



**Financial Distress in Small and Medium Enterprises of Uganda
a case of 20 Selected Small and Medium Enterprises of Kampala
District**

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ABSTRACT

Financial Distress in Small and Medium Enterprises (SMEs) is a common phenomenon in both developed and developing countries which has been a subject matter of policy makers, professionals and government. Although SMEs contribute to the economy in the form of employment, supply of products and services by using indigenous technologies, social entrepreneurship, income generating activities and the like, they are found to be most vulnerable to macro-economic as well as internal management crises. Consequently, they fall into financial distress. In view of that, this study has been undertaken aiming at identifying the causes of financial distress in Uganda using a case study of Kampala District. The study has employed qualitative, financial and statistical techniques for analyzing the data collected for the study. The study has examined the degree of financial distress and finds that majority of the sampled SMEs are financially unsound. Besides, the study also finds that fund management and credit crises, poor accounting system, poor financial control, poor productivity and profitability and management succession are the most important causes of financial distress. The study has finally come out with some strategic and policy related measures such as: having proper financial planning by undertaking both financing and investment program according to financial planning, keep all records of financial transactions in a system way, internal audit to restore effective financial control, have an effective management system as well as skilled manpower to prevent SMEs from the exposure to financial and operating risk.

The study recommends that financially distressed SMEs should identify ineffective areas in their management and operations which should be restructured immediately to restore financial soundness.