SMEs)

There is no universally agreed definition of Small and Medium Enterprises, these may be defined on the basis of employee count, annual turnover and annual capital employed. The Uganda Investment Authority defined a 'Small Enterprise' as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. On the other hand, Medium enterprises employ between 5 and 49 and have total assets between UGX: 10 million but not exceeding 100 million. The Medium Enterprise therefore, employs between 50 and 100 with total assets more than 100 million but not exceeding 360 million (Uganda Investment Authority, 2008).This definition based on the number of employees was adopted for this study.

1.12 Organization of the report

This report comprises five chapters: Chapter one introduced the, historical, conceptual, theoretical and contextual aspects of the study and these included financial characteristics, age of the firm and access to finance by Small and Medium Enterprises in Uganda. This draws up the basis for presenting the research problem, the research objectives and the value for the study to support the research. This chapter also presented the organization of the report which encompasses five chapters.

Chapter two made provision for a review of theories and empirical literature that explains the association among study variables. The theories covered; the Resource based Theory and the Life cycle consumption Theory. A summary of the conceptual review, empirical studies and research gaps have also been availed in this chapter.

The third chapter presented the methodology used in the study and included the research design, study population, sample size and sampling technique. The chapter discussed reliability and validity and also considered the diagnostic tests that were used in the study. The chapter also presented methods adopted in data collection, measurement of research variables, data analysis techniques, analytical models, ethical issues and limitation for the study.

Chapter four presented the background information of enterprises used in the study, descriptive statistics for financial characteristics of quality of financial statements and collateral availability on access to finance was presented. Various diagnostic tests were carried out and a linear regression and hierarchical multiple regression analysis presented. This chapter also presented the testing of hypotheses and interpretation of findings. Finally, chapter five revealed the summary and discussion of findings, conclusion of the study, recommendations and areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This section discussed the review of existing related literature on financial characteristics and access to finance among small and medium enterprises with the aim of depicting contributions, contradictions, weaknesses and gaps. For clarity and chronology, it was arranged according to the objectives of the study starting with a theoretical review, conceptual review and empirical review

2.2 Theoretical review

This study was guided by two Theories namely the Resource Based Theory and Lifecycle of Consumption. These two Theories were chosen because they contain key constructs that have informed the study in terms of resources and the effect of age in terms of how long the SMEs have been conducting business as a moderating variable on the relationship between financial characteristics and access to finance.

2.2.1 Resource Based Theory

Resource-Based Theory was advanced by Barney (1991) and Dicksen (1996) who contended that the ownership of strategic resources offers an organization with a golden chance to develop competitive advantages over its rivals. Barney (1991) in his studies explained that the Resource Based Theory explains that an organization is a bundle or a pile of assets and resources that are both tangible and intangible in nature that if effectively and efficiently utilized, an organization becomes a going concern entity.

Resources are everything that might be thought of as an asset of a given firm, which maybe tangible intangible assets and tangible resources and include financial capital (e.g., liability capital, equity capital, and retained earnings) and physical capital (cars, land& buildings, machinery,). Intangible resources consist of organizational procedures and reputation, entrepreneurial knowledge, skills, experiences, among others (Barney, 1991). For purposes of this study, the focus was on financial resources particular liability capital.

The overall idea of this Theory is that if an entity acquires and effectively controls its rare valuable, non-substitutable resources and capabilities, it can attain sustainable competitive advantage over other competing firms and steady growth and performance, given that it has the ability to absorb and apply these particular resources (Barney 1991). He further proceeds to assert that what separates successful or making organizations from breaking or struggling organizations is the way they deploy their resources for example information, knowledge assets, capacities as well as their organizational processes.

Resource Based Theory thus involves the ability of business managers to put emphasis on effective management of current assets of the business (Alvarez & Busenitz, 2001). When current assets are managed effectively, good results are expected to be yielded. The Resource – Based Theory therefore implies that business managers, whose resources are specified, can facilitate and ensure recognition of new opportunities and assembling resources in an effective manner as well as ensuring prompt payment and shortening the recovery period of accounts receivable. This would ultimately have a positive effect in the working capital management and firm profitability.

Conferring to Barney (1991) valuable resource must permit a firm to do things and act in behaviours that lead to low costs, high margins, high sales, or adds financial value to the firm. Therefore, basing on the above explanations and constructs of the Theory, this study was guided by this Theory because these Small and medium-sized enterprises can depend on resources owned by the firm like buildings, land titles, cars, reputation, age to access finance inform of demand deposits, credit, payments, or insurance that in long run help to increase sales growth leading increased profitability levels of the firm.

2.2.2 Life Cycle Theory of Consumption

This Theory was first introduced by Modigliani in the early 1950s and later revised in 1980 by Modigliani and Blumberg (Ando, 2005) . The firm life cycle approach defines the development of the firm as a linear sequential pro cess through a number of stages. The number of stages is not standardized. The financial life cycle model integrates elements of agency, trade-off, and pecking order theories, and defines sources of finance as typically advanced by funders at each stage of a firm's development.

The theory points out key aspects being lifecycle hypothesis and its relationship in putting aside earned income / saving so that later the savings can be used to acquire assets. This Theory was mainly advanced toward the relationship between peoples' behaviours towards savings, expenditure and incomes but later advanced to other aspects like business. In business, the Theory points out that firms depending on their age have got different sources of finance. At beginning, the firms have trouble accessing finance due to improper information available and low collateral and inexperience (Fjose, 2010). The most central and commonly-used sources of finance at this stage are finance from friends, family members and personal savings of the firm owner (Gompers, 2010).

Throughout mature and growth stages, personal funding becomes comparatively less important as investment finance is progressively sourced from retained profits. Continuous conducting of business facilitates access to amplified sources and amounts of finance, particularly long-term bank debt financing. Thus, it is common for SMEs to have high levels of short-term debt in their toddler stages (Nofsinger & Wang, 2011).

The Theory assumes that lifecycle planning needs people to look into an undefined future. It also assumes that increases in life- time resources lead to proportionate upsurges in consumption in all periods of life as a result, consumption is proportionate to life time resources. The theory also assumes that a firm has to follow some sort of developmental stages to be able to acquire finance.

However, the Theory holds some criticisms like being difficult for people to learn how to behave financially because the future is uncertain, failing to recognise that there are costs or cost centres on which people or organisations spend on their income and this reduces the saving levels and failing to clearly point out the stages of developments firms have to go through.

Despite the cited criticisms mentioned above, this Theory was key to this study in a way that the length of existence in a business determines access to finance given to the SMEs and also its assumed that SMEs that have been in business for a long time through saving and operation they are able to obtain assets that can be used as security in accessing finance from financial institutions.

2.3 Conceptual review

2.3.1 Quality of financial statements

It is challenging on the part of the bank to estimate the degree of risk related with the SME; thus, the banks hesitate to extend finance. Though lenders may wish to screen bad borrowers from good ones, in reality inadequate disclosure may stop them from receiving the relevant information, thus making it difficult to extend finance. Rendering to study conducted by Epstein (2007), quality financial statements ought to serve as an anchor between the bank and SMEs to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position, revenue projections and cash flows of the SMEs to enhance lending parties' informed decisions to extend finance.

2.3.2 Collateral Availability

SME segment faces problems to access external finances for their investment projects because of lack of assets to be pledged as security. In that outlook SMEs fail to grow due to lack of collateral to pledge to access external sources of finance. Coco (2000) recommended that the collateral is the lender's protection in case default occurred by a borrower, in that view collateral is the insurance that lender's contract will be honoured and valued. Collateral solves the information asymmetry problems in the evaluation of investment project, the worthiness of the project and risk that might be involved by a borrower as well as the cost related to supervision of borrower's characters. Bougheas, Mizen and Yalcin (2006) pointed out that the prerequisite of collateral is a crucial aspect for SMEs to succeed in approachability of external financing from lenders.

Fatoki (2019), and Barbosa and Moraes (2004), proposed that operators of SMEs have to own more tangible assets that can create higher value on their firm to quicken borrowing security. Since, the higher the value of assets the lower the interest rates of the debt to be secured by those assets. Consequently, it is hypothetical existence of a strong positive relationship between collateral and access of debt financing by SMEs.

2.3.3 Age of the firm

Age according to Chandler (2009) the longer a firm exists and the bigger it is, the greater it signals that it can weather hard economic conditions. Additionally, by remaining in business, a firm can indicate that it does not adopt opportunistic behaviour. According to Klapper et al.(2006), younger firms (less than 4 years) depend less on bank financing and more on informal financing. This view is also supported by Ngoc & Nguyen (2009) which find that it is frequently difficult and expensive for young SMEs to access bank financing, due in large portion of information asymmetry between the banks and firms. Bougheas et al. (2006) point out that young firms are extra failure prone than older ones. Therefore, it is hypothesized that, there is a positive relationship between the age of the firm and access to finance from commercial banks

2.3.4 Access to finance

The significance of finance has been well recognized in the literature and the firm-financing gap has advanced to be a common terminology, portraying the inadequate access to finance faced particularly by firms (OECD 2006, & IFC, 2010). Inadequate finance is a key hindrance to firm growth (Malhotra etal.,2007) and it has been found that small firms face bigger encounters in obtaining finance as compared to larger firms (Schiffer & Weder, 2001 & Beck & Demirguc-Kunt, 2006)

2.4 Empirical Review of related literature basing on the study objectives

2.4.1 The effect of Quality of financial statements on access to finance

Schoombee (2004) assert that financial institutions tend to consider the quality of financial statement before they extend credit to borrowers, they need to assure themselves of the viability of the loan applicant and thus they need to see audited financial statements accessible in form of statement of comprehensive income statement of financial position, statement of changes in equity and finally statement of cash flows. According to McKenzie and Baker (2011), and Epstein (2007) quality financial statements should serve as an anchor between the bank and small and medium enterprise to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position, cash flows and revenue projections of the SMEs to enhance lending parties make informed decisions to extend finance.

According to Ball (2006), quality financial statements should serve as an anchor to effect access to finance. This is based on the premise that once financial statements reduce the level of information asymmetry this enables the bank to estimate the perceived risk and extend finance to small and medium. Furthermore, Leuz and Verrecchia (2011) argued that a higher financial reporting quality increases expected cash flows by financial statement users.

Bestowing to Meyer (2002), to determine repayment capacity, creditors will normally want small and medium enterprises to provide financial statements reflecting its most recent financial position as well as the 2-3 previous years. For loans or other products financing capital expenditures, creditors will also need medium-term and long-term financial projections that reflect the expected materialization of the business plan that validates the need for the loan or other financing facility which are all reflected in the financial statements (Tweedie, 2012). He continued to assert that for SMEs to access finance from banks, quality of financial statements is supreme.

Quality financial statements are examined as part of the underwriting process for larger accounts. Research displays that financial information is one of the primary measures used to assess the capacity of a business to effect payment of credit (Kwok, 2002). The quality of financial statements ranks as the favoured measure for lending to small and medium classified as both retail and corporate clients. Using data from financial statements addresses small and medium information asymmetry problems in a cost-effective way, especially for larger financial institutions. Allee and Yohn (2009) found that firms in the United States with audited financial statements are marginally but significantly less likely to be denied credit and those firms with accrual-based financial statements benefit in the form of lower cost of capital.

More so Nanyondo et al. (2014) assert that there is a significant positive relationship between quality of financial statements and access to finance to small and medium enterprises. However, perceived risk is not significantly associated with access to finance. A substantial number of studies have exposed that banks were the most significant external users of small entity financial statements. This discovery is in line with the evidence gained from the study carried out in different countries and found that bank loans were one of main sources of debt finance for SMEs (Beck et.al., 2006)

Dang, Marriott and Marriott (2008) also studied the use of small and mediums quality financial statements by bank lending officers in Vietnam. Comparable to prior studies, bankers converted financial statement information into a standardized form, but they viewed that small entity financial statements were less useful in loan decision making. Place visit and direct communication with clients, for example, were used as alternative sources of information. The results of this study also recommended that the bank's use of quality financial statements from small and medium was effected by the directors' perceptions of the role of accounting, but not by the uses of accounting standards and financial statement audit.

2.4.2 The effect of collateral availability on access to finance

Coco (2000) proposed that the collateral is the lender's defence in case default happened by a borrower, in that viewpoint collateral is the insurance that lender's contract will be honoured and respected. The security assets should be used to recover the principal in case of default. SMEs in specific provide security in form of properties (cars, houses and whatever that could actually bring back the principal amount) in case of non-payment on loans (Garrett, 2009). Security for loans must really be capable of being sold under the normal circumstances of the market, at a fair market value and also with sensible timeliness.

Menkhoff, Neuberger, and Rungruxsirivorn (2012) found that SME borrowers in less developed economies have lower level of collateralizable assets to pledge as a security by banks and thus, the likelihood of credit rationing is higher for SMEs in the less developed economies. Bougheas et al. (2006) argue that collateral is a significant factor for SMEs in order to access debt finance. Barbosa and Moraes (2004) contend that SME owners-managers that invest deeply in tangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets.

In 2017, the World Bank steered an enterprise survey among 560 small and medium enterprises in Bangladesh to comprehend the collateral necessities by the commercial banks. The survey outcomes showed that 67.14 per cent of SMEs provided land and buildings as security to get access to the bank loans. On the other hand, about 43 per cent SMEs provided individual assets and about 29 per cent firms provided equipment and machinery as security. However, only 3.39 per cent firms guaranteed accounts receivables as collateral (World Bank Enterprise Survey, 2017). Henceforth, the results recommended that commercial banks in Bangladesh are comfortable to provide SME loans when they are secured with the fixed assets as collateral.

By way of providing collateral an essential role is played in easing SME access to finance, SMEs that have extra fixed assets tend to utilize higher financial leverage (Nofsinger & Wang, 2011) .The motive for this is that these firms can borrow at lower cost of debt finance/interest rates as their loans are protected with these assets serving as collateral. In his examination of the role of collateral and personal guarantees by means of a unique data set from Japan's SME loan market (Fatoki, 2011) found that a positive relationship between the use of collateral and the strength of the borrower-lender lending relationship results in easier SME access to finance.

SME segment faces challenges to access external finances for their investment projects attributed to lack of assets to be promise as collateral. In that outlook SMEs fail to grow due to absence of collateral to pledge to access external sources of finance. Bougheas et al. (2006) pointed out that the requirement of collateral is a central aspect for SMEs to prosper in approachability of external financing from lenders. Barbosa and Moraes (2004) and Fatoki (2011) proposed that operators of SMEs have to own more tangible assets that can create higher worth on their firm to quicken borrowing security. Because, the higher the value of assets the lower the interest rates of the debt to be secured by those assets. Subsequently, it is assumed that there is a strong positive relationship between collateral and access of debt financing by SMEs.

2.4.3 The moderating effect of age on the relationship between quality of financial information and access to finance

Chandler (2009) proclaims that older firms deliver a resume which lenders can use to device their credit worthiness. Abdul Saleh (2013) also recognised that experience enhances the availability of credit. Similarly, Kamweru (2011) contends that firms that are younger have no traditional credit history that providers of external finance can use to assess their creditworthiness as such they are more inhibited in the use of external financing. Conversely, he opposes that older firms have a deep-rooted credit history and have built a good reputation with providers of external finance as such are less inhibited in the use of external finance.

The charisma and the credit history which older firms create over the years in undertaking business decrease the challenge of information asymmetry in quality of financial statement disclosure and hence aid the firms to easily access external financing (Frazer, 2005). Ssentamu (2016) upholds that being in the business for many years propose that at least the firms are competitive on average. Information that is required by banks to appraise and process loan application may be more presented with older firms than the new firms (Ssentamu, 2016).

2.4.4 The moderating effect of age on the relationship between collateral availability and access to finance

Age of the firm is a very vital factor of access to credit considered by banks, (Pandula, 2011) revealed that new firms are not probable to meet the collateral obligations of the credit institutions since they have not amassed adequate asset. Additionally, inadequate collateral combine with non-appearance of information on financial record may make it problematic for new firms to access credit.

According to Klapper, Sarria-Allende and Sulla (2002), younger firms (those established less than four years), are more dependent on informal financing and far less on bank financing this is accredited to absence of sufficient collateral. This is reinforced by Quartey (2003) who determined the significant positive effect of firm age on the ability to access external finance. In addition, in their examination of the impact of firm and entrepreneurial characteristics on SME access to debt finance in South Africa (Fatoki & Asah, 2011) detected that SMEs that were put in place more than five years have a far healthier chance to be successful in their credit applications compared with SMEs that were put in place for less than five years.

2.5. Literature summary and gap

This study has reviewed a number of related studies about factors or drivers to access of finance by small and medium enterprises however there is a lot of generalization that's to say in the whole country without particularly focusing on a given area hence there is a contextual gap as conclusions can't be made out of generalization for a particular area. The diversity of factors responsible for suboptimal access to finance identified in literature indicates that the search for efficient factors of access to finance by SMEs is still emerging. Moreover, although empirical studies have been carried out to explain the limited access to finance using different predictor variables (Nanyondo et al., 2014; Mwihaki, 2015 & Ssentamu, 2016).The effect of quality of financial statements, collateral availability have not been excessively studied in the Ugandan setting.

This study therefore argued that the limited access to finance by SMEs' could be attributed to quality of financial statements, collateral available as they are moderated by firm age. Finally, there are scanty studies that have analysed the effect of moderating variables like age on the relationship between say financial characteristics and access to finance. Therefore, this study intended to fill both the contextual and conceptual gaps by assessing the effect of financial characteristics on access to finance contingent to age of the firm by small and medium enterprises in Uganda focusing on Namanve Industrial area.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains the approach that was followed in data collection in order to achieve the set objectives. The chapter focused on the research design that was used, the study population, sample size and selection, the sampling techniques, the procedure of data collection and data collection methods, validity and reliability concerns, data analysis methods, measurement of the study variables as well as ethical consideration and limitations of the study.

3.2 Research Design

This study adopted a cross-sectional survey design using both quantitative and qualitative data collection techniques. This design was considered appropriate for the study to support effective gathering of data across multiple SMEs in Namanve industrial area (Tierney, 2002). Quantitative approach was used to enable collection of quantitative data and to provide statistical expressions of quantitative relationships between study variables. The study also used a qualitative approach to expound data obtained from interviews in order to support quantitative data.

3.3 Target population and study population

This study focused on SMEs located in Namanve Industrial Area. According to Uganda investment Authority Report of (2019), Namanve Industrial Area has a total of 592 SMEs (UIA, 2019). Of these, about 380 are foreign and 212 are local based. This study targeted SMEs that are local based and are registered which comprised of a total of 212. The major focus of this study was on the owners, managers and key informants of these locally based SMEs.

3.4 Sample size determination and sampling technique

3.4.1 Sample determination and sampling technique for the quantitative method

The study adopted a quota sampling technique to divide SMEs in Namanve industrial area into foreign based and local based SMEs, in this technique efforts are made to ensure that a certain proportion of the different sectors are represented. The local based SMEs were 212 SMEs in total, these were then grouped into stratas along service, retail, manufacturing, construction, real estate and fabrication sectors using stratified sampling technique. With the help of Krejcie & Morgan, (1970) table of determining sample size, a sample size of 166 SMEs was appropriate for a target population of 212 SMEs. These SMEs were selected following the definition of an SME by Uganda Investment Authority (2008) based on the number of employees that are between 5 and 100.

The names and addresses of 166 small and medium sized businesses that meet the above criteria were obtained from the list provided by the town clerk of Mukono Municipality and questionnaires distributed to them. However, 140 questionnaires were collected back making an effective response rate of 84.37%. This response rate was considered ideal to carry out the study.

The unit of inquiry were the managers /owners and accountants of these SMEs. This was because they are the ones who run these businesses and therefore understood well how their business have been doing in terms of accessing finance.

3.4.2. Sample determination and sampling technique for the for qualitative method

For qualitative research, the common method used to establish the sample was getting to the point of saturation. In this study, this approach was utilized to obtain the sample size of 12 key informants that were selected using purposive sampling technique. This is because these key informants were deemed knowledgeable about the study and their informed views would enable the researcher to clearly answer the objectives of the study. The respondents on which interviews were conducted included members of financial institutions that provide loans to these SMEs, auditors of SMEs' financial statements and some members of SME Division of Uganda Investment Authority of Namanve.

3.6 Data collection methods and source of data

3.6.1. Quantitative data collection method

The study employed a survey approach where quantitative data was collected using a survey questionnaire. The primary data for this study was collected using closed ended questionnaires. The questionnaires were distributed to the selected business owners/managers. The questionnaires covered financial characteristics as the independent variables and access to finance as the dependent variables. Financial characteristic were measured using Quality of financial statements and Collateral availability. Access to finance was measured using flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition.

3.6.2 Qualitative data collection method

The study employed an interview method using an interview guide. The primary sources included data from key informants. An interview guide was used to allow gaining of in-depth information from the targeted respondents through forms of face to face conversations and probing of the respondent's responses to gain detailed explanations on financial characteristics and access to finance by SMEs in Uganda as suggested by (Sekaran & Bougie, 2010). Interviewing was done to enrich the quantitative findings and to have a deeper understanding of aspects that are not clearly understood by the quantitative findings.

3.7 Data collection instruments

3.7.1. Self-administered questionnaire

The study used a close-ended self-administered questionnaire divided into sections of background information, financial characteristics of quality of financial statement and collateral availability, and access to Finance. The questionnaire was scored on a five-point Likert scale of 5- Strongly Agree; 4- Agree; 3- Not Sure; 2- Disagree; and 1- Strongly Disagree. This was used to get quantifiable primary data from individual respondents.

3.7.2. Interview guide

The interview guide was used to collect data from the selected respondents inform of face-to-face interviews as it is more appropriate for collecting data from key informants who are always known to be experienced in their fields and positions of leadership and above all, they hold power and authority to provide such vital information needed for a particular subject under study. Therefore, the researcher used an interview guide to conduct face-to-face interviews with them at their convenient venues to get in-depth information that may not be got through questionnaires.

3.8. Validity and reliability of data instruments

3.8.1 Quantitative study validity and reliability of the data instruments

For reliability, consistency was examined by establishing internal consistency reliability of the measurement scales for the study variables as well as split-half reliability using Cronbach's alpha (Cronbach, 1951;& Sekaran & Bougie, 2010). All the reliability coefficients were above 0.70, a cut off recommended by Nunnally (1978). After the data collection, reliability analysis was done and the findings for each of the variables are presented below

Table 3. 1: Reliability of the research variables

Variable	No. of items	Cronbach Alpha
Quality of financial statements	12	0.960
Collateral Availability	4	0.777
Access to finance	4	0.797

Source: Primary data 2020

Validity

A face validity was used where all items included in the questionnaire were derived from previous empirical studies as those that were found to explain the construct variables well. For further analysis after collection of data, convergent and construct validity tests were conducted for the research variables. To demonstrate convergent validity, magnitude of the structural relationship between the item and the latent construct (factor) should be statistically different from zero (Smith Gildeh., & Holmes, 2007). In other words, the final items (not including detailed items) should be loaded highly on one factor with a factor loading of 0.50 or greater Nunnally (1978), this shows strong convergent validity and thus all the items whose factor load was below the recommended threshold were removed and only items with a factor load greater than the threshold of 0.50 were considered for final study as shown below,

Table 3. 2: Factor analysis for the study variables

Variables and their measures	**Factor loadings**
Quality of financial statements α=0.960	
There is complete posting of all transactions and financial information in the books of accounts of this enterprise	.855
Accountants in this enterprise prepare financial statements following the requirements of international Financial Reporting Standards for Small and Medium Enterprises	.857
In this enterprise frequent financial statement audits are done	.908
Accountants in this enterprise are independent in the professional practice	.877
In this enterprise the Generally Accepted Accounting Principles are followed while preparing financial statements	.812
Sound and accurate financial statements disclosures are done in this enterprise	.816
In this enterprise all the tax procedures are followed while preparing financial statements	.865
In this enterprise financial information is presented in detail with explanatory notes for decision making purposes	.885
International Accounting Standards are adopted while preparing financial statements	.882
All past financial statements of the enterprise have been maintained in a standard format for proper comparability	.753
The financial reports presented are always free from error and represent the true and fair view position of the enterprise	.750
The financial statements of the enterprise have always been easily interpreted	.721
Eigen value	**8.345**
Total variance explained	**69.538**
Kaiser-Meyer-Olkin (KMO)	**0.940**
Bartlett's Test Sphericity	**1559.093*** **
Collateral Availability α=0.777	
This enterprise has a number of assets it can pledge as collateral to access finance	.787

The bank accepts the enterprise to negotiate on the type and amount of collateral on the loan contract	.746
This enterprise uses collateral as the insurance that lender's contact will be honoured and respected in case default happened	.660
This enterprise owns more tangible assets that can create higher value on their firm to accelerate borrowing security	.889
Eigen value	**2.403**
Total variance explained	**60.068**
Kaiser-Meyer-Olkin (KMO)	**0.706**
Bartlett's Test Sphericity	**167.688*** **
Access to finance α=0.797	
The enterprises do not have to go through un necessary bureaucracy to acquire a loan given that banks have reliable information about the enterprise	.702
The enterprise has been obtaining loans from one bank as a result of a sound relationship built	.728
The enterprise is able to access finance as many times as it may require	.824
It's very easy for my enterprise to access finance from commercial banks	.889
Eigen value	**2.491**
Total variance explained	**62.285**
Kaiser-Meyer-Olkin (KMO)	**0.714**
Bartlett's Test Sphericity	**191.574*** **

N=140, ***p<0.00, **p<0.01, *p<0.05, α is Cronbach Alpha coefficient computed for scales with three items and more

3.8.2. Qualitative study validity and reliability of the data instruments

Validity

Qualitatively the study adopted creditability control. The motivation for credibility enables the scholar to establish how the data and the analysis procedures are carried out and to ensure that no relevant data have been excluded (Saunders, Lewis & Thornhill, 2009). Further, they add that credibility can be increased through getting agreement from colleagues, from supervisors or from the informants

Reliability

Saunders et al., (2009), emphasises a number of measures to minimize bias during qualitative studies which are subject and observer biases in sampling. This was also ensured by undertaking triangulation of information among the different sources of data, receiving feedback from member checking and expert view. Member checking is the process of verifying information from the targeted group which allows participant the chance to correct errors of facts or errors of interpretation.

3.9 Data collection procedure

Before administration of questionnaires, an introduction letter was obtained from Kyambogo University and was used when seeking permission to collect data from the respondents about the topic under study in two phases of the pilot and main study.

A pilot-study was carried out in Nakawa division of Kampala City, because firms in the division had similar characteristics with those of Namanve Industrial area. Thirty SMEs were randomly selected from the division business database provided by the revenue department of Nakawa division for the licensed SMEs after seeking approval from the town clerk of the division. The questionnaires were administered to owners and managers of these SMEs. Based on their feedback, modifications were made to the questionnaire for the next phase of data collection. Responses from the pilot-study were not included in the final sample.

In the main study phase, approval was sought from the town clerk of Mukono municipality to be able to access the SMEs in Namanve industrial area and thereafter, questionnaires were delivered to the owners, managers and accountants of each of the small and medium sized businesses in the survey sample. The package contained a covering letter and a questionnaire, the cover letter was used to explain the purpose of the survey. The respondents were assured of the confidentiality of their responses. After administration of questionnaires they were retrieved after 2 days and checked for completeness of all answers and the questionnaires were then arranged for data analysis

3.10. Measurement of variables

3.10.1 Measurement of the independent variable

The independent variable of the study was financial characteristics and was measured using quality of financial statements (Nanyondo et al., 2014 & Mwihaki, 2015) and Collateral availability (Mwihaki, 2015 & Ssentamu, 2016). The items that were used to measure these constructs were put on a five-point likert scale ranging from “strongly disagree” to “strongly agree” and means were computed to enable the analysis. A list of the constructs used in this study along with the set of items/indicators used to measure each construct can be found in Appendix one.

3.10.2 Measurement of the dependent variable

The dependent variable of the study was access to finance it was measured using flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition following previous related empirical studies such as *(*Claessens, 2006; Akudugu et al., 2009 &Nanyondo et al., 2014). Data on the respondent’s views and opinions about access to finance were obtained using scaled variables from a self-developed questionnaires and means were computed to enable the analysis. A list of the constructs used in this study along with the set of items/indicators used to measure this construct can as well be found in Appendix one.

3.10.3 Measurement of the moderating variable

Age of the firm was conceptualised as the moderating variable and was measured using Number of years the firm has been in existence. It was expected that age of the firm has a moderating effect on the relationship between quality of financial statements, collateral availability and access to finance this was based on the Life Cycle Theory of consumption that suggests that firm age has a contingent role while considering maintaining quality financial statements and gathering enough collateral that is used to access finance in financial institutions (Ssentamu 2016)

3.11 Data analysis

3.11.1 Analysis of quantitative data

Data collected was carefully compiled, sorted, edited, classified, coded and checked for accuracy and relevancy. Quantitative data analysis was performed with the help of SPSS software version 23. Analysis of research questions were performed using descriptive and inferential statistics. Descriptive statistics were used to measure quality of financial statements, collateral availability, and access to finance and as well discuss the study findings and understand the sample characteristics. Inferential statistics were used to assess the relationship between the dependent and independent variables.

The study objectives were analysed using a multiple regression analysis and hierarchical regression analysis, but for these analyses to be utilized there was a need to ensure that the data is appropriate along the assumption of Field (2009) that data that exhibits non – normality characteristics may lead to inaccuracy and distortion of the results. These regression analyses are conditioned to normal distribution of error terms of homoscedasticity and also requires the linearity between the dependent variable and the independent variables. In this study, different diagnostic tests were performed to ensure that data is appropriate for the analyses.

Normality tests were conducted to ensure that data is symmetrical (DeVaus, 2002), asserts that skewness values between -1.00 and 1.00 are within the acceptable range and indicate a symmetrical distribution. Further, research using Monte Carlo simulations indicate that significant problems tend to arise when skewness is greater than 2.00 and kurtosis exceeds 7.00 (Curran,West & Finch, 1996).The descriptive statistics in table 3.3 below show that the skewness of all the items were below 2 and kurtosis was below 7 showing that all the items were normally distributed.

Table 3. 3: Tests of Normality

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Quality of financial statements	140	3.57	-.458	.205	-.940	.407
Collateral Availability	140	3.62	-.694	.205	-.833	.407
Access to finance	140	3.39	-.363	.205	-1.074	.407
Valid N (listwise)	140					

Source: Primary data 2020

Multicollinearity tests were also done to test for collinearity and this arises when some individual independent variables are highly correlated (Field, 2009 & Hair et al., 2010). This problem was evaluated by using variance inflation factor (VIF) estimates to detect multi-collinearity that decreases the reliability and accuracy of empirical results. The higher VIF means that multi-collinearity effects are present. Hair et al. (2010) stated that a problem of multi-collinearity is present if the factor is greater than 10. Results in table 3.4 below indicated that all Variance Inflation Factors (VIF) were less than 10 indicating that items had achieved multicollinearity condition of independent variables.

Table 3. 4: Variance Inflation Factors

Model		Collinearity Statistics	
		Tolerance	VIF
1	Quality of financial statements	.959	1.043
	Collateral Availability	.959	1.043
a. Dependent Variable: Access to finance			

Source: Primary data 2020

3.11.2 Model specification

The effect of quality of financial statements and collateral availability on access to finance was analysed by performing a simple regression to determine the direct effect of these variables and later on a multiple regression analysis to determine the overall effect of these financial characteristics on access to finance. The dependent variable was access to finance. The means computed for the quality of financial statements and collateral availability was used as the predictor variables and regressed on the means computed for access to finance as the dependent variable.

Specifically, the model below was tested to analyse effect of quality of financial statements and collateral availability on access to finance

Multiple regression analysis model **$AC = a + \beta QF + \beta CA + e$**

Where, AF represents Access to Finance, QF represents Quality of Financial statements, CA represents Collateral Availability which represents Error term

The moderating effect of age of the firm on the relationship between quality of financial statements and collateral availability on access to finance was analysed using a hierarchical regression in order to assess the effects of a moderating variable. To test moderation, the researcher looked at the interaction effect of age of the firm on the relationship between Independent variable (s) (quality of financial statements and collateral availability) using dependent variable of access to finance. The steps as suggested by Baron and Kenny (1986) were followed and the models below were tested,

$$\mathbf{P_{it} = \beta_0 + \beta_1 Quality\ of\ financial\ statements_{it} + \beta_2\ Age\ of\ the\ firm + \beta_3 Quality\ of\ financial\ statements{*}Age\ of\ the\ firm_{it} + \varepsilon_{it}}$$

$$\mathbf{P_{it} = \beta_0 + \beta_1 Collaterall\ availabilty_{it} + \beta_2\ Age\ of\ the\ firm + \beta_3 Collateral\ availability{*}Age\ of\ the\ firm_{it} + \varepsilon_{it}}$$

3.11.3 Analysis of qualitative data

Qualitative data was analysed using content analysis. Responses from key informants were grouped into recurrent issues to form themes. The recurrent issues which emerged in relation to each guiding question was presented in the results, with selected direct quotations from participants offered as illustrations as suggested by Mugenda and Mugenda (2003).

3.12 Ethical considerations

The research process was guided by sound ethical principles which include the followings: -

1. Objectivity; the research team would ensure objectivity when carrying out the research any attempt to bias results is considered unethical and was therefore be avoided.

2. Confidentiality; the respondents would also be assured of confidentiality and anonymity. Their names were not written anywhere in the report and the information given would only be used for academic purposes.

3. Respect; the research team would ensure respect for the respondents. Respect would be encompassed of respecting the opinion of the respondents including the opinion to terminate the interview whenever they felt uncomfortable to continue, questioning style especially for very personal and sensitive questions.

3.13 Limitations of the study

1. Testing: The use of research assistants could bring about inconsistency in the administration of the questionnaires in terms of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this limitation, the research assistants would be oriented and verified on the procedure to be done in data collection

2. Attrition: Not all questionnaires would be returned neither correctly answered nor even retrieved back due to circumstances on the respondents such as travels, sickness, hospitalization and refusal/withdrawal to participate. In anticipation of this, the researcher would reserve more respondents by exceeding the minimum sample size

3.14 Chapter Summary

The chapter presented the methodology that the study used. The study employed a cross – sectional survey design. A population of 212 SMEs was used with a sample size of 166 which was based on

Krejcie and Morgan (1970) table. Primary data was obtained from 140 SMEs giving a response rate of 84.37 %. Data was collected using a questionnaire and interviews were later conducted for triangulation purposes. Reliability and validity tests were considered for the variables used, measurement of the research variables was made and model specifications were generated. Finally, ethical considerations and limitations of the study were presented.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents background information of enterprises included in the study, descriptive statistics of the research variables, and inferential findings based on the specific objectives of the study. The first section presented the background information of the enterprises included in the study, this was followed by the descriptive analysis for financial characteristics (quality of financial statements and collateral availability) and access to finance. Thereafter, the results of the multiple regression and hierarchical regression analysis were presented after taking in considerations all the diagnostic tests required to run a regression and these quantitative results are interpreted.

4.2 Background Information of enterprises included in the study

Respondents of the enterprises included in the study were asked about, the age of the firm, firm's registration status, the industry of the firm, and size of the firm to establish how the age of the firm, registration status, and the industry of the firm and size of the firm affect access to finance. Findings regarding this information is shown in table 4.1 below;

Table 4. 1: Background Information of the enterprises included in the study

	Categories	Frequency	Percentage
Age of the firm	Less than 1 year	33	24
	1 – 5 years	53	37
	5 - 10 years	26	19
	Above 10 years	28	20
	Total	**140**	**100**
Firm's registration status	Sole proprietorship	1	0.7
	Partnership	65	46.3
	Private limited company	74	53
	Public limited company	-	-
	Total	**140**	**100**
Industry of the firm	Service	37	26
	Retail	16	11
	Manufacturing	40	29
	Construction	28	20
	Real Estate	7	5
	Fabrication	12	9
	Total	**140**	**100**
Firm Size (Number of employees	5 - 25	54	39
	26 - 49	22	16
	50 - 80	21	15
	81-100	43	30
	Total	**140**	**100**

Source: Primary data 2020

As it can be seen in table 4.1 above, in terms of age of firm the responses given by the respondents about the number of years for which the enterprise has been in existence indicated that, 37 percent of the enterprises had been in existence for a period between 1 to 5 years, 24 percent for a period less than one year, while 20 percent corresponded to those that had existed for 10 years and above and lastly those that had existed for a period between 5 and 10 years constituted 19 percent. This demonstrated an even distribution of the enterprises included in the study.

In terms of the firm's registration status, majority of the firms were private limited companies representing 53 percent and this was so because these SMEs being privately registered, they must comply with the requirements of IFRS for SMEs standards and thus prepare their financial statements as per the guidelines of the standard.

In relations of the industry, most firms were in the manufacturing and service industry representing 29 and 26 percent respectively and this was due to the nature of the geographical scope of Namanve industrial area being populated by industries and factories.

Lastly, in terms of firm size, majority of the firms employed between 5 to 25 employees representing 39 percent this was followed by the firms employing between 80 to 100 employees representing 30 %, those employing between 26 to 49 and 50 to 80 employees constituted 16 and 15 percent respectively.

4. 3 Descriptive statistics of the variables included in the study

This section consists of the descriptive statistics of the variables under study. The variables of the study whose descriptive statistics were computed included financial characteristics (quality of financial statements and collateral availability) and access to finance. The constructs under these variables were put on a likert scale of 1-5 where 1 is for strongly disagree and 5 is for strongly agree were respondents were requested to indicate their level of agreement or disagreement with each sentence, by ticking the option which best represented their personal feelings and understanding towards the quality of financial statements and collateral availability statements that effect access to finance.

4.3.1 Quality of financial statements

The constructs for the quality of financial statements studied were based on the quality of financial statements in terms of transparency and fair representation and the extent to which accounts/ financial statements prepared are perceived as relevant, reliable, complete, understandable, accurate, comparable and prepared based on the International Financial Reporting standards. The constructs under this variable were put on a Likert scale of 1-5 where 1 is for strongly disagree and 5 is for strongly agree were respondents were requested to indicate their level of agreement or disagreement with each sentence, by ticking the option which best represented their personal feelings and understanding towards the quality of financial statements that affect access to finance. The descriptive statistics showing the mean and standard deviation of the statements on the level of quality of financial statements is given in table 4.2 below.

Table 4. 2: Level of Quality of financial statements

Quality of financial statement account	Mean	Std. Deviation
There is complete posting of all transactions and financial information in the books of accounts of this enterprise	3.59	1.424
Accountants in this enterprise prepare financial statements following the requirements of international Financial Reporting Standards for Small and Medium Enterprises	3.17	1.459
In this enterprise frequent financial statement audits are done	3.39	1.307
Accountants in this enterprise are independent in the professional practice	3.52	1.289
In this enterprise the Generally Accepted Accounting Principles are followed while preparing financial statements	3.84	1.054
Sound and accurate financial statements disclosures are done in this enterprise	3.70	1.167
In this enterprise all the tax procedures are followed while preparing financial statements	3.49	1.365
In this enterprise financial information is presented in detail with explanatory notes for decision making purposes	3.45	1.337
International Accounting Standards are adopted while preparing financial statements	3.31	1.372
All past financial statements of the enterprise have been maintained in a standard format for proper comparability	3.79	1.070
The financial reports presented are always free from error and represent the true and fair view position of the enterprise	3.77	1.165
The financial statements of the enterprise have always been easily interpreted	3.87	1.118
Grand mean	3.57	

Source: Primary data 2020

As indicated in table 4.2 above, the findings reveal that generally, respondents perceive all the constructs of the quality of financial statements studied to be above average on the scale of 1 to 5.

It can however be seen that there are notable differences on the various constructs evaluated. For instance, in terms of the ease with which financial statements can be interpreted the score by the respondents was 3.87 with standard deviation of 1.118, in relation to all the other aspects of quality of financial statements this constituted the highest score. This was followed with Generally Accepted Accounting Principles are followed while preparing financial statements (mean = 3.84, standard deviation= 1.054), maintenance of financial statements in a standard format for proper comparability (mean = 3.79, standard deviation= 1.070), financial reports presented are always free from error and represent the true and fair view position of the enterprise (mean = 3.77, standard deviation= 1.165), sound and accurate financial statements disclosures (mean = 3.70, standard deviation= 1.167) and complete posting of all transactions and financial information in the books of accounts of this enterprise (mean= 3.59, standard deviation = 1.424). All the six items were above the grand mean of 3.57 suggesting that SMEs assess these qualities of financial statements as high.

The items of accountants in this enterprise being independent in the professional practice with a mean = 3.52, standard deviation = 1.289, following all the tax procedures while preparing financial statements with a mean = 3.49, standard deviation = 1.365, presentation of financial information in detail with explanatory notes for decision making purposes with a mean = 3.45, standard deviation = 1.337, frequent financial statement audits with a mean = 3.39, standard deviation = 1.307, adoption of International Accounting Standards while preparing financial statements with a mean = 3.31, standard deviation = 1.372 and preparation of financial statements following the requirements of international Financial Reporting Standards for Small and Medium Enterprises with a mean = 3.17, standard deviation = 1.459, had least scores in relation to other items and they were also below the grand mean of 3.59 suggesting that respondents did not accord much importance to these quality of financial statements that account for access to finance.

Follow-up interviews with some accountants and auditors of these SMEs revealed that the ease with which financial statements can be interpreted is key for the decision of whether or not to extend credit to these SMEs. However, the preparation of the financial statements following the International Financial Reporting Standards for Small and Medium Enterprises as well as the International Accounting Standards has not been fully adopted due to various inhibitors such the costs associated with adopting these standards.

According to one Interviewee, the quality of reports increases the chances to access finance from financial institutions. However, gaps still exist in discussing and examining the reports presented by the oversight committee of these institutions and tracking feedback on the recommendations provided is still a challenge.

In terms of frequent audits to ensure quality financial statements, one interviewee had this to say *"To be able to obtain credit from any financial institution, the financial reports presented must be audited. Unfortunately, this is done in a short time and thus a lot is not audited. Some of the reports are not standardized and the preparers' integrity can easily be impaired in preparation of the reports hence the results end up being skewed despite the quality assurance all in the name of making the reports to look healthy because one is only targeting the credit"*

4.3.2 Collateral availability

The constructs for collateral availability studied were based on sum of investments in fixed assets, inventories and other intangible assets that can be pledged as collateral security and insurance for a loan in terms of collateral value. The descriptive statistics showing the mean and standard deviation of the statements on the level of collateral availability is given in table 4.3 below

Table 4. 3 : Level of Collateral Availability

Collateral Availability Statement	**Mean**	**Std. Deviation**
This enterprise has a number of assets it can pledge as collateral to access finance	3.63	1.165
The bank accepts the enterprise to negotiate on the type and amount of collateral on the loan contract	3.79	1.065
This enterprise uses collateral as the insurance that lender's contact will be honored and respected in case default happened	3.68	1.013
This enterprise owns more tangible assets that can create higher value on their firm to accelerate borrowing security	3.39	1.457
Grand Mean	**3.62**	

Source: Primary data 2020

As specified in table 4.3 above, the findings reveal that generally, respondents perceive all the constructs on collateral availability studied to be above average on the scale of 1 to 5. It can however be seen that there are remarkable differences on the various items of collateral availability evaluated. The bank's acceptance of the enterprise to negotiate on the type and amount of collateral on the loan contract scored the highest mean of 3.79 and a standard deviation of 1.065. This was followed by the ability of the enterprise to use collateral as the insurance that lender's contact will be honored and respected in case default happened (Mean= 3.68 and SD=1.013) and the number of assets that the enterprise can pledge as collateral to access finance (Mean=3.63, SD=1.165). These particular items were above the grand mean of 3.62 implying that the respondents agreed that the items were measuring collateral availability.

In relation to the enterprise owning more tangible assets that can create higher value on their firm to accelerate borrowing security majority of the enterprises included in the study were in disagreement in this regard it had the least mean score of 3.39 and a standard deviation of 1.457. This particular item was below the grand mean of 3.62 implying that the respondents didn't attach much relative importance to this item used to measure collateral availability.

Responses from the follow up interviews were in agreement with the quantitative results as respondents were suggesting that no institution can extend a loan without collateral security as this works as a guarantee that the money advanced will be paid back and incase of default the security pledged can be sold to recover the money.

In relation to banks accepts of the enterprise to negotiate on the type and amount of collateral on the loan contract one interviewee had this to say;

"We normally agree on which kind of security to pledge as collateral basing on the loan amount required, some institutions want assets like land titles, motor vehicle cards to give you the money without such tangible assets it may not be easy to give you the money unless if you have an insider helping you out"

In relation to using collateral as the insurance that lender's contact will be honored and respected in case default happened one interviewee had this to say;

"Once you fail to pay the money then forget about the asset pledged some institutions can even sell your house property to recover their money that's why it may be hard to give you the money once you do not have any asset to pledge."

In terms of enterprise owning more tangible assets that can create higher value on their firm to accelerate borrowing security, respondents had different views and majority were claiming that given the size of their enterprises it's not easy to have assets of higher value unless if the enterprise has stood a test of time and immersed much wealth.

4.3.3 Access to finance

The constructs for access to finance studied were based on flexibility and ease with which SMEs can obtain credit in form of frequency of loan acquisition from institutions such as commercial banks, money lenders, micro finance institutions and SACCOs which includes both long-term debt and short-term loans. The descriptive statistics showing the mean and standard deviation of the statements on the level of access to finance is given in table 4.4 below

Table 4. 4: Level of Access to finance

Access to finance statement	Mean	Std. Deviation
The enterprises do not have to go through un necessary bureaucracy to acquire a loan given that banks have reliable information about the enterprise	3.66	1.296
The enterprise has been obtaining loans from one bank as a result of a sound relationship built	3.64	1.189
The enterprise is able to access finance as many times as it may require	2.87	1.356
It's very easy for my enterprise to access finance from commercial banks	3.39	1.443
Grand mean	**3.39**	

Source: Primary data 2020

The enterprise not having to go through un necessary bureaucracy to acquire a loan given that banks have reliable information about the enterprise scored the highest mean of 3.66 and a standard deviation of 1.296. This was followed by the enterprise obtaining loans from one bank as a result of a sound relationship built (Mean= 3.64 and SD=1.189). These particular items were above the grand mean of 3.39 implying that the respondents agreed that the items were measuring access to finance.

In relation to the ease with which the enterprise can access finance from commercial banks, the score was equal to grand mean of 3.39 (Mean=3.39, SD=1.44), this suggests that the chances of accessing finance from commercial banks easily stand at 50 percent.

In standings of the enterprise being able to access finance as many times as it may require majority of the enterprises included in the study were in disagreement, in this regard it had a the least mean score of 2.87 and a standard deviation of 1.356. This particular item was below the grand mean of 3.39 implying that the respondents didn't attach much relative importance to this item used to measure access to finance.

Follow up interviews on the ability of the enterprise to access finance as many times as it may require revealed that this may not be possible as respondents put it that the paper work required by the institutions such as audited financial statements may render it impossible as much costs are involved in addition one enterprise may not be advanced a loan unless it first clears the outstanding amounts.

In relation to enterprises not having to go through unnecessary bureaucracy to acquire a loan given that banks have reliable information about the enterprise one interviewee had this to say;

"For as long as you already took a loan from that particular institution it means they now have your information so the next time you need another loan they may not toss you around."

In relation to the enterprise obtaining loans from one bank as a result of a sound relationship built one interviewee had this to say;

"You must be in good records with the bank, in most cases when the officials know your enterprise and can truck your credit history it becomes easy to advance you again."

4.4 Multiple regression analysis for the link between quality of financial statements and collateral availability on access to finance

In order address objective one and objective two, a multiple regression was conducted. The multiple regression analysis is conditioned to normal distribution of error terms of homoscedasticity it also requires the linearity between the dependent variable and the independent variables. These tests were first done before running the regression as already indicated in table 3.3 and table 4.1 above to ensure that all the assumptions for regression analysis to be conducted were satisfied.

Table 4. 5: Model summary of the multiple regression analysis

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.804[a]	.647	.642	.625	.647	125.489	2	137	.000
a. Predictors: (Constant), Collateral Availability, Quality of financial statements									

Source: Primary data 2020

The results of the model summary in table 4.5 above indicate that the regression model was statistically significant with F value of 2,137=125.489 and P value of 0.000 which implies that the model was fit for the data. The two variables explain 64.2 percent variance in access to finance (adjusted R-square =.642)

Table 4. 6: ANOVA model summary

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	98.025	2	49.013	125.489	.000[b]
	Residual	53.509	137	.391		
	Total	151.534	139			
a. Dependent Variable: Access to finance						
b. Predictors: (Constant), Collateral Availability, Quality of financial statements						

Source: Primary data 2020

In testing the significance of the model, the value obtained was 0.000 which was less than 0.025 at 5% level in a two tailed test this indicates that the model was statistically significant in predicting the effect of the predictor variables on access to finance. Findings also indicate the calculated F-value as 125.489 which is greater than the F critical at 5% level of significance.

Table 4. 7: Results of the multiple regression coefficients

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	-.204	.257		-.794	.428	-.712	.304
	Quality of financial statements	.117	.051	.119	2.288	.024	.016	.219
	Collateral Availability	.877	.059	.772	14.890	.000	.760	.993
a. Dependent Variable: Access to finance								

Source: Primary data 2020

As indicated in table 4.7, the findings of the study revealed that quality of financial statements, and collateral availability where strong predictors of access to finance ($p<.05$).

Collateral availability emerged to be the strongest predictor of access to finance (Beta =0.772, p value =0.000). This means that any efforts made by the management of these small and medium enterprises to acquire enough collateral security would increase access to finance by 0.772. The coefficient of collateral availability was statistically significant at $p<.05$, this implies that the hypothesis $H_1$2- which suggested that collateral availability has a positive significant effect on access to finance by SMEs in Namanve Industrial area was supported.

Quality of financial statements was also found to significantly predict access to finance (Beta =0.119, p value =0.024). This means that any efforts made by the management of these small and medium enterprises to prepare quality financial statements would increase access to finance by 0.119. The coefficient of quality of financial statements was statistically significant at $p<.05$ testing, positive significant effect on access to finance by SMEs in Namanve Industrial area was supported

4.5 Hierarchical multiple regression analysis on the link between quality of financial statements, collateral availability and age of the firm on access to finance

In order to examine the moderating effect of age of the firm on the relationship between quality of financial statements, collateral availability and access to finance, a hierarchical multiple regression analysis was performed to assess the moderating effect using the method proposed by Baron and Kenny (1986), in order to test moderating effect, first there was need to predict the outcome of dependent variable access to finance from the predictor variables (quality of financial statements and age of the firm, collateral availability and age of the firm), generally, the model should be significant. Secondly the independent variables and the moderator are centred and an interaction term created by multiplying the independent variable and the moderator (quality of financial statement*age of the firm and collateral availability * age of the firm). The interaction term is then entered in the regression equation to determine whether the moderator variable alters the strength of the causal relationship. The change in F change should be significant as well as the interaction term ($p <.05$). If both are significant, then moderation is occurring.

4.5.1 The moderating effect of age of the firm on the relationship between quality of financial statements and access to finance

In step 1, the results of hierarchical multiple regression predicting access to finance from quality of financial statements and age of the firm are reported in table 4.5, 4.6 and 4.7 and the model below was tested.

$$\mathbf{P_{it} = \beta_0 + \beta 1 Quality\ of\ financial\ statements_{it} + \beta_2\ Age\ of\ the\ firm_{it} + Quality\ of\ financial\ statements_{it} * Age\ of\ the\ firm_{it} + \varepsilon_{it}}$$

Table 4. 8: Model goodness of fit with Access to finance as dependent variable and quality of financial statements, Age of the firm and interaction term as predictors

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.620[a]	.385	.376	.825	.385	42.825	2	137	.000
2	.620[b]	.385	.371	.828	.000	.002	1	136	.969
a. Predictors: (Constant), Age of the firm, Quality of financial statements									
b. Predictors: (Constant), Age of the firm, Quality of financial statements, ZAge*ZQuality of financial statement									

Source: Primary data 2020

The multiple regression model (model 1) produced Adjusted $R^2 = .376$, $F(2, 137) = 42.825$, $p < .05$. The model (model 1) reveals a statistically significant relationship between quality if financial statements and age of the firm. The variability accounted for by quality of financial statements and age of the firm on access to finance is 37.6 percent leaving 62.4% to be explained by other factors.

In step 2 (model 2), the interaction between quality of financial statements and age of the firm was entered into the regression equation. The change in F was equal to .002, which was not statistically significant in variance accounted for over the step one model ($p>.05$). Model 2 shows that the relationship between Quality of financial statements, Age of the firm and the interaction term (Quality of financial statements*Age of the firm) jointly was not statistically significant, Adjusted $R^2 = .371$, $F(1, 136) = 0.002$, $p>.05$. The variability accounted for by Quality of financial statements, Age of the firm and the interaction term on access to finance is 37.1 percent leaving 62.9% percent to be explained by other factors.

Table 4. 9: Model Overall Significance with Access to finance as dependent variable and Quality of financial statements, age of the firm and interaction term as predictors

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58.293	2	29.146	42.825	.000[b]
	Residual	93.241	137	.681		
	Total	151.534	139			
2	Regression	58.294	3	19.431	28.342	.000[c]
	Residual	93.240	136	.686		
	Total	151.534	139			
a. Dependent Variable: Access to finance						
b. Predictors: (Constant), Age of the firm, Quality of financial statements						
c. Predictors: (Constant), Age of the firm, Quality of financial statements, ZAge*ZQuality of financial statements						

Source: primary data 2020

In testing the significance of the model, the value obtained was p=0.000 for both model 1 and model 2 which was less than 0.025 at 5% level in a two tailed test , this indicates that both models were statistically significant in predicting the effect of the predictor variables on access to finance. Findings also indicate the calculated Fvalue as 42.825 for model 1 and Fvalue of 28.342 for model 2 which are greater than the F critical at 5% level of significance, this implies that the data was fit for the model tested.

Table 4. 10: Model regression coefficients with Access to finance as dependent variable and Quality of financial statements, age of the firm and interaction term as predictors

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	2.289	.248		9.243	.000	1.800	2.779
	Quality of financial statements	-.149	.084	-.151	-1.784	.077	-.314	.016
	Age of the firm	.695	.084	.700	8.297	.000	.529	.860
2	(Constant)	2.283	.299		7.641	.000	1.692	2.874
	Quality of financial statements	-.147	.097	-.149	-1.519	.131	-.339	.044
	Age of the firm	.694	.088	.699	7.859	.000	.519	.868
	ZAgexZQuality of financial statements	.004	.093	.003	.039	.969	-.180	.187
a. Dependent Variable: Access to finance								

Source: Primary data 2020

$H_{1\ 3}$ explored the moderating effect of age of the firm on the relationship between quality of financial statements and access to finance by SMEs in Namanve industrial area by suggesting that the moderating effect of age of the firm on the relationship between quality of financial statement and access to finance is significant. The interaction term was not statistically significant (Beta =0.003, p value =0.969) greater than .05 at 5% level of significance. This indicates that Age of the firm has no moderating effect on the relationship between quality of financial statements and Access to finance and therefore hypothesis three ($H_{1\ 3}$) was not supported.

4.5.2 The moderating effect of age of the firm on the relationship between collateral availability and access to finance

In step 1, the results of hierarchical multiple regression predicting access to finance from collateral availability and age of the firm are reported in table 15 and 16 and 17 and the model below was tested.

$$\mathbf{P_{it} = \beta_0 + \beta 1 Collateral\ availability_{it} + \beta_2\ Age\ of\ the\ firm_{it} + Collateral\ availability_{it} * Age\ of\ the\ firm_{it} + \varepsilon_{it}}$$

Table 4. 11: Model goodness of fit with Access to finance as dependent variable and Collateral availability, Age of the firm and interaction term as predictors

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.826[a]	.683	.678	.592	.683	147.463	2	137	.000
2	.834[b]	.695	.689	.583	.012	5.574	1	136	.020
a. Predictors: (Constant), Collateral Availability, Age of the firm									
b. Predictors: (Constant), Collateral Availability, Age of the firm, ZAge* Collateral Availability									

Source: Primary data 2020

The multiple regression model (model 1) produced Adjusted $R^2 = .678$, $F(2, 137) = 147.463$, $p < .05$. The model (model 1) reveals a statistically significant relationship between collateral availability and age of the firm. The variability accounted for by Collateral availability and age of the firm on access to finance is 67.8 percent leaving 32.2% to be explained by other factors.

In step 2 (model 2), the interaction between collateral availability and age of the firm was entered into the regression equation. The change in F was equal to 5.574, which was statistically significant increase in variance accounted for over the step one model ($p<.05$). Model 2 shows that the relationship between collateral availability, age of the firm and the interaction term (collateral availability*age of the firm) jointly was statistically significant, Adjusted $R^2 = .689$, $F(1, 136) = 5.574$, $p<.05$. The variability accounted for by collateral availability, age of the firm and the interaction term on access to finance is 68.9 percent leaving 31.1% percent to be explained by other factors.

Table 4. 12: Model Overall Significance with Access to finance as dependent variable and Collateral Availability, age of the firm and interaction term as predictors

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.470	2	51.735	147.463	.000[b]
	Residual	48.064	137	.351		
	Total	151.534	139			
2	Regression	105.362	3	35.121	103.448	.000[c]
	Residual	46.172	136	.340		
	Total	151.534	139			
a. Dependent Variable: Access to finance						
b. Predictors: (Constant), Collateral Availability, Age of the firm						
c. Predictors: (Constant), Collateral Availability, Age of the firm, ZAgexZCollateral Availability						

Source: primary data 2020

In testing the significance of the model, the value obtained was p=0.000 for both model 1 and model 2 which was less than 0.025 at 5% level in a two tailed test this indicates that both models were statistically significant in predicting the effect of the predictor variables on access to finance. Findings also indicate the calculated Fvalue as 42.825 for model 1 and Fvalue of 28.342 for model

2 which are greater than the F critical at 5% level of significance, this implies that the data was fit for the model tested.

Table 4. 13: Model regression coefficients with Access to finance as dependent variable and Quality of financial statements, age of the firm and interaction term as predictors

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	.074	.204		.362	.718	-.330	.478
	Age of the firm	.260	.056	.262	4.620	.000	.149	.371
	Collateral Availability	.747	.064	.658	11.617	.000	.620	.875
2	(Constant)	.063	.201		.313	.755	-.335	.461
	Age of the firm	.306	.059	.309	5.217	.000	.190	.423
	Collateral Availability	.757	.063	.667	11.940	.000	.632	.883
	ZAge*ZCollateral Availability	-.143	.061	-.123	-2.361	.020	-.263	-.023
a. Dependent Variable: Access to finance								

Source: Primary data 2020

$H_{1\ 4}$ explored the moderating effect of age of the firm on the relationship between collateral availability and access to finance by SMEs in Namanve industrial area by suggesting that the moderating effect of age of the firm on the relationship between collateral availability and access to finance is significant. The interaction term was statistically significant (Beta =-0.123, P value =0.020) less than .05 at 5% level of significance. This indicates that Age of the firm has a moderating effect on the relationship between collateral availability and Access to finance and therefore hypothesis four ($H1_4$) was supported.

4.6 Chapter Summary

Background information about the enterprises included in the study were presented. Descriptive statistics of the variables of quality of financial statements, collateral availability and access to finance were also presented and interpreted.

A Multivariate regression analysis was performed in order to test hypotheses ($H1_1$ and $H1_2$). The results from objective one was significant and therefore the hypothesis ($H1_1$) was supported likewise the results from objective two were also significant and therefore the hypothesis ($H1_2$) was supported.

A hierarchical multiple regression analysis was performed in order to test hypotheses ($H1_3$ and $H1_4$). The results from objective three were insignificant and therefore hypothesis ($H1_3$) was not supported and contrary results for objective four were significant and therefore the hypothesis ($H1_4$) was supported.

CHAPTER FIVE

SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented a summary the key findings, discussion of findings, conclusion, and areas for future research. The summary of key findings, discussion of the findings regarding the effect of quality of financial statements and collateral availability on access to finance and the discussion of the findings regarding the moderating effect of age of the firm on the relationship between quality of financial statements, collateral availability and access to finance were presented in the first two sections. This was followed by the conclusions and recommendations presented in the last two sections.

5.2 Summary of key findings

The main purpose of the study was to examine the effect of financial characteristics on access to finance by SMEs contingent to age of the firm in Namanve Industrial area. The study specifically aimed at testing the effect of quality of financial statements and collateral availability on access to finance as well as the moderating effect of age of the firm on the relationship between quality of financial statements, collateral availability on access to finance. The data for the study was collected from 140 SMEs in Namanve industrial area.

Study findings revealed that majority of the SMEs in Namanve industrial area agreed that quality of financial statements and collateral availability were key drivers of access to finance, the descriptive statistics of the means for these financial characteristics were all above the average of 3 on a scale of 1 to 5 implying that respondents agreed that these items were highly important in explaining access to finance.

In order to address the study objectives one and two, the alternative hypotheses $H_1 1$ and $H_1 2$ were tested using a multiple regression analysis. On the first objective, it was hypothesized that quality of financial statements has a positive significant effect on access to finance by SMEs in Namanve Industrial area. Results revealed a positive significant effect of quality of financial statement on access to finance (Beta =0.119, P value =0.024) at 5% level of significance this implies that hypothesis $H_1 1$- was supported and the null hypothesis was rejected.

On the second objective, it was hypothesized that collateral availability has a positive significant effect on access to finance by SMEs in Namanve Industrial area. Results revealed a positive significant effect of collateral availability on access to (Beta =0.772, P value =0.000) at 5% level of significance this implies that hypothesis $H_1 2$- was supported and the null hypothesis was rejected.

On the other hand, to address the study objectives three and four, the alternative hypotheses $H_1 3$ and $H_1 4$ were tested using a hierarchical multiple regression analysis. On the third objective, it was hypothesized that the moderating effect of age of the firm on the relationship between quality of financial statements and access to finance was statistically significant. Results revealed that age of the firm size had no moderating effect on the relationship between quality of financial statements and access to finance (Beta =0.003, p value =0.969, Adjusted $R^2 = .371$, $F (1, 136) = 0.002$, $p>.05$) at 95% level of significance thus the null hypothesis was supported and the alternative hypothesis $H_1 3$ was rejected.

On the fourth objective, it was hypothesized that the moderating effect of age of the firm on the relationship between collateral availability and access to finance was statistically significant. Results revealed that age of the firm has a significant moderating effect on the relationship between collateral availability and access to finance (Beta =-0.123, p value =0.020, Adjusted R^2 = .678, F (2, 137) = 147.463, $p < .05$) at 95% level of significance thus the alternative hypothesis H_14 was supported and the null hypothesis was rejected.

5.3 The discussion of the findings with regard to the effect of quality of financial statements on access to finance

The first specific objective of the study was to analyse the effect of quality of financial statements on access to finance by SMEs in Namanve Industrial area. Results of a multiple regression analysis revealed a statistically significant effect of quality of financial statements on Access to finance. Follow-up interviews with some accountants and auditors of these SMEs revealed that the ease with which financial statements can be interpreted is key for the decision of whether or not to extend credit to these SMEs. Another interviewee added that the quality of reports increases the chances to access finance from financial institutions.

The results of this objective were in agreement with the findings of Nanyondo et al. (2014) who found a significant positive relationship between quality of financial statements and access to finance by Small and Medium Enterprises. Similarly, Epstein (2007) assert that quality financial statements should serve as an anchor between the bank and small and medium enterprise to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position, cash flows and revenue projections of the SMEs to enhance lending parties make informed decisions to extend finance.

Rendering to Meyer (2002) to determine repayment capacity, creditors will usually need small and medium enterprises to provide financial statements reflecting its most recent financial position as well as the 2-3 previous years. For products financing capital expenditures or loans, creditors will also need medium-term and long-term financial projections that reflect the expected materialization of the business plan that authenticates the need for the loan or other financing facility which are all reflected in the financial statements. Tweedie (2012) reiterates that if financial statements do not conform to standards, and fail to exhibit transparency, then the level of perceived risk will be high and thus access to finance will be hindered.

In line with Ball (2006) quality financial statements should serve as an anchor to effect access to finance. This is based on the premise that once financial statements reduce the level of information asymmetry this enables the bank to estimate the perceived risk and extend finance to small and medium. Contrary, Dang et.al (2008) also inspected the use of small and mediums quality financial statements by bank lending officers in Vietnam they observed that small entity financial statements were less useful in loan decision making. Site visit and direct communication with clients, for example, were used as alternative sources of information. The results of this study also proposed that the bank's use of quality financial statements from small and medium was prejudiced by the directors' perceptions of the role of accounting, but not by the uses of accounting standards and financial statement audit

5.4 The discussion of the findings with regard to the effect of collateral availability on access to finance

The second specific objective of the study was to analyse the effect of collateral availability on access to finance by SMEs in Namanve Industrial area. Results or a multiple regression analysis revealed a statistically significant effect of collateral availability on access to finance. Follow-up interviews were suggesting that no institution can extend a loan without collateral security as this works as a guarantee that the money advanced will be paid back and incase of default the security pledged can be sold to recover the money.

In his examination of the role of collateral and personal guarantees using a unique data set from Japan's SME loan market, Fatoki (2011) found a positive relationship between the use of collateral and the strength of the borrower-lender lending relationship. Likewise, Coco (2000) also suggested that the collateral is the lender's protection in case default happened by a borrower, in that perspective collateral is the insurance that lender's contract will be honoured and respected. Similarly, Bougheas et al. (2006) pointed out that the requirement of collateral is a vital aspect for SMEs to prosper in accessibility of external financing from lenders.

Similarly, the findings were in support of the resource based theory that explains that an organization is a bundle or a pile of assets and resources that are both tangible and intangible in nature that if effectively and efficiently utilized, an organization becomes a going concern (Barney 1991). Thus, these Small and medium-sized enterprises can depend on resources owned by the firm like buildings, land titles, cars, reputation, and use them as collateral securities to access finance.

5.5 The discussion of the findings with regard to the moderating effect of age of the firm on the relationship between quality of financial statements and access to finance

The third specific objective was concerned with moderation of age of the firm on the relationship between quality of financial statements and access to finance. The results from a hierarchical multiple regression analysis revealed that age of the firm had no moderating effect on the relationship between quality of financial statements and access to finance.

The study findings were incompatible with the Life cycle theory of consumption that explains that at the beginning, the firms have difficulty accessing finance due to improper information available and low collateral and inexperience while as firms grow in business, they tend to reduce information asymmetry by keeping proper information and hence can easily access finance (Fjose, 2010).

In the same way, the results were not in agreement with the findings of Kamweru (2011) who found that firms that are younger have no well-known credit history that providers of external finance can use to assess their creditworthiness as such they are more inhibited in the use of external financing. On the other hand, he opposes that older firms have a well-established credit history and have built a good name with providers of external finance as such are less inhibited in the use of external finance. Likewise, Ssentamu (2016) upholds that being in the business for many years propose that at least the firms are competitive on average. Information that is essential by banks to assess and process loan application may be more obtainable with older firms than the new firms.

5.6 The discussion of the findings with regard to the moderating effect of age of the firm on the relationship between collateral availability and access to finance

The fourth specific objective was concerned with moderation of age of the firm on the relationship between collateral availability and access to finance. The results from a hierarchical multiple regression analysis revealed that age of the firm had significant moderating effect on the relationship between collateral availability and access to finance. Follow up interview In terms of enterprise owning more tangible assets that can create higher value on their firm to accelerate borrowing security, respondents had different views and majority were claiming that given the size of their enterprises it's not easy to have assets of higher value unless if the enterprise has stood a test of time and immersed much wealth.

The results were in contour with life cycle Theory of consumption that describes the development of the firm as a linear sequential process through a number of stages (Nofsinger, 2011).The theory suggests that the length of existence in a business determines access to finance given to the SMEs and also its assumed that SMEs that have been in business for a long time through saving and operation are able to acquire assets that can be used as collateral in accessing finance from financial institutions.

Correspondingly, Pandula (2011) found out that new firms are not probable to meet the collateral requirement of the credit institutions since they have not accumulated sufficient asset. He supplemented that, insufficient collateral combined with absence of information on financial record may make it difficult for new firms to access credit. This is strengthened by Quartey (2003) who found significant positive effect of firm age on the ability to access external finance

5.7 Conclusions

This study sought to examine financial characteristics, age of the firm and access to finance with Specific emphasis of analysing the effect of quality of financial statements and collateral availability on access to finance contingent to age of the firm .The study adopted a cross sectional survey design to address those issues, primary data was utilized in obtaining evidence of the study form the selected SMEs in Namanve industrial area.

The study utilized a multiple regression analysis and a hierarchical multiple regression analysis. The overall pattern of the findings of the study revealed that variation in access to finance by SMEs in Namanve industrial area was significantly explained by quality of financial statements and collateral availability. Age of the firm was found not to have a moderating effect on the relationship between quality of financial statements and access to finance while it was found to have a moderating effect on the relationship between collateral availability and access to finance.

Grounded on findings of the study, there are predictions that access to finance by SMEs would be improved, hence an opportunity for local individuals as well as other investors to start up and sustain their Small and Medium Sized businesses past their first birth day and contribute to job creation, technological innovation and economic output of the country at large.

5.8 Recommendations

The study found out that quality of financial statements had a significant effect on access to finance. Owing to this, the study recommends that owners and managers of these SMEs should ensure that quality financial statements are prepared, this can be done by enforcing the adoption of International financial reporting standards form Small and Medium Enterprises as well as the Generally accepted Accounting Principles while preparing the financial statements such that these statements are reliable, accurate, comparable and can easily be understood by the financial institutions as a requirement that audited financial statements need to be presented before accessing credit. Additionally, efforts should be made to ensure that the financial statements of the enterprises are prepared by qualified accountants and interim audits conducted to ensure quality reports are presented.

The study also found that collateral availability had a significant effect on access to finance. Drawing to this, the study recommends that that operators of SMEs have to own more tangible assets that can create higher value on their firm to accelerate borrowing security. Because, the higher the value of assets the lower the interest rates of the debt to be secured by those assets hence improving finance accessibility.

Age of the was also found to have a moderating effect on the relationship between collateral availability and access to finance, the study there for recommends that as efforts are done to improve access to finance by acquiring more collateral security, age of the firm need to be given attention, younger firms (less than 4 years) should rely less on bank financing and more on informal financing as it is often difficult and expensive for young SMEs to access bank financing, due to large part of information asymmetry between the banks and firms and less collateral availability while older firms of more than 4 years are presumed to have immersed enough tangible assets that can be pledged as security to acquire finance.

5.9 Areas for further research

The sample was composed of registered SMEs that operate in Namanve industrial area, which means that unregistered SMEs and SMEs operating in other regions of Uganda were not investigated. Therefore, the findings cannot be generalized to all the SMEs across the entire country. Studies in future can extend to other parts of the country.

Future research might extend the scope of this study by involving comparative studies with other countries. Then, a thorough research could be undertaken by integrating institutional variables, in addition to financial ones.

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APPENDIX I: QUESTIONNAIRE

Dear respondent;

I am Thomas Luganda pursuing a Degree of Master of Business Administration at Kyambogo University (Finance & Accounting option). I am undertaking a study on Financial characteristics, Age of the firm and Access to finance among Small and Medium Enterprises in Uganda; a case of Namanve industrial area. You have been selected as a resourceful person to provide data on this study. The information you provide will be treated in the strictest confidence and the findings from your questionnaire and will be used for academic purposes only.

Thank you for accepting to provide the data needed to analyse this topical issue,

For any queries or further information, feel free to contact:

Mr. Thomas Luganda **Tel** +256776230699**: Email:** luganda.thomas28@gmail.com

Please tick the option of your choice

SECTION ONE: DEMOGRAPHICS:

1. Age How long has the business been in existence?

1 ( ) Less than 1 year

2 ( ) 1 – 5 years

3 ( ) Above 5 - 10 years

4 ( ) Above 10 years

2. Status What is the form of your business?

1 ( ) Sole proprietorship

2 ( ) Partnership

3 ( ) Private limited company

4 ( ) Public limited company

3. Industry In which industry i**s** this organization?

1 ( ) Service

2 ( ) Retail

3 ( ) Manufacturing

4 ( ) Construction

5 ( ) Real estate

6 ( ) Fabrication

4. **Size** How many employees work for the organisation?

1 ( ) 5 - 25

2 ( ) 26 - 49

3 ( ) 50 - 80

4 ( ) 81-100

SECTION TWO: FINANCIAL CHARACTERISTICS ASSOCIATED WITH ACCESS TO FINANCE

Financial characteristics considered for this study have been measured in terms of Quality of financial statements and Collateral availability. On a scale of 1-5 where 1 is for strongly disagree and 5 is for strongly agree please indicate how much you agree or disagree with each sentence, by ticking the option which best represents your personal feelings and understanding towards the quality of financial statements and collateral availability statements that effect access to finance

Code	QUALITY OF FINANCIAL STATEMENTS	Strongly Disagree	.Disagre	Neutral	Agree	Strongly Agree
QF1	There is complete posting of all transactions and financial information in the books of accounts of this enterprise	1	2	3	4	5
QF 2	Accountants in this enterprise prepare financial statements following the requirements of International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs).	1	2	3	4	5
QF 3	In this enterprise frequent financial statement audits are done	1	2	3	4	5
QF 4	Accountants in this enterprise are independent in the professional practise	1	2	3	4	5
QF 5	In this enterprise the Generally Accepted Accounting Principles are followed while preparing financial statements	1	2	3	4	5
QF6	Sound and accurate financial statements disclosures are done in this enterprise	1	2	3	4	5

QF7	In this enterprise all the tax procedures are followed while preparing financial statements	1	2	3	4	5
QF8	In this enterprise financial information is presented in detail with explanatory notes for decision making purposes	1	2	3	4	5
QF9	International Accounting Standards are adopted while preparing financial statements	1	2	3	4	5
QF10	All past financial statements of the enterprise have been maintained in a standard format for proper comparability	1	2	3	4	5
QF11	The financial reports presented are always free from error and represent the true and fair view position of the enterprise	1	2	3	4	5
QF12	The financial statements of the enterprise have always been easily interpreted	1	2	3	4	5
CODE	**COLLATERAL AVAILABILITY**	1	2	3	4	5
CA1	This enterprise has a number of assets it can pledge as collateral to access finance	1	2	3	4	5
CA2	The type of Collateral presented by the enterprise to the financial institution is key if any credit is to be rendered	1	2	3	4	5
CA3	Value of collateral determines the fraction of the credit amount to be granted	1	2	3	4	5
CA4	The bank accepts the enterprise to negotiate on the type and amount of collateral on the loan contract	1	2	3	4	5

CA5	This enterprise can apply and access credit even when the required security does not fit the needs of the required target group	1	2	3	4	5
CA6	This enterprise uses collateral as the insurance that lender's contract will be honoured and respected in case default happened	1	2	3	4	5
CA7	This enterprise own more tangible assets that can create higher value on their firm to accelerate borrowing security	1	2	3	4	5

SECTION THREE: ACCESS TO FINANCE

Access to finance has been measured by flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition. On a scale of 1-5 where 1 is for strongly disagree and 5 is for strongly agree please indicate how much you agree or disagree with each sentence, by ticking the option which best represents your personal feelings and understanding towards the statements on access to finance

Code	**ACCESS TO FINANCE**	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
AF1	The enterprise can get any loan amount due to the information gap with the bank which is kept at minimum	1	2	3	4	5
AF2	The enterprises do not have to go through un necessary bureaucracy to acquire a loan given that banks have reliable information about the enterprise.	1	2	3	4	5

AF3	The enterprise has been obtaining loans from one bank as a result of a sound relationship built	1	2	3	4	5
AF4	The enterprise keeps on switching from one bank to the other because of problems of loan servicing	1	2	3	4	5
AF5	The enterprise has not received any funds from the bank through formal procedures despite the availability audited financial statements	1	2	3	4	5
AF6	The enterprise bribes the bank to obtain a loan regardless of audited financial statements presented	1	2	3	4	5
AF7	The enterprise is able to access finance as many times as it may require	1	2	3	4	5
AF8	My enterprise has never been successful whenever it applies for finance from financial institutions	1	2	3	4	5
AF9	This enterprise has only received a loan from a bank where personal contacts existed	1	2	3	4	5
AF10	It's very easy for my enterprise to access finance from commercial banks	1	2	3	4	5

Thank you for your contribution.

APPENDIX II: INTERVIEW GUIDE

FINANCIAL CHARACTERISTICS, AGE OF THE FIRM AND ACCESS TO FINANCE AMONG SMALL AND MEDIUM ENTERPRISES IN UGANDA; A CASE OF NAMANVE INDUSTRIAL AREA

Introduction

The purpose of the interview is to gather personnel views on the role of financial characteristics (quality of financial statement and collateral availability) and how they effect access to finance contingent to firm size.

1. How do you assess the quality of financial statements in your enterprise in terms of transparency, reliability, completeness, understandability, and comparability to be able to access finance?
2. Does the firm's enterprise prepare financial statements following International Financial Reporting standards as a matter of ensuring quality financial statements?
3. How frequently does your enterprise do financial statement audits to be able to obtain finance?
4. How does collateral availability effect access to finance in your enterprise?
5. Why do you think firms in Uganda may not be able to obtain access to finance despite the collateral security pledged?
6. What is the ease and flexibility with which your firm can obtain access to finance?
7. How frequently can your firm acquire loans from the lending institutions
8. How does age of the firm effect access to finance by small and medium enterprises?

Thank you for your participation!

APPENDIX III: DETERMINATION OF SAMPLE SIZE

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384