

CHALLENGES FACING SMALL SCALE ENTERPRISES GROWTH AS OF THE BUDGETARY PROCESS IN KATWE BUTEGO PARISH, MASAKA DISTRICT; A CROSS SECTIONAL STUDY.

Cissy Naluima*, Geoffrey Tugume
School of Business Administration Kampala University.

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ABSTRACT

Background.

The study aimed to identify the challenges facing small-scale enterprise growth as of the budgetary process in Katwe Butego Sub County.

Methodology

The study used several methods to collect data including questionnaires, interviews, and observation. The proposed research design was a cross-section survey based on a simple random sampling in which the sampled area represented the whole area. The study adopted quantitative methods of data collection at one point in time, analyzed, and interpreted to generate results.

Results

Regarding the nationality of the owners of the enterprises, the majority of 90.0% were Ugandan, and 4% of the SMEs were owned by Indians. Only one respondent is of Tanzanian origin. The results show the dominance of Ugandans in business, particularly Masaka district.

The study established that lack of financial capital affected the performance of small and medium entrepreneurial initiatives. The interest rates were high to promote investment and innovations in the SME sector creation of new products in the market because of lack of capital. Besides, because most SMEs could not collateralize their enterprise, they could not easily invest in expansion.

Conclusion

A friendly tax policy is instrumental to the survival and growth of these small and medium enterprises. Therefore, if SMEs are to flourish, an appropriate tax policy that will not be an encumbrance to SMEs and which will also encourage voluntary compliance needs to be ground.

Recommendations

The government should come to improve production infrastructure. This should be through an increase in electricity generation to support SME initiatives and responsiveness by power generating companies in handling of electricity problems of SMEs whenever they occur. The cost of electricity should be brought down for SMEs to be able to afford it.

Keywords: Challenges, Small-Scale Enterprises, Growth, Budgetary Process, Katwe Butego Sub-County.

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Corresponding author: Cissy Naluima*

School of Business Administration Kampala University.

Background

Small and medium enterprises represent a significant share of emerging economies' business fabric. Nevertheless, they continue to face multiple challenges in meeting their financing needs.

Public financial institutions have come to play an active role in addressing these financing gaps through new operational mechanisms and adapted instruments. While the strategies for procurement of small and medium enterprise credits diverge across regions (in terms of, say, the macroeconomic context or lending model), the rising role of public financial institutions has been growing across regions, in part as a countercyclical response to the crisis, to shed further light on this issue, we focus on the case of Latin American small

and medium enterprises with an analysis based on survey information and interviews with development financial institutions.

Despite their potential, high-growth firms have limited access to commercial channels, forcing them to use self-financing or take on informal loans. Recent experience in the region shows that instruments customized to different stages of development of a start-up business can prove valuable. Nevertheless, they face several problems, including access to finance from often considered to be the most important problem. Therefore this study aims to identify the challenges facing small-scale enterprise growth as of the budgetary process in Katwe Butego Sub County.

Methodology

Research design

A research design is the plan for carrying out a research project. The proposed research design was a cross-section survey based on a simple random sampling in which the sampled area represented the whole area. The study adopted quantitative methods of data collection at one point in time, analyzed, and interpreted to generate results. This type of design is favored by the study over other designs because it involves only one contact with the study population. It is comparatively cheap to undertake and easy to analyze.

In short, the research was descriptive with the use of quantitative modes of analysis. This was intended to address the shortcomings of each independent methodology, giving more credibility to the findings in the study 50 out of 80 questionnaires were collected as other respondents did not fill the questionnaires.

Study area

This was a descriptive survey of the Katwe Butego Sub County which is found in South Western Uganda in Masaka District. The indigenous tribe is the Buganda. Consists of a total population of 100,000 inhabitants according to census 2014 (census report, 2014).

Sample size

The study used simple random sampling to select the 50 SMEs. Purposive sampling was used to select the 10b Masaka local government officials.

To obtain unbiased data, the study applied probability sampling techniques. The sample size was selected using the Yamane formula as below;

Where n is the sample size, N is the population of interest e is the significance level, e is 0.05
 49.8×50

This implies that the sample size is $n50$ respondents who will comprise 50 scale entrepreneurs, 10 Masaka local government officials 20 community development officers, and parish chiefs.

Inclusion and Exclusive criteria

Inclusion Criteria

Only SMEs that are in Katwe Butego parish
Study of SMEs who are registered with Masaka District Council

Exclusive Criteria

SMEs not operating in the Katwe Butego sub-county

Data collection methods

The study used a questionnaire as the ultimate method of data collection and this was complemented by photography. Response schedules and self-administered questionnaires were used as instruments of data collection.

Data Quality Control

Various categories of instruments were used in research to establish their reliability and validity.

Validity

Validity is the degree to which results obtained from the analysis of the data represent the phenomenon under study. A pre-test of the questionnaire and interview questions was conducted to test reliability and validity to minimize random error ambiguity, bias, and unclear questions.

Reliability

Reliability is the measure of the degree to which a research instrument yields consistent results or data after repeated trials.

Data analysis and interpretation

The data collected was analyzed and interpreted qualitatively and quantitatively. The study analyzed data in the following ways;

Editing

This refers to the process of checking the data collected from the field to see whether the responses given were complete, wrong, or not that to be corrected. Therefore the study immediately checked the questionnaires to ensure that each question was properly and uniformly answered and errors removed.

Coding

The study put respondents into categories so that at the end of it all the study gets a total of each category.

Tabulation

The study employed simple statistical indicators like the use of tables and percentages to portray the frequencies of responses of each particular element on the response using a computer package (Microsoft Excel).

Ethical considerations

To ensure the confidentiality of the information provided by the respondents and ascertain the practice of ethics in this study, the following activities were implemented by the study;

The study got a letter from the administration that helped to introduce him to the place where he carried out research. The questionnaires were anonymous and the responses in the questionnaires were confidential.

Results

Sample Characteristics

This covered the response rate and background of the respondents about gender, age group, and education level, type of enterprise, number of employees in the enterprise position of the enterprise and number of years in the enterprise. This information was considered necessary because the ability of the respondents to give satisfactory information on the study variables greatly depended on their background. The results on this item were as follows; V

Response rate

A total of 50 questionnaires filled questionnaires of 80 or 80 questionnaires distributed were retrieved. These included 30 questionnaires from owners of enterprises and 20 from the staff of the enterprises for quantitative data. Qualitative data

from the interviews was collected from 25 respondents that were: 10 owners of enterprises and 15 staff from the enterprises.

Socio-demographic characteristics of the respondents

The respondents were also categorized by age group, gender, level, of education, whether parents were still living and working, and nationality. These factors were considered important for the study because people of different social characteristics of persons analyze and understand the implications of the budgetary policies and the challenges differently based on their experiences. This helped the study to obtain information representative of different groups according to their experience in small-scale and medium enterprises business. Data on this item is presented in the table.1

Table 1. : Socio-demographic distribution of the respondents

Owners of the enterprises	Variable	Frequency	Percentage
	13-18 years	5	10
	19-30 years	3	6
	31-40 years	9	18
	41-50 years	10	20
	Above 50 years	23	46
	Total	50	100
	Gender	Frequency	Percentage
	Male	31	62
	Female	19	38
	Total	50	100
	Education levels	Frequency	Percentage
	Primary education	14	28.0
	Secondary	21	42.0
	Tertiary institution	7	14.0
	Never been to school	8	16.0
	Total	50	100
	Parents Alive	Frequency	Percentage
	Yes	19	38.0
	No	31	62.0
	Total	50	100
	Parents working	Frequency	Percentage
	Yes	7	4.0
	No	43	86.0
	Total	50	100
	Married	Frequency	Percentage
	Yes	11	22.0
	No	39	78.0
	Total	50	100
	Nationality	Frequency	Percentage
	Ugandan	45	90.0
	Indian	4	8.0
	Tanzania	1	2.0
	Kenyan	0	0.0
	Rwandese	0	0.0
	Congolese	0	0.0
	Total	50	100

Source: Primary data

Regarding the age of owners of the enterprises, the larger number of the respondents 46.0% were above 50 years, followed by those between 40-49 years who were 20.0%, then those, between 30-39 years that were 18.0%, and remaining 6.0% and 10.0% were between 20- 29 years and 13-18 years. The results in Table 1 show that for the owners

of the enterprises, the majority of 62.0% were male and 38.0% were females. These results show that the males were dominant in the business of small-scale and medium enterprises. However, the views obtained were representative of both gender groups as they both actively participated and offered their responses.

Regarding the education level of the enterprise owners, 42.0% possessed secondary education; these were followed by 28.0% with primary education, then 14.0% that had attained tertiary education, and the remaining 16.0% had never been to school. These education levels of the respondents were the basis for discussing the business challenges facing small-scale and medium enterprises. 38.0% of the enterprise owners had their parents, still leaving, and of which 22.0% were still working. This context was important in the study as it determined the source of finance other than financial institutions to start up the enterprises.

Regarding the nationality of the owners of the enterprises, the majority of 90.0% were Ugandan, and 4% of the SMEs were owned by Indians. Only one respondent is of Tanzanian origin. The results show the dominance of Ugandans in business, particularly Masaka district.

The challenges and SMEs as a result of Budgetary/Fiscal policies

Respondents were asked whether taxes levied were high or low for their operations. The summary of the responses is the Table 2.

Table 2: Response to taxes levied on SME

Responses	Frequency	Percentage (%)
Yes	39	78.0
No	11	22.0
Total	50	100.0

Respondents were asked whether taxes levied on their business were high, or low, 78.0% of the respondents said the taxes were high while 22.0% mentioned that the taxes were low for their business operations. In this category, taxes were levied on the materials that SMEs were using especially in the manufacturing sector. (Weichenrieder, 2007) mentioned high tax rates as the major reason for SMEs not willing to invest more in their business.

The challenges of SMEs as a result of Lack of financing

Number of correspondents who had borrowed loans from financial institutions

As part of the study, the study analyzed the number of SMEs in Katwe Butego who had obtained loans for their enterprises.

Table 3 Number of respondents who had obtained loans.

Obtained loans	Frequency	Percentage (%)
Yes	6	12.0
No	44	88.0
Total	50	100.0

Only 12.0% of the respondents had obtained loans to finance, their business enterprises 88.0% had not obtained loans because of various reasons which are mentioned in Table 3. The factors for not obtaining the loans were obtained from studies mentioned in the literature review. (Oluseyi, Oluboba, 2011) mentioned reason for not SMEs obtaining loans is because of the high costs of paying back the loans.

Reasons why respondents could not access financing

The study looked at the reasons why the SMEs were not encouraged to approach financial institutions and access finance. The major reasons looked at and corresponding to the requirement of the financial institutions to obtain financing are mentioned in Table 4.

Table 4: Lack of Access to finance for expansion

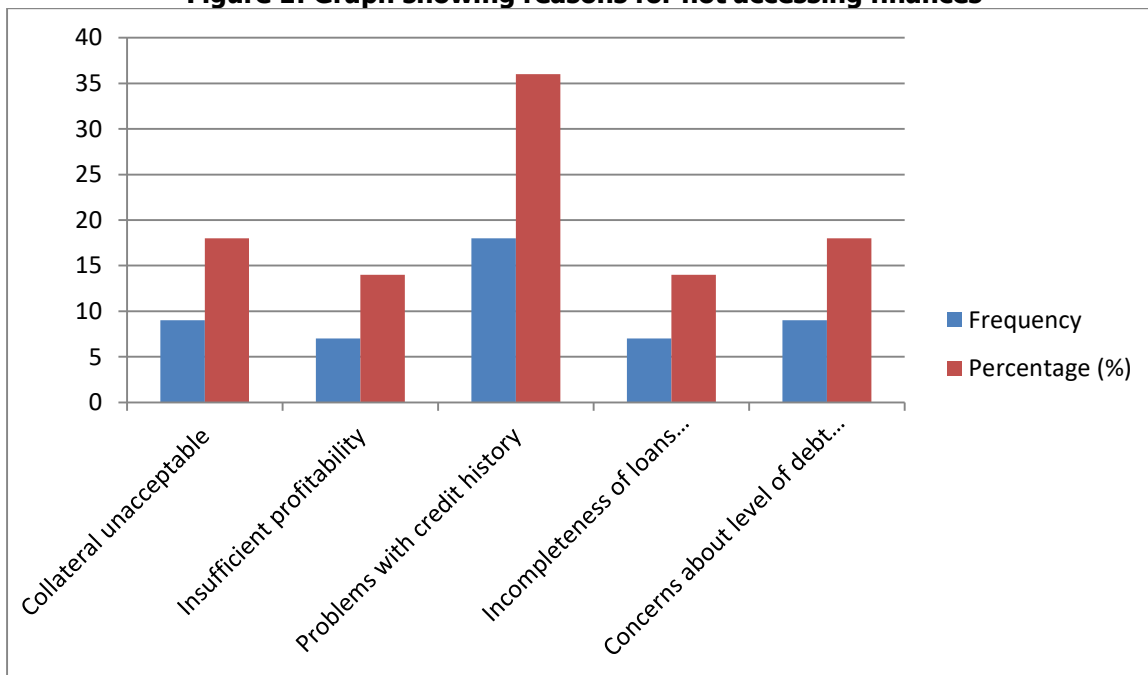
Variable	Frequency	Percentage (%)
Collateral unacceptable	9	18.0
Insufficient profitability	7	14.0
Problems with credit history	18	36.0
Incompleteness of loan application...	7	14.0
Concerns about the level of debt already incurred	9	18.0
Total	50	100.0

From Table 4 36.0% of the respondents mentioned that they had bad credit history with financial institutions. 18.0% responded that they had unacceptable collateral debt level issues with the financial institutions respectively. 14.0% had insufficient profitability or were not completing the application process this corresponds to which mentioned constraints facing Ugandan SMEs has been widely acknowledged to be a lack of access to credit.

During the interviews one respondent mentioned a lack of finances to expand service provision the quote is as below. "I lack finances to expand my product range and even if I need finances, the financial institution will ask me for collateral, which is not worth the money I require to invest in my business."

The graph below illustrates reasons for not accessing finance by the SME owners.

Figure 1: Graph showing reasons for not accessing finances



Source: primary data

In conclusion, financial capital challenges limited the performance of SMEs' entrepreneurial initiatives. This was because interest rates were high and could not promote investment in innovation. Enterprises could not easily raise capital because of a lack of collateral. Also as a result of poor energy provision SMEs do not maximize production to suit their market moreover can target international markets to earn foreign exchange.

Discussion

The study established that lack of financial capital affected the performance of small and medium entrepreneurial initiatives. The interest rates were high to promote investment and innovations in the SME sector creation of new products in the market because of lack of capital. Besides, because most SMEs could not collateralize their enterprise, they could not easily invest in expansion. Some of the business enterprises lacked land titles as security to

obtain financing. Other SMEs were renting premises hindering them from accessing capital and saving in the form of loans. Consequently, they borrowed from money lenders and micro-finance institutions entering the enterprises in a debt cycle with some enterprises closing down as a result of failure to pay back the money owed. Several items were analyzed. These included the lack of access to sufficient electricity, load shedding, high cost of electricity, the disturbing process of acquiring land titles, lack of effective generators, lack of intensive technology, and lack of the latest technology. These were studied about the failure of growth of the enterprises, loss of profitability, and poor preservation of products, and demoralizing of entrepreneurial spirit.

During the interviews, the respondents pointed out that until recently, about the beginning of this year with the opening of the Bujagali hydro electricity power project, the sector was in a blackout literally with no electricity to run their

enterprises. However, since then there has been an improvement and this has somehow reduced the problem of lack of access to sufficient electricity. "One respondent stated thus, "Electricity is not reliable because I continue to suffer load shedding." This respondent further remarked, "Because even the cost per unit is very high, using it is a challenge that it is as if there is no access to it." V Another respondent stated, "Accessing electricity is not easy, the process can take up to 6 months when you apply to get connected and you do not follow up with the UMEME staff V vigilantly." There was also a respondent who said; UMEME staff are not responsive, in the case of a breakdown say a pole has fallen or there is a breakdown of the transformer it takes great effort to make them resolve the problem making electricity inaccessible sometimes.

The views presented above show that lack of access to sufficient electricity was somehow still a challenge to SMEs and this affected their growth because it affected production. This finding agrees with the views of Ibrahim (2008) who in a study of the problems of SMEs in Nigeria found that the shortage of electric power was a challenge. Also, the Manufacturer Association of Nigeria in its half-yearly report for 1999 concurred indicating that a severe energy crisis prevailed during the years 1998 and 1999 and indeed even now. This factor, coupled with the fact that companies purchase their generating assets, increased the Cost of production. This means that when there is no access to sufficient electricity growth of enterprises is hampered. Therefore, Ugandan SMEs require access to sufficient electricity for their growth.

Conclusion

The study investigated budgetary policies' effects on SME business growth and performance in Katwe Butego Sub County. From the findings of the study, it is concluded that; A friendly tax policy is instrumental to the survival and growth of these small and medium enterprises. However, taxes for SMEs have been more harmful than beneficial as they increase running costs and slow down growth. Most of the SMEs surveyed complained of high tax rates imposed on them multiple taxation, complex tax regulations, and lack of proper enlightenment or education about tax-related issues. Therefore, if SMEs are to flourish, an appropriate tax policy that will not be an encumbrance to SMEs and which will also encourage voluntary compliance needs to be grounded. Poor production infrastructure impedes the performance of small and medium entrepreneurial initiatives. Due to insufficient, irregular, and costly electricity, small-scale enterprises' production is limited. There is also a loss of raw materials and finished products because of poor preservation. The profitability of the enterprises is hampered because of the high cost of electricity which in turn affects pricing reducing competitiveness in the market.

They are also flooded by cheap important products. SMEs also find a problem in borrowing capital because of a

disturbing land title processing process. Poor quality technology also reduces competitiveness in the market. Financial capital challenges limit the performance of SMEs' entrepreneurial initiatives. This was because interest rates were high and could not promote investment in innovation. Enterprises could not easily raise capital because of a lack of capital. Businesses did not make profits because of kept in a vicious cycle of loan repayment. Above all, they wasted time and money in the process of securing loans. Banks above all did not allow entrepreneurs the opportunity to repay from profits raised from the business and there were stringent repayment terms.

Recommendations

1. The government should come to improve production infrastructure. This should be through the increase of the electricity generation to support SMEs initiatives and responsiveness by power generating companies in the handling of electricity problems of SMEs whenever they occur. The cost of electricity should be brought down for SMEs to be able to afford it. They can also enable SMEs to get fuel for generators at lower prices.
1. Financial capital problems should be alleviated by the government, financial institutions, and development partners. Interest rates have to be brought down to enhance SME borrowing. The encumbrances in land titles should be eliminated. Special loan offers for SMEs and government subsidies can also go a long way to solve the financial capital problems of SMEs.
1. More attention should be given to improving the enabling environment for the indigenous private sector (in particular micro-business and SMEs) and this will also help attract foreign investment; A framework should be built up to increase SME competitiveness this includes: an enabling legal, and regulatory and administrative environment, SME access to finance, a supportive SME institutional support structure, availability of appropriate skills and supporting infrastructure, mainstreamed into the national development framework.
2. Small and Medium Enterprises should be levied lower amounts of taxes so that they have enough funds for other businesses to generate profit thus to business growth. Furthermore, it will help SMEs get better equipped to survive in a competitive market.
3. The government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential taxpayers, but it will also encourage voluntary compliance and

ultimately lead to the expansion of existing business interests of the SMEs in Uganda.

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Acronyms

EU: European Commission

EU: Enterprise Uganda

LDCs: Least Developed Countries.

MENA: Middle East and North Africa

MOF: Ministry of Finance, Planning and Economic Development

MSMEs: Micro or Small and Medium Enterprises

NBFI: Non-Bank Financial Institutions

NGO: Non-Government Organization

OECD: Organization for Economic Co-Operation and Development

PCRs: Public Credit Registries.

SAPS: The Structural Adjustment Programmes.

APPC: Africa Programs Parliamentary Centre.

MOF: Ministry of Finance Planning and Economic Development

LDCs: Least Developed Countries

FDI: Foreign Direct Investment

ITD: International Tax Dialogue

SMEs: Small and Medium Enterprises

BOU: Bank of Uganda

ICTs: Information Communication Technologies

SMIs: Small and Medium Industries

GDP: Gross Domestic Product

PE: Private Equity

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Conflict of interest

The author declares no conflict of interest

Author Biography

Cissy Naluima, Master Degree student In Banking And Finance Masters Degree In Banking And Finance Kampala University

Geoffrey Tugume, lecturer at the School Of Business Administration Kampala University

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