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FUNDING SOURCES AND FINANCIAL SUSTAINABILITY OF SMALL-SCALE ENTERPRISES (SSES) IN UGANDA A DESCRIPTIVE CASE STUDY OF KYENGERA TRADING CENTRE-WAKISO DISTRICT

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ABSTRACT

Background

The study analyzed the relationship between funding sources and the financial sustainability of small-scale enterprises the objective of the study was to establish the effect of equity financing on the financial sustainability of Small-scale Enterprises.

Methodology

The study adopted both descriptive and survey research designs using a population of 160 and a sample size of 140 respondents and the findings were summarized below;

Results.

There was a weak positive relationship between equity financing and the financial sustainability of SS's within the Kyengera trading center. The (adjusted R-squared) coefficient of determination value of about 0.242 indicates that 24.2% is the variation in the financial sustainability of SSEs.

Conclusion

The study concluded Building on the results, it is concluded that improving the financing options would lead to the sustainable growth of small businesses in Uganda. Therefore, the optimal financing model for financing small-scale businesses to enhance their sustainable growth is the integration of the four funding sources comprising traditional debt finance, asset-based financing, crowdfunding, and equity finance.

Recommendations

Specifically, policymakers such as the government should conduct awareness campaigns through seminars and conferences for small business owners to understand the advantages of these financing options which will in turn enable small businesses to access them and obtain the required funding.

Keywords: Funding Sources, Equity financing, and Financial Sustainability

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Introduction

According to the (*World Bank Annual Report 2016*,), small-scale enterprises (SSEs) form the core of the majority of the world's economies and a study carried out by the Private Sector Foundation Report, (2018) shows that in Uganda, small-scale enterprises make up over 90% of the economy. Although smaller in size, they are the most important enterprises in the economy because of their multiplier effect and synergy which surpasses that of the larger companies.

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Therefore, the social and economic advantages of small-scale enterprises cannot be overemphasized. Small-scale enterprises are sources of employment, competition, economic dynamism, and innovation which stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SSEs also contribute to better income distribution.

Trade credit is essentially a debt owed to a supply for goods supplied; small businesses have funding constraints with other formal sources of funding not readily available leading to the use of trade credit, which accounts for significantly more than bank loans. Depending on their bargaining power, suppliers use trade credit as a competitive device in the product & market (Fabbri & Klapper, 2016). Trade credit, though strategic, is not without cost, as it is provided as an alternative to loans with terms and conditions that are typical of any other debt offering.

Specific Objectives

To assess the relationship between Equity financing and financial sustainability of SSEs.

Research Design

This study used a descriptive research design with quantitative approaches to data collection and analysis to allow triangulation. A descriptive research design was employed to enable respondents to describe the state of affairs. The study used both quantitative research approaches because variables were measured in numbers and analyzed statistically.

Amin (2005) asserts that a population is a complete collection (or universe) of all the elements (units) that are of interest in a particular investigation and where inferences are to be made. Thus, the study was conducted in Kyengera Trading Centre because it has high levels of SSEs and the study targeted selected SSEs owners and employees.

The employees were selected due to their knowledge of the day-to-day running of the business, and business owners were selected due to their knowledge of the management of the business practices. The study population consisted of (100) business owners and (180) employees the total population of the study was 280.

Data quality control

The researcher implemented the required methods and procedures to ensure that data was collected, managed, and utilized with accuracy and precision. Data was reviewed regularly to detect missing data/information.

Validity

Content validity is the extent to which the items in the instrument represent the content of the attribute being measured. It also ensured through judgment of the items by experts. However, the researcher computed the Content Validity Index (CVI) for each item in the instrument as rated by two or more experts to determine how valid the study instrument is. The following formula was used to test the Content Validity Index (CVI) as indicated by Denise F. Polit (2006).

$$CVI = \frac{\text{Number of items regarded relevant by researcher}}{\text{Total number of items}}$$

for the instrument to be valid, the C.V.I should be at least 0.7.

$$CVI = \frac{\text{Number of items rated relevant}}{\text{Total number of items}}$$

$$CVI = \frac{28}{32}$$

CVI = 0.875

Reliability

Reliability involves the consistency, or reproducibility, of test scores i.e., the degree to which one can expect relatively constant deviation scores of individuals across testing situations on the same, or parallel, testing instruments. To establish reliability, the instruments will be pilot-tested twice on the same subjects. According to Amin (2005), test-retest reliability can be used to measure the extent to which the instrument can produce consistent scores when the same group of individuals is repeatedly measured under the same conditions. The results from the pre-test will be used to modify the items in the instruments. The reliability test values were analyzed using Cronbanch's Alpha Reliability Coefficient.

The Cranach's alpha value of 0.879 that was above 0.7 implied that data under analysis was reliable in accordance to Amin, (2005).

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Table 1: Showing reliability statistics

Variables	Number of items	Cronbach's alpha
Equity financing	8	0.655
Financial sustainability of SS's	8	0.743
Overall score	**16**	**0.879**

Table 2: Response rate

Research instrument	Targeted number	Actually received	Reponses rate (%)
Questionnaires	162	140	86.4%

Source: Primary data, 2023

Table 3 Grouped data on Equity financing

Opinions	Mean	Std. Deviation
I have financial resources that are provided to my business in return for ownership stake in it	2.96	1.642
In this case, providers of finance become part of the owners of the business	3.60	1.302
I share on the profitability of the business through dividends	2.47	1.115
The most common forms of equity finance are venture capital and business angels	3.58	1.182
We usually re-invest profits into new businesses	2.62	1.354
My small business have relied on internally generated funds to finance its operations	3.95	1.082
There is a relationship between equity funding and financial sustainability of SSEs.	3.47	1.014
Average mean score = 140	**3.44**	**1.579**

Source: Primary data, 2023

FINDINGS

Response Rate

This part of the study offers the response rate gained from questionnaires that were distributed to the respondents. It offers the integer of questionnaires dispersed to and those that were truly returned from the field.

Table **2** shows that the study sought to get information from all the 162 sampled respondents. However, out of the 162, only 140 respondents returned the questionnaires fully completed making a response rate of 86.4%, while 22 questionnaires were not completed, making the percentage of those who never responded to 13.5%. This confirms Cooper and Schindler's (2007) study which asserts that a study response rate of above 75% is sufficient to significantly explain the parameters in the study just as it is in a complete response rate. Therefore, getting a sample size greater than 75% is sufficient for a study of a social scientific nature to proceed.

Effects of equity financing on financial sustainability of SSEs

The first objective of this study sought to establish the effects of equity financing on financial sustainability of SSEs. The respondents were asked questions which they were to respond to based on a five-point Likert scale where 1= Strongly disagree (SD), 2= disagree (D), 3= Not sure (NS), 4= Agree (A), and 5= Strongly agree (SA). The questions were structured based on equity financing.

Testing the relationship between equity financing and financial sustainability of SSEs

To establish the relationship between equity financing and financial sustainability of SSE's in Kyengera trading Centre, the researcher carried out a correlation test using the correlation coefficient.

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Table 4: Pearson Correlation between equity financing and financial sustainability of SSEs

		Equity financing	Financial sustainability of SSEs
Equity financing	Pearson Correlation	1	.498**
	Sig. (2-tailed)		.000
	N	140	140
Financial sustainability of SSEs	Pearson Correlation	.498**	1
	Sig. (2-tailed)	.000	
	N	140	140

**. Correlation is significant at the 0.01 level (2-tailed).

The table 4 shows that there was a weak positive relationship between equity financing and financial sustainability of SSEs within Kyengera trading Centre (r=0.498, Sig=0.000). The positive relationship indicates that the two variables (equity financing and financial sustainability) move in the same direction. This means that as SSEs improves on equity financing such as through family and friends, financial sustainability of SSEs also improves this further means when these sources of funds decline the level of financial sustainability of SSEs also declines.

Results on Regression for equity financing and financial sustainability of SSEs

On the impact that equity financing had on financial sustainability, the inquiry used regression evaluations to determine this impact. The regression analysis is used to determine the relationship between the dependent variable and the independent variable. In this case the independent variable was equity financing while financial sustainability of SSEs was the dependent variable whose impact on the dependent variable is being assessed.

The correlation coefficient R = 0.498 and standard Error of .65487 indicates that the dependent variable and independents variables have a high degree of positive correlation. The (adjusted R Squared) coefficient of determination value of about 0.242 indicates that 24.2% of the variation in financial sustainability of SSEs was explained by a unit increment in strategies to improve equity financing within SSEs in Kyengera trading Centre.

Table 6 shows that equity financing predicts financial sustainability of SSEs (Sig = 0.000, F-value = 45.432). F-value 45.432 is statistically significant (P-value of 0.000≤ 0.01). This signifies that equity financing significantly predict financial sustainability of SSEs therefore; there is a relationship between equity financing and financial sustainability of SSEs within Kyengera trading Centre. The residual value of 59.183 higher than the regression value of 19.484 meant that there are inconsistencies that need to be addressed.

Table 5 Model Summary of equity financing and financial sustainability of SSEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.498[a]	.248	.242	.65487

a. Predictors: (Constant), Equity financing

Table 6: ANOVA Values on equity financing and financial sustainability of SSEs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.484	1	19.484	45.432	.000[a]
	Residual	59.183	138	.429		
	Total	78.667	139			

a. Predictors: (Constant), Equity financing

b. Dependent Variable: Financial sustainability of SSEs

Table 7 Coefficientsof equity financing and financial sustainability of SSEs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.094	.263		7.954	.000
	Equity financing	.532	.079	.498	6.740	.000

a. Dependent Variable: Financial sustainability of SSEs

Table 7 shows a Beta coefficient value of 0.498 which implies that a unit increase in equity financing causes an improvement in the financial sustainability of SSEs within Kyengera Trading Centre by 0.498. Further, the t-value of 6.740 which is greater than 1.96 implied that equity financing is statistically significant in predicting the financial sustainability of SSEs within the Kyengera trading center, the study concluded that Table 4.2 shows that there was a very strong significant positive relationship between traditional debt and financial sustainability of SMEs in Kyengera trading center (r = 0.726**, Sig = 0.000). This means that the improvement in traditional debt, the higher the financial sustainability of SSEs. This further confirms the fact that the earlier null hypothesis which stated that "There is no significant relationship between traditional debt and financial sustainability was rejected and a new hypothesis, there is a significant relationship between traditional debt and financial sustainability adopted.

DISCUSSIONS

Table 4 shows that there was a weak positive relationship between equity financing and the financial sustainability of SS's within the Kyengera trading center (r=0.498, Sig=0.000). The positive relationship indicates that the two variables (equity financing and financial sustainability) change in a similar way. This means that as SSEs improve on equity financing such as owners' capital and money from friends and families, the financial sustainability of SSEs also improves this further means when these skills decline the level of financial sustainability of SMEs declines.

The (adjusted R Squared) coefficient of determination value of about 0.242 indicates that 24.2% of the variation in the financial sustainability of SSE's was explained by a unit increment in strategies to improve equity financing within SMEs within the Kyengera trading center.

Conclusion

The study concluded Building on the results, it is concluded that improving the financing options would lead to the sustainable growth of small businesses in Uganda. Therefore, the optimal financing model for financing small-scale businesses to enhance their sustainable growth is the integration of the four funding sources comprising traditional debt finance, asset-based financing, crowdfunding, and equity finance.

Recommendations

Regarding the use of short-term loans, and given the fact that enterprises seemed to be worried about stringent and short-term loan repayment periods, the researcher recommends financial institutions should incorporate in their programs a pronounced aspect of training about how best their clients could utilize the available services especially given the fact this is for the end of enhancing entrepreneurs in the area.

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