

Financial Planning And Growth Of Small And Medium Enterprises In Uganda. A Case Study Of Busia District Local Government.

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Abstract

It has been collaborative effort of individuals, organization in the study and the mercy of the almighty god in order to come up with this study, the study looked at financial planning and growth of small and medium enterprises in Uganda with Busia district as the case study Due to requirement to gather both quantitative and qualitative data, it used both quantitative and qualitative methodologies. The survey included 15 staff department, 25 employees, and 10 executive directors this constituted to a sample population of fifty (50). The targeted population was sixty three (63) respondents that were specifically chosen from the Busia district. Quantitative data was analyzed using frequencies, percentages, and correlations, whereas qualitative analysis involved distilling data into insightful themes. From the findings, most respondents (76%) opposed that financial objectives of their organization were always achieved in time compared to 20% who concurred while a very small percentage (4%) neither opposed nor concurred. Few respondents (40%) opposed that project objectives were in line with organizational policies compared to 60% who concurred. Half of the respondents (50%) opposed that organizational strategies help to achieve financial objectives compared to 48% who concurred while a small percentage (2%) neither opposed nor agreed. There was also strong positive relationship between financial planning systems and the growth of small and medium enterprises whereby an improvement in financial systems/methods was related to a great improvement in the growth of SMEs, vice versa. Most SMEs financial systems were below the standard and this contributed to their poor performance (Julius, 2024b).

Keywords: Financial Planning, Growth, Small And Medium Enterprises

Background of the Study

Access to financial services and capital is essential for small and medium enterprises (SMEs) in Uganda to start, operate and grow their businesses (Turyatamba et al., 2022). However, SMEs in Uganda, especially those located in rural areas outside major cities, face significant challenges in obtaining adequate financing from both formal financial institutions and informal sources (Gracious, 2023). In Busia District Local Government, located in eastern Uganda near the Kenyan border, lack of working capital and access to affordable credit has limited the development and expansion of small and medium enterprises, which account for more than 90% of private enterprises in the district (Alex & Mojžiš, 2024).

According to a survey of 200 SMEs conducted in Busia District in 2021, 76% of business owners cited lack of access to loans or credit as a major obstacle to business growth (Benard, 2023). Commercial banks in Uganda are often reluctant to lend to rural SMEs due to the perceived high risks and operational costs associated with underwriting smaller loans in remote areas (Carpenter et. al, 2020). As a result, 84% of SMEs in Busia had to rely mainly on personal savings, profits reinvested in the business and the

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support of friends and family to finance operations and investments, resources that are limited and insufficient to expand into new product lines or markets (Christopher, 2022). Proper financial planning and management is also essential for the growth of SMEs, but is lacking in many businesses in Busia. A 2020 Uganda Bureau of Statistics survey found that over 70% of small and medium business owners in Busia kept incomplete or no basic financial records such as sales revenue, expenditure records or profit and loss statements (Alex & Kazaara, 2023). Without clear financial documentation and cash flow projections, SMEs are unable to present convincing loan applications to banks or microfinance institutions (Julius, 2024a). They also have difficulty making well-informed financial decisions regarding investments, pricing, budgeting and overall strategic planning (Kazaara et al., 2024).

The study was conducted in Busia Local Government, Uganda. Busia District in Uganda was a unique region characterized by its vibrant and diverse economy. Local government has played a significant role in supporting the growth of small and medium-sized enterprises (SMEs) within its jurisdiction. Small and medium enterprises are the lifeblood of the Busia economy, contributing to job creation, poverty reduction and economic development (Winny et al., 2023). However, the financial environment of these businesses was multifaceted, with challenges such as limited access to capital, gaps in financial literacy, and regulatory barriers. The objective of this research was to delve into the complex relationship between financial planning and the growth of small and medium enterprises in Busia District (Ivan et al., 2023). It seeks to analyze the financial strategies used by local SMEs, the impact of government policies and the role of financial institutions in supporting their growth.

Statement of the problem

The problem of Busia District Local Government is insufficient financial planning and limited growth opportunities for small and medium enterprises (SMEs) (W. Paul & Kazaara, 2023). This issue was critical because SMEs were essential to local economic development and job creation. As a way to remedy the problem, some initiatives include government-led programs that offer financial training and access to credit for small and medium-sized businesses, local NGOs and financial institutions may provide support programs, and there may be government policies and incentives aimed at promoting the growth of small enterprises and medium enterprises within the district (Akankwasa et al., 2022). If the problem were not addressed, the following consequences would occur. Continued limited access to finance hinders SME growth, job creation and economic development, the county's economy may experience stagnation or slow growth, affecting overall prosperity, persistent financial problems among SMEs may lead to increased unemployment and income inequality in region (Christopher, 2022). Despite the objectives of Busia District Local Government's financial planning policy, such as increasing profitability and improving business liquidity through emphasis on financial planning, Busia District Local Government spends most of its time implementing and reacting to unexpected changes and problems instead of anticipating and preparing for them (Tasha et al., 2023).

Objectives of the study

1. To assess the relationship between financial planning and the growth of small and medium enterprises in Busia district.
2. To examine the impact of financial planning on the growth of small and medium enterprises in Busia district

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local government as a case study.

3. To find how Busia district local government has implemented financial planning as a key factor for the growth of small and medium enterprises in Busia district.

Methodology

The research was conducted using a qualitative and quantitative research approach. A case study was chosen as the most appropriate research strategy (Lu et al., 2013). The study was conducted in Busia District Local Government in a population that consisted of both males and females. The target population was 63 composed of; entrepreneurs local leaders and customers key informants are employees of the busier district government (Nafiu, 2012). The sample size was a representative sample of a total of fifty (50) employees, the pool consisted of 25 employees and 15 employees and 10 executive directors. The sample was simply a subset of the population (Abiodun & Christopher, 2024). Sampling is the process of selecting a sufficient number of elements from a population (Saharan, 2019). The study incorporated the use of various methods into the data collection process in an effort to come up with a sound. Specific and credible research findings (Nafiu et al., 2012). Therefore, the researcher combined the use of a questionnaire. And interviews in the process of collecting primary data (Anwar et al., 2022). The questionnaire was a set of questions that respondents had to complete in their own time, and this allowed respondents to answer sensitive questions (Jallow et al., 2021). A questionnaire instrument was used to collect data from employees, and employees were also selected from the study population. Data collected from the field was carefully edited. Sorted and coded to eliminate inconsistencies and errors made during collection. It was List of simple tablets and percentage (Olanrewaju et al., 2021). After data processing, these data were subjected to further analysis for ease of understanding and interpretation and were presented using frequency tables in raw numbers and percentages of results, then calculated using tools such as SPSS and Spearman's correlation was used to analyze the data (Nelson et al., 2022).

RESULTS

Table 2: Financial planning attitudes: Descriptive Statistics

Items about Busia district local government	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
Staff departments are key in formulating financial policies	28%	4%	0%	32%	36%	100%

My organization has strategic plan to support financial planning	22%	8%	0%	32%	38%	100%
Duty Bearers/ CRPs involved Busia are involved in planning	36%	6%	2%	36%	20%	100%
Employee are involved in guiding stakeholder in formulating financial planning objectives	6%	6%	0%	36%	52%	100%
Executive Directors approve Finances of my organization	6%	2%	0%	36%	56%	100%
Executive Directors often share financial information with Stakeholders	24%	2%	2%	28%	44%	100%

My organization has Financial policies & guidelines for stakeholders	38%	38%	0%	0%	24%	100%
Financial objectives of my organization are always achieved in time	38%	38%	4%	10%	10%	100%
Project objectives are in line with organizational policies	34%	6%	0%	38%	22%	100%
Organizational strategies to achieve set goals are adequate	38%	12%	2%	32%	16%	100%
My organization finds difficulty in mobilizing resources	10%	16%	2%	38%	34%	100%
Budget activities are properly implemented according to schedule	38%	14%	0%	38%	10%	100%
Financial practices are properly evaluated in my organization	36%	6%	2%	36%	20%	100%

Source: Primary data, 2022

From the statistical data presented in Table 2 on the previous page, the following analytical observations can be made; 32% of the respondents did not concur that employees were key in formulating financial

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policies compared to 68% who concurred. 30% of the respondents however, rejected the idea that their organization had and used strategic plan to support financial planning compared to 70% who concurred (Lu et al., 2013). On involvement of duty bearers/CRPs at Busia especially in the area of planning, 42% opposed the idea compared to 56% who concurred while a very small percentage (2%) neither opposed nor concurred. Very few respondents (12%) opposed that employee were involved in guiding stakeholders in planning process compared to 88% who concurred. Very few respondents (8%) opposed that executive directors approved finances of their organizations compared to 92% who concurred. Few respondents (26%) opposed that executive directors often shared financial information with stakeholders compared to 72% who concurred while a small percentage (2%) neither opposed nor concurred. Most respondents (76%) opposed that their organization had financial policies and guidelines for stakeholders compared to 24% who concurred (Akankwasa et al., 2022). Most respondents (76%) opposed that financial objectives of their organization were always achieved in time compared to 20% who concurred while a very small percentage (4%) neither opposed nor concurred. Few respondents (40%) opposed that project objectives were in line with organizational policies compared to 60% who concurred (Polycarp et al., 2023). Half of the respondents (50%) opposed that organizational strategies help to achieve financial objectives compared to 48% who concurred while a small percentage (2%) neither opposed nor agreed. Few respondents (26%) opposed that their organization found difficulty in mobilizing resources compared to 72% who concurred while a small percentage (2%) opposed not agreed. More respondents (52%) opposed that financial practices were properly implemented according to schedule compared to 48% who concurred. Few respondents (42%) opposed that financial practices were properly evaluated in their organizations compared to 56% who concurred while a small percentage (2%) neither opposed nor concurred (Polycarp et al., 2023).

Table 3: Financial systems: Descriptive Statistics**Scale 1- strongly disagree, 2-disagree, 3- Neutral, 4-Agree, 5- strongly Agree.**

Financial methods/ systems	1	2	3	4	5	Total
Staff department monitor organizational systems / methods	38%	12%	2%	34%	14%	100%
Accountants identify financial variances for corrective actions	22%	8%	0%	38%	32%	100%

Accountants give feedback to stakeholders about Financial Variances	24%	8%	2%	22%	44%	100%
Employees participate in financial control during Activity implementations	6%	2%	0%	50%	42%	100%
Employees give feedback to the Directors & Accountants about financial Variances	14%	6%	0%	36%	44%	100%
Executive Directors use budgets as management tool for planning & coordinating	24%	38%	0%	0%	38%	100%
Executive Directors communicate financial salient issues to Stakeholders	42%	4%	0%	34%	20%	100%
As a stakeholder, I am informed when revising district plans & budgets	34%	0%	0%	50%	16%	100%
The staff often consult Board Members when making financial Revisions	38%	8%	4%	30%	20%	100%
The staff often consult financiers when making budget revisions	4%	2%	8%	54%	32%	100%
The staff often consults the Duty Bearer while making financial revisions	44%	4%	2%	40%	10%	100%

Source: Primary data, 2022

Half of the respondents (50%) opposed that staff departments monitored organizational systems/ methods compared to 48% who concurred while a small percentage (2%) neither opposed nor concurred (David et al., 2023). Few respondents (30%) opposed that accountants identified financial variances for corrective actions compared to 70% who concurred. Few respondents (32%) opposed that accountants gave feedback to stakeholders about financial variances compared to 66% who concurred while a small percentage (2%) neither opposed nor concurred. Very few respondents (8%) opposed that employees participated in financial control during activity implementations

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compared to 92% who concurred (Frank et al., 2023). Few respondents (20%) opposed that employees gave feedback to directors and accountants about financial variances compared to 80% who concurred (Musaibah et al., 2023). More respondents (62%) opposed that executive directors used budgets as management tool for planning and coordinating compared to 38% who concurred. Few respondents (46%) opposed that executive directors communicated financial salient issues to stakeholders compared to 54% who concurred while a small percentage (2%) neither opposed nor concurred. Few respondents (34%) opposed that as a stakeholder, they were informed when revising district plans and budgets compared to 66% who concurred. Few respondents (46%) opposed that the staff often consulted board members when making financial revisions compared to 50% who concurred while a small percentage (4%) neither opposed nor concurred. Few respondents (6%) opposed that the staff often consulted financiers when making financial revisions compared to 86% who concurred while a small percentage (8%) neither opposed nor concurred. Few respondents (48%) opposed that the staff often consulted the duty bearer while making financial revisions compared to 50% who concurred while a small percentage (2%) neither opposed nor concurred (Musaibah et al., 2023).

Table 4: Descriptive Statistics on Financial planning objectives on growth of SMEs in Busia**Scale 1- strongly disagree, 2-disagree, 3- Neutral, 4-Agree, 5- strongly Agree.**

Financial planning objectives	1	2	3	4	5	Total
Busia district must present sustainability plans to financiers before funding	0%	2%	0%	34%	64%	100%
The district must use financial systems developed by financiers for accountability	0%	4%	2%	34%	60%	100%
District's budgeted administrative costs must not exceed financiers' fixed percentage	0%	0%	4%	40%	56%	100%
Financiers demand for local contributions from the district	2%	12%	0%	30%	56%	100%

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Financiers demand district to procure assets from particular sources or countries	2%	12%	4%	34%	48%	100%
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Source: Primary data, 2022

To facilitate the required analysis, the total of the respondents who strongly agreed and agreed were combined into one category who concurred to the items (Margaret & Kazaara, 2024). In addition, the total of the respondents who strongly disagreed and disagreed were also combined into another category opposed to the items. The percentages of the categories (who concurred, who neither agreed nor disagreed and who opposed) were then compared to enhance the analysis whose output runs as follows: Very few respondents (2%) opposed that Busia district must present sustainability plans to financiers before funding compared to 98% who concurred. Very few respondents (4%) opposed that the district must use financial systems developed by financiers for accountability compared to 94% who concurred while a small percentage (2%) neither opposed nor concurred. No respondent (0%) opposed that Districts' budgeted administrative costs must not exceed financiers' fixed percentage compared to 96% who concurred while a small percentage (4%) neither opposed nor concurred. Few respondents (14%) opposed that financiers demanded for local contributions from the district compared to 86% who concurred (K. Paul et al., 2023). Few respondents (14%) opposed that financiers demanded Busia district to procure assets from particular sources or countries compared to 82% who concurred while a small percentage (4%) neither opposed nor concurred.

Conclusions

There was a strong positive relationship attitudes towards financial planning and growth of SMEs in Busia whereby an improvement in planning would lead to a great improvement in the financial performance and growth of small and medium enterprises, and vice versa (Ntirandekura & Alex, 2022).

Recommendation

In order to improve their financial performance, SMEs should improve their planning by focusing on the following major draw backs that Busia district experience in financing. They should have: financial policies and guidelines for all their business activities

Their financial objectives should always be aimed at achieving the pre-determined objectives;

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their strategies to achieve financial objectives should be adequate; and diversification of their income resource base and financial activities should be properly accorded to schedule.

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