Relationship between Liquidity Management and Growth of MSMEs in Africa: A Case Study of Selected Districts of Uganda

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Abstract

Purpose: The study set out to establish to what extent, if any, a relationship exists between liquidity management and growth of MSMEs in Africa, with Uganda as a case study.

Methodology: The study used a combination of cross sectional and descriptive designs in which both qualitative and quantitative approaches were adopted. Questionnaires were administered to respondents who answered both open-ended and close-ended questions. Quantitative data was analysed by means of frequencies, percentages, regression analysis and means correlations to arrive at conclusions. The qualitative aspect of the research was intended to clarify the quantitative findings and data. A sample of 400 respondents was chosen from four districts of Wakiso, Mukono, Kampala and Jinja using random sampling. A sample of 400 was chosen from four districts of Wakiso, Mukono, Kampala and Jinja. Of these 371 responded. This represents a satisfactory response rate of over 92%.

Findings: This relationship was confirmed by ANOVA results of a large F- Value (23.215) and small significance level (P or 0.000<0.05). Conclusion from the research is that there is a significant relationship between management of liquidity and growth of MSMEs in Uganda

Unique Contribution to Practice and Policy: It is recommended that MSMEs review modes of financing liquidity requirements. It is further recommended that MSMEs should practice effective cash planning and investment of surplus funds in ways and manner that enhance the capital, and consequently, growth of the firms. The results of the study should provide very useful input for policy makers, SME managers and owners while making to enhance growth of MSMEs. It is also useful for researchers and academics.

Key words: *Growth, Liquidity, Management, Working Capital, Profitability*

I. Introduction

Globally, enterprises categorized as Micro, Small, Medium, Enterprises (MSMEs) are credited with being key drivers of the engine of economic growth, fostering technological and other forms of innovation, wealth creation and providing employment. In Uganda they are spread across all sectors with 49% being in the services sector, 33% in commerce and trade, 10% in manufacturing and 8% in others. Over 2.5 million people in Uganda are employed in this sector, where they account for approximately 90% of the entire Private Sector. The sector generates over 80% of manufactured output that contributes 20% of the gross domestic product (GDP) (Ministry of Trade and industry, 2015). MSMEs account for more than 90% of businesses and contribute about 50% and Gross National Product (GDP) in Africa (Kamuge, 2014). There are numerous definitions and categorization of what MSMEs are globally. Country context plays a major role in determining the nature of these characteristics, especially, the size of investment in capital accumulation and the number of employees. The Uganda Bureau of Statistics uses number of employees, capital investment and annual turnover to categorize enterprises based on several criteria. In quantitative terms, micro enterprises are those businesses employing not more than 5 people and whose total assets do not exceed ten million Uganda shillings (approximately $ 2,500). On the other hand, small enterprises employ between 5 and 49 people and have total assets between ten million Uganda shillings (approximately $2,500) and one hundred million Uganda shillings (approximately $25,000). The medium enterprises employ between 50 and 100 people with total assets of more than one hundred million Uganda shillings (approximately $25,000) but not exceeding three hundred and sixty million Uganda shillings (approximately $90,000) (Uganda Bureau of Statistics,2009).

2 Literature Review

2.1 Crucial Role of MSMEs in all Economies

MSMEs play significant roles in all types of economies whether developed, emerging or developing. However, their roles are more critical and significant as drivers of economic growth in the developing world. They broaden opportunity, increase production and productivity, create jobs and help alleviate poverty. In developed countries, MSMEs represent more than half of GDP and account for nearly two-thirds of employment (Brookings Institution,2009). However, MSMEs are largely absent from the formal economies of poor countries. In a study regarding contributions, challenges and solutions for MSMEs in Africa, it was established that the contribution to GDP of MSMEs ranged from as low as 3.4 % to 70% and contribution to employment ranged from 15% to 90% (Murithi, 2017).

Table 1: Selected African MSMEs contributions to employment and GDP

Countries	Contributions to GDP (%)	Contributions to employment (%)	References
Ethiopia	3.4	90	Central Statistics Agency (CSA), 2003; Gebrehiwot, 2006
Ghana	70	49	Ghana Bank Doing Business Report, 2013; World Bank, 2006; Abor & Quarterly, 2010;
Kenya	40-50	80	Mwarari & Ngugi, 2013;
Nigeria	50	70	Ariyo, 2011; Kolasiński, 2012;
Rwanda	20.5	60	Mukamuganga, 2011
South Africa	50-60	60	DTI, 2012; Willemse, 2010
Tanzania	60	20	Echengreen & Tong, 2005; Ngasongwa, 2002
Uganda	18	90	Uganda Ministry of Trade, Industry and Cooperatives (MTIC),2015
Zambia	8	30	Mbuta, 2007
Zimbabwe	40	15	Katua, 2014

Source: (Muriithi, 2017).

At the continental level, the MSMEs sector accounts for over 90% of all the enterprises of which between 70-80% are micro and very small enterprise, while medium enterprises account for between 5-15%. They provide the main source of jobs and income for the population in Africa. Women entrepreneurs own more than half of the micro and small enterprises in the continent. They play an increasingly crucial role in diversifying production and employ about 70% of the active population in rural areas (African Development Bank, 2008). The growth of the MSME sector, and therefore the factors that impact on it, remain an important source of concern in all economies.

2.2 Liquidity challenges for MSMEs in Africa

In Sub-Saharan Africa in general and Uganda in particular, MSMEs seem to suffer from liquidity management problems, which in turn affects profitability that eventually lowers their resilience to risk. Liquidity shortage and mismanagement consequently prevents MSMEs from growing and attaining economies of scale and scope (Ombworo, 2014). The International Finance Corporation (IFC) estimates that by mid-2018 Africa's finance gap for MSMEs stood at $331bn,

arguing that this is of great concern because they are the lynchpin of the informal sector which contributes 38% of sub-Saharan Africa GDP, yet 51% of the continent's 44 million formal MSMEs lack the finance necessary to grow. The IFC further observed that the true scale of the shortfall was almost certainly even greater given the lack of data (International Finance Coropration,2018).

On accessing funding from financial institutions, MSMEs often have a problem of the maturity gap, which is the mismatch between maturity of assets and liabilities. For example, many microfinance institutions require installments repayment at the end of the month in which the loan is extended. This may be far long before any cash inflow can be realized by the MSMEs. The challenge is most notable in agriculture. Furthermore, because of fungibility of funds, many of these businesses seem to have failed to manage them for intended purposes. This is to the detriment to the profitability, growth and sustainability problems (United Nations Organisation, 2002).

2.3 Survival, Growth and Liquidity Management of MSMEs

The crucial roles of MSMEs in economies whether developed, emerging or least developed, has resulted in stakeholders including multilateral agencies, governments and academics to endeavour to appreciate and focus on understanding the constraints to the growth of this sector and implementing programs to address them (Ruchira,2017). Logically, for a firm to exist it must be created and for it to grow it must have survived and to survive, and ceteris peribus, no firm can survive and grow in a competitive environment for long without achieving a reasonable level of profitability. It has been argued that the size of a firm is a function of its growth which is a process over a period of time, with the size being a state. The growth process of a firm can be determined by supply of capital, technology, labour and appropriate management, opportunities for investments and viable markets that are profitable (Fjoe, 2005).

It is inconceivable that a business enterprise can have, as its key objective, to survive without growing and not making profit. Most mission statements of business enterprises, which are the justification of why they seek existence and residence in a social and economic environment, mention provision of goods or services for the good of human kind and in their objectives almost invariably state making profits and later to grow or expand its operation, as foremost (Mashemere, 2014). Liquidity management is about the efficiency, effectiveness and manner in which the elements of current assets and current liabilities are handled in an enterprise and this will impact on its survival, profitability and growth. Elements of concern in liquidity management constitute what is called working capital. Accordingly, it can equally be argued that liquidity management is about working capital management.

Regarding survival, several studies have indicated strong relationship between it and liquidity management, which, as noted above is a prerequisite of growth. In one of the studies involving

99 respondents, results indicated a strong relationship between cash flow and survival of MSMEs and a variation in cash flow accounts for a positive change in the rate of survival of MSMEs. Firms which ensured prudent cash flow management proved the ability to profitably sell their goods or provide services, avoid holding excessive stocks and to meet their financial obligations. The findings indicated a strong relationship between cash flow and survival of MSMEs (Mutesigensi, 2017).

It has also been concluded that many MSMEs abandon their projects for failure to project positive net present value and consistent future cash flow and further that a variation in the level of cash flow avails a significant amount of variation in survival of MSMEs (Bolaliwa,2014). Findings of another study indicate that fluctuation in cash flow is associated with general paucity of working capital and the ability to raise finance through debt or equity. MSMEs with unstable cash flows consume much of their working capital to remain solvent, which affects their survival (Mazzarol, 2015). m a study to answer the question whether working capital management affects the growth of MSMEs it was concluded that adhering to best practices of financial management reflected by way of proper recording, analyzing and summarizing financial information, and efficient management of cash and cash equivalents, inventory, accounts receivable and accounts payable, among others, led to growth of the MSMEs which were the subject of the study(Kiverenge, 2015).

 Inefficiencies in operations may crop up due to difficulties in meeting the daily operational requirements leading to dissatisfied clients and suppliers, reduction in liquidity, profits, saving, investment and premature retirement of workers, hence a firm's failure. This therefore implies a direct relationship between a firm's liquidity management and growth. Firms including MSMEs are required to keep optimum liquidity given that it has a significant impact on their profitability and growth (Bushman, 2007). The amount of liquidity held by an entity should be optimized if increased return (profitability) is to be attained. A firm's increased profitability will consequently improve the firm's growth measured through capital expansion of the firm and its self-sustainability.

3. Theoretical link between liquidity management and profitability and growth of firms (SMEs)

The link between liquidity management and profitability and growth of business enterprises is highlighted in the pecking order theory. The key argument of the theory is that maintaining too much liquidity in the firm will constrain profitability and growth and the reverse is true (Koch,2006). Furthermore, according to this theory, there is a need to strike a balance between liquidity and profitability for growth to be attained, thus, investment in liquidity is not a matter of choice. Too much liquidity in form of cash and cash equivalents implies less investment in productive assets that would generate more earnings hence profitability, part of which would finance the growth and sustainability of the firm (Da Silva, 2007). On the other hand,
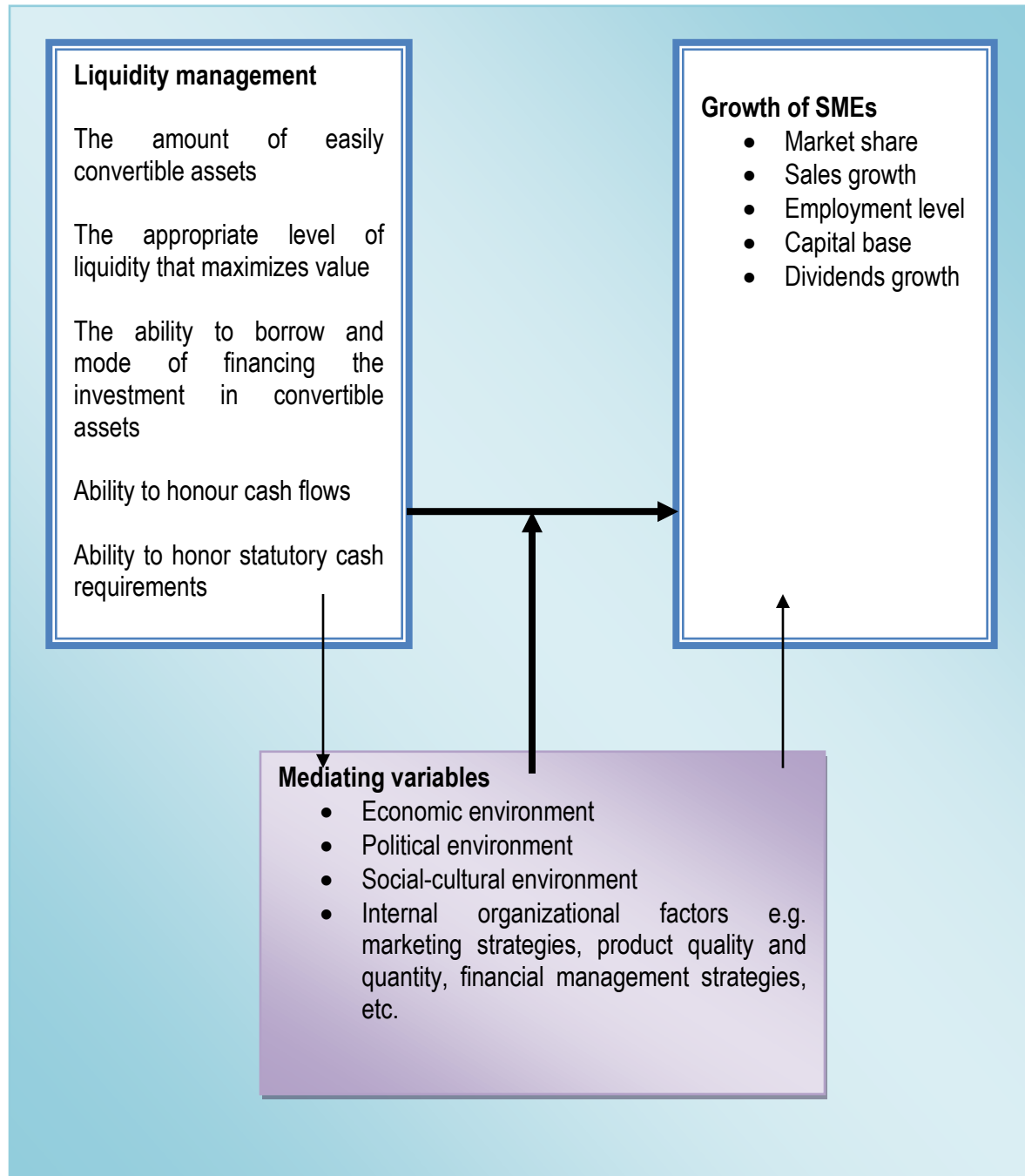
maintaining less than sufficient liquidity in the firm in form of cash and cash equivalents implies the firm's inability to meet its short-term obligations as and when they fall due. This exposes the firm to the risk of encroaching on the firm's long-term capital to pay such obligations. If this continues unchecked the firm's prosperity would be retarded. Firms including MSMEs are required to keep optimum liquidity given that it has a significant impact on their profitability and growth (Cantilon, 1931).

The core issue for consideration in answering the matters raised is how to balance the risk- return relationship associated with investment in liquidity. It has been argued that the above benefits reflect the return of investment in high levels of liquidity. If a firm is liquid, it can meet its obligations without undue stress and even have surplus liquidity. This is the liquidity objective of working capital management (Wang, 2008). A firm can choose to keep low levels of liquidity and deploy the rest of the resources in profitable ventures to earn a return for the investors. The policy will be beneficial because there will be high profits and investors will perceive the firm as being successful, while the possibility of having idle assets will be minimized. It has been further noted that the lower the levels of liquidity, the more difficult it becomes to meet the obligations of paying suppliers, servicing the loan facilities, acquiring inventories or even paying workers. Low liquidity adversely affects the ability of the firm to operate the available fixed capacity (Gitman, 2001).

Managing liquidity is a fundamental component in the safe and sound management of all business enterprises. This is justified by the fact that prudent management of liquidity determines the profitability of the firm and subsequent growth. Cases of overtrading become a clear testimony of this danger where seemingly sound businesses with lots of capacity lack funds to work on a daily basis. A strategy of keeping very low levels of liquidity is likely to be adopted by an adventurous finance manager who is risk seeking, rather than risk averse. By investing highly in profitable ventures, the manager enhances the ability of the firm to generate a return and hence boost profitability. However, this is achieved at the risk of failing to operate in the medium and long term, due to low liquidity. A firm should maintain a sound working capital position to be able to run its business operations. Working capital should neither be inadequate nor excessive.

Conceptual Framework

From the above review, the following conceptual framework is derived:

Liquidity management

The amount of easily convertible assets

The appropriate level of liquidity that maximizes value

The ability to borrow and mode of financing the investment in convertible assets

Ability to honour cash flows

Ability to honor statutory cash requirements

Growth of SMEs
- Market share
- Sales growth
- Employment level
- Capital base
- Dividends growth

Mediating variables
- Economic environment
- Political environment
- Social-cultural environment
- Internal organizational factors e.g. marketing strategies, product quality and quantity, financial management strategies, etc.

Source: Derived by the researcher from the literature review and in concurrence with working capital management theories by Shin, H. and Soenen, L. (1998); Economic theories by Cantillon, R. and Knight, F.H., (1931).

4. Justification and Significance of the Study

While liberalization of the economies of the African continent that commenced in early 1990s was in part intended to promote profitability and growth of private enterprises including MSMEs, most of them have failed to register any substantial amount of profit. This has presumably negatively impacted on their growth, allegedly due to poor liquidity management. The researcher in carrying out the study sought to establish how management of liquidity impacts on growth of MSMEs in Africa, with firms from selected districts of Uganda as case studies. The results may provide input for policy makers and MSMEs managers and owners while making decisions and formulating guide lines to enhance profitability as well as growth of MSMEs. It is also intended to complement existing literature on management of liquidity, profitability and growth of MSMEs for other current and future researchers and academicians.

5. Methodology

In this section the researcher presents the research design, area of study, study population, selection of the sample, data sources, research tools and methods, testing validity and reliability of research findings, research procedure and data analysis techniques that were adopted on the study.

5.1 Research design

The overall strategy of this research involved a combination of cross-sectional and descriptive methods. Cross-sectional study involves looking at data from a population at one specific point in time, and participants in this type of study are selected based on particular variables of interest. In this study MSMEs from sampled districts of Wakiso, Mukono, Kampala, and Jinja, representing the districts with the majority of MSMEs in the country and whose impact is not only sheer number of MSMEs but also on the amount of turnover which they generate, were chosen. The descriptive aspect of the study adopted both qualitative and quantitative approaches. Both cross sectional and descriptive design in which both qualitative and quantitative approaches were adopted. Questionnaires were administered to respondents who answered both open-ended and close-ended questions. Quantitative data was analyzed by means of frequencies, percentages, regression analysis and means correlations to arrive at conclusions. The qualitative aspect of the research was intended to clarify the quantitative findings and data. A sample of 400 was chosen from four districts of Wakiso, Mukono, Kampala and Jinja using random sampling, out of 371 responded. This represents a response rate of over 92%.

5.2 Area of study and study population

The study sampled the districts of Wakiso, Mukono, Kampala, and Jinja. These are the districts with the majority of MSMEs in the country and their impact is not only sheer number of MSMEs but also on the amount of turnover which they generate. Thus, picking samples of MSMEs from

these districts was hypothesized to help make deductive conclusions on MSMEs elsewhere in Africa. These districts were purposively selected. It is estimated that 65% of the 1,000,000 MSMEs in Uganda are located in these districts. Hence the study population was composed of 650,000 MSMEs (Jope, 2004).

5.3 Sample size and selection method

A sample of 400 respondents was arrived at using the formula for large populations. This is stated as follows:

$$n = pq / (SE)^2$$

Where

n is the sample size

p is the proportion of the population possessing the major attribute

q = 1-p

SE is the standard error of the proportion. For large populations whose proportion of the population possessing the attribute is unknown, the confidence interval should be set at 5% and the confidence level at 95% (McGartland, 2003). Computation is of SE is as follows:

SE=5%/1.96, where $1.96 = z_{\alpha/2}$ also known as the critical value, the positive z value that is at the vertical boundary for the area of $\alpha/2$ in the right tail of the standard normal distribution

This implies the SE =0.025. Note that when one cannot estimate the population, one sets p at 0.5.

This further implies that n= $(.5)(.5) / (0.025)^2$ =400.

Sample selection from each district was, using random sampling, systematically done as follows:

Both primary and secondary sources of data were employed in the study. Primary source consisted of responses to the questions raised in the questionnaires by the 371 out of the 400 of the selected sample. For secondary data relevant information was obtained from textbooks, journals, magazines, newsletters and other publications. The former provided firsthand information relating to study variables while the later provided information that could not be captured from primary sources.

Table 2: The sample selection per district

District	No of SMEs	Number of respondents from each SME	Total Number of respondents
Jinja	50	2	100
Kampala	50	2	100
Mukono	50	2	100
Wakiso	50	2	100
Total	**200**		**400**

5.3 The response rate

The target sample was 400 respondents but responses were obtained from 371 respondents because some respondents could not be accessed as they could not honour the appointments for one reason or the other. This gave a response rate of 371/400 x100 = 92.8% which according to Joppe (2004) is appropriate to make generalized conclusions on the anticipated study sample and the study population.

5.4 The type of business respondents dealt in

Findings on the type of business dealt in by the respondents revealed the following results:

Table 3: Type of business dealt in

	Type of business	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Farming	51	13.7	13.7	13.7
	Micro finance	64	17.3	17.3	31.0
	Telecom	80	21.6	21.6	52.6
	Commodity Trading	176	47.4	47.4	100.0
	Total	371	100.0	100.0	

5.5 Research Tools and Methods

Both close and open-ended questionnaires were used to solicit responses from respondents who were owners, managers or owner managers of the MSMEs. The close-ended questions enhanced precision and conciseness while open-ended questions helped to clarify the responses provided in close-ended questionnaires. The questionnaires were self-administered and this enhanced response through clarification of the questions especially to respondents that could not read and write. The use of self-administered questionnaires also justifies the neglect of interview guide since interviews were held with respondents as the questionnaires are being administered. To enhance data analysis, a uniform rating scale (the 5-point Likert scale) was adopted in preparation of questionnaires. In this, the following codes were defined as follows: 5 denoted

strongly agree, 4 denoted agree, 3 denoted undecideds, 2 denoted disagree while 1 denoted strongly disagree.

5.6 Validity and Reliability

Validity determines whether the research truly measures what it is intended to measure or how truthful the research results are (Cronbach, 2001). To ensure validity in research, examination of trustworthiness is crucial. While establishing good quality studies through reliability and validity in research, it has been noted that the trustworthiness of a research report lies at the heart of issues conventionally discussed as validity and reliability. To ensure validity of research instruments, the researcher constructed instruments that were used to solicit data from the sample of respondents. The instruments were given to two experienced researchers to ascertain the truthfulness and clarity of the questions and to find out whether they seek the information that would answer the questions in the study. Content validity index (**CVI**) was used to establish validity of the instruments using the formula below (Shin,1998).

Content validity index (**CVI**) =

$$\frac{\text{Sum of agreement on every relevant judgment x 100}}{\text{Total number of items (questions)}}$$

After the results, recommendations were incorporated and validity re-determined until an appropriate index was achieved. The resultant CVI was 95.7% implying that the contents in the research instruments were valid in relation to study variables.

Reliability refers to the level of dependability of the questions in the research instrument. To ensure this, the Cronbach alpha coefficient (α) for testing internal consistency was computed. It was arrived at as follows:

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum SD^2 i}{\sum SD^2 t}\right)$$

Where α = Alpha coefficient

K = Number of items in the instrument

∑ = Summation sign

$SD^2 i$ = Standard deviation squared within each item

$SD^2 t$ = Total Standard deviation

The resultant coefficient should be above 0.75 if the contents of the instruments are to be considered reliable as asserted by Cronbach. Test statistics revealed an alpha coefficient of 0.824 implying internal consistence in the scaling of items hence reliability of the study instruments.

5.7 Data analysis

Both quantitative and qualitative data was analyzed. Quantitative data was processed using the Statistical Package for Social Scientists (SPSS) to come out with the necessary frequencies and percentages. Analysis of Variance (ANOVA), and regression analysis to arrive at conclusions and recommendations. Qualitative data was thematically analysed to make inferences from what was stated by respondents. These inferences were later integrated with quantitative findings to arrive at relevant conclusions.

6. Findings

The analysis that follows below indicates that there is significant though not absolute relationship between liquidity management and growth of MSMEs in Uganda. It can be argued that the findings are representative of the MSMEs in the country. This is so because Wakiso, Mukono, Kampala, and Jinja districts are home to the majority of MSMEs in the country and their impact is not only of their sheer number but also in light of the amount of turnover which they generate, relative to other districts.

Preliminary findings of the study elicited the following responses from interviewees regarding the effectiveness of liquidity management practice as regards MSMEs in the districts.

Table 4: The effectiveness of liquidity management practice in MSMEs in Uganda

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	50	13.7	13.7	13.7
	Disagree	228	62.3	62.3	76.0
	Undecided	20	5.5	5.5	81.5
	Agree	37	10.1	10.1	91.6
	Strongly Agree	31	8.4	8.4	100.0
	Total	366	98.7	100.0	
Missing	System	5	1.3		
Total		371	100.0		

Source: Field data

The preliminary findings were further interrogated and descriptive statistics were obtained for each of the trend of predictor variables regarding their level as a measure of growth. A Likert

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scale was used as follows: 5 for strongly agree, 4 for agree, 3 for undecided, 2 for disagree and 1 for strongly disagree. Results were as indicated in table 5 below.

Table 5: Descriptive statistics on the trend of predictors growth of SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
On average, our firm has a high amount of earnings per share	371	1	5	2.38	1.294
On average, our firm's market share has been increasing	371	1	5	2.44	1.206
On average, our firm's sales have been increasing	371	1	5	2.33	1.211
On average, our firm's number of employees has been increasing	371	1	5	2.09	1.616
On average, our firm's capital base has been increasing	371	1	5	4.75	.628
On average, our firm's dividend to Shareholders has been increasing	371	1	5	2.42	1.549
Valid N (listwise)	371				

Source: Field data

Results in table 5 show that most respondents on average disagreed their SMEs have a high value of EPS with mean response at 2.38, while they also disagreed that their market share has been increasing with mean response at 2.44. Results further indicate that most respondents disagreed that SMEs sales have been increasing with mean response at 2.33. Those that disagreed that the number of employees has been increasing registered mean response at 2.09. Respondents however strongly agreed that their capital base has been increasing with a substantial mean response at 4.75. However, they disagreed that dividends to shareholders have been increasing with mean response at 2.42.

The null hypothesis that there is significant relationship between liquidity management and growth of MSMEs in selected districts of Uganda was interrogated with the following revealed:

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Table 6: Model Summary of the relationship between management of liquidity and growth of MSMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.451(a)	.204	.195	1.064

a Predictors: (Constant), OBLIGATION TO HONOUR STATUTORY LIQUIDITY REQUIREMENTS, ABILITY TO BORROW AND MODE OF FINANCING, THE AMOUNT OF CASH AND EASILY CONVERTIBLE ASSETS, ABILITY TO HONOUR CASHFLOWS
b Dependent Variable: GROWTH OF SMEs

In table 6, R, whose value is 0.451, depicts the multiple correlation coefficient between all the predictor variables and the dependent variable. It indicates that there is a variance shared between the independent variables (obligation to honour statutory liquidity requirements, ability to borrow and mode of financing, the amount of cash and easily convertible assets, ability to honour cashflows) and the dependent variable (growth of MSMEs). The second value, R-Square, is simply the squared value of R which is used to explain the goodness of fit or the amount of variance explained by the given predictor variables. This value is 0.204 which indicates that 20.4% of the variance in the growth of SMEs is explained by management of liquidity and specifically by obligation to honour statutory liquidity requirements, ability to borrow and the mode of financing, the amount of cash and easily convertible assets and the ability to honour cash flows.

The significance of this relationship was tested using ANOVA results in table 8 that describe the overall variance accounted for in the model. The F-statistic represents a test of the null hypothesis that the expected values of regression coefficients are equal to each other and that they are equal to zero or whether the R square proportion of variance in the dependent variable accounted for by predictors is zero. Stated otherwise, the null hypothesis is that there is no significant relationship between management of liquidity and profitability of MSMEs in Uganda. However, the larger F- Value (23.215) and small significance level (P or 0.000<0.05) show that the four predictors are not equal to each other and could therefore be used to predict the dependent variable, the growth of MSMEs. In other words, the null hypothesis that there is no significant relationship between management of liquidity and growth of SMEs is rejected and the hypothesis that there is a significant relationship between management of liquidity and growth of SMEs in Uganda is adopted. This is supported by a coefficient of 0. 451 in table 7 above and chance results of zero percent implicated by the level of significance in table 7 below.

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Table 7: ANOVA table showing the overall variance accounted for in the model

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	105.107	4	26.277	23.215	.000(a)
	Residual	410.882	363	1.132		
	Total	515.989	367			

a Predictors: (Constant), OBLIGATION TO HOUNOUR STATUTORY LIQUIDITY REQUIREMENTS, ABILITY TO BORROW AND MODE OF FINANCING, THE AMOUNT OF CASH AND EASILY CONVERTIBLE ASSETS, ABILITY TO HONOUR CASHFLOWS
b Dependent Variable: GROWTH OF SMEs

In table 8 below the findings were further interrogated to show the effect of each individual Predictor Variable on growth of SMEs.

Table 8: The effect of each individual Predictor Variable on growth of SMEs

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	4.549	.217	
	THE AMOUNT OF CASH AND EASILY CONVERTIBLE ASSETS	-.143	.048	.159
	ABILITY TO BORROW AND MODE OF FINANCING	.471	.072	-.419
	ABILITY TO HONOUR CASHFLOWS	-.022	.062	-.025
	OBLIGATION TO HOUNOUR STATUTORY LIQUIDITY RQTS	.178	.066	-.146

a Predictors: (Constant), OBLIGATION TO HOUNOUR STATUTORY LIQUIDITY REQUIREMENTS, ABILITY TO BORROW AND MODE OF FINANCING, THE AMOUNT OF CASH AND EASILY CONVERTIBLE ASSETS, ABILITY TO HONOUR CASHFLOWS
b Dependent Variable: GROWTH OF SMEs

Regression is a statistical method that explains the strength of the relationship between a dependent variable and one or more independent variable, with the former (dependent variable) being the object(s) the analyst intends to predict or understand while the independent variable could be the fields or data points which the analyst assumes might have an impact on the dependent variable. Table 8 above shows the standard regression about the effect of each predictor variable on the dependent variable. The standardized beta coefficients for the four predictor variables indicate that the ability to borrow and mode of financing is the best predictor of growth of MSMEs (-0.419). It is followed by the amount of cash and easily convertible assets (0.159), the obligation to honour statutory liquidity requirements (-0.146), and lastly the ability to honour cash flows (-0.025). This implies that the growth of MSMEs has been basically retarded by the ability to borrow and mode of financing where results found ignorance of the matching principle. With this principle, firms that mismatch financing obligations and sources of funds are likely to encroach on long term solvency to settle short term obligations which is detrimental to the growth of the firm in the long run while failure to respect statutory liquidity requirement implies that any sudden loss of long term liquidity will lead to insolvency and collapse of the firm. Similar implications relate to the inability to honour cash flows. The null hypothesis was that there is significant relationship between liquidity management and growth of MSMEs in selected districts of Uganda. Test results revealed that 20.4% of the variance in the growth of MSMEs is explained by management of liquidity.

7. Conclusion

There is significant relationship between the liquidity management abilities of an enterprise and its growth. Cash planning and investment of surplus funds into highly profitable assets will increase a firm's capital, hence its growth. Growth of MSMEs has been basically retarded by the ability to manage the elements of their working capital. Borrowing and mode of financing should conform to the matching principle. It is necessary to adjust the mode of financing to follow the matching principle such that long-term projects are funded from long-term sources while short-term projects should be financed using funds from sources that require repayment over the short term. This is based on the premise that short term projects should recover investments value quite fast so as to be able to meet the short term obligations and vice versa. Conversely, funding short term liquidity needs using long-term sources of finance leads to a high degree of financing leverage in the long run, hence long run insolvency and decline of business. In the context of relationship between liquidity management and growth of MSMEs in Uganda, the mode of financing liquidity requirements should be revised as recommended earlier while

non-statutory reserves may be created for non -financially regulated MSMEs to back up long-run liquidity requirements.

8. Recommendations

Given the crucial role of MSMEs there is much more need to study various aspects of the Political Economic, Social, Technological, Ecological and Legal environment to establish how they impact on the growth of MSMEs. In the context of relationship between liquidity management and growth of MSMEs in Uganda, the mode of financing liquidity requirements should be revised as recommended earlier while non-statutory reserves may be created for non - financially regulated MSMEs to back up long-run liquidity requirements. Cash planning and investment of surplus funds into highly profitable assets will magnify the businesses capital hence growth of the firms.

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