MAKERERE UNIVERSITY

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES (COBAMS)

EXPLORING CHALLENGES AND OPPORTUNITIES OF REVENUE BASED FINANCING (RBF) FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN UGANDA: A CASE STUDY OF THE SOCIAL INNOVATION ACADEMY (SINA) PURPOSE POOL IN MPIGI DISTRICT

BY

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A RESEARCH PAPER SUBMITTED TO THE SCHOOL OF BUSINESS, COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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DECLARATION

I, David Kawaida, do hereby declare that this research report is entirely my original work and has never been published or submitted for any academic award in any institution before. All references made to the work of other people have been duly acknowledged.

Signed: ………………………………. Date: ……………………………………….

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APPROVAL

This is to certify that this research report entitled "Exploring Challenges and Opportunities of Revenue-Based Financing (RBF) for Small and Medium-Sized Enterprises (SMEs) in Uganda" has been produced under my guidance and supervision and is now ready for submission to the university with my due approval.

Signed: ………………………………………………. Date: ………………………………….

MR. KINTU HUSSEIN

DEDICATION

To my family and friends, whose steadfast support and encouragement have been the driving force behind my perseverance throughout this academic journey. Your unwavering love and faith in me have served as my greatest source of inspiration.

To my supervisor, whose guidance, patience, and expertise have been invaluable throughout this research process. Your mentorship has profoundly influenced this work and contributed significantly to my academic development.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The study explored the challenges and opportunities of RBF for SMEs in Uganda, focusing on the SINA Purpose Pool (SPP) as a case study. The purpose was to analyse RBF as an alternative financing option, evaluate its mechanism, and assess recipient SMEs' experiences to provide insights for broader application. The study was guided by the research objectives of assessing RBF's applicability, identifying challenges, and proposing recommendations for its enhancement.

The research used qualitative design using structured questionnaires targeting SME owners within the SINA community.

Findings reveal key opportunities, as businesses exhibit traits favourable for RBF uptake, including formalization, possession of active bank accounts, and financial record-keeping, which enhance credibility with investors. Many SMEs demonstrated repayment capacity through strong revenue growth projections and operational discipline. Additionally, RBF funds were expected to support revenue-generating activities such as technology upgrades and production scaling, strengthening repayment ability. Despite limited awareness, interest in RBF is growing, with many SMEs willing to recommend it to peers.

However, adoption faces barriers, including high repayment costs, limited awareness, and concerns over revenue-sharing mechanisms. Cash flow constraints and misaligned RBF terms further reduce viability for certain SMEs, while investor concerns over financial transparency create monitoring challenges.

The study recommends targeted education campaigns, flexible repayment terms, and trust-building mechanisms to foster transparency. Expanding RBF availability and positioning it as an alternative to grant funding could amplify its adoption. Further research should examine RBF's long-term impact on SME performance, sector-specific applicability, risk management by providers, and policy frameworks to enhance its viability as a financing model

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter introduces the challenges of securing finance for Small and Medium-sized Enterprises (SMEs) in Uganda, highlighting the challenges associated with traditional funding sources and the potential of Revenue Based Financing (RBF) as a viable alternative. It focuses on the Social Innovation Academy (SINA) and its Purpose Pool (SPP) initiative, which aims to extend this form of funding to early-stage and growing SMEs. The sections covered in this chapter include a detailed problem statement, the research objectives, an outline of the study's scope, and the significance and justification of the research.

1.1 Background of the Study

SMEs in Uganda have a substantial impact on the country's economy. According to the United Nations Trade and Development (UNCTAD), around 1.1 million SMEs contribute to 80% of the country's Gross Domestic Product (GDP) and represent 90% of its private sector (UNCTAD, 2022). The Uganda Investment Authority (UIA) further notes that SMEs generate over 80% of manufactured output and account for about 90% of the entire private sector, employing over 2.5 million people (UIA, 2016). Additionally, a recent report from Uganda Bureau of Statistics (UBOS) details that SMEs contribute over 20% of Uganda's total GDP and provide employment for about 45% of the labour force (UBOS, 2019).

Despite their economic significance, SMEs encounter substantial obstacles in accessing financing, which is a major impediment to their development and expansion, as reported by various publications (FSD Uganda, 2015; MTIC, 2015; MoFPED, 2017). With few alternatives to costly conventional financing methods such bank loans, these businesses face limitations on their profitability, their ability to satisfy working capital requirements, and their overall growth potential (Turyahikayo, 2015; Nuwagaba, Nyende, & Namanya, 2021).

The emergence of RBF presents a promising solution to these financial challenges. RBF is an innovative and relatively novel funding mechanism that has gained prominence in recent years. Known also as revenue sharing, royalty financing, or revenue-based investing, RBF operates similarly to a structured loan but with unique features. Businesses receive capital - either as a one-time payment or in phases - and agree to repay a percentage of their future monthly revenues, typically ranging from 2% to 10%, until a predetermined sum is repaid. This sum often amounts to 1.2 to 3 times the initial investment over a term usually spanning three to five years (Founders First Capital Partners, 2023).

Despite being perceived as a relatively novel financing mechanism in today's market, revenue-share agreements and royalties have historically been used to finance ventures across various industries, including early 20th-century oil exploration and sectors such as pharmaceuticals, cinema, and music. The adoption of RBF for funding technology startups gained momentum in the 1990s, demonstrating significant returns and comparative performance within the alternative assets industry, and more recently, the tech industry has seen a proliferation of RBF transactions (Berntha, 2019).

Compared to conventional debt and equity financing, RBF offers several advantages. Its repayment terms fluctuate with business revenue variations, alleviating the burden of fixed payment obligations that could surpass the company’s earnings capacity. Furthermore, entrepreneurs maintain complete control over their businesses, avoiding the equity dilution typically required by venture capital firms, which seek substantial returns and management control.

According to Vance (2005), the nature of business models suitable for RBF is critically assessed by investors before committing capital. Consequently, companies that are in their post-revenue stage and capable of generating consistent monthly recurring revenues are considered the most suitable. RBF providers, specializing in innovative funding for businesses at various developmental stages, base their investments on a percentage of the company's future revenues, creating mutually beneficial agreements aligned with business success. These providers often employ modern technologies, such as Artificial Intelligence (AI) and machine learning (ML), to streamline funding processes, significantly reducing the time required to secure capital (Flow Capital, 2023; Round 2 Capital, 2020).

The Cambridge Centre for Alternative Finance (CCAF) reported that alternative finance firms provided over $305 billion in financing in 2018, with significant contributions from the United States, the United Kingdom, and China. Although the African market had the lowest volume, it displayed substantial growth, reaching $209 million between 2017 and 2018. Notably, Nigeria emerged as the primary recipient of RBF within Africa (CCAF, 2020).

The case study of this research are SMEs that have received financing through the SPP, an initiative created by SINA to address the funding challenges faced by early-stage and growing SMEs in Uganda. The SPP leverages RBF where businesses repay a set percentage of their monthly revenue, in this case, 5%, until they reach a repayment total equivalent to 1.5 to 2.5 times the initial investment. The model suits the fluctuating revenue streams typical of early-stage SMEs, providing a flexible and entrepreneur-friendly financing option (Relevant, 2024).

Founded in 2014 and based in Mpigi district, Uganda, the SINA is a non-governmental organization (NGO) dedicated to addressing educational and employment challenges in Africa. SINA promotes self-organized learning environments that enable marginalized youth and refugees to become social entrepreneurs. This initiative not only facilitates the creation of social enterprises that benefit both society and the environment but also fosters the development of essential skills and mindsets for sustainable change (SINA, 2024).

SINA's mission is to transform the lives of disadvantaged youth across Africa by equipping them with the capabilities needed to innovate and thrive within self-sustaining communities. These communities act as support hubs where individuals can learn, innovate, and devise practical solutions to local social and environmental issues. The organization's vision is to establish a regenerative and responsible movement across the continent, aiming to build a network of communities and social enterprises that drive socio-economic development. SINA has significantly impacted the region, having established over 80 social enterprises within 12 communities, affecting more than 1 million lives and earning international acclaim for its contributions.

Despite these achievements, SINA's social enterprises often face significant challenges in securing affordable financing due to their small scale, early developmental stage, and operational hurdles.

In response, SINA introduced the SPP, an innovative financial initiative aimed at closing the funding gap for early-stage and growing SMEs in Uganda.

The cost of finance increased significantly globally due to governments tightening monetary policy with the median interest rate for SMEs rising steeply by 1.1% in 2022. Concurrently, SME loan applications declined by 2% during this period, while collateral requirements increased by 1.1%. Meanwhile, Venture Capital (VC) financing declined sharply by 16% in 2022 after a steep growth of over 60% in 2021 (Chaoui, 2024).

A recent survey by the International Finance Corporation (IFC) in 2021 found that the demand for credit by SMEs in Uganda is approximately UGX 31.4 trillion (approximately USD 8.8 billion). However, a significant gap remains as many SMEs cannot access formal financial services due to high collateral requirements and stringent loan conditions, with a mere 10% gaining access to a formal line of credit and the majority relying on informal inadequate sources such as savings groups, family, and friends. Additionally, the report indicates that approximately 70% of all SMEs in Uganda have unmet credit needs.

Among the SINA SMEs, 74% of the 48 actively reporting enterprises had difficulties in obtaining bank loans despite these being the most readily available financing option. Many of these enterprises operate on a small scale, typically employing between 5 to 12 people, and have not been active for more than five years. Revenue fluctuations are common, often experiencing sharp declines due to reliance on grants and short-term investments. Institutional lenders frequently cite inadequate collateral, poor financial track records, and insufficient management as barriers to providing loans. Consequently, these enterprises primarily rely on grants and retained earnings, which are often insufficient for sustainable growth (FSD Uganda, 2018).

To bridge the financing gap for businesses started through its programs, SINA has implemented several initiatives. Firstly, SPP not only provides the necessary capital to SMEs but also fosters a supportive community where successful entrepreneurs reinvest in new enterprises. The initial investments enable enterprises to purchase essential equipment and increase their production capacity to meet growing demand. Once the initial investment is repaid, the entrepreneurs gain shares in the Purpose Pool and participate in decision-making for future investments, creating a sustainable cycle of support and growth. This approach addresses the immediate financial needs of SMEs and builds a resilient and collaborative ecosystem (SINA, 2022).

Secondly, SINA assists SMEs in becoming investment-ready through comprehensive business and financial training, mentorship, and management support. The SINA Acceleration Program (SAP) is a critical component of this support structure, designed to scale the impact of social enterprises by building self-sustainable business models and fostering peer-to-peer learning and collaboration. In 2022, this program accelerated 24 social enterprises from seven different SINA communities. This acceleration process involves sharing best practices, exploring synergies between enterprises, and enhancing the financial sustainability of innovative solutions through partnerships with other organisations.

In addition to the SAP, SINA provides ongoing mentorship and training to its scholars, equipping them with essential skills in leadership, life coaching, facilitation, and effective communication. This holistic development approach ensures that entrepreneurs can effectively manage and grow their businesses. Furthermore, SINA connects these enterprises with alternative and innovative capital marketplaces, where angels, sustainable funds, corporates, NGOs, development agencies, and grant providers can potentially invest in them. By improving their financial health and operational capabilities, this support also helps the businesses meet the criteria for traditional working capital financing from banks, further expanding their financing options.

The effectiveness of the SPP's RBF model in Uganda remains largely untested, and the local market's reaction to this innovative financing model is uncertain. Introducing such a model involves inherent risks, particularly in markets without a strong track record of similar implementations. Investors face challenges such as the risk of business defaults, navigating the unfamiliar regulatory environment, information asymmetry, and assessing market risks accurately. Entrepreneurs, on the other hand, may struggle with revenue volatility, limited financial literacy, management skills, and access to market information.

However, the model presents significant opportunities: investors can benefit from high growth potential, market penetration, and positive social impact, while entrepreneurs gain from flexible repayment terms, preserving equity, and access to mentorship and business guidance. Additionally, there is the prospect of RBF being widely adopted as an alternative financing option for SMEs in Uganda, providing a more accessible and sustainable source of capital. The success and scalability of the SPP will therefore depend on meticulous monitoring, evaluation, and adjustment to meet the unique challenges and opportunities of the Ugandan market.

1.2 Statement of the Problem

Despite their significant contribution to economic development, SMEs in Uganda continue to encounter substantial obstacles in accessing capital. SINA enterprises, characterized by both profit and social goals and predominantly established by young entrepreneurs, face difficulties in securing suitable financing to initiate and expand their operations. These challenges include limited scale, absence of credit history, insufficient assets, and deficiencies in management and internal controls, as well as a general informality in their operations (IFC, 2021).

Given these constraints, traditional financing methods such as debt and equity are often impractical for SMEs. High interest rates and administrative fees associated with commercial bank loans, coupled with stringent creditworthiness criteria, have deterred these enterprises from pursuing conventional debt financing. According to a 2023 Bank of Uganda (BOU) report (BOU, 2023), commercial banks were charging interest rates ranging from 18% to 40% on loans by Q4 2023. Moreover, the small scale of these enterprises renders the cost and stringent requirements of listing shares on the Ugandan Stock Exchange (USE) an unviable option (EPRC Uganda, 2018).

SINA SMEs frequently rely on grants and retained earnings for their start-up and growth phases, but these grants often result in higher income from the grants themselves than from sales revenues, according to a 2023 SINA report. While grants help initiate business operations, they rarely lead to financial self-sustainability and can create a misleading perception of stability as funds are often spent on non-revenue generating assets. Additionally, grants' restrictive nature can divert enterprises from their core missions. To address these challenges, SINA introduced the SPP financing model using RBF, but its effectiveness in supporting early-stage and growing SMEs in Uganda remains uncertain, highlighting the need for a comprehensive evaluation of RBF's impact considering local economic conditions and challenges (SINA, 2021).

1.3 Purpose of the Study

This study aimed to analyse the challenges and opportunities of RBF as an alternative financing option for SMEs in Uganda. It sought to evaluate its mechanism and the experiences of recipient SMEs, providing insights for broader application in the country.

1.4 Research Objectives

The study pursued the following objectives:

1. To assess the applicability and viability of RBF to SMEs in Uganda.
2. Identify and analyse the challenges faced by SMEs with RBF.
3. To propose recommendations for enhancing RBF funding to SMEs in Uganda.

1.5 Research Questions

The research was guided by the following questions:

1. What challenges are associated with RBF financing for SMEs in Uganda?
2. What applicable and viable prospects does RBF present to SMEs in Uganda?
3. What recommendations can be made to stakeholders to enhance the efficacy of RBF in meeting the financing needs of SMEs in Uganda?

1.6 Scope of the Study

1.6.1 Content Scope

The content scope included an evaluation of the funding challenges faced by SINA SMEs in Uganda, and the benefits and weaknesses of using RBF within SPP's financing model. It also involved an evaluation of the impact of RBF on SME development and sustainability for enterprises that have received this type of funding, analysis of sentiments on its effectiveness, and recommendations for enhancing its efficacy in the Ugandan context.

1.6.2 Geographical Scope

The study was conducted in the Mpigi district of Uganda, focusing on the SINA SMEs that have received or are considering funding from the SPP. Mpigi was selected because it is the headquarters of SINA in Uganda and is home to the largest SINA community, which has produced more than 50 sustainable SMEs. Located in the central region of Uganda, Mpigi is known for its diverse economic activities, including agriculture, trade, and small-scale industries. The district's strategic location near the capital city, Kampala, facilitates access to markets and resources, making it a vital area for the development of SMEs.

1.6.3 Time Scope

The study assessed information about SINA enterprises and financing activities over a period of 5 years from 2019 to 2023. It was conducted over a period of 6 months, starting from May 2024, and concluding in October 2024. The timeline for the study was divided into several phases, including project initiation, literature review, data collection, data analysis, report writing, and presentation of findings. Each phase was allocated specific timeframes to ensure the successful completion of the research within the designated time frame.

1.7 Significance of the Study

The significance of this study lied in its potential to provide deep insights into the effectiveness and impact of RBF in the context of developing economies, particularly within Uganda. This research was crucial because it addresses several important aspects:

Understanding Financial Alternatives: It contributed to the broader understanding of alternative financial models like RBF which could offer viable solutions for SMEs that struggle with traditional financing methods.

Economic Development: By focusing on sectors such as circular economy, regenerative agriculture, and affordable healthcare, the study explored how innovative financing can support sectors that are essential for sustainable development and social welfare.

Policy and Practice Implications: The findings could influence policymakers and financial institutions to consider more flexible and inclusive financing models, potentially leading to regulatory changes or the development of new financial products.

Supporting Vulnerable Communities: Insights from this study could help tailor financial solutions that empower vulnerable groups, including those in refugee camps and rural areas, by providing them with the means to build sustainable businesses.

1.8 Justification of the Study

The justification for undertaking this study includes several key considerations:

Gap in Research: Despite the growing interest in alternative financing, there is a lack of empirical research on the application and impact of RBF in Uganda. This study aimed to fill this research gap by providing evidence-based findings on its challenges and opportunities.

Economic Impact: SMEs are crucial to Uganda's economy, providing jobs and contributing significantly to GDP. Understanding how RBF can facilitate their growth and sustainability is critical for economic planning and support.

Innovative Financing Needs: Traditional financing often fails to meet the needs of early-stage and small enterprises due to strict requirements and inflexible terms. RBF offers a potentially more suitable option, aligning the repayment terms with the businesses' revenue flow, which could revolutionize the funding landscape for SMEs.

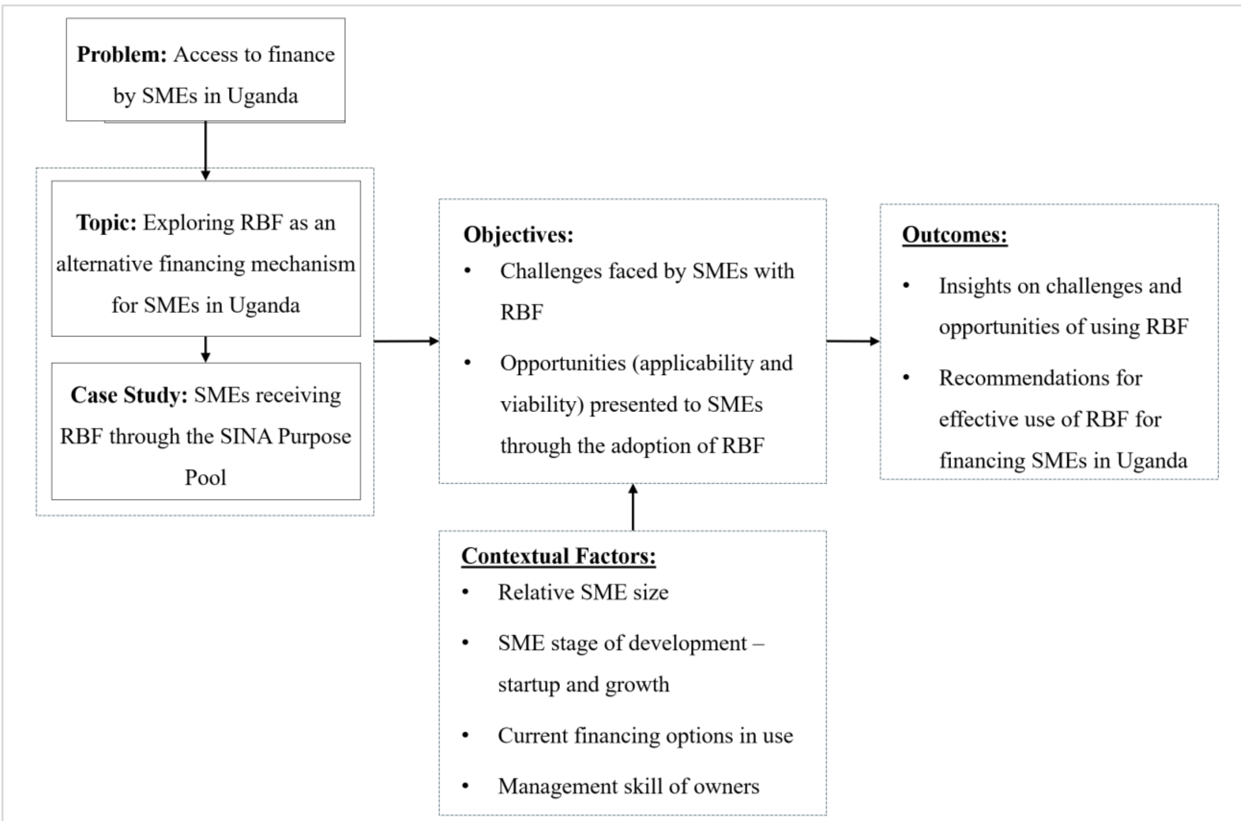
Direct Application: The results of this study could directly benefit SINA and similar organizations by providing actionable insights that could improve the design and implementation of RBF schemes, enhancing their effectiveness and reach.

1.9 Conceptual Framework

The study aimed to investigate the potential of RBF as a solution for SME financing in Uganda, with a focus on the SPP’s mechanism. Through an extensive review of the literature, data collection, and analysis, the study sought to understand the challenges and opportunities associated with this funding model and offer recommendations for its adoption.

The diagram below shows the framework adopted to guide the study.

Figure *Error! No text of specified style in document.***.1: Conceptual Framework for the Study***



1.10 Definition of Key Terms

Revenue Based Financing (RBF): A funding mechanism where businesses receive capital and agree to repay a percentage of their future revenues until a predetermined sum (usually a multiple of the initial investment, such as 1.5X or 2X) is repaid.

Small and Medium-sized Enterprises (SMEs): SMEs are businesses whose personnel numbers and financial metrics fall below certain limits. These limits vary by country and organization. For instance,

- **Uganda**: The Uganda Investment Authority (UIA) classifies SMEs based on employee count, total investment, and annual turnover. Micro enterprises have fewer than 10 employees, with investments and turnover under UGX 10 million. Small enterprises employ 10-50 people, with investments between UGX 10-100 million and turnover between UGX 10-50 million. Medium enterprises have 51-100 employees, investments ranging from UGX 100-360 million, and annual turnover between UGX 50-360 million (UIA, 2016).
- **European Union (EU)**: SMEs are defined as businesses with fewer than 250 employees and an annual turnover of less than €50 million, or a balance sheet total of less than €43 million.
- **United States**: According to the Small Business Administration (SBA), SMEs typically have fewer than 500 employees, although this can vary by industry.

Social Innovation Academy (SINA): An NGO in Uganda that promotes self-organized learning environments for marginalized youth and refugees to become social entrepreneurs. These environments, also known as SINA communities (or SINAs), help entrepreneurs start SME businesses.

The SINA Purpose Pool (SPP): An initiative by SINA in partnership with Relevant (a professional funds manager), that pools funds from development partners, corporations and NGOs and extend RBF financing to early-stage and growing SMEs in Uganda.

Venture Capital (VC): VC is a form of private equity financing provided by investors to startups and small businesses with high growth potential. Venture capitalists invest in these companies in exchange for equity, aiming for substantial returns. They often seek high valuations and eventual exits through IPOs or acquisitions to maximize their profits. This high-risk, high-reward investment strategy is driven by the expectation of significant growth and a lucrative exit, which compensates for the risks associated with investing in early-stage companies.

Return Multiple: A return multiple is a financial metric used by investors to measure the profitability of an investment. It is calculated as the ratio of the total capital returned from an investment to the initial amount invested. For example, a return multiple of 3x means the investor has received three times the original investment. This metric is commonly used in private equity and venture capital to evaluate the performance of investments and compare the potential returns across different opportunities.

Early-stage Startups: An **early-stage** refers to the initial phase in a startup's lifecycle where the company is typically in its infancy, often characterized by product development, market research, and initial user acquisition. During this phase, companies seek funding to transform their ideas into viable products and gain initial traction. Early-stage venture capital investors provide capital in exchange for equity, aiming for significant returns as the company grows and matures, often targeting high return multiples upon successful exits through IPOs or acquisitions.

Grant Funding: Grant Financing refers to a type of funding provided by governments, organizations, or foundations to support specific projects, initiatives, or businesses without the expectation of repayment. Grants are typically awarded based on the merit and potential impact of the project and can be used for various purposes such as research, development, education, and community projects. Unlike loans or equity financing, grants do not require repayment or relinquishing ownership stakes, making them an attractive funding source for non-profit organizations, startups, and small businesses.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter explores the literature related RBF and its implications for SMEs in Uganda, with focus on the SPP. It examines the theoretical foundations of RBF, contrasts it with conventional financing models, and reviews relevant empirical studies.

2.1 Key Concepts of the Study

This section provides definitions and explanations of terms relevant to the study, such as RBF, SMEs, financing, and challenges.

2.1.1 Revenue Based Financing (RBF)

RBF is a financing model where a business raises capital by selling a portion of its ongoing or future revenues to investors. As an alternative financing mechanism, it is commonly seen as an intersection between a bank loan, which typically requires collateral and fixed interest payments, and angel investment or VC, both of which entail relinquishing a portion of the company’s equity in return for the invested funds. For the most part, RBF is technically structured as a loan; however, returns for investors are directly tied to the ability of the business to generate steady or growing revenues.

According to a 2020 report by CCAF, aimed at establishing a common taxonomy and global status of the rapidly evolving alternative finance industry, financing alternatives fundamentally encompass investment, non-investment and lending models that have arisen independently of the established banking systems and conventional capital markets, and enable entrepreneurs and business raise capital commonly through online platforms or marketplaces. These platforms act as the enabler of alternative models to pool funds from a network of professional and individual investors and efficiently invest in qualifying entities with diverse needs and characteristics (CCAF, 2020).

The terms of an RBF contract are agreed upon in advance, and a business accepts an initial or gradual infusion of capital, which is repaid based on a fixed percentage of its monthly sales. Consequently, payments vary according to the company's performance. As repayments are tied to monthly revenue, they are flexible, adjusting to fluctuations in revenue: increasing during periods of higher sales and decreasing during periods of lower sales (Round 2 Capital, 2020).

Typically, investors will lend between one to three times the average monthly revenue of the business, considering the predictability of future revenue growth. Monthly payments can range between 1% percent and 10% of sales and continue until a predetermined amount - covering the principal and the interest - is repaid. The latter amount is set as a multiple of the initial investment (the cap) and can range between 1.2 to 3 times (1.2X - 3X) the amount disbursed. These payments continue throughout the agreed period, normally a term of 3 to 5 years, and at maturity, any pending payments will be due (Lighter Capital, 2019).

As an example of how an RBF investment might function, Baird et al. (2019), conducted a retrospective analysis involving hypothetical investments totalling over $1.5 million in 30 different companies. These companies, selected from the Village Capital Investments portfolio for their significant revenue growth, were analysed to project the outcomes if the original investments were made as revenue shares, assuming unchanged growth trajectories. The companies span various sectors such as financial technology (fintech), healthcare, agriculture, and education, all employing technology in customer interaction. At the outset, these companies were in the early stage, with revenues averaging around $330,000, though varying widely up to nearly $1 million. The terms of the revenue-share financing were set as a 5% annual payback until the returns to the investor tripled, conditional on the company generating profit during the repayment period.

RBF often finds itself in discussions alongside VC fundraising and bank loans. Additionally, there exists a prevailing misconception that RBF shares similarities with Islamic financing methods. This section describes how RBF compares with bank debt and equity from VC. Additionally, it demystifies the misconception that RBF is similar to Islamic financing.

Below, we compare RBF with conventional bank loans across the dimensions: funding process, collateral, repayment structure, funding speed and effective interest rate.

Funding Mechanism. RBF entails investors providing capital to a business in exchange for a portion of its forthcoming revenues. Repayments occur as a fixed percentage of revenue until a predefined total repayment sum is realised. In contrast, conventional bank loans encompass borrowing a fixed amount from a bank or financial institution, with the borrower being obliged to reimburse the loan plus interest over a designated period.

Collateral and Security. Generally, RBF does not require specific collateral, as repayment is tied directly to revenue. Investors rely on the business's ability to generate revenue to receive their returns. However, this also necessitates that the business maintains a healthy cash account balance to ensure that monthly repayments can be made as they fall due. In contrast, bank loans typically require collateral, such as real estate or assets, to secure the loan. This collateral serves as a guarantee for the bank in case the borrower defaults.

Repayment Structure. Repayments in the case of RBF are intricately tied to the ebbs and flows of revenue, thereby affording a level of flexibility particularly advantageous during periods of reduced activity. Elevated revenue streams expedite the repayment process. In stark contrast, conventional bank loans necessitate fixed monthly payments encompassing both principal and interest. This amalgamation can potentially exert undue pressure on cash flow during exigent circumstances. The borrower of a bank loan consequently bears the onus of repayment irrespective of business performance. Conversely, in RBF, the risk is distributed more equitably as repayment commitments adjust proportionally to sales. This mechanism results in lower repayment obligations during phases of diminished sales, fostering a shared risk between the business and the investor. According to Baird et al. (2019), on average, achieving a threefold return (3x) on an initial investment varying between $20,000 and $100,000, would typically take about 4.4 years.

Funding Speed. Generally quicker to secure due to less extensive due diligence processes depending on the financing company objectives and the type of recipient, with deals secured within three to four weeks (Round 2 Capital, 2020). Bank loans involve a more prolonged application and approval process compared to other types of lenders. While the specifics can differ, traditional banks might take longer to approve loans due to their thorough review processes which include assessments of the borrower's creditworthiness, business viability, and potential collateral. Commercial loans from banks often require comprehensive documentation and can involve a wait from several days to a few weeks depending on the bank's internal processes and the complexity of the loan application, a challenge that has been linked to customer dissatisfaction (Kinoni, 2018).

Effective Interest Rate. RBF is a patient and flexible financing option for businesses, thanks to its revenue-sharing nature. However, it is essential to recognize that it can be relatively more expensive than traditional bank loans under certain circumstances. This cost difference primarily arises because, although RBF does not involve a fixed interest rate, the percentage of revenue collected over time - until the return multiple (1.2X-3X) for investors is achieved - effectively functions as interest. In Uganda, the cost of bank loans typically ranges from 18% to 40%, according to the BOU (2023), in addition to administrative costs and penalties for non-repayment. In comparison, the costs associated with RBF can be significantly higher. Moreover, the uncertainty inherent in revenue fluctuations can also make RBF relatively more expensive during periods of strong sales. In contrast, bank loans continue to charge the same monthly repayment amount for fixed interest rate loans, regardless of the company's financial performance (Tata Capital , 2022).

RBF sternly contrasts with VC financing especially in ownership and control elements. Below we discuss the differences and potential similarities.

Funding Structure: VC firms invest funds in companies in return for equity ownership, thus becoming shareholders who are entitled to a share of the profits. These investors typically aim for substantial returns upon the company's exit, such as an initial public offering (IPO) or acquisition. The expected returns on investment can be significant, often targeting a multiple of the initial investment, with venture capitalists usually seeking an internal rate of return (IRR) of 20% to 35% (eFinancial Models, 2023). In contrast, Revenue-Based Financing (RBF) involves investors receiving a fixed percentage of the company's ongoing gross revenues until a predetermined amount - usually a multiple of the principal investment - is repaid.

Ownership and Control. In RBF, business owners retain full ownership and control, as RBF investors typically don't take equity stakes or demand board seats. VCs tend to acquire majority equity stakes in firms and often demand board representation, potentially affecting the decision-making and ownership dynamics.

Repayment and Return. VCs aim for significant returns, tied to company's valuation growth, upon exit through IPOs or acquisitions. The returns in RBF are such that investors receive a fixed percentage of revenue until their investment is repaid; thus, returns are linked to revenue growth.

Risk and Return. In VC raising, investors take higher risks, which could potentially lead to higher rewards. They invest with the expectation of substantial returns in the long term. In distinction, RBF investors share in revenue risk with the business.

Funding Amounts. In RBF, funding amounts are often tied to a percentage of average monthly revenue, limiting the potential capital infusion compared to VC which tends to provide larger funding amounts, making it suitable for startups requiring substantial investment.

Cost. VC financing, while a sought-after avenue for startups that also have expertise and industry connections, can be perceived as a relatively more expensive option compared to RBF due to the trade-off between equity ownership and potential returns. VC investors infuse capital in exchange for ownership stakes in the company, aiming for substantial returns upon exit. This equity dilution, though providing essential funding for growth, means that founders share a portion of future profits. Additionally, VC firms often require a high rate of return (realised mainly through existence) to justify the risks they take on early-stage companies.

Preferred Businesses. VC and RBF exhibit distinct preferences in terms of the nature of companies they are inclined to support. VC firms are particularly drawn to startups with high-growth potential and disruptive business models. These companies often operate in technology-driven sectors, seeking rapid expansion and substantial market presence. VC investors seek businesses with scalable products or services that can capture a significant market share and deliver substantial returns upon exit, such as through an initial public offering (IPO) or acquisition.

Conversely, RBF is better suited for businesses with stable and predictable revenue streams. RBF investors generally prefer enterprises that display financial stability and can sustain regular payments tied to their revenue. Companies that might not meet the high-growth criteria but have a dependable customer base, established products or services, and stable cash flows are more attractive to RBF investors. This financing model supports companies with steady growth paths by aligning repayments with their revenue performance rather than solely focusing on rapid expansion potential.

RBF and Islamic Finance represent two distinct financing frameworks that cater to different principles and needs. While both profit sharing in Islamic finance and revenue sharing in RBF involve sharing financial outcomes, they differ in their basis, structure, risk-reward mechanisms, and implications for ownership.

RBF is a contemporary financing model where investors provide capital to businesses in exchange for a share of future revenues. This model is not explicitly rooted in religious or ethical considerations and is structured around revenue-sharing, often involving fixed percentage repayments tied to a predetermined repayment cap.

In contrast, Islamic Finance adheres to Sharia principles, which are derived from Islamic law. This framework prohibits the payment or receipt of interest (*usury*) and promotes ethical financial practices. Instead of interest-bearing loans, Islamic Finance employs concepts such as *Mudarabah* (profit and loss-sharing), *Musharakah* (partnership), and *Ijarah* (leasing). The focus is on risk-sharing and promoting socio-economic justice (Gait & Worthington, 2007).

RBF's primary objective is to provide flexible financing to businesses based on their revenue performance, without imposing strict religious guidelines. Islamic Finance, however, is a financial system guided by Sharia principles, emphasizing ethical conduct and adherence to specific rules and prohibitions. The choice between RBF and Islamic Finance depends on a company's financial requirements, cultural considerations, and alignment with either a revenue-sharing or Sharia-based framework.

Globally, RBF was reported to be valued at $904 million in 2019, and it is expected to surpass a $38 billion valuation by 2027, representing a CAGR of nearly 60% during this period (Verified Market Research, 2022). According to the report, the market is currently dominated by the North American region, with the United States of America (USA), Canada and America emerging as the leading recipients of this form of capital.

According to a 2020 inaugural report by the CCAF, in 2018, RBF was ranked 14th (from 11th in 2017) among 16 other alternative funding methods, with a modest volume of only $398 million, representing a negligible 0% share of the global alternative financing market. Conversely, during that year, the dominant sector was peer-to-peer (P2P)/marketplace consumer lending, boasting an impressive $195 billion, accounting for a substantial 64% market share. The USA was the leading market for RBF with $250 million in value, accounting for 0.4% market share of the country alternatives market share and a growth of 2442% from 2017. The leading alternative financing mechanism in comparison was P2P/marketplace consumer lending at $25 billion, a 73% market share of the USA market (CCAF, 2018).

According to Baird et al. (2019), RBF has gained popularity in the USA due to structural failures in the efficient allocation of capital. For instance, over 81% of entrepreneurs in the USA fail to access a bank loan or VC financing. Furthermore, it is reported that only three states in the USA attract half the world's VC financing, leaving small businesses in other states underserved. In addition, Fialkow & Ayers (2023), recognize the growing RBF trend and assess the legal implications in USA states like Virginia, Utah, New York, and California which include the requirement of RBF providers to register with authorities, disclosure of repayment terms, among others.

Second in the RBF market ranking is Europe and the UK with a combined value of $104 million in 2018 from just $1.8m in 2017. Still, P2P/marketplace consumer lending emerged as the leading method at almost $ 3 billion.

Advancements in technology and shifting customer preferences have transformed the way businesses are established and operated. For instance, the emergence of the "as-a-service" business model has allowed intangible assets to play a significant role in generating substantial value for companies. Despite these changes, the approaches to funding innovative enterprises have lagged. As a result, there is a growing inclination toward RBF financing as a viable and more appropriate substitute for conventional methods.

Despite negligible traces of the financing form in Uganda, the establishment of a ready market for alternative capital will attract RBF research and development, implementation and eventually growth of the model. This is in addition to a shift in flows into the country from leading destinations for fintech investment such as Nigeria, Egypt, and South Africa (KPMG, 2022).

However, the market will have to overcome major challenges and limitations of the model and other alternatives, which include legal and regulatory shortfalls (CCAF, 2020).

2.2 Theoretical Review

This paper draws on three theoretical frameworks to explain the mechanisms, application, viability, as well as the challenges and opportunities associated with RBF for SMEs in Uganda.

Central to this discussion is the Pecking Order Theory, which was introduced by Myers and Majluf (1984). This theory proposes a hierarchy in firms' preferences for financing sources, where internal funds like retained earnings are the most preferred, followed by debt, and finally, equity as the last resort. RBF fits into this hierarchy as an innovative alternative that lies between debt and equity financing. For SMEs in Uganda, the application of this theory is evident as many SMEs seek non-dilutive financing options to avoid the constraints of traditional bank loans, which often require substantial collateral, and VC funding, which typically involves significant equity loss. RBF, therefore, offers a middle ground by allowing SMEs to raise capital without relinquishing ownership or incurring fixed debt repayments, making it particularly relevant for firms with limited collateral or high growth potential but low creditworthiness. In this sense, the model fits within the Pecking Order Theory as a favourable financing mechanism that minimizes risks associated with both debt and equity financing while maintaining operational control (Leary & Roberts, 2010).

Agency Theory, proposed by Jensen and Meckling (1976), examines conflicts of interest between principals (business owners) and agents (investors). In traditional equity financing, such conflicts often arise due to the divergent goals of investors and entrepreneurs. However, with RBF, these conflicts are mitigated as investor returns are directly tied to business performance, aligning the goals of both parties. Investors have a vested interest in the growth and success of the company since their repayments depend on the firm's revenue generation. This alignment fosters collaboration rather than conflict, creating a supportive environment that encourages operational growth and reduces the inefficiencies often seen in equity financing. By integrating Agency

Theory into RBF, the relationship between entrepreneurs and investors is more balanced and mutually beneficial, particularly in developing economies like Uganda where transparency and trust are crucial for business success.

Information Asymmetry, as first explored by Akerlof (1970), refers to the imbalance of information between parties in a transaction, often leading to market inefficiencies. This concept becomes particularly relevant in the context of RBF, where information asymmetry between SMEs and investors can affect contract design, risk assessment, and monitoring mechanisms. Two notable issues that arise from information asymmetry are adverse selection and moral hazard. Adverse selection occurs when one party - typically the SME - has more information about its financial health or business prospects than the other party, leading to inefficient investment decisions. For example, SMEs with poor revenue prospects may be more likely to seek RBF because they know that they are less likely to secure traditional financing due to their inherent risk, while investors are unaware of the full extent of this risk (Akerlof, 1970). This can result in investors unknowingly backing less profitable ventures, increasing the likelihood of suboptimal outcomes for the investors. On the other hand, moral hazard arises after the investment has been made and refers to the potential for SMEs to alter their behaviour in ways that are detrimental to investors. In the context of RBF, moral hazard can take the form of revenue hiding or under-declaration of earnings. Since investor returns are tied to revenue, an SME may under-report its actual earnings to reduce the amount of revenue shared with investors. This behaviour distorts the fair return on investment and can lead to significant trust issues between investors and SMEs. Such revenue hiding might occur deliberately or due to inadequate accounting practices, creating barriers to transparency and leading to financial losses for investors. Addressing moral hazard in RBF requires the development of robust monitoring mechanisms, transparent reporting, and clear contractual stipulations to ensure that earnings are reported accurately and shared fairly (Jensen & Meckling, 1976).

2.3 Discussion of Challenges Faced by SMEs with RBF

Limited Awareness and Understanding. Limited awareness and understanding of alternative financing mechanisms significantly hinder their adoption by SMEs. Enotu et al. (2015) determined that SMEs often opt for more traditional financing methods, such as bank loans, due to a lack of knowledge about alternative financing opportunities available. This problem is compounded by difficulties in accessing reliable information on these alternatives, further stifling their uptake. This trend is also consistent across the East African region. According to Migiro S.O., Wallis M. (2006), many SMEs in Kenya are unaware of existing alternative financing sources, including RBF, leading them to rely on informal funding or avoid external financing altogether, which constrains their growth potential. This challenge is further exacerbated inadequate government support towards the promotion of affordable financing alternatives. As postulated by Cumming, et al. (2014), in their study on VC and government policy in the U.S., noted that government policies often focus on fostering VC markets rather than alternative forms of financing like RBF. This focus on VC can crowd out awareness and understanding of other non-traditional financing models, including RBF, as these alternatives are not as prominently supported by policy interventions. Thus, while VC receives significant attention, the promotion of flexible alternatives such as RBF remains limited.

Moral Hazard and Adverse Selection. Moral hazard and adverse selection are significant challenges in alternative financing models like RBF, particularly for SMEs in developing regions such as East Africa. Russell, Shi, & Rowan (2023) identified that SMEs with unpredictable revenue streams often conceal income to delay repayments, eroding trust between financiers and businesses. While digital payment systems can help increase transparency, SMEs in underdeveloped areas, lacking robust digital infrastructure, struggle to fully benefit from RBF. Similarly, Rishabh & Schäublin (2021) found that many SMEs reduce reported digital sales after loan disbursement to avoid automatic repayment deductions, shifting transactions to cash or other non-digital methods. These behaviours complicate the balance between the flexibility of RBF and the need for consistent revenue visibility, posing challenges for the broader adoption of RBF in regions with weaker financial ecosystems.

Limited Operational Technology and Poor Record Keeping. Limited operational technology and poor record-keeping are frequently cited as challenges that hinder the effective uptake of RBF among SMEs. While digital payment systems can help mitigate issues like moral hazard and adverse selection by increasing transparency, many SMEs lack the necessary technological infrastructure to manage and report their finances effectively (Russell, Shi, & Rowan, 2023). This makes it difficult for them to capitalize on the advantages of RBF. Additionally, poor record-keeping practices and inadequate accounting systems further strain SMEs' ability to provide the transparency and financial data that investors require, complicating their engagement with RBF models (Russel, Shi, & Rowan, 2023; FSD Uganda, 2018).

Inadequate Legal and Regulatory Frameworks. Private Equity (PE) firms, commonly known to extend innovative capital such as RBF to SMEs in Uganda have historically been subjected to double taxation, which significantly discourages investment. According to a study by IFAD (2021), when an investee company in Uganda makes profits, it is first subject to a 30% corporate tax. If the company distributes dividends to a PE fund, a 15% withholding tax is levied on the dividends. The fund itself must then pay another 30% corporate tax on its income, and when it distributes dividends to its own investors, another 15% withholding tax is applied. This results in a highly inefficient tax structure, with effective tax rates reaching up to 65%, making PE funds unattractive to investors. However, recent reforms in the tax law have seen exemptions of such firms from double taxation, it is anticipated that more players will enter the Ugandan alternative lending market, thus offering more affordable financing options for SMEs (Verdant Capital, 2024).

Scarcity of RBF Lenders in Uganda. RBF capital providers are finance companies specialising in innovative capital for businesses across different sectors and developmental stages. They offer various alternative financing options, including VC, crowdfunding, peer-to-peer lending, among others. These firms are typically structured as investment funds that pool money from individual and/or institutional investors and are managed by professionals who charge interest and fees on the former’s earnings from lending activity; therefore, according to IFAD (2021), they operate better when incorporated as limited partnerships. In addition, they employ innovative applications and screening mechanisms, powered by digital platforms that utilize modern technologies such as artificial intelligence (AI) and machine learning (ML), significantly reducing the time it takes to acquire funds, with deals currently being completed between three weeks to three months (Flow Capital, 2023; Round 2 Capital, 2020). Despite the potential for these players to provide the much-needed affordable capital for SMEs, only a few operate in Uganda due to regulatory and other limitations. The country's financial landscape remains dominated by traditional financial institutions such as banks and microfinance lenders, with relatively few specialised alternative finance providers operating in the market. This limited presence of these lenders restricts the availability of this flexible financing options for SMEs.

Revenue Uncertainty. Revenue uncertainty presents a significant challenge for SMEs when seeking RBF. According to Zhang et al. (2020), inconsistent revenue streams, particularly in volatile markets, make it difficult for SMEs to accurately predict cash flows, leading to increased risk for investors. This revenue volatility is a key concern for RBF providers, who prefer businesses with stable and predictable income to mitigate financial exposure. In markets like Uganda, where SMEs face revenue fluctuations due to factors such as seasonality and economic instability, securing RBF becomes more challenging. As a result, revenue instability often limits the accessibility of RBF to SMEs, as investors tend to prioritize lower-risk ventures with more predictable earnings (Flow Capital, 2023). According to

Higher Cost of Capital than a Bank Loan. While RBF offers non-dilutive capital and repayment flexibility, it can be a more expensive option in the long term compared to traditional bank loans. RBF lenders expect return multiples as high as 2.5x the original investment over the duration of the financing period (Baird et al., 2019). This high cost of finance, while manageable for businesses with strong cash flows, can place significant pressure on smaller or lower-margin firms. The high effective interest rates associated with RBF, driven by its revenue-tied repayment structure, can erode profitability and impede growth over time, making it less viable for SMEs that are not able to sustain high revenue growth.

2.4 Applicability and Viability of RBF to SMEs

While RBF offers notable advantages, its applicability and long-term viability depend on several factors, including the stability of the provider's funding process, SME's revenue stability and the sector in which the business operates, lender's initial investment cap, and the financial health of the firm and transparency.

Funding Process. The process of securing RBF capital typically involves four major steps: investment screening, term sheet negotiation, due diligence and investment appraisal, and final legal and funding agreements (Flow Capital, 2023). These stages mirror those of more traditional financing methods, but they are generally less stringent. For example, during the initial screening phase, borrowers are evaluated based on their revenue potential rather than traditional collateral. This opens the door for SMEs that may lack tangible assets to access financing. Following a term sheet agreement, due diligence is performed to assess the company's historical performance, projected revenues, and overall operational health, leading to a final decision on funding (Flow Capital, 2023).

Revenue Stability and Industry Suitability. RBF's applicability is most prominent in sectors with stable and predictable revenue streams. According to Mazengera H. (2017), the portion of revenue dedicated to repaying RBF loans is critical for determining the risk of default; as this proportion approaches unity, the default likelihood increases, indicating all revenue is being used for repayment. Technology-intensive sectors like SaaS, with high gross margins and recurring revenues, are generally well-suited for RBF because of their ability to generate consistent cash flow (Baird et. al., 2019). For these businesses, the repayment model - based on a fixed percentage of top-line revenue - works effectively, allowing them to match repayments with income cycles. In contrast, industries like manufacturing, trading and agriculture, which often operate with narrow margins and face substantial working capital needs, may struggle to accommodate RBF repayment obligations. The inherent volatility and the need for larger upfront capital investments make it difficult for these businesses to sustain growth while adhering to revenue-based repayments.

Lending Caps and Capital Adequacy. According to Baird et al. (2019), another factor influencing the applicability of RBF is the cap on lending, which is often set as a multiple of the SME's prior annual revenue. For example, lenders might offer up to 2 times the previous year's revenue. While this is beneficial for SMEs with strong revenue growth, it may limit the capital available to businesses generating lower revenues. For SMEs with modest income, the limited capital may fall short of their growth or operational needs, making RBF less viable as a financing option compared to other forms of debt or equity that offer larger sums.

Transparency and Financial Reporting. The viability of RBF also hinges on the SME's ability to maintain transparency in financial reporting. Lenders often require that all transactions, including payments and receipts, be processed through a system they provide to closely monitor revenue and ensure accurate repayments. SMEs with insufficient financial infrastructure or those that are reluctant to disclose detailed financial data may find this requirement a significant barrier. Furthermore, the added complexity of adjusting to new reporting systems can be a deterrent for smaller firms without robust accounting practices, reducing the applicability of RBF to those SMEs that cannot meet these transparency requirements (Russel, Shi, & Rowan, 2023).

Financial Flexibility and Capital Structure. The applicability of RBF is particularly relevant for SMEs in Uganda, where financial constraints are significant. According to Turyahebwa et al. (2022), SMEs in Uganda typically face high collateral requirements and interest rates, creating barriers to accessing traditional debt financing. In such an environment, RBF becomes a preferred option because it aligns with the Pecking Order Theory, minimizing the risks associated with both debt and equity financing. SMEs in Uganda, with their limited financial flexibility, benefit from RBF as it offers a non-dilutive financing solution, allowing them to raise capital without sacrificing ownership or assuming the risks of long-term debt obligations. This makes RBF particularly viable in an economy where access to capital is constrained by systemic gaps in the financial system. For these SMEs, RBF helps to mitigate the pressures of equity dilution and collateral-intensive debt financing, making it an attractive alternative for sustainable growth.

Potential for Equity Conversion. In some RBF agreements, lenders include provisions allowing for the conversion of the loan into equity if the targeted return multiple is not met by the end of the repayment period. This can create concerns for SMEs that are wary of ownership dilution, particularly if they are unable to generate sufficient revenue to meet repayment obligations. The possibility of relinquishing equity at the end of the term could add to the entrepreneur's reluctance to opting for RBF, especially if they prioritize maintaining control over their operations (Flow Capital, 2023).

2.5 Discussion on how to Enhance RBF Funding to SMEs

Establishing an Enabling Environment through Policy and Regulatory Reforms. Creating an enabling environment for alternative financing mechanisms for SMEs such as RBF requires targeted legal and regulatory reforms to eliminate existing barriers and promote investment. According to a study by IFAD (2021), one of the major obstacles to attracting capital inflows into Uganda is the lack of specific regulations for alternative financing, such as PE firms. For RBF to be successful, the government must adopt regulatory frameworks that support alternative investment funds, ensuring they are not subjected to the double taxation that has historically discouraged foreign capital firms in this sector from entering the Ugandan market. In addition, IFAD (2021) also recommends amending the Partnership Act to allow private equity funds to register as limited partnerships, a structure that is more tax-efficient and suitable for these funds. It also suggests that the Capital Markets Authority (CMA) develop private equity-specific regulations to increase investor confidence and provide clearer operational guidelines for private equity funds, and that the Uganda Retirement Benefits Regulatory Authority (URBRA) should temporarily adjust its investment guidelines to allow pension funds to invest in foreign-domiciled private equity funds that focus on East African companies, increasing the available capital for high-growth SME.

Business Development Support and Capacity Building. While financial resources are often considered the most important resource for SMEs, as determined by Javed et al. (2011), significant capacity gaps in effective business development, value delivery, and financial management practices among many SMEs pose a serious threat to the repayment of alternative finance loans, such as RBF. According to Andrea and Miguel (2017), complementary mechanisms are crucial in improving SMEs' operational and financial management capabilities. These services can include financial literacy programs, mentoring, and operational efficiency training, which equip SMEs to manage funds more effectively and position themselves for growth. By strengthening their internal management structures, SMEs become more likely to deliver sustainable returns, making the financing arrangement more attractive to both SMEs and investors alike.

Taylor-made RBF Contracts for Different SMEs. An essential strategy for enhancing RBF funding for SMEs involves tailoring RBF contracts to the specific needs and circumstances of different-sized businesses potential in varied industry verticals. According to Bartlett (2021), small businesses have varying survival mechanisms, such as revenue resiliency, labour flexibility, and the ability to manage committed costs, which play a critical role in their response to economic shocks. He further notes that microbusiness, with lower labour flexibility and higher risks from fixed costs, benefit significantly from financing models like RBF, which offer flexible repayment terms directly tied to business performance. The study emphasizes that financial support programs must be customized to meet the unique challenges of small businesses, especially those with limited access to traditional financing. Trade-offs in RBF contracts for different businesses include revenue share percentages, initial investment size, relaxation of conditions based on management capacity or risk profile, among others (Relevant, 2024).

Use RBF as a Complementary Financing Option to Bank Loans. To effectively enhance RBF funding for SMEs, some scholars determined that businesses could consider RBF as a complementary financing option. According to João (2016), RBF can be particularly beneficial for SMEs when traditional financing options like equity and debt are not feasible. Although RBF tends to be more expensive than bank loans, it is generally more affordable and less risky than equity financing. João notes that this balance of cost and risk makes RBF an attractive option for SMEs that need to maintain cash flow flexibility while avoiding ownership dilution. Furthermore, Foster and Moses (2022) recommend the use of blended funding models, which combine both public and private financial resources to reduce risks and increase access to capital for SMEs. These models help SMEs overcome the stringent requirements of traditional financing by allowing them to leverage a mix of resources, enhancing their overall financial stability and enabling growth.

Equity Conversion Option. To further enhance RBF funding for SMEs, incorporating equity conversion features into RBF contracts can offer significant advantages. According to Heyden (2020), revenue-sharing contracts serve as a more effective financing option in situations where equity financing is constrained by high levels of moral hazard. In such cases, traditional equity financing may not be suitable due to challenges such as information asymmetry and hidden entrepreneurial efforts. As the level of moral hazard increases, revenue-sharing contracts become a more attractive option because they better align the incentives of both the investor and the entrepreneur, encouraging the latter to exert more effort in reducing costs and improving performance. Heyden also suggests that in extreme cases of moral hazard, revenue-sharing contracts may be the only viable solution for financing SMEs, as they motivate entrepreneurs to focus on operational efficiency. However, by incorporating convertible features into these contracts, VCs can switch to equity financing once the level of moral hazard decreases. This hybrid approach allows for greater flexibility and enables VCs to transition to equity-based returns once the SME demonstrates reduced risk. Ultimately, this enhances the applicability of RBF in higher-risk environments and broadens the range of SMEs that can access financing through this model

Non-Lending Interactions. Enhancing RBF funding for SMEs can be achieved by fostering non-lending interactions between investors and businesses. Dominic et al. (2024) highlight that providing strategic guidance, operational support, and access to valuable networks can significantly contribute to the success of RBF agreements. These non-lending interactions enable investors to actively assist SMEs in improving operational efficiency, mitigating risks, and achieving revenue targets, benefiting both parties within the revenue-sharing framework. By going beyond simply providing capital, investors play a vital role in strengthening the business, ultimately increasing the chances of long-term success. Additionally, Dominic et al. (2024) recommends linking revenue-share repayments to the continued use of services for fintech-led capital providers, fostering a deeper, more sustainable relationship between SMEs and investors.

2.6 Literature Gap

The exploration of RBF as a novel and innovative alternative funding mechanism for SMEs in Uganda remains under-researched despite the growing recognition of its potential. Existing literature on SME financing in Uganda primarily focuses on traditional forms of financing, such as bank loans and government support programs which dominate the policy framework and financial support structures. Studies, such as those by Cumming et al. (2014) and others, point to the limited promotion of alternative financing models like RBF in developing economies, with most government policies oriented towards VC and loan financing.

While some research addresses the general challenges faced by SMEs in Uganda, such as economic instability, seasonality, and limited access to finance, Turyahikayo, 2015; Nuwagaba, Nyende, & Namanya (2021), non are RBF-specific. While there is generic research on alternative financing on developing, emerging and developed markets, such as CCAF (2020), there is limited emphasis on how RBF might be adapted or adopted in contexts like Uganda. Additionally, whereas moral hazard and adverse selection have been identified as key risks in alternative financing models, Russell, Shi, & Rowan (2023), there is scant analysis of how these risks manifest in the Ugandan SME sector, particularly in relation to RBF.

There is also a gap in the literature regarding the specific operational and structural challenges SMEs face when attempting to implement RBF within their financial ecosystems, including how these businesses navigate the complexity of consistent revenue visibility and digital adoption to meet the demands of RBF models.

These gaps emphasise the need for localised research to better understand the specific challenges and opportunities that RBF presents for SMEs in Uganda, particularly within the context unconventional lenders that are offering this funding, such as the SPP. The absence of comprehensive studies addressing both the theoretical frameworks and practical implications of RBF for Ugandan SMEs highlights the importance of further exploration of this financing model within Uganda's unique economic landscape.

2.7 Chapter Conclusion

In conclusion, the literature highlights the potential of RBF as an alternative funding model for SMEs in Uganda, but significant gaps remain in understanding its practical application. Existing research predominantly focuses on traditional financing models, leaving RBF underexplored, particularly in Uganda's context. Key challenges such as moral hazard, adverse selection, seasonality, economic instability, and inadequate digital infrastructure complicate its adoption, yet these issues lack comprehensive study. There is a pressing need for localised research to address both the theoretical and practical implications of RBF, particularly for innovative enterprises like those supported by the SINA, to better understand how this financing model can be adapted to Uganda's unique economic landscape.

CHAPTER THREE: METHODOLOGY

3.0 Introduction

This chapter outlines the methodology employed to explore the challenges and opportunities of RBF for SMEs in Uganda. The methodology ensures a focused study on the impacts and perceptions among enterprises that have been exposed to RBF.

3.1 Research Design and Approach

The study employed a qualitative research design to explore the views, experiences, and varying impacts of RBF on different enterprises, providing insights into the challenges and opportunities associated with this financing model. The qualitative approach is rooted in an interpretivist philosophical stance, which posits that reality is socially constructed and subjective (Bryman, 2016). This perspective is crucial for this study as it allows for an in-depth exploration of the personal and contextual meanings that SINA enterprises attribute to their experiences with RBF. By focusing on subjective interpretations, the research aims to uncover the diverse ways in which RBF influences operational strategies, decision-making processes, and overall business growth among these enterprises.

The design was ideal for exploring SMEs' subjective experiences with RBF, using flexible methods like semi-structured interviews and thematic analysis to capture diverse implementation approaches, motivations, and impacts (Silverman, 2017). This approach helped identify intangible factors such as trust and satisfaction. To ensure research rigor, strategies like triangulation and participant validation were used to enhance data accuracy and credibility (Creswell & Miller, 2000).

3.2 Study Population

The study population consisted of 70 SMEs associated with the SINA Purpose Pool, which have either received RBF or are in the process of applying for it. A representative sample was selected to ensure that a broad spectrum of experiences with RBF was captured, including those at different stages of the financing process. The rationale for choosing these segments of the SME population is grounded in methodological guidelines suggested by Creswell, who emphasizes the importance of clearly defining and justifying the selection of study populations in research to ensure that they accurately represent the scope of the inquiry (Creswell, 2014).

3.3 Sample Size Determination

The sample size was determined based on the principles of data saturation, which involves selecting participants until no new information or themes emerge from the data. To ensure a comprehensive exploration of the varied experiences with RBF, the study aimed for a sample size that represented 20-30% of the total population of 70 SMEs, or approximately 14 to 21 enterprises. This range was deemed sufficient to reach saturation, allowing for a thorough understanding of the challenges and opportunities associated with RBF. Given the focus on a specific financial intervention within a defined context, such as SINA's network of SMEs, this sample size was consistent with qualitative research best practices for ensuring depth and richness of data (Guest, Bunce, & Johnson, 2006).

3.4 Sampling Techniques

A purposive sampling technique was employed to select a representative sample from the pool of 70 SMEs associated with the SINA. This method allowed for the deliberate choice of participants who were able to provide rich, relevant, and diverse information. This technique is recommended for studies where the researcher needs to reach a targeted sample quickly and where sampling for proportionality is not the primary concern (Palinkas, et al., 2015). It is particularly effective in ensuring that the sample reflects the diversity of the population concerning the phenomenon of interest, which in this case included full recipients and SMEs that were in the process of receiving RBF.

In addition to purposive sampling, the study used snowball sampling to access a wider network of SMEs, particularly those that may not be initially reachable within SINA. This involved asking initial respondents to refer other SMEs that had engaged with RBF, which helped to uncover less accessible cases and ensured diverse representation of SMEs at various stages of financing. This complementary sampling method enhanced the depth and breadth of the findings, especially in capturing a variety of experiences with the RBF model (Atkinson & Flint, 2001).

3.5 Data Collection

3.5.1 Data Collection Methods

The study utilised a structured questionnaire with both closed and open-ended questions. Closed-ended questions facilitated the collection of data that was straightforward to analyse and compare, providing a quantitative-like structure that supported statistical insights where appropriate. Open-ended questions, on the other hand, allowed participants to elaborate on their experiences and perspectives, which offered deeper insights into the subjective impacts of RBF. This hybrid approach enhanced the comprehensiveness of the data collected, combining the strengths of quantitative and qualitative research techniques (Creswell, 2014).

Questionnaire

The questionnaire included both closed and open-ended questions to capture quantitative insights and qualitative reflections on the impact of RBF. Closed-ended questions, using formats such as Likert scales, facilitated comparison and statistical analysis, while open-ended questions enabled participants to provide detailed responses about their experiences. A pilot test was conducted to refine the questionnaire and ensure relevance to the local SME context (Rubin & Rubin, 2012). Both digital and physical formats were available to maximize participation.

Interview

Semi-structured interviews were planned only if the questionnaires failed to provide sufficient data, deeper insights were needed to validate findings, or respondents preferred this method. These interviews were intended to be used selectively, focusing on key stakeholders from SMEs to explore areas not fully covered by the questionnaire. Their flexible nature would have allowed for deeper exploration of emerging themes when necessary. However, this method was not employed.

Document Review

Similarly, a document review was planned in case certain aspects of the questionnaire were insufficient for validating or complementing the collected data. Key documents, such as financial reports, RBF contracts, and performance reviews, were to be analysed to provide objective evidence on the financial and operational impacts of RBF. This review was intended as a secondary measure to reinforce the findings where appropriate. However, due to the sensitive nature of financial records, only a limited review was conducted.

3.5.2 Data Source

Primary data was directly collected from the owners or managers of the SINA enterprises using the questionnaires. This approach ensured that data is gathered firsthand, reflecting the genuine experiences and opinions of the respondents regarding RBF. Secondary data was sourced from existing literature to provide a broader context and support the primary data findings (Creswell, 2014).

3.5.3 Data Collection Instruments

A self-administered structured questionnaire was used to collect primary data. This instrument facilitated an in-depth exploration of both the operational and strategic impacts of RBF on SINA enterprises. A pilot test was conducted to refine the questions, ensuring they are clear and effectively elicit the intended information (Rubin & Rubin, 2012).

The structured questionnaire covered several key themes, including operational changes after receiving RBF, challenges faced during the financing process, perceptions of flexibility and equity preservation, and the financial impact on revenue and profit margins. The open-ended questions allowed respondents to provide detailed narratives about their experiences, while closed-ended questions aided the gathering of quantifiable data on RBF's impact. These instruments were designed to capture both the qualitative richness of personal experiences and the quantitative aspects of business performance, offering a comprehensive view of RBF's influence.

3.5.4 Data Collection Procedure

The self-administered questionnaires were completed online, which allowed respondents to fill them out at any time and from any location with internet access. For participants who could not access the online version, physical copies were planned, albeit not required. Participants had a set period of at least three weeks to complete the questionnaires, with reminders sent periodically to encourage timely responses. This method was chosen for its efficiency in data collection and its ability to reach a broad participant base effectively (Dillman, Smyth, & Christian, 2014).

3.6 Data Quality Control

Data quality control is critical in qualitative research to ensure the accuracy, consistency, and credibility of data throughout its lifecycle, especially during collection, processing, and analysis. This process is essential for maintaining the integrity of the findings and ensuring that they accurately represent the researched phenomena (Creswell, 2014). To enhance the validity of the data, a pilot test included SMEs from a similar demographic to ensure that the questions are contextually appropriate for Ugandan businesses. Additionally, triangulation involved cross-referencing responses with available financial records and secondary data from existing literature, which enabled a multi-perspective analysis of the impact of RBF. This combination of sources allowed for a more robust and reliable data interpretation, mitigating any potential biases or misinterpretations from a single data source.

3.6.1 Validity

Validity in qualitative research is about confirming that the findings accurately reflect the data and the contexts from which they were drawn. Content Validity will be ensured by involving SINA Purpose Pool management in the development of the interview guides. This process involves reviewing the questionnaire to ensure they comprehensively cover the research questions and are aligned with the research objectives. Before conducting the full-scale study, the questionnaire was pilot tested with a small sample of participants. This step helped refine the questions, making them more understandable and relevant to the study's context (Maxwell, 2013).

3.6.2 Reliability

In qualitative research, reliability concerns the consistency and dependability of the study's approach:

Triangulation: To ensure reliability, multiple data sources and perspectives were used to corroborate findings. This may include comparing data from interviews, observations, and relevant documents.

Audit Trail: An audit trail was maintained to keep a detailed record of all research processes, decisions, and interpretations made during the study. This documentation will allow other researchers to follow the decision path taken by the study, thus enhancing reliability.

Member Checking: After data collection and preliminary analysis, findings were returned to participants to confirm the accuracy of the interpretation. This step provided an opportunity for corrections and further insights, thus enhancing the credibility and reliability of the data s(Lincoln & Guba, 1985).

3.6.3 Data Analysis and Presentation

The data analysis employed thematic analysis, a method well-suited for discerning patterns and themes across qualitative data (Braun & Clarke , 2006). This approach involved coding the data collected from the questionnaires to identify recurring themes and concepts, which were then analysed to construct a cohesive understanding of how RBF impacted SMEs within SINA.

3.7 Ethical Considerations

3.7.1 Informed Consent

Informed consent is a fundamental ethical principle in research that ensures participants are fully aware of the study's purpose, the procedures involved, potential risks, and their rights to voluntarily participate or withdraw at any time. This process respects participant autonomy and protects their rights, ensuring they engage in the study willingly and without any form of coercion. Consent was sought in writing, and the study’s purpose, data collection, usage, and sharing were clearly defined at the top of each page of the questionnaire. Additionally, questions did not solicit personally identifiable data or sensitive company information (Beauchamp & Childress, 2013).

3.7.2 Privacy

The right to privacy is essential, requiring that all data collection procedures respect the personal boundaries of participants. This study employed data anonymization techniques to remove any personal identifiers from the datasets, ensuring that the privacy of participants is maintained.

Additionally, methods like secure data storage and restricted access were used to protect sensitive information, in line with best practices for data security (Faden & Beauchamp, 1986).

3.7.3 Plagiarism

Maintaining academic integrity is crucial in upholding the quality and credibility of scholarly research. According to the Makerere University Academic Integrity Policy, plagiarism is strictly prohibited and is defined as the presentation of another person's ideas, processes, results, or words without giving appropriate credit (Makerere University, 2012). To avoid any instances of plagiarism, this study rigorously followed the university's guidelines for citing and referencing all sources of information. Every use of existing knowledge - whether paraphrased or quoted - was acknowledged and referenced in the text.

3.8 Limitations of the Study

This study provided valuable insights into the applicability and challenges of RBF for SMEs in Uganda, yet it was not without limitations. Firstly, the study primarily relied on self-reported data from SME owners, which may have been subject to biases such as overestimation of financial capacity or underreporting of challenges. This could have affected the accuracy of the findings, particularly in areas like revenue generation, repayment capacity, and perceptions of RBF.

Secondly, the sample size, though representative of the SME population engaging with or considering RBF at SINA, did not fully capture the diversity of SME sectors and geographic locations across Uganda. Sectors like agriculture and manufacturing, which are capital-intensive and operate in rural areas, might have had unique challenges and opportunities that were not thoroughly explored in this study.

Thirdly, the novelty of RBF in Uganda limited the availability of comprehensive secondary data and contextual insights. Much of the analysis relied on global literature and input from a relatively small pool of experienced RBF providers and SMEs familiar with the model. As a result, the findings might not have fully reflected the nuanced challenges and opportunities specific to the Ugandan financial ecosystem. Additionally, while the study identified key barriers such as high repayment costs and limited awareness, it did not extensively explore the perspectives of RBF providers, such as investors or institutions offering the model. Their insights could have added depth to understanding the operational and financial dynamics of implementing RBF in Uganda.

Lastly, the cross-sectional nature of the study meant that the findings provided a snapshot of the state of RBF for SMEs in Uganda at the time of research. It did not account for longitudinal changes in business performance or market conditions that could have influenced the viability and adoption of RBF over time. Future studies could address these limitations by incorporating longitudinal methods, broader sample sizes, and diverse stakeholder perspectives.

3.9 Chapter Conclusion

In this chapter, we outlined the research methodology employed to investigate the challenges and opportunities of RBF for SMEs associated with the SINA in Uganda. A qualitative research design was adopted, using semi-structured interviews and thematic analysis to capture the diverse experiences of SMEs with RBF. We employed purposive and snowball sampling to select a representative sample of enterprises. Data collection was carried out through structured questionnaires to ensure both qualitative and quantitative insights. The chapter also addressed the importance of ensuring validity, reliability, and adhering to ethical considerations throughout the research process. This comprehensive approach establishes a robust framework for evaluating the impact of RBF on SME growth and sustainability in Uganda.

CHAPTER FOUR: ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the analysis, interpretation, and discussion of findings based on the data collected from the questionnaire on RBF for SMEs in Uganda. The analysis focuses on key areas, including business demographics, RBF awareness, applicability, challenges, and opportunities, as well as suggestions for improving RBF the model.

4.1 Presentation of Findings

4.1.1 Response Rate

Table 4.1. 1: Response Rate for the Study Questionnaire

Item	Frequency
Study Population	70
Sample Size	21
Total Responses	29
Valid Responses	21
Response Rate	100%

Source: Primary data (2024)

Table 4.1:1 shows that, out of a study population of 70 and a sample size of 21, 29 responses were received, with 21 valid responses, yielding a 100% response rate. This exceeds the 60% threshold recommended by Fincham (2008), reflecting strong interest in the topic. The invalid responses were not included in the analysis.

4.2 Background Data

Key business characteristics - including the problems addressed, solutions provided, registration status, financial practices, and growth stages - were analysed. Data were collected on the year of establishment, employee size, financial record-keeping habits, and initial financing forms. These insights formed a foundation for linking business backgrounds and practices to their financing needs, enabling tailored solutions that addressed the unique circumstances of SMEs.

Table 4.2. 1: Showing Year of Commencement of Business Operations

Response	Frequency	Approximate Age (Years)
Before 2000	1	24+
2000–2005	2	19–24
2006–2010	2	14–18
2011–2015	3	9–13
2016–2020	9	4–8
2021–2024	6	0–3

Source: Primary data (2024)

Most businesses were relatively young, with a large portion falling within the age range of 4 - 8 years. The adjusted average, which excludes older businesses as potential outliers, suggests a strong presence of newer ventures actively seeking innovative financing solutions like RBF. This reflects the entrepreneurial dynamism and the appeal of flexible financing models for businesses in their formative stages.

As the SPP requires potential borrowers to formalize their businesses, respondents were asked whether their businesses were registered and, if so, when they registered with the Uganda Registration Services Bureau (URSB), the business registration entity, and the Uganda Revenue Authority (URA), the tax collection body, in line with Uganda's business formalization requirements (URA, 2024).

Table 4.2. 2: Showing URSB Registration Rate

Response	Frequency	Percentage (%)
Yes	18	78
No	5	22

Table 4.2. 3: Showing Year of Business Registration Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Before 2000	1	5.56
2000–2005	2	11.11
2006–2010	1	5.56
2011–2015	3	16.67
2016–2020	7	38.89
2021–2024	4	22.22

Source: Primary data (2024)

From tables 4.2.2 and 4.2.3, most businesses (78%) are registered with URSB reflecting a strong adherence to legal formalities among respondents. Among registered businesses, most registrations occurred between 2016 and 2020 (39%), followed by 2021 to 2024 (22%). Older registrations, particularly before 2000, accounted for only 5.56%, indicating that many businesses have formalized their operations relatively recently, potentially driven by growth opportunities or compliance requirements.

Table 4.2. 4: Showing URA Registration Rate for SINA SMEs

Response	**Frequency**	**Percentage (%)**
Yes	18	78
No	5	22

Source: Primary data (2024)

Similarly, table 4.2.4, most respondents (87%) indicated that their businesses are registered with URA and possess a Tax Identification Number (TIN). This demonstrates a high level of compliance with tax registration requirements, which is crucial for formal business operations and attracting RBF loans. However, 13% of respondents are not registered, potentially raising concerns for RBF investors.

Table 4.2. 5: Showing Bank Account Possession and Usage, Financial Records Maintenance and Possession of a Permanent Business Address Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Yes	20	87
No	3	13
Do you actively use the bank account for business transactions, such as payments and receipts		
Always	13	65
Sometimes	7	35
Never	0	0
Do you keep financial records for your business?		
Always	18	79
Sometimes	4	17
Never	1	4
Does your business have a permanent address (such as an office space or factory)?		
Yes	20	87
No	3	13

Source: Primary data (2024)

The results indicate a strong commitment to financial and operational formalization among respondents. 87% of businesses have a bank account, reflecting a high level of financial formalization, with 65% consistently using these accounts for business transactions, such as payments and receipts, and 35% using them occasionally. Similarly, 78% of respondents consistently maintain financial records, while 17% do so occasionally, and only 4% do not maintain records, indicating robust financial management practices.

Additionally, 87% of businesses reported having a permanent address, such as an office or factory, demonstrating operational stability. However, 13% of businesses without a bank account or permanent address highlight areas for improvement in financial inclusion and readiness for formal financing. These practices - financial recordkeeping, active bank account usage, and having a permanent address - are crucial for accessing formal financing opportunities such as RBF and building credibility with potential financiers.

4.3 Current Growth Stage and Expected Revenue Growth

As the RBF mechanism strongly favours businesses that are already generating revenue, with repayment being more manageable for those experiencing exponential revenue growth, according to Baird et al. (2019), respondents were asked to indicate their current business stage and their revenue growth outlook for the coming year. The results are shown in table 4.3.1 below.

Table 4.3. 1: Showing Current Growth Stage of SINA SMEs

Response	**Frequency**	**Percentage (%)**
Pre-revenue - Not yet generating income	1	4
Early-stage - Generating income but not yet profitable	10	43
Growing - Profitable but reinvesting in expansion	10	43
Mature - Stable and profitable with steady growth	2	9

Source: Primary data (2024)

Forty-three percent of the businesses were either in the early or growing stage, indicating they were already generating income. Only 9% of the businesses had reached the mature stage, while 4% were still in the pre-revenue stage.

Table 4.3. 2: Showing One Year Revenue Outlook for SINA SMEs

Response	**Frequency**	**Percentage (%)**
Less than 10%	4	17
10% - 25%	12	52
35% - 50%	3	13
More than 50%	4	17

Source: Primary data (2024)

Furthermore, according to table 4.3.2, most businesses (86%) fall into either the “early-stage” (43%) or “growing” (43%) categories. Only 9% of businesses are at the mature stage, while 4% are pre-revenue.

4.4 Number of Employees

To understand the scale of operations of SINA businesses and estimate the potential size of their RBF ticket, respondents were asked about the number of employees in their businesses. The responses were categorized based on UIA’s classification of enterprises in Uganda (UIA, 2016).

Table 4.4. 1: Showing Number of Employees Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
1 to 4 employees	8	35.0
5 to 49 employees	12	52.0
50 to 100 employees	1	4.0
More than 100 employees	2	9.0

Source: Primary data (2024)

Table 4.4.1 shows that most respondents were small enterprises, employing between 5 and 49 people, accounting for 52%. Following closely were micro-enterprises, which employ 1 to 4 people, making up 35%. Only 4% and 9% of respondents reported having 50 to 100 employees and more than 100 employees, respectively, indicating that larger businesses constitute a minority within the SINA ecosystem.

4.4 Start-up Capital and External Financing

To understand the businesses' financing backgrounds and how their experiences might shape their perceptions of RBF, respondents were asked about the type of financing they used to start their businesses. Based on an IFC (2021) study that found many Ugandan entrepreneurs rely on personal funds, as well as contributions from family and friends, to start their businesses, we further explored whether respondents had ever applied for external financing. For those whose applications were accepted, we inquired about their experiences with the financing sources. Likewise, for those whose applications were rejected, we asked them to specify the reasons for rejection. Overall, the data collected is depicted in table 4.4.2 below. These insights provide a clearer understanding of the challenges and shortcomings businesses face with various forms of financing.

Table 4.4. 2: Showing Source of Business Startup Financing Among SINA SMEs

Response	**Frequency**		**Percentage (%)**
Personal funds, or from friends and family	13		56.52
Grant	2		8.70
Loan (from a Bank, Microfinance, SACCO, or other institution)	4		17.39
Selling shares (such as from an Angel investor)	4		17.39
Other	0		-

Source: Primary data (2024)

The results show that personal funds or contributions from family and friends were the primary source of startup financing, accounting for 57% of respondents, followed by loans and selling shares at 17% each, and grants at 9%.

Table 4.4. 3: Showing External Financing Application, Acceptance and Rejection Rates Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Yes	17	74
No	6	26
If yes, was your application accepted or rejected?		
Accepted	12	71
Rejected	5	29

Source: Primary data (2024)

According to table 4.4.3, a significant portion (74%) applied for external financing, with 71% of applications being accepted, indicating a relatively high success rate.

Table 4.4. 4: Showing Challenges Faced with External Financing Sources

Response	Frequency	Percentage (%)
High interest rate	4	22
Short repayment periods	3	17
Inadequate collateral or security	2	11
Complex application process and delayed funds disbursement	6	33
Amount of funding offered was insufficient for my business	2	11
The capital providers wanted to take some of the business shares	1	6
Restrictions on funds usage	1	6
Unfavourable terms and conditions	2	11
Poor communication with funds providers	2	11
Other	0	0

Source: Primary data (2024)

Furthermore, according to table 4.4.4 above, those who secured financing, the most common challenges were complex application processes and delayed disbursement (33%), restrictions on fund usage (22%), and high-interest rates (22%).

Table 4.4. 5: Showing Reason for Rejection for External Finances

Response	Frequency	Percentage (%)
Lack of or inadequate collateral to secure the loan	4	80
Business not registered (with URSB, URA, etc.)	0	0
Limited revenues/sales	0	0
Lack of or insufficient financial records	0	0
Inadequate management capacity	0	0
Inadequate business planning	0	0
I did not get feedback from the provider	1	20
Other	0	0

Source: Primary data (2024)

Among the 29% whose applications were rejected, the primary reason was inadequate collateral (80%), with lack of feedback from the provider accounting for the remaining 20% as per table 4.4.5 above. These findings emphasize the importance of addressing collateral barriers, simplifying financing processes, and offering more flexible and accessible terms to support entrepreneurial growth. The above findings are in line with Turyahikayo (2015) conclusions on the challenges faced by SMEs in raising finance in Uganda.

4.5 RBF Awareness and Stage of Engagement

Given the novelty of RBF in Uganda, the study sought to understand the respondents' level of comprehension of this funding mechanism and whether they had engaged with its providers before. The results are shown in table 4.5.1 below.

Table 4.5. 1: Showing RBF Awareness Among SINA SMEs

Response	Frequency	Percentage (%)
Yes	10	43
No	13	57

Source: Primary data (2024)

The data reveals that 57% of respondents had not heard about Revenue-Based Financing (RBF) loans, while only 43% were aware of this funding mechanism. This indicates that RBF is still relatively unknown in Uganda. According to table 4.4.2 below, among those who were aware of RBF, the most common source of information was fellow entrepreneurs or businesses, accounting for 60% of responses. Workshops, conferences, and pitch events, as well as media channels like TV, radio, newspapers, and social media, each contributed 30%. In contrast, formal institutions such as banks, agencies, or NGOs, and personal networks like friends or family, accounted for only 10% each.

Table 4.5. 2: Showing Source of RBF Awareness

Response	Frequency	Percentage (%)
From fellow entrepreneurs or businesses	6	60
From friends or family	1	10
From an institution such as banks, agencies, finance companies, or NGOs	1	10
From workshops, conferences, conveners, or pitch events	3	30
From media – TV, radio, newspapers, or social media	3	30
From a call for application	0	0
Other	0	0

Source: Primary data (2024)

All respondents, including those who had heard about RBF and those who had not, were assessed on their comprehension of the RBF description provided at the beginning of the questionnaire and repeated at the top of each page. The results are shown in table 4.5.3 below.

Table 4.5. 3: Showing Understanding of RBF Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Extremely confusing	0	0
Slightly confusing	3	13
Neutral	2	9
Slightly clear	10	43
Extremely clear	8	35

Source: Primary data (2024)

A combined 78% of respondents rated their understanding as either "slightly clear" (43%) or "extremely clear" (35%). This suggests that the majority grasp the basic principles of the RBF model. A smaller portion of respondents indicated some difficulty with comprehension, with 13% rating it as "slightly confusing" and 9% maintaining a "neutral" stance. Notably, none of the respondents found the concept "extremely confusing," highlighting that the provided definition was generally effective in conveying the concept.

Table 4.5. 4: Showing Current Level of RBF Engagement Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Not interested in RBF financing	7	30
Considering applying for RBF financing	14	61
In the process of applying for RBF financing	1	4
Already received RBF financing	1	4

Source: Primary data (2024)

Additionally, according to table 4.5.4, most of the respondents (61%) submitted that they were considering applying for RBF financing, indicating strong interest and curiosity about this funding mechanism. A smaller proportion, 30%, were not interested, suggesting some resistance or lack of alignment with their current financing needs. Only 4% of respondents are currently in the process of applying for RBF financing, and another 4% have already received it. This indicates that while awareness and interest in RBF are growing, actual engagement and adoption remain low.

4.6 Attractive Features of RBF to SMEs

Respondents were asked to identify the aspects of RBF they find most attractive or suitable for their businesses. The question was closed with respondents having flexibility to choose more than one option. The results are presented in table 4.6.1 below.

Table 4.6. 1: Showing Attractive Aspects of RBF According to SINA SMEs

Response	**Frequency**	**Percentage**
Flexible repayment	17	45%
Retention of ownership	9	24%
Faster access to capital	6	16%
Free business readiness training and support	2	5%
No collateral required	9	24%
Other	0	0%

Source: Primary data (2024)

The most attractive aspect of RBF financing turned out to be flexible repayment, highlighted by 45% of respondents. This reflects the appeal of repayments tied to revenue, allowing businesses to pay more during profitable periods and less during slower periods. Retention of ownership and no collateral required were equally appealing, each cited by 24% of respondents, demonstrating the importance of maintaining control over business equity and avoiding the challenges associated with collateral-based financing. Faster access to capital was attractive to 16% of respondents, emphasizing the value of streamlined and efficient funding processes. Finally, 5% appreciated the provision of free business readiness training and support, indicating that while less critical, this added benefit is still valuable to some businesses.

In addition, to determine whether an RBF loan, if received, would be used for revenue-generating activities to enhance business growth and repayment potential, respondents were asked how they would utilise the loan. Likewise, the options were multichoice.

Table 4.6.2: Showing Intended Use of RBF Funds by SINA SMEs

Response	**Frequency**	**Percentage**
Purchase of land	2	6%
Rent	1	3%
Upgrading technology and equipment	14	45%
Purchase of raw materials	0	0%
Purchase of stock	4	13%
Payment of salaries and hiring more staff	2	6%
Sales and marketing	6	19%
Improve production capacity to match growing demand	9	29%
Other administrative costs (transport, airtime, etc.)	1	3%
Other	0	0%

Source: Primary data (2024)

According to table 4.6.2, upgrading technology and equipment emerged as the most common intended use of RBF funds, with 45% of responses prioritizing it. Improving production capacity to meet growing demand followed closely, cited by 29% of responses, reflecting a focus on scaling operations to match market needs. Sales and marketing accounted for 19% of responses showcasing the importance of increasing visibility and driving growth, while 13% planned to use the funds to purchase stock. Payment of salaries and hiring more staff (6%) and purchasing land (6%) were less frequently mentioned, indicating that workforce expansion and infrastructure development are lower priorities. Minimal focus was placed on rent (3%) and other administrative costs (3%), with no responses for purchasing raw materials or unspecified uses. The results suggest that businesses are predominantly targeting productivity, scalability, and market reach when considering how to utilize RBF funds.

4.7 Perceptions on Operational Terms and Business Impact of RBF

This section explores respondents' perceptions of RBF's operational terms and its potential impact on their businesses. The focus is on critical factors such as direct debit repayment, access to bookkeeping records, ability to meet repayment obligations, and the influence of RBF on revenue growth, profitability, and sustainability. By analysing these aspects, the study seeks to determine how well RBF aligns with the financial and operational needs of SMEs.

In table 4.7.1, the responses are categorized into the following levels of agreement, coded as follows: SD (Strongly Disagree), indicating the respondent fully opposes the statement; D (Somewhat Disagree), meaning the respondent partially opposes the statement; N (Neutral), meaning the respondent neither agrees nor disagrees with the statement; A (Somewhat Agree), meaning the respondent partially supports the statement; and SA (Strongly Agree), meaning the respondent fully supports the statement.

Table 4.7. 1: Showing SINA SME Perceptions About RBF Terms and Impact

Statement	SD		D		N		A		SA		Mean	Median	Std. Dev
	F	%	F	%	F	%	F	%	F	%			
Do you agree to authorize direct debit for monthly repayments?	9	39	2	9	2	9	6	26	4	17	2.73913	3	1.59394
Do you agree with RBF providers accessing financial records for bookkeeping?	6	26	5	22	5	22	4	17	3	13	2.69565	3	1.36525
Do you think your business can meet monthly repayment obligations?	4	17	0	0	4	17	12	52	3	13	3.43478	4	1.24503
Do you think RBF funds would increase your revenue or sales?	2	9	4	17	5	22	7	30	5	22	3.3913	4	1.24199
Do you think your business would be profitable with RBF funds?	3	13	0	0	6	26	12	52	2	9	3.43478	4	1.09648
Do you believe RBF is a sustainable long-term financing solution for SMEs?	2	9	2	9	3	13	9	39	7	30	3.73913	4	1.22359

Source: Primary data (2024)

The data reveals mixed perceptions regarding RBF terms and common lender practices, and potential business impact. For direct debit authorization, most respondents (39% strongly disagree) are hesitant, reflected in a low mean of 2.74 and a high standard deviation of 1.59; therefore, indicating varied opinions. Similarly, allowing RBF providers access to financial records shows moderate disagreement (mean 2.70), with 26% strongly disagreeing.

On the other hand, there is strong agreement regarding the ability to meet repayment obligations and the potential for RBF funds to increase revenues and profitability, with means of 3.43 for both statements and a majority agreeing (52% for repayment obligations and 52% for profitability). The belief in RBF as a sustainable long-term financing solution is also positive, with a mean of 3.74 and 39% somewhat agreeing. However, the standard deviations across most responses suggest notable variability in views, reflecting a spectrum of experiences and expectations regarding RBF. These results suggest cautious optimism about RBF's potential, tempered by concerns over operational terms like direct debit and data access.

Table 4.7. 2: Showing Problems Solved by SINA SMEs

Response	**Frequency**	**Percentage (%)**
Reducing poverty and promoting economic growth	8	29.63
Access to quality education and lifelong learning opportunities	3	11.11
Innovation and technology for sustainable industrialization	5	18.52
Other (combined: frequency < 3)	11	40.74
Total	27	100.00%

Source: Primary data (2024)

Results on Table 4.7.2, shows that the most addressed challenge was reducing poverty and promoting economic growth, cited by 29.63% of respondents. This was followed by innovation and technology for sustainable industrialization, identified by 18.52% of respondents, and access to quality education and lifelong learning opportunities, cited by 11.11%. Other challenges, including healthy lives and promoting well-being, hunger and improving food security, affordable and clean energy solutions, sustainable cities and infrastructure, and responsible consumption and reducing waste, were each cited by 3.70% of respondents. Notably, challenges such as gender equality, climate change and environmental degradation, inequalities and inclusivity, water and marine ecosystems conservation, protecting terrestrial ecosystems and biodiversity, and access to clean water and sanitation were not cited. These results reflect SINA SME orientation towards solving problems in the UN SDGs (SINA, 2022).

Respondents were also asked to identify the solutions or products their businesses offer to address the challenges identified above. The responses are summarized in Table 4.7.3 below.

Table 4.7. 3: Showing Solutions Offered by SINA SMEs

Response	**Frequency**	**Percentage (%)**
Providing physical products (e.g., eco-friendly materials, solar products, farming tools)	5	20.83
Offering professional services (e.g., mental health counselling, financial consulting)	5	20.83
Delivering technology-based solutions (e.g., mobile apps, online learning platforms)	6	25.00
Other (combined: frequency < 3)	8	33.33

Source: Primary data (2024)

According to table 4.7.3, delivering technology-based solutions emerged as the leading approach, cited by 25% of respondents, followed by providing physical products and offering professional services, which accounted for 20.83% each. Other solutions, which combined categories with frequencies less than 3, represented 33.33% of responses. Notably, no respondents indicated social or community engagement initiatives or creative or cultural products as part of their offerings. The data aligns with Uganda's SME industry distribution, where trade constitutes 30.82% of SMEs, followed by accommodation and food services at 29.53%, and manufacturing at 5.39%, indicating a strong orientation towards product and service-based sectors (UIA, 2024).

4.8 Aspects of RBF Not Suitable for SMEs

Respondents were asked to identify aspects of RBF they perceive as unsuitable for their businesses. The question focused on common concerns such as revenue sharing, repayment costs, lack of awareness, and funding limitations, with the aim of understanding potential barriers to adopting RBF. Full results are depicted in table 4.8.1 below.

Table 4.8. 1: Showing Unsuitable Aspects About RBF for SINA SMEs

Response	**Frequency**	**Percentage**
Revenue sharing makes me feel like the finance providers are shareholders of my business	8	27%
I am not fully aware of RBF, and it sounds confusing	3	10%
I have concerns about revenue sharing	8	27%
The cost of repaying the return multiple is too high	9	30%
The maximum funding amount proposed is inadequate for my business	1	3%
Other	0	0%

Source: Primary data (2024)

The high cost of repaying the return multiple was the most cited concern, with 30% of respondents highlighting it as a barrier. Revenue sharing, perceived as resembling ownership by finance providers, was a concern for 27%. Additionally, 10% reported a lack of awareness about RBF, indicating a need for better education on the model. The maximum funding amount being inadequate was mentioned by only 3%, showing that funding limits are a minor concern. These findings highlight repayment terms and revenue sharing as key challenges to RBF adoption.

4.9 Cash Flow Forecast, Free Cash Flows, and Cash Flow Challenges

According to Zhang et al. (2020), in addition to generating healthy revenues, a business's ability to effectively manage its working capital fosters healthy repayment. Building on this, respondents were asked whether they maintain cash flow forecasts, estimate the percentage of revenues available as free cash flow, and how often they face cash flow challenges. Table 4.9.1 below shows the results.

Table 4.9. 1: Showing Cashflow Forecasts and Availability Among SINA SMEs

Response	**Frequency**	**Percentage (%)**
Always	12	53
Sometimes	7	30
Never	4	17
What percentage of your monthly revenues is available as free cashflows?		
Less than 10%	5	22
10% - 25%	13	57
25% - 50%	4	17
More than 50%	1	4

Source: Primary data (2024)

Most businesses (52%) consistently maintain cash flow forecasts, enabling better financial planning and demonstrating a foundational level of financial stability. Additionally, 57% of respondents report that 10%-25% of their revenues are available as free cash flow, indicating moderate liquidity. Only a small proportion (4%) have more than 50% of their revenues available as free cash flow, while 22% fall below 10%, signalling potential liquidity constraints for a minority of businesses. Furthermore, 26% of respondents rarely experience cash flow challenges, evidencing financial resilience, while 57% face them occasionally and 17% report frequent or constant difficulties. Overall, while most businesses show moderate financial stability, evidenced by consistent forecasting and moderate free cash flow, recurring challenges among some indicate areas for improvement in liquidity and financial.

4.10 Challenges Experienced with RBF

Respondents were asked to provide open-ended feedback on challenges associated with RBF financing to capture qualitative insights. This aimed to uncover specific concerns, provide context to quantitative findings, and identify issues not covered in predefined options. A total of 10 respondents provided feedback, representing 48% of the sample size.

Table 4.10. 1: Showing Open-end Responses on Challenges Faced with RBF Among SINA SMEs

ID	Response
1	I am not aware of it.
2	While it's a good financing model, it doesn't apply to all business models. Some businesses are capital-intensive and seasonal, so giving away some percentage of revenue made is like crippling the business, especially during lean periods.
3	Need more elaboration. For example, is it a form of venture capital?
4	Repayment structure.
5	Price fluctuations and currency depreciation.
6	There is need for more sensitization among business owners to fully understand it.
7	Cash flow timely updates should be improved.
8	High repayment rate.
9	The repayment multiple is too high.
10	The options are small on the market.

Source: Primary data (2024)

The responses, shown in table 4.10.1, above, reveal a common theme of misalignment between RBF financing terms and business realities, alongside a lack of awareness. Many respondents expressed the need for better understanding and sensitization about RBF, with one explicitly stating, "I am not aware of it," and others requesting more elaboration. This is finding is in line with a study conducted in Kenya by Migiro S.O., Wallis M. (2006) who concluded that SMEs were unaware about existing alternative financing sources. This highlights that limited knowledge remains a key barrier to adoption. Furthermore, concerns about the repayment structure, such as high rates and multiples, suggest that the cost of financing is perceived as burdensome and poorly suited for businesses with fluctuating cash flows or seasonal operations, consistent with a report by (Flow Capital, 2023).

Market-related challenges also surfaced, with respondents noting limited availability of RBF options and external risks like price fluctuations and currency depreciation. These concerns, coupled with calls for improved cash flow management and flexibility, underscore the need for tailored RBF terms that align with diverse business models. Addressing these issues could enhance RBF's relevance and accessibility for a broader range of businesses.

4.11 Recommending RBF to other Businesses

The survey included a question about whether participants would recommend RBF to other businesses with the aim of assessing the perceived value of the model. The responses are presented in table 4.11.1 below.

Table 4.11. 1: Showing Willingness to Recommend RBF to Other Businesses

Response	**Frequency**	**Percentage**
Strongly disagree	2	9%
Somewhat disagree	0	0%
Neutral - Neither disagree nor agree	6	26%
Somewhat agree	7	30%
Strongly agree	8	35%

Source: Primary data (2024)

Most respondents expressed a positive sentiment towards recommending RBF financing, with 35% strongly agreeing and 30% somewhat agreeing. This indicates that over 65% of respondents see value in RBF and are confident in its potential for other businesses. However, 26% remained neutral, suggesting they might lack enough information or experience to form a strong opinion. Only 9% strongly disagreed with recommending RBF, and no respondents somewhat disagreed, showing limited outright dissatisfaction.

Recommendations for improving the accessibility and effectiveness of RBF were also assessed through closed-end options, including repayment periods, provider support, and awareness initiatives, along with a free-text "other" option for additional suggestions.

Table 4.11. 2: Showing Open-ended Responses by SINA SMEs on Recommendations for Improving RBF

Response	**Frequency**	**Percentage**
Lower monthly repayment percentage	10	29%
Longer repayment periods	5	14%
Better communication and support from RBF providers	5	14%
More flexible terms tailored to SME needs	9	26%
Tailor RBF as long-term zero-interest financing with reduced revenue sharing	3	9%
Greater awareness and training on RBF	10	29%
Other	0	0%

Source: Primary data (2024)

According to table 4.11.2, above, lower monthly repayment percentages and greater awareness and training were each suggested by 29% of respondents, emphasizing affordability and education. Flexible terms tailored to SME needs (26%) and longer repayment periods (14%) highlight the need for adaptable structures. Improved communication and support from providers (14%) and structural adjustments, like zero-interest options (9%), were also noted. These findings underscore the importance of affordability, flexibility, and education in enhancing RBF's appeal and effectiveness for SMEs.

4.12 Government Promotion of RBF

Respondents were asked whether government policies, such as tax reforms for finance providers, could enhance RBF offerings for SMEs.

Table 4.12. 1: Showing SINA SME Opinion on Government Promotion of RBF

Response	**Frequency**	**Percentage**
Strongly disagree	1	4%
Somewhat disagree	2	9%
Neutral - Neither disagree nor agree	7	30%
Somewhat agree	8	35%
Strongly agree	5	22%

Source: Primary data (2024)

The responses, as shown in table 4.12.1, indicate a generally positive perception of the potential impact of government policies or regulatory changes on improving RBF offerings for SMEs. A combined 57% of respondents (35% somewhat agree and 22% strongly agree) believe such interventions could be beneficial. This reflects a clear understanding of the role those supportive regulations, such as tax reforms, could play in enhancing access to RBF. However, 30% of respondents remained neutral, suggesting uncertainty or a lack of strong opinions on the matter. Only a small minority, 13% (9% somewhat disagree and 4% strongly disagree), expressed scepticism about the effectiveness of regulatory changes in this context.

4.12 Recommendations for RBF Terms and Structure

To complement the earlier closed-ended question on potential improvements to the funding model (in section 4.2.26), respondents were asked to provide open-ended recommendations for improving RBF terms and conditions to better support SMEs. A total of 12 respondents provided feedback, representing 48% of the surveyed group for this specific question.

Table 4.12. 2: Showing Open-ended Recommendations by SINA SMEs on RBF Terms and Structure

ID	Response
1	Create more awareness about RBF.
2	Align the RBF model with given business models.
3	I do not have practical experience with RBF yet, but it sounds like a good idea. I have no suggestions on changes needed.
4	Include repayment forecasts with investors to align expectations—allow additional repayments above agreed revenue shares for faster repayment, reducing the repayment multiple.
5	Need more knowledge of the terms and conditions under which RBF works.
6	Better payment policy.
7	Seek government intervention, such as through PDM Funds.
8	Flexible repayment terms depending on the nature of the business.
9	Improve awareness of RBF across different stakeholders.
10	Adjust the return multiple when a business opts for early repayment.
11	Flexible repayment terms.
12	None.

Source: Primary data (2024)

According to table 4.12.2, the feedback from respondents reveals a clear theme of flexibility and awareness as the critical areas for improving RBF financing. A significant number of responses emphasized the need for flexible repayment terms tailored to the nature of businesses (responses with IDs 4, 8, and 11), with suggestions for adjustments such as allowing additional repayments to reduce repayment multiples or modifying terms for early repayments. Additionally, awareness and understanding of RBF emerged as another prominent theme. Several respondents (IDs 1, 5, and 9) stressed the importance of improving awareness about RBF, both in terms of general knowledge among SMEs and specific terms and conditions. One respondent also pointed out the potential role of government intervention (response ID 7), indicating a need for broader support mechanisms to enhance the reach and effectiveness of RBF.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter synthesizes the findings of the study, discusses their implications, and provides a conclusion alongside recommendations. It is structured to present a summary of the major findings, a discussion of these findings, contributions of the study, a conclusion, and practical recommendations. Limitations of the study and areas for further research are also highlighted.

5.1 Discussion of Findings

5.1.1 Applicability and Viability of RBF for SMEs in Uganda

The opportunities RBF offers to SMEs in Uganda are examined through four key aspects: its availability, SMEs' ability to attract investors, their repayment capacity, and their perceptions of RBF's applicability to their unique operations.

A key observation from the results is that most businesses met the requirements sought by the SPP and typically by other RBF providers during the financing selection process. A significant portion (43%) were in the early stage, with another 43% in the growth stage, indicating their ability to generate revenue and contribute to loan repayment. The SMEs also projected revenue growth of 10% to 25% in the coming year, reflecting strong repayment potential. According to Lighter Capital (2019), post-revenue SMEs with predictable sales forecasts are well-suited for RBF financing. Additionally, over half of the businesses expressed confidence in their ability to increase revenues and meet monthly repayment obligations. The high concentration of businesses in the technology services sector further suggests they are asset-light and capable of generating recurring revenues. Conversely, businesses in asset-intensive, product-based models fell that focus on addressing community challenges, could align with RBF providers who focus on sustainable development. Moreover, the formalization of most businesses - evidenced by registration with URSB and URA, active bank account usage, maintenance of financial records, and permanent addresses - positions them as credible and reliable entities. This operational discipline strengthens investor confidence in their growth potential and repayment capacity, making them attractive candidates for RBF financing.

While most businesses demonstrate strong potential to attract RBF, the model's novelty and perceived limited availability in Uganda pose significant access challenges. However, the results reveal that nearly half of the business owners were familiar with RBF, primarily through entrepreneurs, workshops, conferences, and media, indicating its presence, although with limited penetration in the mainstream capital market. Despite this, there is considerable curiosity among SMEs, with over three-quarters either considering applying, in the process of application, or having already received RBF financing.

Furthermore, the general availability of RBF and the potential for businesses to qualify are insignificant without entrepreneurs' understanding of its workings and their perceptions of its suitability for their unique business models. A key motivation for adopting RBF, as cited by the businesses, is its flexible repayment structure, which allows them to align monthly obligations with revenue cycles - paying more during high-revenue periods and less during downturns. This aligns with feedback from over a quarter of respondents who reported that high interest rates and fixed repayment terms were significant challenges with other external financing options they had pursued such as bank loans. Similarly, the businesses found retention of ownership and the absence of collateral requirements, common in VC and bank loan financing respectively, as extra applicable traits of RBF. Moreover, inadequate collateral was identified by some businesses as a barrier to accessing other financing sources, while the strong preference to retain ownership is evidenced by the overwhelming number of businesses that were started using personal funds. In addition, the strong emphasis by businesses on utilizing external funds for growth-oriented activities, such as upgrading technology for efficient service delivery and improving production capacity to meet demand, enhances their ability to generate higher revenue and, consequently, strengthens their repayment prospects.

5.1.2 The Challenges Faced by SMEs with RBF in Uganda

The findings reveal that while RBF holds potential as an alternative financing model for SMEs in Uganda, several challenges hinder its adoption and effectiveness. These challenges revolve around issues with repayment terms, limited awareness, cash flow constraints, and misalignment with diverse business models.

The high cost of repaying the return multiple, typically as high as 2.5 times the principal according to Baird et al. (2019), emerged as the most significant concern among respondents. Many businesses perceive this repayment structure as costlier than traditional financing options, such as bank loans, due to its higher effective interest rate. While the repayment flexibility supports organic business growth, the overall cost remains a significant deterrent for many SMEs. Revenue sharing, cited by a substantial proportion of respondents, was also viewed by some as resembling a loss of business ownership, further reducing its appeal. These concerns highlight a potential misalignment between RBF terms and the financial realities of SMEs, especially for those prioritizing cost-effective financing solutions. Additionally, lack of awareness about RBF was another significant barrier, with some respondents finding the model confusing or unfamiliar. While the concept is promising, limited understanding of its mechanics reduces its appeal. This underscores the need for targeted education and sensitization campaigns to demystify RBF and make it more accessible to business owners.

The study also identified cash flow constraints as a key challenge. While most businesses reported moderate financial stability by maintaining cash flow forecasts and moderate levels of free cash flow, recurring challenges were evident. A significant proportion of businesses experienced cash flow difficulties either occasionally or frequently, which could undermine their ability to meet RBF repayment obligations. Moreover, the minority of businesses with limited free cash flow or poor forecasting practices face heightened risks, making RBF less viable for them.

From an RBF investor's perspective, effectively monitoring a business’s financial performance, efficiency, and repayment capacity poses a significant challenge. The findings highlight SMEs' reluctance to authorize direct debit for repayments or provide unrestricted access to financial records. This hesitation raises concerns about asymmetric information and moral hazard, where SMEs might engage in practices such as revenue hiding or maintaining separate financial records, especially during periods of low sales. These challenges align with findings by Russell, Shi, and Rowan (2023), who observed that SMEs often conceal revenue in response to financial strain. This creates a critical dilemma for RBF investors: ensuring adequate financial oversight without infringing on SMEs' operational autonomy or privacy. To bridge this gap, trust-building measures such as transparent data-sharing agreements, periodic third-party audits, or technology-enabled financial reporting systems could be employed. Such mechanisms would help align the interests of both parties while maintaining accountability and fostering trust.

Furthermore, qualitative feedback from respondents revealed further barriers, including the misalignment of RBF terms with specific business realities. Seasonal and capital-intensive businesses found revenue-sharing arrangements unsuitable, particularly during lean periods. External risks, such as price fluctuations and currency depreciation, compound these challenges, making RBF less attractive for businesses in such environments. Additionally, some respondents cited a lack of available RBF options in the market, further limiting accessibility. These insights reveal a pressing need for tailored RBF terms that align with the varying cash flow cycles and operational characteristics of SMEs. Flexible repayment structures and adjustable revenue-sharing terms could address these concerns, making RBF more adaptable to businesses with diverse financial needs.

5.3 Summary of Findings

Following an extensive execution of qualitative research techniques, including survey-based data collection and analysis, to explore the challenges and opportunities of RBF for SMEs in Uganda, this section presents an overview of the key findings in line with the established objectives.

5.3.1 Summary of Applicability and Viability of RBF to SMEs in Uganda

The findings reveal that RBF presents significant opportunities for SMEs in Uganda by addressing financing gaps and supporting business growth. Specifically, a notable proportion of businesses meet key RBF criteria, such as revenue generation, growth potential, and formalization. Many are in early growth stages with healthy revenue projections, which indicate their capacity to meet repayment obligations. Furthermore, their operational discipline - evidenced by formal registration, active bank accounts, and financial record-keeping - positions them as credible and reliable candidates for RBF. Additionally, the model's flexible repayment structure, preferred by SMEs for its alignment with revenue cycles, offers a clear advantage over traditional financing options. Features like ownership retention and the absence of collateral requirements further enhance RBF's appeal, particularly for asset-light businesses and those pursuing sustainable development objectives.

The prioritization of growth-oriented activities, such as upgrading technology and scaling production, underscores RBF's practical benefits in supporting operational efficiency and boosting revenue generation. Moreover, the growing awareness of RBF through peer networks, workshops, and media reflects increasing interest among SMEs. Notably, most SMEs expressed a willingness to recommend RBF to other businesses, signalling strong satisfaction with its potential to address their financing needs. Collectively, these findings affirm RBF as a viable financing solution tailored to the needs of SMEs in Uganda, provided that challenges related to awareness and accessibility are effectively addressed.

5.3.2 Summary of Challenges Faced by SMEs with RBF in Uganda

RBF presents notable challenges for SMEs in Uganda, primarily due to the higher cost compared to bank loans due to higher return multiples. Revenue sharing, often seen as a partial loss of ownership, and limited awareness of further impede RBF further hinder adoption. Additionally, cash flow constraints and the misalignment of RBF terms with seasonal or capital-intensive business models reduce its viability for some SMEs. These issues highlight the need for more tailored terms, such as flexible repayment structures and adjustable revenue-sharing agreements. From an investor perspective, limited financial transparency, due to SMEs' reluctance to provide access to records or authorize automatic repayment from their bank accounts, raises concerns about moral hazard and effective monitoring. Addressing these barriers through education, trust-building mechanisms, and diversified RBF options could enhance adoption and make the model more accessible and sustainable for SMEs in Uganda.

5.4 Contributions of the Study

The study contributes to understanding the applicability and challenges of RBF for SMEs in Uganda, providing valuable insights to inform practice, policy, and future research.

Firstly, the study is one of the first of its kind in Uganda within the realm of alternative finance, field where extensive research remains limited. It contributes to the body of knowledge by exploring the applicability and viability of RBF in the SME context, a relatively uncharted area in the country. Specifically, the study provides a foundation for future RBF research by offering valuable literature synthesized from scholarly sources and insights from existing global RBF providers. These contributions not only enhance understanding of RBF but also lay the groundwork for developing context-specific frameworks and strategies tailored to Uganda's unique SME landscape.

Secondly, the study raises awareness of RBF as an innovative alternative financing mechanism, particularly suited to the unique needs of SMEs in Uganda. By highlighting its flexible repayment structure, non-collateral requirements, and potential to align with business growth strategies, the research informs SMEs about how RBF can address critical financing gaps while promoting sustainable business practices. This awareness is crucial in a market where traditional financing options dominate yet often fail to meet the dynamic needs of smaller enterprises.

Lastly, the study contributes to policy and practice by identifying critical challenges SMEs face when accessing RBF, such as high repayment costs, limited awareness, and cash flow constraints. These insights can guide policymakers, financial institutions, and RBF providers in designing tailored financing solutions that address the unique needs of SMEs in Uganda. By highlighting the gaps in awareness and operational misalignments, the study offers actionable recommendations for improving accessibility and adoption, thereby fostering a more inclusive and effective financing ecosystem.

5.5 Conclusion

The insights derived from this study extend and contribute to the existing body of knowledge on alternative financing mechanisms, particularly RBF, and its applicability to SMEs in Uganda. The identified challenges, such as high repayment costs, revenue-sharing concerns, and limited awareness, align with broader issues highlighted in the global literature on alternative finance (Baird et al., 2019; Russell, Shi, & Rowan, 2023). These challenges underscore the need for tailored financing models that align with the financial and operational realities of SMEs, particularly in emerging markets.

Moreover, the study highlights the transformative potential of RBF for SMEs by emphasizing its flexible repayment structure, non-collateralized nature, and capacity to support growth-oriented activities such as technology upgrades and scaling production. These findings resonate with theories of sustainable financing and entrepreneurial growth, where access to adaptable financial models can significantly enhance operational efficiency and revenue generation (Lighter Capital, 2019). The emphasis on ownership retention and alignment with sustainable development goals further situates RBF as a forward-looking financing mechanism.

The study also enriches the discourse on SME financing by contextualizing the unique challenges and opportunities within Uganda. The findings reveal a growing interest in RBF, driven by SMEs' desire for more adaptable and inclusive financing options. However, the study also uncovers significant barriers to adoption, such as misalignment with seasonal business models, limited market penetration, and concerns about financial transparency. These insights contribute to a nuanced understanding of how RBF interacts with the financial landscape of SMEs in Uganda, adding depth to existing research on alternative finance in similar economies.

In conclusion, this study validates existing themes while offering unique, context-specific insights into the applicability and challenges of RBF for SMEs in Uganda. By bridging global literature with localized findings, it advances the understanding of RBF as a viable, yet underutilized, financing model and lays the groundwork for more targeted policies, practices, and research in alternative financing for SMEs.

5.6 Recommendations for Enhancing RBF to SMEs in Uganda

To enhance the adoption and effectiveness of RBF for SMEs in Uganda, several recommendations emerge from this study. A critical first step is to increase awareness and understanding of RBF among SMEs. Targeted education campaigns, workshops, and training sessions should be implemented to demystify the model. Collaborations between RBF providers, SME support organizations, and trade associations can deliver sensitization programs, emphasizing the flexibility of repayment terms and the non-collateralized nature of RBF to build trust and encourage adoption.

Addressing concerns about high repayment costs and revenue-sharing arrangements is essential. RBF providers should develop tailored terms based on business sectors, revenue stability, and growth potential. Flexible repayment structures and adjustable revenue-sharing terms can make the model more suitable for seasonal or capital-intensive businesses. Additionally, expanding the availability of RBF options in Uganda is crucial. Financial institutions and investors should increase their presence in the RBF market by developing partnerships with local businesses and expanding their operations to underserved regions. Leveraging digital platforms to simplify the application process can further enhance market penetration.

Improving SMEs' financial management capacity is also vital for RBF success. Capacity-building initiatives should focus on training SMEs in cash flow forecasting, record-keeping, and revenue tracking to improve their ability to meet repayment obligations and attract RBF investors. At the same time, fostering transparency and trust between SMEs and RBF providers is critical. Providers should implement clear data-sharing agreements, establish transparent processes, and utilize third-party audits or technology-enabled financial reporting tools to build accountability while maintaining operational autonomy for SMEs.

Policymakers have a crucial role to play in strengthening regulatory and policy support for RBF. Establishing clear guidelines for RBF agreements, protecting SME interests, and fostering investor confidence are necessary steps to encourage wider adoption. Most respondents highlighted that government intervention could significantly enhance the effectiveness of RBF by creating a supportive ecosystem. This could include tax incentives or subsidies for RBF providers to attract more investors and reduce the cost burden on SMEs.

By implementing these recommendations, RBF can become a transformative financing model tailored to the dynamic needs of SMEs in Uganda. Collaborative efforts among RBF providers, policymakers, and SME support organizations will be essential to address the barriers identified in this study and unlock the full potential of RBF as an alternative financing mechanism.

5.7 Areas for Further Research

This study establishes a foundation for understanding RBF's applicability and challenges for SMEs in Uganda, highlighting key areas for further research. Future studies should examine the long-term impact of RBF on SME performance, tracking revenue growth, profitability, and repayment dynamics. Sector-specific research is needed to tailor RBF for industries with unique financial structures, such as manufacturing and agriculture.

Additionally, exploring RBF providers' perspectives on risk management and scalability would offer a balanced view of its challenges and opportunities. Investigating RBF as an alternative to grant funding could reveal its potential for promoting accountability and sustainability, particularly for socially impactful enterprises like those at SINA.

Finally, research on Uganda's policy and regulatory framework can identify gaps and inform strategies to create a supportive environment for alternative financing. Addressing these areas will strengthen RBF as a viable and scalable financing model for SMEs.

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APPENDIX I: QUESTIONNAIRE

Questionnaire for Enterprises Engaging with Revenue-Based Financing (RBF)

Dear Respondent,

My name is David Kawaida (0776619507, dkawaida@gmail.com), a Master of Business Administration (MBA) student at Makerere University. I am conducting a study on the "Challenges and Opportunities of Revenue-Based Financing (RBF) for Small and Medium-Sized Enterprises (SMEs) in Uganda".

RBF is a flexible way for businesses to raise capital by securing funding in exchange for a share of their future revenues over a period of 3 to 5 years. The total repayment usually amounts to 1.5 to 2.5 times the initial funding received. Unlike traditional bank loans, which require fixed monthly payments regardless of how much revenue the business generates, RBF payments adjust based on the business's income. This flexibility helps reduce financial strain and supports business growth, especially during periods of low revenue.

Your participation in this survey will provide valuable insights into the experiences and opportunities of RBF for SMEs. The survey should take 10-20 minutes to complete, and all responses will remain anonymous. The findings will be included in a report shared with the University as part of the MBA degree requirements.

Thank you for your time and contribution.

<u>Section A: Business Demographics and Background</u>

<u>A1. Business Overview:</u>

a) What problem does your business solve? *(Please select one option that applies or indicate in the other field)* *

- ☐ Reducing poverty and promoting economic growth
- ☐ Access to quality education and lifelong learning opportunities
- ☐ Healthy lives and promoting well-being
- ☐ Hunger and improving food security
- ☐ Affordable and clean energy solutions
- ☐ Gender equality and women's empowerment
- ☐ Sustainable cities and infrastructure
- ☐ Responsible consumption and reducing waste
- ☐ Climate change and environmental degradation
- ☐ Access to clean water and sanitation
- ☐ Innovation and technology for sustainable industrialization
- ☐ Peace, justice, and strong institutions
- ☐ Inequalities and inclusivity
- ☐ Water and marine ecosystems conservation

- ☐ Protecting terrestrial ecosystems and biodiversity
- ☐ Other *(Please Specify)*: ____

b) What solution does your business offer to address the problem above, or what products or services are offered by your business? *(Please select one that applies, or indicate in the other field)* *

- ☐ Providing physical products (e.g., eco-friendly materials, solar products, farming tools)
- ☐ Offering professional services (e.g., mental health counseling, financial consulting)
- ☐ Delivering technology-based solutions (e.g., mobile apps, online learning platforms)
- ☐ Facilitating training or capacity building (e.g., entrepreneurship training, skill development workshops)
- ☐ Social or community engagement initiatives (e.g., youth empowerment programs, advocacy)
- ☐ Creative or cultural products (e.g., handmade crafts, art, storytelling)
- ☐ Developing eco-friendly solutions (e.g., recycling, green technology)
- ☐ Acting as an intermediary or platform (e.g., connecting producers to markets)
- ☐ Other *(Please Specify)*: ____

c) In which year did your business begin operations? *(Please choose one option)* *

- O Before 2000
- O 2000–2005
- O 2006–2010
- O 2011–2015
- O 2016-2020
- O 2021-2024

d) Is your business registered in Uganda by the Uganda Registration Services Bureau (URSB)? *(Please choose one option)* *

- O Yes
- O No

e) If yes, in which year was your business registered? *(Please choose one option)* *

- O Before 2000
- O 2000–2005
- O 2006–2010
- O 2011–2015
- O 2016-2020
- O 2021-2024

f) Does your business have a bank account? *

- O Sometimes
- O Always

O Never

g) If yes, do you actively use this bank account for business transactions, such as payments and receipts?

O Yes
O No

h) Do you keep financial records for your business? *

O Sometimes
O Always
O Never

i) Does your business have a permanent address *(such as office space or factory).* *

O Yes
O No

j) Is your business registered with the Uganda Revenue Authority (URA), or does your business have a TIN number? *

O Yes
O No

k) How many employees do you currently have? *(Please choose one range)* *

O 1 to 4 employees
O 5 to 49 employees
O 50 to 100 employees
O More than 100 employees

l) How would you describe the current growth stage of your business? *(Please choose one option)* *

O Pre-revenue - Not yet generating income
O Early-stage - Generating income but not yet profitable
O Growing - Profitable but reinvesting in expansion
O Mature - Stable and profitable with steady growth

m) In the next 1 year, what is your expected business revenue growth? *(Please choose one option that applies)* *

O Less than 10%
O 10% - 25%
O 35% - 50%
O More than 50%

n) Which form of financing did you use to start your business? *(Please choose one option that applies)* *

- O Personal funds, or from friends and family
- O Grant
- O Loan (from a Bank, Microfinance, SACCO, or other institution)
- O Selling shares (such as from an Angel investor)
- O Other *(Please Specify)*: ____

<u>A2. Other Financing Sources:</u>

a) Have you ever applied for external financing *(such as to a grant, bank, microfinance, or other institution)?* *

- O Yes
- O No

b) **<u>If yes</u>**, was your application accepted or rejected? *

- O Accepted
- O Rejected

c) **<u>If accepted</u>,** please describe the challenges you faced with the financing option *(Please choose any options that apply)* *

- ☐ High interest rate *(The interest is high and must be paid whether we make enough or less revenue to cover the monthly repayment)*
- ☐ Short repayment periods *(The business pays high amounts in interest which affects monthly cash flow).*
- ☐ Lack of collateral *(Difficulty providing the required collateral for securing loans).*
- ☐ Complex application process and delayed funds disbursement *(The application or approval process was complicated or time-consuming).*
- ☐ The amount of funding offered was insufficient for my business
- ☐ The capital providers wanted to take some of the business shares
- ☐ Restrictions on funds usage
- ☐ Unfavorable terms and conditions (Conditions that are not favorable for your business).
- ☐ Poor Communication with funds providers (Lack of support or communication from the financing institution).
- ☐ Other *(Please Specify):* ____

d) **<u>If rejected</u>**, what was the reason for rejection? *(Please choose any that apply)* *

- ☐ Lack of or inadequate collateral to secure the loan
- ☐ Business not registered (URSB, tax, etc.)

- ☐ Limited revenues/sales
- ☐ Lack of financial records
- ☐ Inadequate management capacity
- ☐ Inadequate business planning
- ☐ I did not get feedback from the provider
- ☐ Other *(please specify)*: ____

A3. RBF Awareness and Engagement

a) Have you heard about Revenue Based Financing (RBF) loans before? *

O Yes

O No

b) **If yes**, where did you hear about it?

- ☐ From fellow entrepreneurs or businesses
- ☐ From friends or family
- ☐ From an institution such as banks, agencies, finance companies, or NGOs
- ☐ From workshops, conferences, conveners or pitch events
- ☐ From media - TV, radio, newspapers, or social media
- ☐ From a call for application
- ☐ Other *(Please specify)*: ____

c) Based on the definition of RBF method of raising capital given above, how would you rate your understanding of this method of raising capital? *(Please choose one option)* *

O Extremely confusing

O Slightly confusing

O Neutral

O Slightly clear

O Extremely clear

d) What is your current level of engagement with RBF? (Please choose one option)

O Not interested in RBF financing

O Considering applying for RBF financing

O In the process of applying for RBF financing

O Already received RBF financing

Section B: Applicability and viability of RBF to SMEs in Uganda

a) What aspects of RBF do you find attractive to, or suitable, for your business? *(Please choose any options that apply)* *

- ☐ Flexible repayment - since a percentage of revenue is repaid, when I make more, I pay more, but when I make less, I pay less
- ☐ Retention of ownership - I would not give away shares of my business. I will retain ownership and control of my business
- ☐ Faster access to capital - the process seems faster and friendly
- ☐ Free business readiness training and support - I would benefit from management training offered by the RBF provider
- ☐ No collateral required
- ☐ Other *(Please specify):* ____

b) What would you use RBF funds for if injected into your business? *

- ☐ Purchase of land
- ☐ Rent
- ☐ Upgrading technology and equipment
- ☐ Purchase of raw materials
- ☐ Purchase of stock
- ☐ Payment of salaries and hiring more staff
- ☐ Sales and marketing
- ☐ Improve production capacity due to match the growing demand
- ☐ Other administrative costs (transport, airtime, data, etc).
- ☐ Other *(Please specify):* ____

c) Some RBF providers want to easily access or receive their repayments monthly. Do you agree to authorize direct debit from your business' bank account for the purpose of automatically making monthly repayments? *(Direct Debit is when you instruct your bank to deduct a specific amount from your account and transfer to another party without your intervention)* *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

d) Some RBF providers optionally provide businesses with finance and accounting, and operational systems that help with bookkeeping. While this supports your business efficiency, it would also mean they have access to your financial records at their convenience. Do you agree with this arrangement? *

- O Strongly disagree
- O Somewhat disagree

- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

e) RBF terms require monthly repayment of a percentage of your sales. Do you think your business is able to consistently meet these obligations? *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

f) In your opinion, do you think your revenues or sales would increase or grow if your business opted for RBF funds? *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

g) In your opinion, do you think your business would be profitable if you opted for RBF funds? *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

h) Do you believe that RBF is a sustainable long-term financing solution for SMEs in Uganda? *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

Section C: Challenges Faced by SMEs with Revenue-Based Financing

a) What aspects of RBF do you believe are not suitable for your business? *(Please choose any that apply)* *

- ☐ Revenue sharing makes me feel like the finance providers are shareholders of my business
- ☐ I am not fully aware of RBF, and it sounds confusing
- ☐ I have concerns about revenue sharing
- ☐ The cost of repaying the return multiple is too high *(i.e. for instance 2.5X is repayment means that you repay 250% of the borrowed amount after the agreed number of years. This is way higher than a*

typical bank loan which would charge between 18% to around 22%, but you'd have to pay a fixed amount whether you make revenue or not)

- ☐ The maximum funding amount proposed is inadequate for my business *(i.e., many RBF providers will typically not exceed the total revenue generated the previous year)*
- ☐ Other (Please specify): ____

b) Does your business maintain cash flow forecasts *(e.g., estimating how much revenue will come in, how much will be paid to creditors, and other business expenses for upcoming months or periods)*? *

- O Never
- O Sometimes
- O Always

c) What percentage of your monthly revenues is typically available as free cash flow? *

- O Less than 10%
- O 10%-25%
- O 25%-50%
- O More than 50%

d) How frequently do you experience cash flow challenges *(e.g., inability to cover operational costs such as payment of salaries, buying raw materials, paying bills, etc.)*? *

- O Rarely
- O Occasionally
- O Frequently
- O Often

e) Please describe any challenges you associate with the use of RBF financing. ____
____

<u>Section D: Enhancing RBF for SMEs</u>

a) Would you recommend RBF financing to other businesses? *

- O Strongly disagree
- O Somewhat disagree
- O Neutral - Neither disagree nor agree
- O Somewhat agree
- O Strongly agree

b) What would you recommend for improving the accessibility and effectiveness of RBF for SMEs? *

- ☐ Lower monthly repayment percentage.
- ☐ Longer repayment periods

- ☐ Better communication and support from RBF providers.
- ☐ More flexible terms tailored to SME needs.
- ☐ Instead of free grants, tailer RBF as long-term zero interest with reduced revenue share repayments
- ☐ Greater awareness and training in RBF.
- ☐ Other *(Please specify):* ____

c) Do you believe that introducing government policies or regulatory changes (such as tax reforms on finance providers to encourage more of them to enter the county) could improve RBF offerings for SMEs? *

O Strongly disagree

O Somewhat disagree

O Neutral - Neither disagree nor agree

O Somewhat agree

O Strongly agree

d) What changes would you recommend to the RBF terms and conditions, or structure, to better support businesses like yours?

____

____

APPENDIX II: INTRODUCTORY LETTER FOR RESEARCH BY RELEVANT

Etienne Salborn
Social Innovation Academy (SINA)
Mayembe Upper, Plot 139 Mpigi Town
P.O. Box 100411 Kampala, Uganda
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(+256) 758 852 735

Mr. David Kawaida
MBA Candidate
Makerere University
Kampala - Uganda

Dear Mr. Kawaida,

Subject: Authorization to Conduct Research

We are pleased to receive your request to conduct research on "Exploring Challenges and Opportunities of Revenue Based Financing (RBF) For Small and Medium-Sized Enterprises (SMEs) in Uganda: A Case of SINA Purpose Pool." After careful consideration, we are happy to grant you the authorization to proceed with this study.

We acknowledge the importance of your research in exploring viable financial models that could significantly benefit SMEs in Uganda. We are committed to supporting academic endeavors that align with our mission to foster innovation and entrepreneurship.

You are authorized to gather data directly from enterprises and stakeholders involved with SINA's Purpose Pool. We trust that you will handle all information with the utmost confidentiality and adherence to ethical standards, as outlined in your proposal.

Please keep us informed of your progress and any support you might require from our side. We look forward to the outcomes of your research and how they might influence our practices and those of the broader community engaged in SME financing.

Should you have any questions or require further assistance, please feel free to contact me.

Thank you for involving us in your academic journey. We wish you the best of luck in your research.

Sincerely,

Etienne Salborn
25/04/2024

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David Kawaida
MBA Candidate
Makerere University
Kampala - Uganda

Dear Mr. Kawaida,

Subject: Conditional Authorization to Conduct Research

Thank you for your request to conduct the research titled " Exploring Challenges and Opportunities of Revenue Based Financing (RBF) For Small and Medium-Sized Enterprises (SMEs) in Uganda: A Case of SINA Purpose Pool." We acknowledge the potential impact of your study on the financing models for SMEs in Uganda, which is closely aligned with our objectives at Relevant in partnership with the Social Innovation Academy (SINA).

We are inclined to support your academic efforts and express no objection to your conducting the research, contingent upon receiving formal authorization from SINA management. This condition ensures alignment and coordination between all parties involved in the SINA Purpose Pool.

Upon confirmation of SINA's authorization, you will be permitted to gather data from stakeholders involved with the Purpose Pool. We trust that you will manage all information with the highest level of confidentiality and in compliance with ethical research standards.

Please provide us with a copy of SINA's authorization letter at your earliest convenience to proceed further. We are enthusiastic about the possibilities your research presents and are eager to facilitate your success in this endeavor.

For any further communication or requirements, please do not hesitate to reach out to us.

We appreciate your commitment to enhancing the financial frameworks available to SMEs and look forward to your findings.

Sincerely,

Edson Niwamanya
25/04/2024