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FINANCING ALTERNATIVES FOR SUSTAINABLE GROWTH OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN UGANDA: AN IDEAL FRAMEWORK

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Abstract:

Micro, Small, and Medium-scale Enterprises (MSMEs) play a significant role in fostering employment, innovation, productivity, and wealth creation, all of which contribute to the country's growth in Uganda. However, the majority of these enterprises rarely survive to turn five years old, while others and others persistently fall behind sustainable growth trends in terms of sales turnover, profitability, employee numbers, and total assets due to financial constraints. Despite this position, not much empirical research has been sustainable growth of these businesses. This study set out to develop an ideal financing framework for supporting the sustainable growth of Micro, Small and Medium Scale Enterprises in Uganda. Utilising a quantitative cross-sectional descriptive survey design, the study considered 400 MSMEs from major regional urban centres and municipalities. Data were collected using a researcher-administered structured questionnaire, while descriptive and inferential statistics were used to analyse in its analysis. The relationship between the variables was ascertained using Pearson correlation coefficients. According to the findings, asset-based financing, grants, equity financing, crowdsourcing, and credit guarantees were positively and significantly correlated with the sustainable growth of MSMEs. The study also found a statistically significant negative correlation between traditional bank loans and MSMEs' ability to grow sustainably. According to the study's findings, using more alternative forms of funding such as asset-based financing, equity financing, crowdfunding, credit guarantees and grants would help MSMEs grow more sustainably, whereas using more traditional bank loans would hinder this

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growth. Thus, asset-based financing, crowdsourcing, equity financing, credit guarantees, and grants constitute the ideal financing framework that MSMEs can adopt to fund their operations and promote their sustainable growth. For this reason, the study was significant in offering an ideal financing framework to improve MSMEs' sustainable growth.

Keywords:

Financing Alternatives, Sustainable Growth, Micro Small And Medium Scale Enterprises

Background

Micro, Small, and Medium-Scale Enterprises (MSMEs) have faced increased financing barriers since the global credit crisis of 2008–2009 (Wehinger, 2014; Zubair, Kabir & Huang, 2020). As a result, MSMEs were being urged to increase their leverage as a strategy to lessen the effects of the crisis although lending institutions in the Organisation for Economic Cooperation (OECD) countries were being forced to tighten their lending rules drastically (Zubair, et al., 2020). Since then, traditional bank lending that is commonly used by businesses to finance their operations has proved to be costly for MSMEs in the face of declining revenues and this has led to their stagnant growth (Organization for Economic Co-operation, (OECD), 2020). Therefore, if MSMEs are to continue playing a significant role in employment, innovation, and economic growth, figuring out the best financing alternatives for their sustainable growth is becoming more and more important.

Sustainable business growth refers to a company's capacity to consistently increase its sales revenue and profitability while enhancing employee well-being and safeguarding the environment in which it operates (Schwab, Gold, Kunz & Reiner, 2017). Ideally, a business grows sustainably when it focuses on the three Ps: profit, planet, and people in its operations and strategic business plans (Carayannis, Grigoroudis, Sindakis, & Walter, 2014; Man & Strandhagen, 2017). According to Scheers (2016), the first aspect, of profitability is the company's ability to generate income above and beyond its running costs and expenses. A profitable business shows that its resources are being allocated efficiently and adding to its overall worth (Man & Strandhagen, 2017). The Return on Sales Ratio, Return on Capital Employed (ROCE) and Return on Assets (ROA) are the most commonly used ratios for measuring business profitability (Tibor et al., 2017). The second factor, "people," has to do with how a business handles its human resources, or employees, in terms of their welfare and ethics, as well as whether or not it fosters social cohesion (Carayannis et al., 2014). The third aspect, called "planet," addresses the question of how corporate operations impact on the environment in which it operates, and associated natural resources (Mattera, Alba Ruiz-Morales, Gava & Soto, 2022). These concerns cover a wide range of topics, such as eco-design, industry domains, clean products, eco-efficiency, chain management, and environmental protection (Chungyalpa, 2019).

Micro, Small, and Medium-Scale Enterprises, are businesses that maintain assets, earnings, or workforces below a particular threshold (OECD, 2020).Typically, a microenterprise employs less than ten people and is founded with a small amount of capital advanced from a bank or other organization (Prasad, Su, Altay, & Tata, 2015).. Most microbusinesses concentrate on

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providing goods or services to the local communities in which they operate (Prasad, et al., 2015). Less than fifty employees make up small businesses, and fewer than 250 employees make up medium-sized businesses (Varga, 2021). However, each country has a different definition of a Micro, Small and Medium Scale Enterprises (Gonzales Martinez, D'Espallier, & Mersland, 2021). In Uganda, a business is classified as a "Micro Enterprise" if it employs four people or fewer, and has total assets of no more than ten million Uganda Shillings per year (Uganda Investment Authority (UIA), 2021). Conversely, small businesses employ between five and forty-nine people and have assets of up to Uganda Shillings 10 million, but not more than 100 million (UAI, 2021). The UAI (2021) further indicates that that companies classified as medium-sized have 50–100 employees and assets of at least $100 million but not more than $360 million. Convenience stores, unofficial grocery stores, bakeries, hair salons, tradespeople such as electricians, restaurants, guest houses, workshops for metal and furniture, photographers, small scale manufacturing, leisure areas, internet cafés, computer mechanics, and programming are just a few examples of the micro, small, and medium-scale enterprises in Uganda (Dilger, 2020).

Micro, Small, and Medium-Scale enterprises (SMEs) have a major impact on most economies, especially those in developing nations (OECD, 2020). The enterprises which make up the majority of businesses globally are essential to the expansion of the world economy and the creation of jobs as 90% of the jobs globally are owned by MSMEs (World Bank, 2021). In emerging and developing countries, formal businesses can account for up to 40% of the Gross Domestic Product (GDP), while Micro, Small, and Medium-Scale Enterprises make up more than 80% of all businesses (Muriithi, 2019; Okumu & Buyinza, 2020; World Bank, 2021).

Sub-Saharan Africa boasts of over 44 million Micro, Small, and Medium-Scale Businesses that are involved in manufacturing, services, and agriculture, among other sectors (Runde, Savoy & Staguhn, 2021). More than 80% of the jobs on the continent are provided by these enterprises, making them a significant contributor to economic expansion (Runde et al., 2021). By increasing the amount of goods and services, they also aid in the expansion of the Gross Domestic Product (GDP) (Hoque, 2016; Diabate, Allate, Wei & Yu, 2019). In addition, MSMEs have been embraced by governments as a way to reallocate productive assets in an effort to reduce income gaps between middle-class and impoverished households (Rivera-Santos, Holt, Littlewood, & Kolk, 2015). In East Africa, MSMEs are thought to have the greatest potential to foster entrepreneurship, economic expansion, and job creation (Gamba, 2019). For instance, MSMEs have been praised in Kenya for producing half of the new jobs that have been generated in a decade since 2006 (Mwangi, 2016). According to the United Nations Conference on Trade and Development (UNCTAD, 2022), there are about 1.1 million MSMEs in Uganda across all industry sectors, with 49% in the service sector, 33% in trade and commerce, 10% in manufacturing, and 8% in other industries. These businesses account for 90% of private sector employment and 80% of the country's GDP (UNCTAD, 2022). In order to grow, create jobs, and strengthen the economy, these businesses need access to funding (UAI, 2021). However, 51% of these businesses require more funding than they can currently receive, which is the reason for their slow sustainable growth in terms of sales income, profitability, workforce size, and disregard for environmental preservation (UNCTAD, 2022). Therefore, finding ideal financing alternatives will be important in enhancing their sustainable growth and further contribution to the economic progress of the economy.

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Problem

In Uganda, Micro, Small, and Medium-Scale enterprises play a significant role in fostering employment, innovation, productivity, and wealth creation, all of which contribute to the country's growth (World Bank, 2021). They also account for 80% of the country's GDP (UNCTAD, 2022). Despite their importance, the majority of these enterprises (54%), fail to survive beyond five years (Ministry of Trade Industry and Cooperatives, (MTIC), 2019; UNCTAD, 2022). The minority that endure for more than five years exhibit stagnant growth in terms of sales revenue, profits, workforce size, and asset growth (UIA, 2021; UNCTAD, 2022). The information that is currently available links this position to costly financing sources that have reduced their profitability and as a result, made it difficult for them cover their operating expenses like paying employees' salaries, and rent for business premises, and lateron build assets, and engage in the protection of the environment in which they operate (Buyinza et al., 2018; UIA, 2021; UNCTAD, 2022). In severe circumstances, lenders seize these businesses' assets because they have not made loan payments, which results in their instant closure (Ebong, 2019, UIA, 2021). While MSMEs can potentially use a variety of financing alternatives such as conventional bank loans, equity instruments, asset-based financing, crowdfunding, credit guarantees, and grants to meet their financing needs, there has not been much research done to find the best financing framework for ensuring the sustainable growth of these businesses in Uganda (Quartey, Turkson, Abor & Iddrisu, 2017, CSIS, 2021). This implies that MSMEs adopt financing mechanisms without weighing their potential effect on business which results into high costs of financing and business failure. Therefore, developing the ideal framework for financing MSMEs to support their sustainable growth was highly desirable.

Aim and Objectives

The aim of the study was to develop an ideal financing framework for supporting the sustainable growth of Micro, Small and Medium Scale Enterprises in Uganda. To attain this aim, the following objectives guided the study:

i. To analyse the sustainable growth status of Micro Small and Medium-Scale Enterprises in Uganda.

ii. To explore different financing alternatives for Micro Small and Medium-Scale Enterprises in Uganda

iii. To ascertain the connection between sustainable growth of Micro, Small, And Medium-Scale enterprises in Uganda and financing alternatives.

iv. To suggest an ideal framework for financing Micro Small and Medium-Scale Enterprises to enhance their sustainable growth.

Literature

There are various financing alternatives available for MSMEs. These consist of conventional debt financing, alternative debt instruments, asset-based financing, crowdfunding, equity financing, hybrid instruments, credit guarantees, leasing, and grants (OECD, 2015; World Bank, 2021). According to Brown and Lee (2019), bank loans, lines of credit, overdrafts and credit cards are the most popular types of traditional bank financing used to fund MSMEs and small businesses. According to Godke Veiga and McCahery (2019), a bank loan is the principal amount that a bank advances to businesses at a fixed interest rate. Depending on the lending terms, the loan principal may be repaid on a straight line basis or through a decreasing balance

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method. This loan is frequently for a predetermined amount of time and within a predetermined range (Schwert, 2020). Home mortgages and credit cards are most common securities used to obtain bank loans, but sophisticated businesses can also securitise anticipated future revenues and cash flows from their operations (Erdogan, 2018).

A line of credit is an adjustable loan from a bank that has a set amount of money that a borrower can take out as needed (Tayem & Tayeh, 2023). A line of credit can be repaid in full right away or over time with consistent minimum payments (Tayem & Tayeh, 2023). With a line of credit, interest is assessed from the moment money is borrowed (David, 2022). For instance, two credit lines from the World Bank Group expanded MSMEs' access to capital in Jordan, which eventually helped to create jobs and increase the number of employees. In another instance, a $70 million credit line boosted the outreach of MSMEs by promoting the development and expansion of both new and existing businesses (World Bank, 2021).

An overdraft occurs when funds are taken out of a bank account and the balance falls below zero (Masiak, Block, Moritz, Lang & Kraemer-Eis, 2019). The account is considered "overdrawn" in this scenario (Vasilescu & Tudor, 2015). An overdraft should ideally happen in the event that there has been prior agreement with the account managers; in this scenario, there is a limit on the overdraft amount, and interest will be assessed at a predetermined rate (Vasilescu & Tudor, 2015). Account managers may, however, impose additional costs for the transaction if the negative balance is greater than the predetermined amount (Vasilescu, 2018). With a credit card, the holder can be assured that the card issuer—typically a bank—will pay their bills (Brown, Liñares-Zegarra & Wilson, 2019). In order for the cardholder to always obtain credit for paying the bills, the card issuer must first create a resolving account (Brown, et al., 2019).

With alternative debt instruments, investors in MSMEs can look to the financial markets for funding through the issuance of debt instruments like bonds, stocks, and asset securitization, as an alternative to traditional banking institutions providing finance (OECD, 2015). Despite the fact that these funding alternatives have been around for a while, most MSMEs are not aware of them; in fact, some may not even understand the trading principles underlying them, even though they can participate with the assistance of brokerage firms (Mpapalika, 2020). Certain financing alternatives require the issuance of common stock, which means that lenders become shareholders in the company they are funding and thereby relinquish control, while other financing choices, such as bonds, charge interest on the principal (Chen, Cui, He & Milbradt, 2018). As regards securitisation, contractual debts are bundled and sold to investors who purchase the right to receive payments from the financial instruments supporting (Tumwebaze et al., 2023). In this regard, a special purpose vehicle (SVP) acts as an intermediary between a lending institution and a MSMEs, facilitating the sale of the pooled assets to investors (SEC, 2013). According to published research, developed nations have largely embraced alternative debt instruments to finance small and medium-sized enterprises (OECD, 2016). However, empirical literature on how these financing instruments have been used to support MSMEs to support the sustainable growth of these businesses in developing nations was scanty. This study also addressed these contextual and conceptual gaps.

In asset based financing, lenders give MSMEs credit based on the financed asset's potential to yield returns (Buzacott & Zhang, 2004). In contrast, traditional debt structuring does not take into account the returns on the business being financed; it only requires security (Veneziano,

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Hameed, Heinrich & Pellander, 2020). Factoring, leasing, and asset-based lending are common examples of asset-based finance (Veneziano et al., 2020). Through factoring, an organization (factor) gives the supplier cash in exchange for a portion of the sales proceeds or accounts receivable being repaid (Ruilin, Xiaoyan, Yuanguang & Yongwu, 2022). A company uses this financing method to sell its invoices, or accounts receivable, to a factor—a third party—at a reduced price (Ruilin, et al., 2022). Sometimes a company will factor its assets that are receivable in order to satisfy its short-term cash requirements (Klapper, 2006). According to empirical testing, factoring is more prevalent in nations with more advanced credit information bureaus and economies that are growing and developing (Ruilin et al., 2022). However, this was only in the context of SMEs while micro enterprises were not considered. This study addressed this contextual gap.

Leasing is the procedure by which a lending firm grants a business operating control of an asset for a predetermined amount of time; and normally, at the conclusion of the contract, the lessee will acquire ownership of the asset (Chang, Yang & Shi, 2022). Businesses that finance long-term assets such as real estate, vehicles, and equipment are often associated with leasing (Nechaev, Zakharov, Barykina, Vel'm & Kuznetsova, 2022). However, for the duration of the agreement, the lessor is still the asset's legitimate owner (Nechaev et al., 2022). The World Bank Group is working with local governments in countries such as Guinea and Ethiopia to create an atmosphere that promotes the start-up and growth of leasing businesses. It is also attracting investors to increase the financing options available to SMEs (World Bank, 2021). It works at the macro, mezzo, and micro levels to accomplish this; it assists governments in enacting legal and regulatory changes; and it engages with corporate executives to establish technical partnerships, increase market awareness, and develop capacity (World Bank, 2021). Asset Based Lending (ABL) allows borrowers to use a variety of company's assets, such as real estate, intellectual property, brand names, and accounts receivable, as collateral to obtain the capital they need (Alan & Gaur, 2018). This financing mechanism may give borrowers access to large financing with a covenant-light structure if the business has a lot of assets (Alan & Gaur, 2018). It also gives borrowers some flexibility in making future decisions that they might not be able to get with other kinds of loans (Bijkerk & de Vries, 2021).

Crowdfunding is a novel approach to crowd sourcing of funds for a new business venture rather than more conventional techniques like bond issuance or bank lending (Deng, Ye, Xu, Sun & Jiang, 2022). While there are many various ways that crowdfunding can be done, the most popular ones are sponsorships, donations, and pre-ordering or pre-production agreements (in which the borrower commits to repaying the loan following the sale of the products) (OECD, 2015; Eldridge, Nisar & Torchia, 2021). Deng et al. (2022) utilised Fame BVD data for small businesses in the UK to examine the potential of crowdfunding as a driver of innovation and company expansion. The results refute the idea that using crowdfunding promotes innovation claiming that it has no discernible impact on innovation in small businesses. However, the research found a substantial positive correlation between crowdfunding and small businesses' ability to grow. The study though did not captured micro- and medium scale enterprises in the context of developing countries. These contextual gaps were addressed by this study.

Hybrid financing is the middle ground where debt and equity meet, providing investors with the potential benefits of both (Cusmano, 2015). The benefits and drawbacks of hybrid financing correspond to the advantages and drawbacks of debt and equity (Martin, 2015). Subordinated debt, which refers to loans or bonds with earnings or claims on assets ranked lower than other

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loan types, and participation loans, which are arranged by a lead institution but involve multiple lending institutions financing a business, are two of the most widely used hybrid instruments (Miller et al., 2016). First to be paid in the later case is the lead institution (Miller et al., 2016). Goenner (2016) identifies convertible debt, warrants, and mezzanine finance as additional forms of hybrid instruments. Convertible debt refers to a situation in which the borrower and lenders agree to turn the debt into equity at a later time, thereby making the lenders shareholders of the borrowed company (Dutordoir, Pappas Xu, & Zeng, 2023). According to Miller et al. (2016), a mezzanine debt is a type of obligation that is ensconced with equity and subordinated to another debt issued by the same institution or person. Because they offer a chance to balance the cost of capital, hybrid instruments are thought to be the most alluring financing alternatives for MSMEs (Martin, 2015). However, the extent to which they contribute to the growth of MSMEs had not received as much attention in developing nations. This study addressed these conceptual and contextual gaps.

Equity finance refers to all financial resources given to businesses in exchange for a share in the business being financed (Haque, 2015). This suggests that lenders become joint proprietors of the company and must, therefore, partake in dividends or stock transfers to benefit from the business's success (Haque, 2015). According to Teker and Teker (2016), venture capital and business angels are the most popular types of equity financing. Pre-establishment of the business or the initial phases of the business development process are frequently supported by venture capital (VC) (Block, Fisch, Vismara, & Andres, 2019). It can be summed up as a means of fostering entrepreneurial spirit and drive by transforming concepts and fundamental science into goods and services (Block et al., 2019). Business angels (BAs) on the other hand, are made up of wealthy people who put their own money into starting a business (Botelho, Harrison & Mason, 2021). After that, they can secure their returns by selling shares in an IPO and reinvesting the profits in starting new businesses (Botelho, et al., 2021).

Block et al. (2019) distinguished between family offices, business angels, venture capital funds, growth equity funds, and leveraged buyout funds by examining the investment criteria of 749 private equity investors using an experimental conjoint analysis. The study's findings show that when making an investment, revenue growth takes precedence over profitability, the management team's track record, and the value-added of the good or service. The study reveals that family offices, growth equity funds, venture capital funds, and leveraged buyout funds place a higher value on profitability than do business angels and venture capital funds, with regards to the disparities in valuation between investor types. As a result, venture capital funds place more emphasis on a company's current investors, business models, and revenue growth. The study did not exhaustively define the nature of business, a contextual gap that was addressed by this study which focused on MSMEs.

Credit Guarantees (CG) are access to finance mechanisms that are intended to increase credit flow in borrower segments that lenders typically view as riskier (Sahoo, Gupta & Afroz, 2022). A credit guarantee scheme reduces the risk of third-party credit for lenders by taking on part of the lender's losses on loans to MSMEs in the event of default in exchange for a fee (Boschi, Girardi & Ventura, 2014). Microfinance, credit cooperatives, and micro-credit organizations are the main providers of credit guarantees (Boschi, et al., 2014). The credit markets for small and medium-sized enterprises (SMEs) are characterized by defects and failures in the market. A World Bank (2021) report states that financial institutions either underserve or ignore up to 68% of formal SMEs in emerging markets. As a result, there is a credit gap that is estimated to

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be close to $1 trillion because there are no credit guarantees (World Bank, 2022). However, the state of the matter among MSMEs in developing countries and its impact on the sustainable business growth of these enterprises was not reported. These contextual and conceptual gaps were addressed by this study.

A grant is a sum of money donated for a specific reason by the government or another entity (Daskalakis, Jarvis & Schizas, 2013). For instance, the $30 million Innovative Small and Medium Enterprises (iSME) project provided equity co-investments in young, creative businesses in Lebanon in addition to grant funding for seed stage companies. By August 2019, iSME's co-investment fund had leveraged $25.47 million in co-financing through 22 investments totaling $10.23 million (World Bank, 2021). This illustrates the fund's ability to grow Lebanon's early-stage equity financing market and draw in capital from the private sector. By leveraging the iSME funding to date, 60 out of 174 grantees—with a leverage ratio of 5.3 times—have raised a total of $13.1 million from various funding sources (World Bank, 2021). Broadly, literature indicates that there are a wide range of financing instruments available for MSMEs. Among these are conventional debt financing, alternative debt instruments, asset-based financing, crowdfunding, equity financing, hybrid instruments, credit guarantees, leasing, and grants. Studies regarding MSMEs' use of these different tools to best meet their needs and promote their sustainable growth, however, is still sporadic. The lack of cost-effectiveness of traditional bank loans and their impact on profitability in developed and emerging nations have received little attention, while the impact of other financing mechanisms on MSMEs' sustainable growth in terms of worker welfare and environmental protection in developing nations—a topic this study addresses—has received less attention. Basing on the literature review, the following hypothetical framework for financing the sustainable growth of MSMEs is derived:

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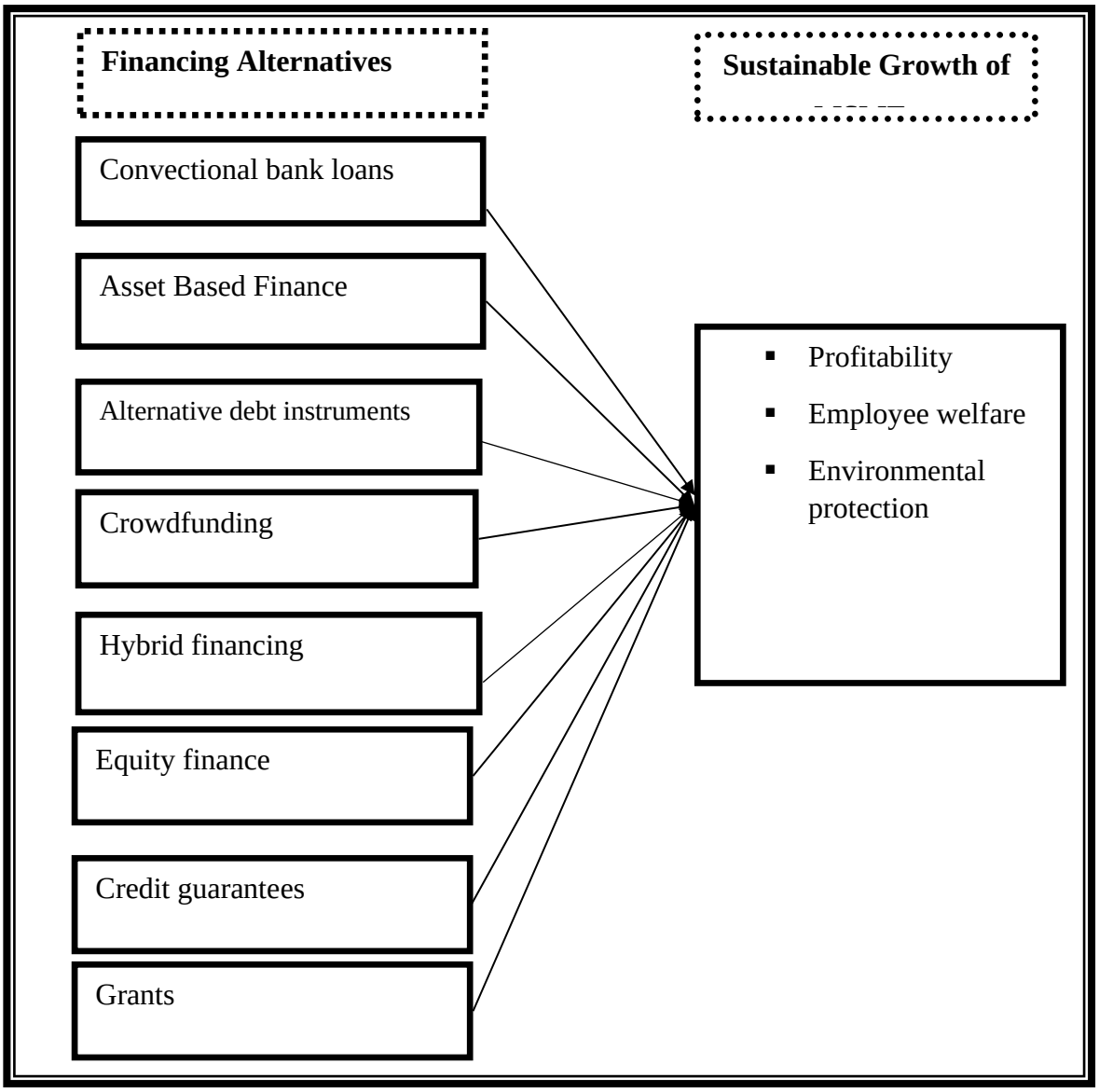

Figure 1: A Hypothetical Framework for Financing Options for the Growth of MSMEs
Source: Authors Construction in concurrence with OECD (2015), Schwab, et al. (2017) and World Bank (2021).

Methods

The study utilised a quantitative methodology and a cross-sectional descriptive survey design. Because it methodically and accurately described the features and the relationships between the variables based on a large study sample at a particular point in time, this design was relevant to this investigation (McCombes, 2022). The study population consisted of Micro, Small, and Medium-Sized Enterprises located in five major regions of Uganda. These included the cities of Kampala in Central Africa, Jinja in Eastern Uganda, Gulu in Northern Uganda, Mbarara in Western Uganda, and Kabale Municipality in South Western Uganda. According to survey data (Uganda Bureau of Statistics (UBOS), 2022) the MSMEs sector in these urban cities consists of 1,100,000 Micro, Small, and Medium-Sized Enterprises. A sample of 400 enterprises was studied. The study sample was arrived at using Yamane's (1967) formula as follows:

n=N/(1+N(e)2.

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Where n is the desired sample size, N = Size of population, and e= Error in estimation (ideally 5%).

Hence
$n = 1{,}100{,}000/1+1{,}100{,}000\ (0.05)^2$
n= 400.

The MSMEs that participated in the study were chosen using stratified random sampling. The businesses were chosen at random from each urban city, which formed a stratum. The sample distribution was such that at least 80 MSMEs were selected from each city. This allowed fairness in sample distribution which enhanced the validity and the reliability of the findings (Murphy, 2019). Business owners of MSMEs were the unit of inquiry, whereas MSMEs were the unit of analysis. A researcher administered questionnaire that was used to gather data. The questionnaire was created so that information about the owners of the businesses was gathered in one section, and information about the main study variables was gathered in another. Although the section of the study variables was structured on a five-point Likert scale, with (1) denoting strongly disagree and (5) strongly agree, the profile information was captured using nominal scales. The five point Likert scale was adopted due to its flexibility for it allows respondents a number of options while answering the question rather than extremely very little options when discussing polarizing topics (McLeod, 2019).

The validity and reliability of the questionnaire were assessed in order to guarantee the quality of the data (Drost, 2011). Validity is defined as the accuracy of the outcome of a test (Karakaya-Ozyer, 2018). It is therefore essential to establish validity and Structural Equation Modelling (SEM) analysis is important in this regard as it provides researchers with evidence that the results can be accurately interpreted. While examining the validity using SEM, the assessment was categorized into two major types: convergent validity and discriminant validity (Karakaya-Ozyer, 2018). Convergent validity refers to the correlation between responses of different variables in assessing the same construct. Convergent validity assures that variables are associated with the latent construct being measured. As a result, factors should have a strong correlation with the latent construct (Jain & Chetty, 2021). To establish convergent validity, the *average* variance extracted (AVE) value was assessed (Hamid, 2017; Engellant et al., 2016). The average variance extracted (AVE) as a convergent validity test was appropriate since AVE it explained the degree to which items are shared between constructs (Sujati, 2020). To attain this validity, the value of AVE must be greater than or equal to 0.5 (Ahmad, Zulkurnain & Khairushalimi, 2016). See Table 3.

A discriminant validity test is a requirement in the construction of a latent variable instrument (Ahmad, et al., 2016). Discriminant validity, also known as divergent validity, is the validity that contributes toward demonstrating the distinction of one construct from another (Taherdoost, 2016). Correlating one construct to another could be used to show discriminant validity (Sujati, 2020). If the correlation value between the two constructs is less than the square root of the *AVE* value, discriminant validity exists (Engellant et al., 2016). See Table 3. Reliability is defined as the consistency of measuring outcomes (Karakaya-Ozyer, 2018). Testing for reliability is significant since it pertains to the consistency of measuring the parts of the instrument. If the items on a scale "hang together" and measure the same construct, the scale is said to have good internal consistency reliability (Jain & Chetty, 2021). The reliability

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of data was measured in two forms: Internal consistency for reliability in SEM analysis, and Composite reliability in SEM analysis (Jain & Chetty, 2021).

Internal consistency for reliability in SEM analysis depicts the data consistency in results across tests. The reliability method determines the linkage of factors on the test with other factors (Hajjar, 2018). Cronbach alpha coefficient is the most often used internal consistency measure. When using the Likert scale, it is regarded as the most accepted measure of consistency and hence it was adopted in this study. It is recommended that the reliability for an exploratory or pilot study be equal to or greater than 0.70. Herein, the value of 0.90 and above shows excellent reliability, 0.70-0.90 represents high reliability, 0.50-0.70 states moderate reliability, and 0.50 and below depict low reliability (Sideridis, 2018). See Table 4. Composite reliability (CR) measures how well variables underlying constructs served in structural equation modeling. In SEM construct reliability is depicted using confirmatory factor analysis (CFA). Composite reliability is estimated based on the factor loading analysis (Lerdpornkulrat et al., 2017). It is allowed to have a build reliability coefficient greater than 0.70. A value of CR $\geq$ 0.7 was required to achieve construct reliability (Tentama & Anindita, 2020). See Table 4.

Results and Discussion

The Profile Information Results

Regarding the owners or managers of MSMEs, the profile results were acquired. The associated results are summarized in Tables 1 and 2.

Table 1. Owners/Managers Profiles

Gender category	Frequency counts	Percent
Female	191	47.7
Male	209	52.3
Total	400	100.00
Age group (Years)	Frequency counts	Percent
18-27	69	17.3
28-37	101	25.2
38-47	98	24.5
48-57	71	17.7
58+ years	61	15.3
Total	400	100.00
Highest level of education	Frequency counts	Percent
None	17	4.3
Primary	202	50.4
Secondary	113	28.3
Tertiary	68	17.0
Total	400	100.00

Source: Survey data (2023)

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The results in Table 1 indicate that the majority of participants were between the ages of 27 and 57, with men making up the majority of respondents (52.3%) compared to women (47.7%). The findings in Table 1 also demonstrate that, on average, primary (50.4%) and secondary (28.3%) education was completed by the owners/managers of MSMEs businesses.

Regarding the nature of MSMEs under study, profile information was also requested. Table 2 presents the findings.

Table 2: The Profiles of MSMEs

Type of business	Frequency count	Percent
Agriculture	49	12.3
Manufacturing	53	13.2
Dealing in finished goods	152	38.0
Service provision	146	36.5
Total	400	100.00
Length of business existence	Frequency	Percentage
<5 year	171	42.8
5-<10 years	98	24.4
10-<15 years	87	21.8
15+ years	44	11.0
Total	400	100.0
Number of employees	Frequency	Percentage
<5	147	36.7
5-<10	143	35.8
10-<15	80	20
15+	30	7.5
Total	400	100.0

Source: Survey data (2023)

According to Table 2's results, the majority of MSMEs that took part in the study (38.0%) dealt in finished goods, and 36.5% provided services. Table 2's results also indicate that most of the MSMEs had been operating for less than five years implying that most of them were new. According to Table 2's results, the majority of the investigated businesses (36.7%) had fewer than five employees, and those with five to ten employees (35.7%). This provides evidence that most MSMEs have not attained growth in terms of employees in business.

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Validity and Reliability Results

Table 3: Validity Results

Variables	Total Items Tested	Average Variance Extracted (AVE)	Root of AVE Square (Diagonal)
Convectional bank loans	6	0.674	0.821
Asset based finance	7	0.777	0.882
Alternative debt instruments	8	0.218	0.467
Crowdfunding	6	0.751	0.867
Hybrid financing	7	0.349	0.51
Equity finance	7	0.722	0.850
Credit guarantees	5	0.811	0.900
Grants	5	0.715	0.846
MSMEs growth	3	0.727	0.853

Source: Survey data (2023)

According to Table 3's results, with the exception of alternative debt instruments and hybrid financing, the rest of the constructs demonstrated the existence of convergent and discriminant validity since the values of AVE must be greater than or equal to 0.5 (Ahmad, 2016), and correlation value between the two constructs is less than the square root of the *AVE* value (Engellant et al., 2016). Therefore, only the constructs that qualified were retained for further analysis.

Table 4: Construct Validity and Reliability Results

	Variance explained=77.1%			
Variables	Total Items Tested	No of the items retained	Factor loadings	Cronbach Alphas
Conventional bank loans	6	5	0.763	0.819
Asset based financing	7	5	0.714	0.728
Alternative debt instruments	8	6	0.213	n/a
Crowdfunding	6	5	0.744	0.881
Hybrid financing	7	5	0.312	n/a
Equity finance	7	6	0.700	0.902
Credit guarantees	5	5	0.817	0.893
Grants	5	5	0.747	0.864
MSMEs business growth	3	3	0.772	0.818

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Source: Survey data (2023)

As can be seen from Table 4, six of the eight constructs (Conventional bank loans, asset based financing, crowdfunding, equity finance, credit guarantees, and grants) demonstrated composite reliability and internal consistency as they had factor loadings and Cronbach alphas of greater than 0.7. For this reason, these six constructs were used to analyze financing alternatives for MSMEs. Two constructs (alternative debts instruments and hybrid financing instruments) were discarded from further analysis due to their factor loading and Cronbach alphas of less than 0.7 (Sideridis, 2018; Tentama & Anindita, 2020). See Table 4.

Descriptive Statistics

Table 6: Descriptive Statistics of the Status of Sustainable Growth of MSMEs

	N	Mean	Std. Dev
Sales revenue growth	400	4.22	0.350
Profitability growth	400	3.13	0.411
Growth in the number of employees	400	3.44	0.328
Environmental protection	400	1.02	0.413

Source: Survey data (2023)

As can be observed from Table 6, the respondents agreed that their businesses had attained sales revenue growth (Mean value =4.22), but were neutral that their businesses had attained sustainable growth of profitability and number of employees with respective means scores of 3.13 and 3.44. The results suggest while on some occasions MSMEs attain growth in profitability and number of employees, they face some shortfalls as regards these indicators in some other cases. The results in Table 6 further show that the respondents disagreed with their businesses have supported environmental protection which is an indicator of low business sustainability. These findings concur with those of UIA (2021) and UNCTAD (2022) that the majority of MSMEs in Uganda are stagnated in the growth background.

Table 5: Descriptive Statistics of Financing Alternatives

Financing alternatives	N	Mean	Standard Deviatic
Convectional bank loans	400	1.153	0.513
Asset based financing	400	4.542	0.415
Crowdfunding	400	4.325	0.382
Equity finance	400	4.542	0.492
Credit guarantees	400	4.430	0.218
Grants	400	4.321	0.301

Source: Survey data (2023)

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According to Table 5's findings, equity financing had a mean value of 4.542. Owner savings, venture capital, and business angels were the main components of this financing mechanism, which the respondents overwhelmingly agreed was the ideal financing alternative for funding their companies. With a mean score of 4.542, asset-based financing was also strongly agreed upon by the respondents as an ideal alternative for funding their businesses. This construct's main constituents were asset-based lending, leasing, and factoring. With a mean score of 4.430, credit guarantees were deemed optimal for business financing by the respondents. Guarantees for borrowing from credit cooperatives, microcredit institutions, and microfinance institutions were a significant factor in this respect. Crowdfunding scored a mean value of 4.325 implying that the respondents agreed with it as ideal for financing their enterprises, and the major underlying aspects were sponsorships, donations, and pre-ordering or pre-production agreements. Grants scored a mean value of 4.321 which indicates that the respondents agreed with it as ideal for financing their enterprises, and government grants and grants from other funding organisations were the major aspects in this regard. Conventional bank loans were disregarded by the respondents as the ideal financing mechanism for their enterprises as it scored a low mean value of 1.153 which suggest that the respondents strongly disagreed with it as ideal financing mechanism for their businesses. This position could be attributed to the costly nature of traditional banks loans as highlighted by Buyinza et al., (2018), UIA (2021) and UNCTAD (2022).

Correlation Results

Table 7: Pearson Correlation Results

	Variables	1	2	3	4	5	6	7
1.	Traditional debt finance	1.000						
2.	Asset based financing	0.022	1.000					
3.	Crowdfunding	0.109	0.251**	1.000				
4.	Equity finance	0.015	0.119*	0.113**	1.000			
5.	Credit guarantees	0.184*	0.153**	0.002	0.107	1.000		
6.	Grants	0.081	0.242**	0.331**	0.218**	.003	1.000	
7.	Sustainable growth of MSMEs	-0.615*	0.833**	0.761*	0.711**	0.706*	0.603*	1.000

*Significant correlations at 0.05 level.
** Significant correlations at 0.01 level

Source: Survey data (2023)

Table 7 presents the correlation findings, which indicate a strong positive correlation ($r = 0.833$, $p<0.01$) between asset-based financing and sustainable growth of MSMEs; a strong positive correlation ($r = 0.761$, $p<0.05$) between crowdfunding and sustainable growth of MSMEs; a strong positive correlation ($r = 0.711$, $p<0.01$) between equity finance and sustainable growth of MSMEs; and a strong positive correlation ($r = 0.706$, $p<0.05$) between credit guarantees and sustainable growth of MSMEs. The findings also indicate a moderately negative correlation ($r=-0.615$, $p<0.05$) between conventional bank loans and MSMEs' sustainable growth, and a

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moderately positive correlation (r=0.603, p<0.05) between grants and sustainable business growth. The negative correlation between conventional bank loans and sustainable growth of MSMEs can be attributed to the costly nature of this source of finance in terms of interest rate which is indicated in the range of 20%-28% for most of the banking organisations (UIA, 2021; UNCTAD, 2022). This cost is very high and it ruins the profitability of the most of MSMEs which affects their employees' welfare and the ability of businesses to focus on environmental protection. This explains why despite increased in sales revenues, MSMEs still reported fluctuating profits that have not enabled them to growth their number of employees and take care of the physical environment in which they operate. Basing on the findings, the ideal framework for financing the sustainable growth of MSMEs is derived as follows:

Basing on the literature review, the following ideal framework for financing the sustainable Growth of MSMEs is derived:

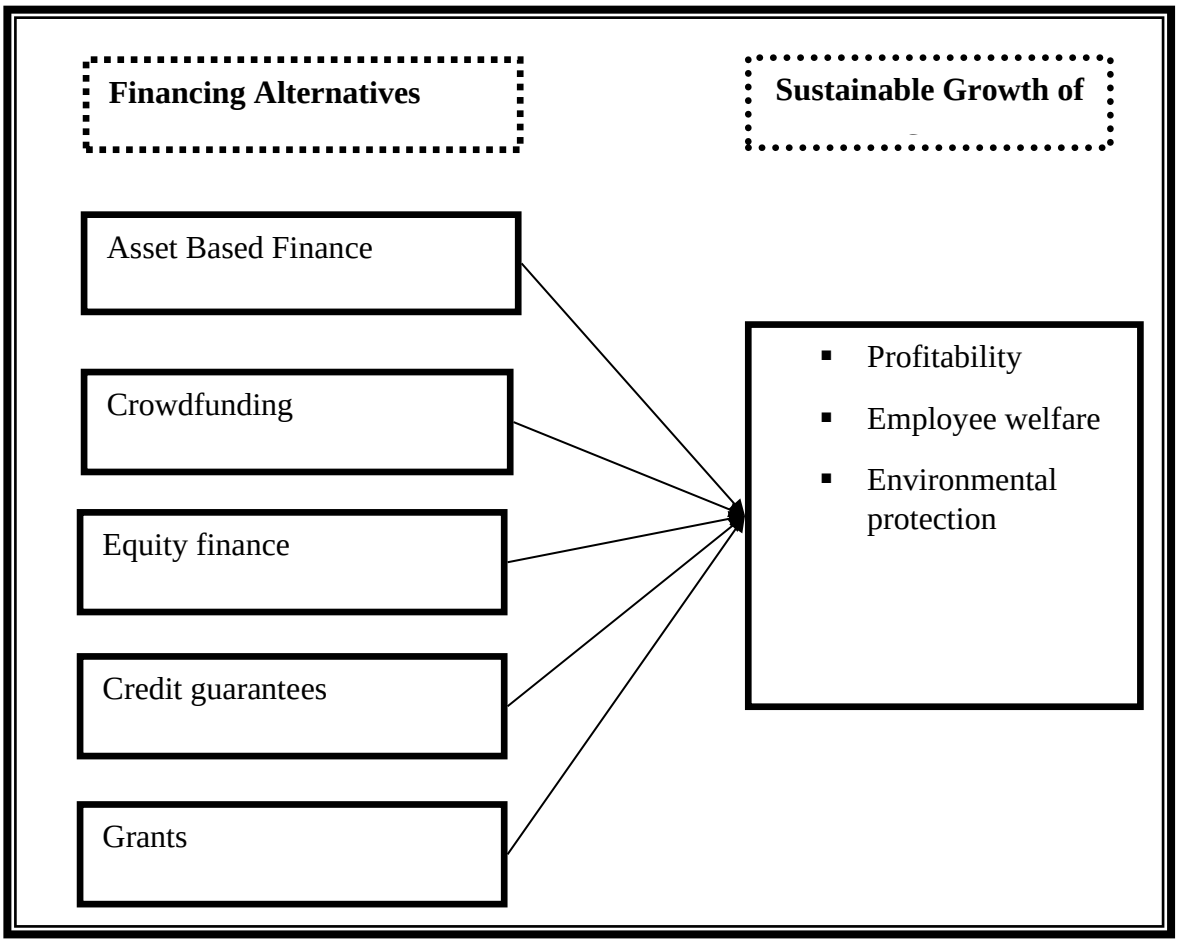

Figure 2: An Ideal Framework of Financing Options for the Sustainable Growth of MSMEs

Source: Author (2023)

Conclusion and Recommendations

Based on the findings, it is concluded that while more use of traditional bank loans would impede MSMEs' ability to grow sustainably, more use of financing alternatives such as asset-based financing, crowdfunding, equity finance, credit guarantees, and grants would enhance MSMEs' ability to do so. Therefore, the ideal financing framework that can be adopted by

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MSMEs in financing their operations to enhance their sustainable growth includes asset based financing, crowdfunding, equity finance, credit guarantees and grants. It is thus recommended that for MSMEs vying to enhance their sustainable growth through funding, they should select from among these ideal financing alternatives. The study was therefore important in suggesting an ideal financing framework for enhancing the sustainability of MSMEs.

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