MICROFINANCE FINANCING AND BUSINESS PERFORMANCE OF SMEs IN MAKINDYE DIVISION

BY

PIUS KWARISIIMA

I8/U/GMBA/19385/PD

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DECLARATION

I, **Pius Kwarisiima**, do hereby declare that this Dissertation titled "*Microfinance Financing and Business Performance of SMEs in Makindye Division*", has never been submitted to any University or other institution for any award.

Signed: .... Date: 18/10/2022..

PIUS KWARISIIMA

I8/U/GMBA/19385/PD

APPROVAL

This Dissertation by PIUS KWARISIIMA titled "MICROFINANCE FINANCING AND BUSINESSPERFORMANCE OFSMEs IN MAKINDYE DIVISION" was done under our supervision. It is ready for submission for examination as prerequisite for the award of the Degree of Master of Business Administration (Accounting Option) of Kyambogo University.

Signed: .... Date: ...21/October/2022...

Dr. Madinah Nabukeera (PhD)

Principal Supervisor

Signed: Date: 19th October 2022

Dr. Hannah Muzee (PhD)

Second Supervisor

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This dissertation is dedicated to my dad Mr. Rwabyooma Robert, my wife Irene Twongirwe, my daughter Ankunda Kayla, my brother Joshua, sisters Anna and Miria plus friends of MBA class who have been supportive throughout the course.

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LIST OF ABBREVIATIONS/ ACRONYMS

DV:	Dependent Variables
IV:	Independent Variables
KCCA:	Kampala City Council Authority
KYU:	Kyambogo University
MFIs:	Microfinance Institutions
MSME:	Micro, Small Medium Enterprises
SMEs:	Small medium Enterprises
SPSS:	Statistical Package for Social Scientists
UIA:	Uganda Investment Authority

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ABSTRACT

Finance and its associated services are a crucial prerequisite in the initiation and progress of the SMEs. The relationship that exists between microfinance financing and the business performance of the Small Mid-size Enterprises in Makindye division, Kampala district was the main objective/study purpose. To address, the study purpose, the study specifically addresses the following study objectives which were; achieve the purpose which was to establish the relationship between loan services, savings deposits, financial education/training, and policy on credit and business performance of the SMEs of Makindye division. The study used only cross-sectional research design supported by quantitative approaches. Using simple random sampling method 133 SME operators were selected as a sample size in Makindye division. The correlation results using the spearman's rank correlation test shows that loans services had a moderate significant relationship with the business performance of SMEs in Makindye division ($r=0.434$, P-value<0.01). The study showed a moderately positive and substantive correlation between savings and SMEs' success in Makindye division ($r=0.536$, P-value<0.01). The study revealed that the moderate significant relationship between financial training and business success in Makindye Division was positive and significant, ($r=0.652$, P-value<0.01). Based on the findings the study concluded that loans services, savings deposits, financial education/training, and the different policies on credit play a pivot role in improving the performance of SMEs in Makindye division, despite the existence of several challenges in the sector. To overcome some difficulties, MFIs should revise the loan terms given to their borrowers and ensure that they are favourable for them to access loans. The MFIs are recommended to provide enough loan repayment period to the SME operators since this would provide space for them to pay loans. MFIs should provide easy and convenient deposit and collection facilities for SMEs since this would encourage them to save and thus improve financial performance. The SME operators should be sensitized to regularly attend financial education/training organized by MFIs.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The Microfinance Financing Strategy emerged to support low-income individuals in SMEs as a key ingredient of the economic growth approach. To start and properly manage SMEs, finance and its associated services are a significant prerequisite. Microfinance financing arose as a strategy to support Small Mid-size enterprises of individuals with low incomes as an economic growth approach. Financing is both associated and significant prerequisite to the launching and growth of SMEs. Aryeetey (2005) argued that microfinance institutions remain key players in the business performance of SMEs through the various financial incentives they are providing the SMEs. The financial services offered by microfinance institutions include the provision of loans, opportunities to investments, advice on financial matters, conduct money transfer, and provide health insurance and many services that are neglected by commercial banks. All these services are aimed at improving the performance of SMEs and help them to grow.

This research, therefore, looked at the relationship between microfinance and small and medium-sized enterprises' business performance. This chapter presents the background of the study which covers historical, theoretical, conceptual as well as relevant viewpoints (contextual), the problem statement is also outlined, the main purpose of the study is also detailed, the specific objectives are also listed and the research questions, the study scope of this, the significance of this study and the definition of key terms employed in this study.

1.1 Background to the study.

1.1.1 Historical background.

Measuring business performance of SMEs in today’s economic environment especially after COVID-19 shock is critical to Uganda's economic development. Since the Ugandan economy is comprised of over 90% of the SMEs making them vital to the Ugandan economy, (Uganda Bureau of Statistics, 2017). Business performance refers to the effective capability to placate the requirements a firm’s key shareholders (Smith & Reece, 1999, p. 153). It should further be evaluated to measure a firm’s success. Scholars such as Merino, Monreal-Pérez & Sánchez-Marín, (2015) define the performance of SME's with reference to profitability, productivity, as well as market dimensions of the business, the Productivity dimension focus how to business is able to meet both the needs and wants of its client base. The Market dimension looks at market share and position of the business as key aspects of business performance. Therefore, If SMEs put the right financial, marketing and management plan, they can have a better performance, (Halim et al., 2011). Additionally, key performance indicators in firms include; profits, return on investment (ROI), customer turnover, quality of the design and improvement of the product (Wood, (2006), Laura et al., (1996).

"Though, scholars such as Mann and Kehoe (1994) and Franco Santos et al. (2007) recommended business performance measurement (BPM) as a key model for measuring the performance of SMES. This model looks at different operational and strategic systems that impact the overall performance of the business. The aim of looking at the operations of a business as a system is to understand the entire business processes from top management to low production levels (Mann & Kehoe, 1994). However, it’s important to note that most SMEs rearly reveal their financial status and performance, and a lot of scholars recommend a subjective way of measuring SMES performance considering perceived or the perception performance as well as the objective measures.

"There has not been a globally accepted explanation for an SME; this is attributed to absence of uniformity since there are various differences among nationalities and their firms. The academia, government and associations have come up with a plethora of explanations for SMEs anchoring them on the nature of industries and countries Nyathi et al, (2018), much as some scholars defined SMEs by means of employee numbers (Storey, 1994; Analoui & Karami, 2002); even though some anchored their explanations on essential aspects like yearly sales, total assets and the employee numbers (Zindiye, 2018). Take an example of the United States and Canada, SMEs are firms considered to be employing less than five hundred (500) and a earning a yearly revenue not more than US$25 million (Beyene, 2012). Egyptians categorize SMEs as those employing below ten (10) permanent staff and medium-sized firms as those employing between 10-50 permanent staff. However, in Kenya, the small firms are those considered to be those employing between 10-50 staff and medium-sized firms as those employing 50-100 staff (CAPMAS, 2018)".

"For Uganda’s case, micro-sized firms are those that employ up to 4 employees and earning a yearly revenue or total assets not more than ten (10) million Uganda shillings. Then small firms are those employing 5-49 with a total of assets ranging from ten (10) million Uganda shillings and not more than one hundred (100) million. For medium-sized firms, these employ staff ranging between fifty (50) and one hundred (100) and total assets more than one hundred (100) million but not exceeding three hundred sixty (360) millions.

Therefore, hypothetically, the definition of SMEs may depend on many aspects, for instance, such industries, levels of economic integration and the number of the country (Kushnir, 2010). From a historical perspective, SMEs started in the eighteenth century according to Harper (1984). By the nineteenth century, SMEs had become an answer to economic questions that existed. These encompassed high rates of joblessness (Harper,1984). During the industrial revolution SMEs were formed to operate as workshops in the factories (Ruthrock, 2013). These faced many problems like insufficient funds to purchase stock and tools. Obtaining financial services like loans was too hard. Much as the SMEs faced such challenges, they survived. (Dedan, 2013)".

"Right from the eighteenth and nineteenth centuries, technological revolution improved on the overall size of firms and the degree of the variations in some newly created firms which brought an increase in the survival rate of firms like Rail-road industry (Chandler 1977). In spite of the technological changes, the average size of some SMEs remained the same. Firms for example in Machine tool industry became a tremendous source of relevant technical advancements (Soltow 1965; Scranton 1998). Additionally, the number of firms that were impacted by the technology advancement was minimal. The steel and glass sector for example, while in other goods, like cast steel, terne plate, and hard-pressed glass went ahead to be outstandingly produced Lamoreaux and Sokoloff 2000)".

"The development of markets in size required likewise varied with effects for inclinations in the size dispersal of SMEs. Besides, the increase of the topographical space that brought about failure of transport means as well as reducing of trade hindrances brought in opportunities for wide-scale producing firms. In similar developments, increased per capita income implied that customers gradually needed the ability to coddle their preferences, generating profitable market sections that best fitted firms to fulfill (Sabel and Zeitlin 1997; Lamoreaux, Raff, and Temin 2003). For the textile industry, coarse fabrics happened to be the mostly produced by vertically combined factories. The higher one would go regarding fitness, the smaller they became when vertically integrated. As one moved up the scale of fineness firms happened to grow small and less vertically combined. Certainly, in the high-end sections of the industries, in which the capability to answer swiftly to fluctuations in fashions were advantaged and so became smaller and specialized in a given process or method as well as work with similar small business to placate clients' wants. (Scranton 1983 and 1989; Enright 1995)".

"Industrial growth therefore brought about the growth of small, large and intermediate. The comparative scopes of each changed transversely through industries and nations with forms of concentration. French fabric companies, for instance, happened manufacture extra high-end goods as compared Britain or U.S.A., therefore, they were on averagely small. However, Kinghorn, & Nye, (1996) posited that SMEs were vital components of the economies especially at the start of the 20th century. In Germany, the typical proportion of workers in firms with 50 workers and more ranged between in 13 food producers, 38 in fabrics, 70 in chemicals to 98 in iron and steel. In France the proportions were smaller: 8, 46, 64 and 100 correspondingly. Though in United States of America, the proportions were higher, the SMEs were also more. The normal number of workers in firms which employed 50 employees, formations retaining 50 workforces or extra in such businesses 123, 199, 138 and 576 correspondingly suggested that medium-sized firms were low (Kinghorn and Nye 1996). Furthermore, large-sized firms became dominant and vital in the USA's economy especially in the 19th century, small-sized firms expanded at a fast pace (Atack 1987).

"In East Africa, SMEs were initiated during 1930s after the advent of Rupees. At independence time 1962, the businesses fostered economic growth of the county though SMEs faced trials with the management roles. Much as the traits and nature of small firms in East Africa is different from nation to nation and sector to sector in their respective industries and the same applies to how the

SMEs are defined and so is the allowed explanation of SMEs (Rumumba, 2015). Every SME in East Africa needs a business plan, though they have inadequate entrepreneurial skills and several lack the business plans but believe they can survive even though they don't have a plan (Rumumba, 2015)".

"In Uganda, SMEs played a vital role in the starting of cooperative societies during 1940s, 1950s and 1960s. By then country-wide policies were not in place to guide the operations of SMEs. However, currently SMEs contribute close to 70% of the economy and their input towards the GDP is 20% and SME business has continued to grow.

1.1.2 Theoretical Background

"This research was underpinned by the credit risk theory advanced by Melton (1974) and Theory of Financial Intermediaries by Scholtens & Van Wensveen, (2000). This theory was used since researchers because it plays vital role in credit management (manage credit risk and manage operating costs). One of the major risks that microfinance institutions in in Makindye division face is from borrowers who default on their obligations to the institution. This theory assumes that microfinance institutions ought to think of the capability of a borrower paying back before the loan is issued to them. Consequently, the Risk theory presupposes that, credit risk possess adversative consequence on the profitability of a firm. Credit risk theory connects the importance of microfinance institutes management to address operative jeopardy and the investment nature of the business and the possessions of a business. This study used operating expenses ratio (OER) of SMEs, portfolio concentration ratio (PCR) of SMEs, to assess the financial risk of the borrowers in Makindye division".

Since the sector of Microfinance plays an intermediate task of improving the growth of Uganda by their happenings like soliciting savings, loans recognizing virtuous investment and employing comprehensive firm control. The competence of microfinance institutions where they work is based on a couple of aspects like extent of competition within firms in existence and kind of policies governing the competition contributes a bigger technical effectiveness in deposit, reduce rates of borrowing, increased rate for those that deposit and a diversity of services. These in totality surperse other sectors in the economy, regulating microfinance activities. Therefore, using this theory, the study assessed competition environment of financial institutions in Makindye division and if it has resulted in more technical competence in deposit institutions, reduced rate for those borrowing and a greater variety of services to SMEs".

1.1.3 Conceptual background

The study is guided by the microfinance financing which is the independent variable and SMEs business performance which is the dependent variable. These are the two variables used in the analysis of the study. As discussed below, every variable has been conceptualized differently by various scholars. For instance, according to Taiwo, Agwu, and Benson (2016) microfinance financing is "small-scale financial services for both loans and deposits at hand for persons and homegrown clusters in developed nations in village and urbanized areas, who run certain businesses; run SMEs where products are manufactured, reused, revamped or traded; deliver services; target salaries or commissions; earn income from renting small amounts of land, vehicles; Mbithe, (2013) notes that in order to help SMEs enhance their performance, microfinance should also help business with services like training to improve their market efficiency and ensure that SMEs become self-sustained and thrive. In a nutshell, microfinance should provide a comprehensive services package to small and medium-sized companies which include lending, savings, financial education or training to help them grow and met their targets".

"On the other hand, Morgan (2012) described business performance as "an enterprise's actual output or outcomes as evaluated in contradiction of its envisioned productions (or objectives and goals)." Amornkitvikai and Harvie, (2016) evaluated business performance of SMEs by using financial ratios like profitability, liquidity, market, and debt ratios. However, they are just the last success metrics, and in fact, they are determined by their production and competitiveness and by change in input and output prices. Furthermore, when SMEs access credit from MFIs they enhance their efficiency in terms of improved profit, productivity, staff, organizational size, sales turnover/sales growth, market growth, diversification, business capital and assets (Madole, 2013)".

"In the study, the concept of microfinance financing will be explained in three dimensions; which are loan services, savings and financial education/ training and how they affect the performance of SME business in terms of sales revenue, profitability, market growth and productivity".

1.1.4 Contextual background

"This study was done in the Makindye division, which hosts several SMEs and it is reported that they are in operation with limited access to credit services, (Babirye, 2018). This is in addition to the fact that there are few microfinance institutions in Makindye Division with limited opportunity for SMEs to grow since many banks in Makindye division desired to apportion their capitals with to big initiatives instead of SMEs (Nakintu, 2021). This is justified by big-sized firms that pose a less risk of failing to pay and they have well prepared financials. Though, small firms in Makindye division, pose more risks since those lending to them lack well prepared accounting documentation (Nakintu, 2021). However, the importance of microfinance financing to the SMEs cannot be over emphasized. Lince, (2011) agreed that the SMEs need a stable financial enhance their business performance".

"Despite the fact that there is, literature on SMEs in Uganda (Tushabomwe-Kazooba, 2006, Ernst and Young, 2011; Ishengoma and Kappel 2008; Namatovu et al.,2010) there is still a gap in the studies on microfinance financing potential that supports the success of SMEs business performance in Makindye division. Uganda Bureau of Statistics (2017) indicates that access to credit by SMEs in Makindye division has constantly sited by scholars as a big hindrance to the division. A shared elucidation for the suspected limited access to loan by SMEs in Makindye division is incapability to promise satisfactory security (Nakintu, 2021). Despite SMEs strong interest in credit, profits orientation may deter microfinance institutions from supplying credit to SMEs because of the higher transaction cost and risk involved (Nakintu, 2021). For starters, it is hard for banks to gent data needed to evaluate the risk of a novel unverified venture particularly due to triumph of small firms normally depends on the capability of the businessmen and the chances of failure for naval ventures is relatively high (Uganda Bureau of Statistics (2017). However, in view of the crucial role of microfinance services in the development of SMEs in Uganda, a research on the relationship between microfinance finance and the efficiency and organizational performance of SMEs was carried out in the Makindye Division.

1.2 Problem statement

Microfinance institutions are seen as best foundation of financing for the small and medium-sized businesses, Microfinance institutions allows business to grow, improve their services and develop, (Babirye, 2018). This is also pointed out in the microcredit theory which elaborated that SMEs can perform well if they have organized credit facilities such as microfinance institutions to avail them with services. The Government of Uganda has geared its efforts towards developing and expanding the outreach of microfinance services like banks, Uganda Investment Authority , SACCOS, and others financial outlets; to the SMEs in areas including Makindye division, (Turyahebwa, Sunday & Ssekajugo, 2013).

“Despite all these measures, there is persist failure of SMEs in in Makindye division (Uganda Bureau of Statistics (2017). There has been only a slight increase in the growth and performance for instance 90% of SMEs fail in their 1st year because they lack access to finance, (Arinaitwe & Mwesigwa, 2015). The performance of SMEs remains slow and do not meet the expected targets of the country (Ssewagudde, 2018).

The study by Matovu (2010) which cited the Global Entrepreneurship Monitor Report, 2009) indicated that over 90% of small and medium-sized businesses collapse before a year, and those that manage to survive after a year, over 60% cannot last for more than 5 years, among other factors ingress to finances is one of causes for their failure. Sustainability of SMEs in Makindye division has deteriorated because many firms cannot afford most commercial banks' lending rate of 24%. In addition, this research cited findings from Babirye’s (2018) thesis on "the effects of microfinance services on the growth of small and medium-sized enterprises in the Makindye division," which were consistent with the GEM report statistics, showing a slump in the growth of several small businesses in Kampala. Very few have increased their sales, profits or even opened other branches, and very few have grown. Whilst several factors are causing SMEs to fail in their growth, insufficient finances and limited ingress to financial travails loans, deposits, training are noted as the major challenge. However, few similar studies for instance Annet, (2018) explored whether MFI affected the development of SMEs in Rubaga division that revealed that microfinance institutions provided financial facilities in terms savings services, small loans services and insurance services that helped in the development of small and medium enterprises.

As a result, entailed in the study is to fill the existing gap about whether microfinance financing affects the performance of small and medium-sized enterprises using Makindye as the case study. This report explored the relationship between the financing of micro-finance and SMEs in the Kampala Uganda Division in Makindye.

1.3 General objective

The general study objective was to investigate the relation between microfinance financing and business performance of SMEs in Makindye division, Kampala District

1.4 Specific objectives

- **i.** To examine the relationship between loan services and business performance of SMEs in Makindye division
- **ii.** To examine the relationship between savings deposits and business performance of SMEs in Makindye division
- **iii.** To establish the relationship between financial education/training and business performance of SMEs in Makindye division
- **iv.** To establish the global perspective of credit policy in Microfinance Institutions

1.5 Research hypothesis

- **i.** There is no significant relationship between loan services and business performance of SMEs in Makindye division
- **ii.** There is no significant relationship between savings deposits and business performance of SMEs in Makindye division
- **iii.** There is no significant relationship between financial education/training and business performance of SMEs in Makindye division

1.6 Study scope

The scope of a study explained the parameters within which the study will be operating. It also defined the study content which entailed microfinance financing as an independent variable and performance of SMEs as the dependent variable. Given the fact that this was a cross sectional study time scope was not documented.

1.6.1 Geographical scope

Investigations were carried out in the division of Makindye, Kampala. This location was chosen because the researcher intended to establish how SMEs have access to microfinance resources and if they have affected their business success.

1.6.2 Content scope

This study done in financing of microfinance and the performance of SMEs in Makindye Division. The study conceptualized three-dimensional microfinance funding factors which included loan services, savings and financial education/training, looking at how these factors influence SMEs profitability, the revenues, market growth, productivity and organizational scale. The main aspects of business performance among small medium-sized companies are business growth and profit making. The profitability of the company is desirable for the company's long-term survival and relies on access to finance and management that increases demand, competitiveness and size (Namatovu et al., 2010). This research tested whether the access and use of resources from microfinance institutions affected business performance using the case study of the Makindye division.

1.7 Justification of the study

Microfinances have been widely analyzed in regards to their effect on the market efficiency of SMEs, (Haile, Bock, & Folmer, 2012; Anyanwu, 2004; Afrane, &Ahiable, 2016) with few studies being done in Kampala Uganda which has left a research gap. To evaluate the business performance of SMEs and how they are connected to microfinance financing, scholars such as Anyanwu, (2004) Brannen, (2010) and Choudhury, (2011) have reported broad evidence on the challenges of SMEs and the services provided by MFIs. Insufficient proof about the link between in Uganda of the relationship between the services offered by MFIs and the performance of SMEs. This study therefore aims to bridge the gap by examining the effect of microfinance financing between SMEs in the Makindye Division.

1.8 Significance of the study

Findings of the study could show key policymakers and other stakeholders in SMEs, on how financial services by microfinance institutions affect the SMEs performance. This will enable policymakers to develop sound and transparent policies that, through microfinance financing, that will boost the SMEs business performance.

The study findings may also help microfinance institutions find ways to provide their clients with relevant financial services.

The study findings could supplement on compilation of expertise to help donors determine correctly on the future financing for small and medium-sized businesses in developed countries as well as researchers who may plan to conduct microfinance funding and small and medium-sized sector performance.

The study will enable the researcher to improve his knowledge on the finance of microfinance regarding SMEs efficiency. In addition, the researcher can learn the practical aspect of field work and data collection since the study involved interacting with respondents

1.9 Conceptual framework

Independent variable (IV) **Dependent Variable (DV)**

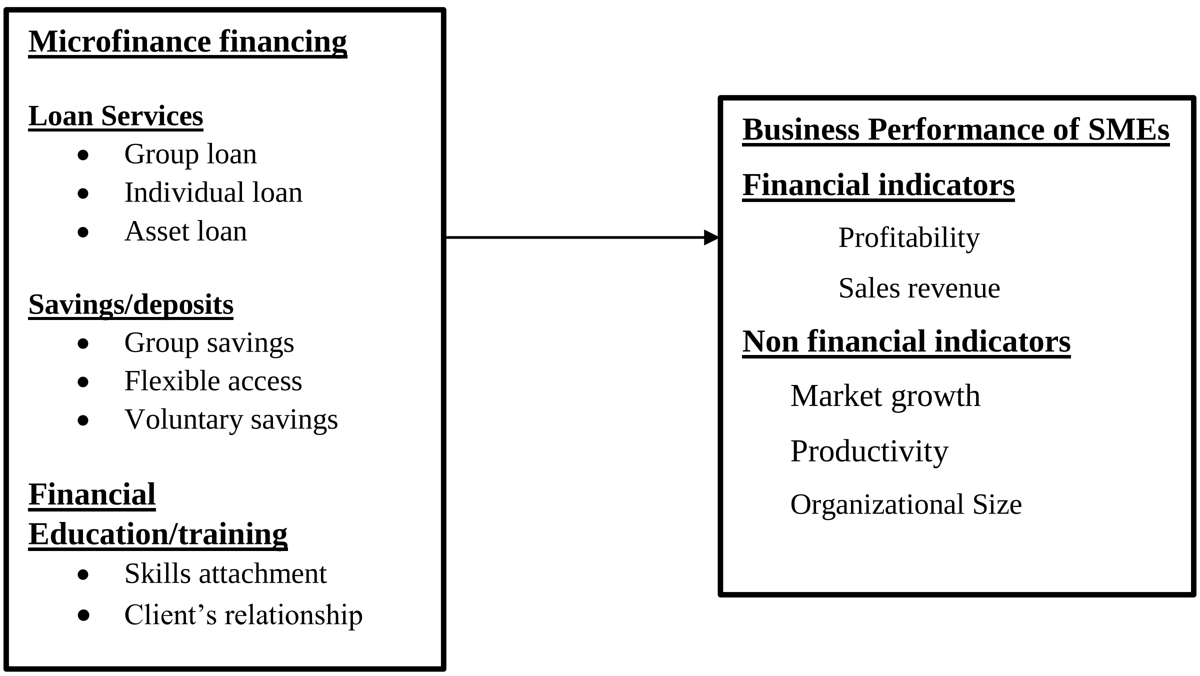

Figure 1. 1: Conceptual framework that demonstrates the relationship between the financing of microfinance and the business performance of SMEs

Source: Adopted from Wilfred, et.al, (2013), Ankrah, & Mensah, (2015)

The conceptual structure explains the relation between the independent variable (microfinance financing) and the dependent variable (performance of SMEs). In the conceptual frame work, role of Microfinance financing is operationalized into Loan Services (group loan, Individual loan, Asset loan, Savings/deposits (Group savings, Flexible access, Voluntary savings), and Financial Education/training (Skills attachment, Client's relationship), (Wilfred, *et.al*, 2013). All these affect SMEs performance. The financial indicators like Profitability, sale revenue, (profitability and sales revenue of SMEs was studied in perceived/perception value, since SMEs are regularly very unenthusiastic to openly disclose their true financial statistics and therefore earlier researchers recommended use of subjective measures. The study used the aspects of differentiation that are mystified between subjective (also known as as apparent performance) and objective measures) and non-financial indicators like market growth, Productivity and Organizational Size (Ankrah, & Mensah, 2015) were also considered because financial performance measures such as Profitability and sales revenue are considered trailing measures of performance. By themselves these metrics do not adequately capture a SMEs strengths and weaknesses, (Ankrah, & Mensah, 2015)

1.10 Operational Definitions of Key Terms

Microfinance: According to World Bank's denotes "Microfinance" as such services which several financial service providers offer underprivileged customers. More approximately, microfinance denotes an undertaking that envisages state where the underprivileged families possess permanent admittance to a variety of high-quality and inexpensive financial facilities provided by a variety of merchandizing workers to finance income-making facilities, put in place assets, soothe undertakings, and guard in contradiction of jeopardies (CGAP 2012)."

Financing: This is the process by which business operations are provided, bought or financed. Financial organizations such as microfinance agencies are committed to providing tools for firms, clients and stakeholders to assist in meeting their objectives. In every economic framework, the use of financing is important because it enables SMEs to buy products outside their immediate reach (Hayes, 2019).

Small medium enterprises: A small corporation has an annual maximum sale/income in Uganda of 100 million shillings and a cumulative wealth of up to 100 million Uganda shillings and has an occupational base of a minimum of 5 and 49 workers (Ministry of Finance, Planning and Economic Development, MFPED, 2008) And a medium-size company, with an annual turnover not exceeding 360 million Uganda Shillings, is described as 50- 100 employee company (MFPED, 2008) and an asset not greater than 360 million Uganda Shillings (MFPED, 2008).

Business performance: defined as achieving quantified targets in terms of output. What people do and how they do it. Sales growth, new market development and products can measure the company's performance (Taglianvini et al, 2012).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

"Th chapter presents the theoretical reviews and empirical literature review based on the objectives of the study; to examine the relationship between loan services; savings deposits financial education/training and business performance of SMEs and further reviewed the conceptual variables of Microfinance financing, Business Performance of SMEs as discussed below".

2.1 Theoretical review

The theoretical review defines and introduces the theory that explains why the research problem under consideration exists. Theories reviewed in the study acted as a road map for constructing the arguments in your own work.

2.2.1 Credit Risk Theory

Credit risk theory was utilized advanced by Melton (1974). One of the major risks that microfinance institutions in Makindye division face is from borrowers who default on their obligations to the institution. The use of this theory is that microfinance institutions look at the capability to repay by the person/organization borrowing before giving them the borrowed money in Makindye division. Merton, (1974) revealed that a close connection exists between the inability to pay risk and assets a firm possess. The Merton theory offers an operational association between the non-payment menace and the properties of a firm. Firms can be categorised as those which cannot to pay if the value of their resources are below their unsettled debt. In such situations, the moneylenders receive payment which is equal to the resources and the shareholders don't receive any penny. Consequently, owing to that theory, credit risk possesses an adversative consequence on the cost-effectiveness of a business".

"From similar findings, it was hypothesised that a financial asset bound to be affected by a credit risk when it is mature and its whole life (Longstaff& Schwartz, 1995). Credit portfolio administration is yet another aspect to ponder on. Likewise, credit risk theory associates the importance of microfinance establishments administration to manage operative jeopardy together with investment structure of a business's resources. Therefore, Operating Expense Ratio (OER), Portfolio Concentration Ratio (PCR), Bank Leverage Ratio (BLR), and cost to income ratio (CTIR) as measures of operation efficiency of SMEs in Makindye division, (Gadzo et al., 2019; Kingu, 2018)".

The microfinance institutions, in view of the dispersal of non-payment perils crosswise the populace of debtors, could discover it lucrative to bound debtors' accessibility to the microfinance institutions acknowledgement, instead of permitting those borrowing to choose a size of loans they wish minus any constraint which this study examined in Makindye division. An effort to reimburse for credit risk through increment of rates for people borrowing alongside the loan size is more dangerous than for small firms. They further offer inducements to a borrower to embrace risk behaviour borrower's interest rate increases with the size of loan. One of the reasons that large loans are more risky than small ones, other things being equal, is that they provide incentives for borrowers to undertake riskier behaviour.

2.1.2 Theory of Financial Intermediaries

"The microfinance segment, plays an intermediating role in a given country and they enhance developing and growth of the actions they are engaged in. This is done through saving-mobilization, finding better areas for investing plus applying using comprehensive firm control, especial in times of economic advancement and feeble organizational surroundings. Therefore, microfinance functions include are acquisition of statistics regarding SMEs hence better allocation of resources and performance (Gardi, et al. (2021), Dealing with intersectional inter-temporal and liquidity jeopardy leading to enhancement of effectiveness of investing and growth in the economy, (Babarinde, Abdulmajeed, Angyu, & Abu, (2021), lastly is mobilization of resources to feat advantages of producing on a big scale (Dang, Vu, & Hau, N2021)".

The competence of microfinance bodies where they work is anchored on two vital aspects including extent of rivalry existing amongst firms and the kind of rules they work under. Stakeholders believe that a rivalry is likely to culminate into a better outcome in terms of technological effectiveness with deposit companies, reduce rates of interest for those borrowing and increase the rate for those depositing and a number of amenities altogether greater than the other sectors in the country, hence governing the layout of microfinance activities. It has been observed that the acceptance of a “practical” method to regulate could better satisfy the desires of the economy meant for intermediate facilities guaranteeing the modest, litheness and invention required for a smooth economic system. It is quite dangerous for microfinance institutions to operate in inflation-prone environments especially when they do not have controls put in place officially. The currency generating and currency terminating ventures that may include emphasize cyclonical variation. Those challenges are very much that creating money by microfinance should be guided by rules particularly in every country. This distinguishing feature indicates that usefulness of mediators in the direction of monetary advance is a unique fact.

2.2 Definition of key terms

This section describes concepts relevant to the study or topic and outline a relationship between them, including empirical research.

2.2.1 Microfinance financing

Microfinance is referred to as a growth instrument, according to Mbithe (2013), which offers administrations and goods, such as an outstanding savings fund, little advancement in security and cash movement to help create and grow low-payer organizations. It also applies to the concept of organising small-scale governments, in particular the lower portion of the rural and urban population (Hudon, 2016). Schreiner and Colombet (2014), posited that microfinance is also needed to enhance the access of developing SMEs to small payments and advances abandoned. Therefore, microfinance encompasses the delivery of financial facilities, like payments, loans and insurance, to small and medium-sized businesses, both urban and rural, that they are unable to reach from a traditional financial market to such services.

Olowe et al, (2013) found out that exercises related to microfinance money include: Small working capital advances, for the most part, casual endorsement of creditors and speculations, insurance alternatives, such as collection pledges or compulsory investment funds, access to rehash and big redemption credits, streamlined advance payment and testing and protection. Microfinance offers low-income customers with a wide variety of financial services.

Microfinance aim to advance a welcoming atmosphere for SMEs that permanently access high-quality financial resources, which does not only require credit, though further loans, insurance and banking services in general. Microfinance provides a large assortment of financial facilities that best fits their needs and availability to "unbanked people" working in conventional and informal sectors. This research characterized microfinance funding through lending programs, savings / deposits, financial education and training.

2.2.2 Business Performance of SMEs

Various scholars have come up to attach definitions on what constitutes the performance of SMEs. Eniola and Entabang (2014) explain that this concept of performance tends to have how strategic outcomes which are usually denoted in literature as an enterprise success or failure. Measuring sector market productivity for SMEs would require defining the success and deployment of major performance indicators of the organization in terms of production.

Financial metrics (derived from the company's accounts) are referred to as quantitative measures since they can be calculated and checked separately. The non-financial success metrics of SMES include employee growth, customer loyalty, competitor performance satisfaction and overall satisfaction, according to Harash, Suhail, & Jabbar (2014).

Madole (2013) suggested that MFI's credit improving market efficiency, through increasing in corporate profits, improved staff, higher revenue income, greater divergence, augmented corporate resources and properties, and reduced customer poverty. Availability of funding defines the capability of an enterprise in terms of technological preference, consumer penetration and access to critical services, which, in essence, plays substantial effect on the competitiveness and performance of a firm (Mugunchu, 2013). The mission or purpose of any company is to make money and later to grow or extend its activities.

2.6 Empirical review of literature

2.6.1 Global perspective of credit policy in Microfinance Institutions

"The world-wide financial emergency and following excessive downturn came with extraordinary variations to the world's dominant bank scenery (Blinder 2013). Afterward the worldwide monetary disaster, the desire for credit policy come back (Mamura, 2020). Many central banks around the world are using monetary policy tools, for example, from the World Bank alongside International Monetary Fund, to direct their resources (Calomiris, 2020). For instance, the Bank of England and Bank of Japan’s "Funding for Lending" structures have reinforced SMEs; the European Central Bank’s besieged longstanding funding activities (TLTROs) meaningfully prolonged to deal through the COVID-19 financial calamity are intended at non-economic companies (in particular, SMEs in some cases) and domestic consumption".

"In the period between 2008 and 2009, world-wide economic calamity, conventional macroeconomists looked to have come to a global harmony as regards the roles of central banks and their economic policies (Seccareccia & Khan, 2019). Supple rise aiming, and the autonomy of central banks had brought about a reduction in instabilities and led to macroeconomic firmness in developed financial prudence and several upcoming market frugalities not until the world-wide economic calamity came to an end (Eichengreen et al. 2011). Nevertheless, as a way of responding, to that earlier crisis in finances, and those that followed, big centralized banks world over adopted utilization of several unusual and alternative strategy apparatuses whenever their rates of policy came close zero-lower bound. Several of such plans at first tried to remove monitory market disasters. (Fawley & Neely 2013). A common example is USA’s Federal Reserve’s QE program that encompassed, purchasing of securities funded by centralized banks and creating reserves still owned by the central banks (Di Giorgio & Traficante, 2018). The buying comprised a significant quantity of longstanding safeties, like USA securities as well as and long-term-funded securities (MBS). It was majorly aimed at putting tension on its main goal which was to put downward pressure on enduring profits to back financial progress (Nelson, 2012).

"In USA, the excessive down-turn prompted a lengthy gumshoe on USA’s economy via bequest of the housing government-sponsored enterprises, (Coomes, Abizaid, Breau & Moore, 2022). Such organisations culminated into preconception of the provision of US house-credit. In that regard, this light, the National Reserve's adequately talked of unusual fiscal strategies could be as extraordinary as regularly understood, meanwhile to a substantial extent comprised a state Reserve embracing the function of similar government interventions have been resounding out right from the Excessive Depression.

"In the UK, the Bank of England took on a sequence of resources buying especially state debts, through resource purchase capacity starting in March 2009 (Bank of England 2014). In July 2012, the BOE came up with Funding for Lending Scheme (FLS) to offer enduring, low-interest reserves to banks aimed at boosting SMEs. Besides, the European Central Bank (ECB) began by spreading the variety of security it takes for financial operations then, in 2015, purchased €60 billion in bonds from banks every month.

"In Asia for example, the Bank of Japan, in April 2013, publicized a package of measurable and qualitative used in doubling the financial base, a prolonging of the anticipated normal maturity of Japanese state bond acquisitions, and an increment in centralized bank acquisitions of perilous properties like stocks. Besides, in Asia after the world-wide economic disaster, the Bank of Korea reinforced its credit policy by means of the Bank Intermediated Lending Support Facility, which focuses on inspiring moneymaking banks to provide additional funds to SMEs. In this arrangement, the BOK provided reduced-interest loans to banks so as reimburse for the extra credit-risk expenses related to bank advances to SMEs besieged by inaccessibility to finances, during sufficient combined liquidness, as a result of too much ambiguity in monetary marketplaces and hazard distaste.

If a nation has borrowed from the IMF, it decides to abide with the world-wide policies of IMF (WEO, 2021). Such policies changes are situations for IMF credits and assist in ensuring the nation would easily payback (IMF, 2021). This scheme of conditionality is intended to endorse nation-wide proprietorship of robust and actual strategies. The IMF sporadically evaluates the performance all plans. The greatest fresh 2018 analysis of seheme Design and Conditions offers an all-inclusive assessment of Fund plans right from the world-wide economic crisis. The assessment period of 2018 saw several organisational trials for great parts of the association, and the hard duty of undertaking them was worsened as a result of constantly feeble world-wide atmosphere. To advance money-policies, triumph and policy achievement and risk reduction and the findings suggested plans to better the practicality of forecasts, improve duty sustainability scrutiny, improve the value of economic alliance, and advance the making of organisational circumstances. Throughout the COVID-19 disease, several countries that are members asked for unforeseen fund support.

2.6.2 Microfinance loan services and SMEs performance

"Khan, MSiddique, Sarwar & Nadeem, (2020) posited that debt financing refers to money that people borrow from microfinance institutes, to sustain SMEs actions. The finances that they borrow with specific circumstances of the person lending and sum comprised the actual amount and additional charges (interest). Debt finance is evaluated by finance utilization, maintenance of the resources as well as the reimbursement time. Yousef, et al (2022) reports on the role of microfinance in financing SMEs and identifying the main obstacle faced by financial institutions in obtaining funds. The study confirms that microfinance financing is playing a vital role in SMEs performance and lack of financial information of SMEs is the main obstacle for financial institutions to grant them loans".

"Bassey et al., (2014) study has shown that loan services by Microfinance financing **posed an** encouraging influence on SMEs performance. Microfinance funding further creates a constructive influence on several macroeconomic construct advancement (Ayuba and Zubairu, 2015). Ubesie et al. (2017) established the influence of microfinance advancet on SMEs progress. The results did not establish a significant effect on SME growth, yet for private practitioners, a significant influence was established on SME growth. Outcomes showed that Microfinance rates of interest pose a big impact on advancement of SMEs. Profitable funding contributed tremendously to the growth of SMEs and recommended government to assist SMEs with finances in form of loans. Besides, research indicates that novel businesses are more vulnerable to providing admittance to Microfinance financing due to unavailability of information and still those novel firms possesses less-valued resources due to being unable to microfinance finance quickly (Ferri and Murro, 2015). Kirschenmann (2016) resolved that novel business are further more probable to have finances limited since they were not given loans by financing. As result, it is hard-hitting for the Microfinance to estimate the loan compensation antiquity". In their study, Olowe et al. (2013), indicated that money received in advance from MIF significantly influenced the growth of SMEs yet the period of the credit did not significantly influence growth of SMEs though it was positive. Nigeria. They further established that increased rates on loans and required security for borrowing and reimbursement are bound discourage the progress of SMEs in Nigeria. In that regard, they concluded that the loan period poses a positive yet substantial influence on SME advancement, meaning that when the sum of a loan increases, there is an increment in performance but interest rate, loan refund and credit security pose a undesirable and substantial effect on firm advancement.

There is a robust association between credits and the performance of SMEs. The advancement of SMEs is much affected by limited access to finances and it bars them from acquisition of novel technologies which could position them in an advantageous position to compete (Devi, 2013). Micro finance financing assists SMEs in accounts, financial management and entrepreneurial skills required to abide with nationwide accounting standards, necessities as well as unsurpassed practices. Hence leading to a progress in performance of SMEs (UNCTAD 2002). Okpara and Wynn (2007) contend that those entrepreneurial ventures that possess the ability to grow from small to medium size are they that can show ability to develop Kuzilwa, (2005) undoubtedly revealed that the connection between credit and development of firm hence, reinforcing their desire to get credit for their entrepreneurship activities. SMEs normally often work for a shot-lived period of time and hence the need for non-prolonged loans in minute portions to foster running of their activities.

"Christopher, (2020) carried out a survey to establish the influence of microfinance on SMEs in Nigeria and sampled 100 firms. Findings revealed that microfinance loan were of a great benefit to SMEs, much as a few of them could securely access sufficient credit. The study concluded that loans issued by microfinance firms tremendously plays a role on boosting performance of SMEs through commodity novelty, market share, obtaining excellent markets and wholesomely a competitive edge. Relatedly, in his survey, Abiola, (2012) revealed that accessing credit doesn't necessarily translate into growth of SMEs. Therefore, reviewed literature revealed inconclusive results on the influence of Microfinance loans on SMEs' performance.

"Devi, (2013) also established that one of the commonest challenges of business operators are funds especially if they are not availed at an affordable cost and preferable time. In a similar event, Adams and VonPischke (1992) identified that inadequate finances is another obstacle entrepreneurial ventures face besides inflationary tendencies in products, high -costed input material and limited earnings. This is so due to the fact benefactors and governments can provide loans instead of providing extra means of support. This is the overriding motive for coming up with several small-firm loans arrangements. In other developments, Abiola, (2012) noted that gaining credit is not a guarantee for growth among SMEs, but the size of a firm was identified to have a substantial positive influence on SME development. They stressed the role of increasing facilities to investments for proper monetary institutes using a couple of means including; establishing credit institutions that can offer credit in small bits effectively, coming up with innovative ventures to help the less-advantaged people to afford credit and establish long lived associations with loan issuing firms.

2.6.3 Savings and business performance of SMEs

"Savings help microfinance target of possessing a wide-scale access to resources so as to offer loans to customers (Bezboruah, 2022). It was envisioned that the norm of saving and credit ought to be provided to the reach of clients by such ventures and foster them to obtain fund muscle, advance their firms and play a role in fighting poverty in Uganda (Uganda Bureau of Statistics (2017). Microfinance institutions in Makindye aimed to assist and empower less-paid entrepreneurs to have access to such facilities (Uganda Bureau of Statistics (2017). The most cost-effective basis of finances that SMEs borrow is that money deposited in such institutions (Nwoye, 2018). There is no dought to the fact that clients' deposists in microfinance firms turns out to be the fountain of loans SMEs take. Due to the kind of credit small firms can access, many just borrow short-period credit and others and others operating finances (overdraft). Prior to applications for a lone, it is a must requirement to present a business plan as a satisfactory evidence that a loan can be serviced and reimbursed in case it is provided. The motive of the offered credit will give a picture of the kind of loan to be offered. Should the amount be more than what management deems secure to offer, or it is risk-prone, then the management can require a collateral security. "Ogebe, Ogah, & Dzever, (2020). This research studied the empirical evidence of the effect of a loan on savings in SMEs and their growth. The population size comprised documented SMEs in Kwara, Kogi, and Niger. It employed purposive sampling and 238 were selected by simply sampling on a random basis. They were broken into 186 customers, and 52 workers. Correlation and regression analysis were computed, and findings revealed that customers and credit institutions depositing, requesting for accounts in the bank were ranked on high, much as clientele further showed that their access to credit was attached to improving on their savings with the banks so as to be eligible to secure loans from institutions SMEs' long-term financial stability continues with a periodic savings scheme. When a saving component is created, additional savings may be made available for investments providing future returns (Shetty, 2016). Kuzilwa (2005) states that savings to satisfy market requirements ought to be readily available. This means that microfinance savings programs are one of the key elements that enable the SMES' potential to increase its sales revenues. Kuzilwa (2005) argued that the savings deposited to microfinance institutions by small and medium-sized enterprises contributed to the stability of small and medium-sized enterprises being boosted by expansion of operations and growth in financial performance. The undisclosed fact to monetary inclusion is admittance to savings, and the poor use of savings programs is not an indicator of low demand. As they have acquired assets from investments, it has been proven that a good number of companies have grown. Savings are the primary source of financing for economic development since they are less expensive than loans on which many MFIs depend, are a reliable source of funding and boost the public image and trust (Ahlin, Lin, & Maio, 2011). During the loan period, access to savings by SMEs at any time they choose from MFIs is important for financial inclusion and helps to accumulate assets and boost the efficiency of SMEs, (Ahlin et al., 2011).

In the culture of the enterprise, the influence of saving is visible as it instills a strong demand-oriented market model, establishes the optimal corporate culture, allows MFI to increase the selection of goods and service quality, and offers an atmosphere for efficient financial intermediation. Knowledge that SMEs need a number of financial services, including loans, deposits, financial education, money transfer and insurance provided by microfinance, are key problems in the mutilation of microfinance savings (Ekpe, Mat, & Razak, 2010). It is a strong instrument for wealth building and for the absorption of external ties and financial shocks. Microfinance requires the development of a financial sub-system supporting SMEs, and its architecture could easily be incorporated into the nation's financial system. In their research, Ekpe et al. (2010) observed that, owing to the simple and efficient deposit and collection facilities of microfinance institutions, SMEs were encouraged to save and this greatly enhanced the financial efficiency of SMEs.

2.6.4 Financial education/ training and performance of SMEs

"Several studies established a substantial positive association between microfinance training and the performance and growth of SMEs. Kyeremateng, (2012) deliberated on the influence of training among small firms and loan reimbursement (payment) in Ghana and this found out that a positive association existed between training and repayment on loan. The motive of training/educating an business person is to acquaint them with responsibility, ability to come up with tactical choices and empower them to pick a leaf from their successes and flaws (Tendai, 2014). Additionally proprietors of firms understand how to manoeuvre hindrances they face as well as boost their entrepreneurship beliefs as well as development of their firms' successes. Nuel & Chika, (2022) found out that SMEs operators that were trained succeeded more and could qualify for loans as compared to those that had not been trained.

Findings further came up with inconclusive resolutions on the association between entrepreneurial train ship and entrepreneurial development. For instance, Black et al. (2019) found out that the link between corporate productivity and training was positive and achievable in large firms owing to the fact that they offer additional training to each employee as compared to small firms. Entrepreneurial train ship is important at the smallest level of a firm due to its ability to deliver monetary growth using gathering personal resources (Bryan, 2016). The accretion of wealth brings strengthens the competition and advantages SMEs at the lower level (Bryan, 2016). When an enterprise proprietor gets trained, there is enhancement of the limited skills challenge that may exist. Among SMEs operatives. Train ship in entrepreneurial skills leads to distribution of adequate information to boost performance. Therefore, when owners and managers are trained, they are exposed to sufficient internal and outside firm environment (Mescon, 1987; Webster et al., 2015). Information learned through entrepreneurial train ship minimizes failure and maximizes productivity of a firm (García, 2015; Mahmood & Rosli, 2013). This prompted Othman (2015) advice that microfinance and other financial institutions ought to stimulate effective train ship among SMEs to understand how to access and borrow as well as use the credit they receive.

Akpan & Nneji, (2015) found out that facilities provided by microfinance firms like advice on loans before providing them leads to enhancement of SMEs. Therefore, such institutions ought to encourage, rally, and offer monitory and technical backup to SMEs and any other category that takes loans through capacity building and educate them on records maintenance, and managing of their firms. Thus, the desire to constantly offer train ship services to firms on receiving their credit.

"Fauster (2015) inspected the influence of microfinance firms on firm performance in Ghana and revealed a substantial affiliation between training by lending institutions and firm performance, the study computed analysis of variance and utilized correlations particularly Spearman’s rho.

Additionally, Anane et.al, (2013) studied the influence of lending firms on firm performance in rural Ghana and found out that and this found a positive substantial association between the two variables under study.

Much as a plethora of studies have has been established, a substantial number of them revealed that indeed a positive association between small firm performance and credit training existed. Wilfred et al. (2013) studied the effect of microfinance firms and progress of small firms in Uganda and found out that train ship skills, counselling, and social responsibility literally had no association with creation of jobs. Vijaykumar and Naidu, (2015) evaluated the bearing that of microfinance training has on the earnings and entrepreneurial. This study also didn't find a variance between those that attended a training and those that didn't when their incomes and competences were compared.

Mahmood and Rosli, (2013) carried out a survey on the influence of loans on performance of SMEs in Malaysia and found out that training was a substantial aspect needed to increase SME performance. Increasing and further, loan facilities alongside saving could not single handedly improve performance of SMEs. Haile et.al, (2012) showed that exterior assistance to MFI SMEs, like groundwork and practical assistance, is a requirement for enhancing the market efficiency of SMES. In their report, they argued that SME owners have acquired financial discipline and improved financial management as a result of the financial training given to them by MFIs. In particular, the incorporation of the training components was justified for effective credit usage and boosts the productivity and profitability of entrepreneurs, as well as the need to overcome a range of non-financial barriers they could face. However, financial planning requires an understanding of basic economic and financial concepts, as well as the potential to utilise knowledge and other financial skills to deal effectively with financial resources over a period of financial well-being.

For example, lessons learned from an emphasis on financial knowledge will help guide knowledge-based financial education, but will only be seen as one factor in the design of behavioural interventions. Haile et al. (2012) argued in their report that SME operators who usually attended financial education and training sessions arranged by MFIs increased the efficiency and development of their small and medium-sized enterprises. Berger (2007) found out that they are more likely to rely on other financial talents, awareness perceptions, behaviours and environmental factors.

The training serves as an eye opener on the ways in which small businesses that are unable to do business every day and take care of small amount of money they earn and invest with regard to the objective effect of training programs provided by MFIs. The preparation of financial management operators for SME operators offered small business development and a contingent variable of profitability as the starting point for equipping future entrepreneurs with financial management expertise and essential business skills. It was undoubtedly beneficial for SME operators that the acquisition of financial management skills and core business skills led to increased investments in enterprises and the repayment of loans eventually taken. MFIs provide the people taking loans to enterprises with financial training and education services to ensure the repayment of the loans through smart investment (Kennedy, 2010). From past MFIs' engagement with small firms, consultants have tremendous impact on small-scale traders, as they are informed of the dramatic or advantageous steps that their companies are taking so as to allow growth.

2.7 Conclusion

Policy makers have emphasized the role that microfinance institutions play in enhancing the efficiency of SMEs worldwide, (Harash, Al-Timimi, & Alsaadi, 2014). Studies have been conducted a study to assess the impact of microfinance on SMEs performance and most studies reveals that MFIs loans benefit SMEs (like; Abiola 2012; Christopher (2020). However, access to microfinance does not augment the progress of SMEs. Consequently, the reviewed publications indicated that loan facilities had inconclusive and mixed influence on predicting SME performance study. The relation of micro-financing finance with SMEs in Uganda is less empirically obvious. Nevertheless, the relationship between loan programs, savings, financial education and training has not received sufficient attention, leaving a research void. All these discrepancies have raised the question of "what is the role of microfinance financing in the performance of the business of SMEs?" which this study answered.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covers the research design, to the study, population size, sampling techniques, and sample size, data collection methods and instruments, quality control methods, management and processing of data, interpretation of data, ethical issues and limitations of study.

3.1 Research design

The study applied a cross sectional research design involving data that is gathered just once. A cross-sectional survey is also suitable for such a study that collects information at a given point in time (Berrone, 2014). This design is advantageous because it avoids several hinderances regarding the use of data drawn from various points in time. The study also adopted quantitative and quantitative research approaches where numerical data and words were used for interpretation and analysis of findings.

3.2 Study population

Kothari (2004) describes sample samples as a group of people that have similar characteristics and who are involved in a specific investigation from the general population. According to KCCA Registered Businesses Data Base (2019) there are over 200 SMEs registered in Salaama road Makindye Division which will be used as the study population. The study considered SMEs with service-based business, SMEs engaged in trade and commerce and SMEs engaged in manufacturing

3.3 Sample size

The research has taken a survey of 133 respondents out of a study of 200 participants using the Slovenian method for computation of the sample size.

$$n = \frac{N}{1 + Ne^2}$$

Whereby n=sample size, N=Population, e=confidence level (0.05).

$$n = \frac{N}{1 + N(0.05^2)}$$

$$n = \frac{200}{1 + 200(0.05^2)}$$

$$n = \frac{200}{1.5}$$

= 133 respondents

3.4 Sampling procedure and Techniques

In order to meet the study respondents, the sampling procedure included the use of probability sampling techniques. Simple random sampling was utilized. The basic approach used to choose from a wider population a group of subjects (a sample) is simple random sampling (a population). Each one is absolutely chosen by chance and every person has equal opportunities to be included in the survey (Emerson, 2015). This method was used because it is extremely speedy, easy, readily available, and cost effective. The SMEs from Salaama Road Makindye Division were randomly selected basing on the fact that they are many and have relevant information about the subject under study. Salaama Road was selected because there are several SMEs located along the road which the study explored.

3.5 Data collection sources

They included data that are already collected and data that will be collected during the study.

3.5.1 Primary source

Primary data sources included information directly obtained and analyzed by the researcher, for example via questionnaire surveys conducted on SMEs with service-based business, SMEs engaged in trade and commerce and SMEs engaged in manufacturing. Primary data was used because they are authenticity, specific nature, and up to date information.

3.5.2 Secondary sources

Secondary data sources included information retrieved through preexisting sources: Secondary data was collected in this research especially in literature. It was used to complement the primary data already collected. Reviewed material came from Journals and Manuals, published reports, published articles, and newspapers. This helped in accessing appropriate information. In this, references from which the knowledge was extracted were recognized

3.6 Data collection methods

3.6.1 Questionnaire survey

A questionnaire refers to inscribed series of inquiries utilized to gather data on the research goals from the survey population (Amin, 2005). The supervisor reviewed the questionnaire tool, to ensure that it meets the stated objectives. The questionnaire was used because it was less costly. Within closely specified alternatives, the respondents reported their responses. This method of questionnaire helped to collect the details and data on the subject of the analysis. The questionnaires were distributed by hand to the respondents in this sample. The questionnaire was subjected to the managers of SMEs in Salaama Road Makindye Division.

3.6.2 Documentary review analysis

Document review analysis included the study of current documents reported and unpublished on the issue under investigation (Amin, 2005). Publications and reports were reviewed in the analysis. In this report, sources from which information was drawn were acknowledged. Secondary sources define, address, view, comment on, examine, assess, summarize, primary sources and process them.

3.7 Quality control (Quantitative Studies)

Quality control denotes to the efforts and measures that survey researchers put in place to guarantee the quality and correctness of data collected with the use of chosen methods for a specific survey which include validity tests and reliability.

3.7.1 Validity

Validity is to the degree to which questions in an instrument accurately assess the variables in it (Heale, & Twycross, 2015). Two expert judges were employed to measure the validity of the content in the research instruments at an average alpha coefficient of 0.70. The results of the two experts were as shown below;

$$\text{CVI} = \frac{\text{Number of relevant items in the research instrument}}{\text{Total number of items in the research instrument}} \quad \frac{39}{42} \quad = 92.9\%$$

3.7.2 Reliability

Reliability implies the degree to which a series of variables is consistent with the measurement, as per Drost (2011). This means that the experimental instruments are capable of recollecting information, i.e. that people will go to the field for the same study and achieve the same findings as the scientist. Analysis and pre-testing have done this. The analysis was conducted to decide whether a pilot study of the questionnaire will give the research good results. The Cronbach Alpha Index was subsequently computed to evaluate the efficacy of the instruments with SPSS

Table 3.1: Reliability test using Cronbach's Alpha

Cronbach's Alpha	N of Items
.922	35

The results from Cronbach's Alpha test present a coefficient of 0.922 which is above recommended 0.7, therefore, the tool was reliable for the study.

3.8 Data collection procedure

An introductory letter was sought for approval and agreement to collect data was issued from the University of Kyambogo (KYU). The introductory letter was attached to the questionnaire, to provide a brief introduction to the subject. Then the letter holder presented himself and explained the purpose of the study to the respondents. The researcher advised them that the study was free to quit, without feeling guilty or offering excuses at any point, after respondents agreed to participate.

3.9 Data analysis

After collection, data was, stored, coded and analyzed with the help of Social Sciences Statistical Program of (SPSS). In order to give statistical significance to the items, numerical codes were added to each item. It was then presented and translated into percentages and means and standard deviation into frequencies. Presentation of data was descriptive involving graphs, pie charts and distribution of frequencies to give a detailed description that gave reasons for particular data findings. Testing the relationship between was done using a non-parametric test of Spearman’s rank correlation, because they were measure using ordinal scale. Regression analysis was also used for the estimation of relationships between a dependent variable (performance of SMEs) and independent variable (microfinance financing) to evaluate the magnitude of the link between variables.

3.10 Ethical considerations

Ethical considerations refer to the values of study that were adhered to when the research study was performed. Conducting research studies in line with higher moral standards is often wise. For that reason, during the course of the analysis, the identification of individuals from whom information was collected was strictly confidential.

Without his or her freely given consent that he or she would participate in the research, no person was a subject of the study. Therefore, based on information or data obtained from respondents, this analysis was carried out with the highest degree of honesty. The collected data had no negative/bad influence on the group as a whole.

The researcher ensured that the respondents were not mentioned at any point while currying the study; questionnaires were coded to guarantee anonymity. Informed consent was obtained and suitable documentation was preserved.

3.11 Limitations/Delimitation of the study

During the field analysis, there were challenges, such as failure of some respondents to complete the questionnaires promptly. In order to address this incident, the researcher guaranteed patience and direct participation.

The busy schedule of the respondents was another obstacle. This made it hard for them to answer promptly. In this situation, appointments were used consistently.

Given the fact that SMEs are engaged fulltime serving customers, this made it difficult for data collectors to get timely response in terms of filled questionnaires. To avoid this occurrence, appointment were made to schedule time for the study.

The lockdown due to COVID-19 pandemic was also another challenge faced while carrying out this study since movement were limited and most of the SMEs had suspended their businesses. However the study had to wait until the lockdown was eased to access the respondents and adhere to all the guidelines given by the government aimed at reducing spread of the Novel Corona Virus.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDING

4.1 Introduction

Contained in this section are findings on Microfinance and Medium-sized Small Businesses in Makindye Division in Kampala. The response rate, respondent background detail, research variable insightful statistics and findings are discussed.

4.2 Response rate

The research administered a total of 133 questionnaires and all 133 questionnaires were answered and returned on time, thereby having a response rate of 100 percent. Therefore, this response rate represents an outstanding population of the survey.

4.3 Respondents background information

The population characteristics of the respondents interviewed for their, age group, marital status sex and education level are presented in this sub-section.

4.3.1 Gender of respondents

The research included men and women respondents in Makindye Division who were small and medium-sized company's operators. The results of respondents' gender are provided in Table 4.1 below.

Table 4.1:Gender of respondents

Gender	Frequency	Percentage
Female	46	34.6
Male	87	65.4
Total	133	100.0

Source: Primary Data

Table 4.1 above indicates that (65.4 percent) of participants were males, while 34.6 percent were females. This therefore implies that the study was gender sensitive as it sought views from both male and female. The results further implied that males are slightly more enterprising than females with in Makindye division.

4.3.2 Respondents age bracket

Respondents of various age groups were part of the research, as shown in Table 4.2 below.

Table 4.2: Age bracket of participants

Age group	Frequency	Percentage
Below 20 years	12	9.0
20-29 years	37	27.8
30-39 years	38	28.6
40-49 years	42	31.6
50 years and Above	4	3.0
Total	**133**	**100.0**

Source: Primary data (2020)

The results in Table 4.2 showed that majority of respondents (31.6%) were between 40 and 49 years of age, followed by 28.6% who were between 30 and 39 years of age, and the lowest proportion of respondents (3.0%) were 50 years of age and older. The results therefore implied that the majority SMEs owners in Makindye division are between 20- 49 years of age.

4.3.3 Marital status of respondents

The study explored the marital status of respondents who took part in the study. The research tried to decide whether the participants were single, engaged, married, divorced, or widowed. The findings are presented below.

Table 4.3:Marital status of respondents

Marital status	Frequency	Percentage
Single	38	28.6
Engaged	54	40.6
Married	29	21.8
Divorced	8	6.0
Widowed	4	3
Total	**133**	**100.0**

Source: Primary data *(2020)*

The study revealed that most of the respondents (40.6 percent) were engaged, followed by those who were single (28.6 percent), followed by married with a 21.8 percent share, and widowed with the least number of respondents (3.0 percent). This implies most of the people who own SMEs in Makindye division are not married. This could also imply that such single people start businesses before they get married to establish themselves.

4.3.4 Level of education of respondents

The research also aimed to find out the level of education that most of the respondents had in the Makindye division during the research study. The educational levels studied ranged from certificates, diplomas, bachelor's degrees, masters, and others. The results are set out below in table 4.4;

Table 4.4: Level of education of respondents

Level of education	Frequency	Percentage
Certificate	72	54.1
Diploma	37	27.8
Bachelor's Degree	17	12.8
Master’s	3	2.3
Others	4	3.0
Total	**133**	**100.0**

Source: Primary data (2020)

In Table 4.4, (54.1% had attained a certificate (54.1%), followed by those with diploma (27.8%), while the least number of respondents (2.3%) had attained a Master’s Degree. The findings further meant that the majority of SMEs in in Makindye division are controlled and managed by people who had attained the minimum education standards which exposes businesses with in the area to high financial literacy

4.3 Findings on the study objectives

This segment shows the findings on the study objectives. Before presenting the correlation analysis on each objective, the researcher begins by running descriptive statistics which include percentages, means and standard deviations of different items on each study variable.

4.3.1 Loan services and SMEs business performance

Objective one was to assess the association between loan services and the business performance of small and medium-sized enterprises in the Makindye division. Two variables are identified in this objective namely loans services and business performance of SMEs. Using items scored on a five-point Likert each variable was measured. A mean score result below 3 suggests low Loans services while a mean score result greater than or equal to 3 suggests a high level of Loans services on a particular item of the variable.

Table 4.5: Respondents' perception on loans services provided to SMEs in Makindye division

	SD	D	N	A	SA	Mean	Std. deviation
	Percentages						
The MFI loan terms that are in the market are fair enough for my business	22.6	23.3	21.1	24.8	8.3	2.73	1.286
Credit terms have hindered me from borrowing the amount of money needed for my business	7.5	9.0	15.0	32.3	36.1	3.80	1.234
I am at comfort with loan repayment period	3.0	43.6	18.8	30.1	4.5	2.89	1.017
MFIs have a good & flexible repayment schedule	12.0	22.6	24.1	27.8	13.5	3.08	1.237
I am also able to make good use of the money as a result of flexibility of loan collection processes of MFIs	13.5	12.0	29.3	36.1	9.0	3.15	1.171

Source: Primary data (2020)

The study investigated whether the MFI loan terms that are in the market are fair enough for the business of the respondents. The findings in table 4.5 show that that the MFI loan terms that are in the market are not fair enough for the business operators in Makindye division since most of the respondents disagreed (mean=2.73, Std. deviation =1.286). The majority of the respondents from the study agreed that credit terms by MFIs have hindered them from borrowing the amount of money needed for their businesses (mean=3.80, Std. deviation =1.234). Findings from the Table 4.5, showed respondents disagreement about being comfortable with loan repayment period by a mean score (2.89) below the threshold mean score of 3. The outcomes from the study show that a bigger proportion of respondents agreed that MFIs have a good & flexible repayment schedule (mean=3.08, Std. deviation=1.237).

The study also sought to establish whether respondents were able to make good use of the money as a result of flexibility of loan collection processes of MFIs. The findings reveal that most of the respondents are in position to make good use of the money as a result of flexibility of loan collection processes of MFIs (mean=3.15, Std. deviation=1.171).

4.3.2 Savings deposits and SMEs business performance

Another objective aimed at evaluating the connection between savings deposits and the business performance of SMEs in Makindye division. Savings deposits was measured using items scored on a five-point Likert scale, A mean score result below 3 suggests low Savings deposits while a mean score result greater than or equal to 3 suggests a high level of Savings deposits on a particular item of the variable.

Table 4.6: Respondents' perception about savings deposits of SMEs in Makindye division

	SD	D	N	A	SA	Mean	Std. deviation
	Percentages						
MFIs savings have contributed in fuelling stability of my enterprise	0.8	8.3	15.8	62.4	12.8	3.78	0.801
Particularly during loan cycle, I can access my savings anytime I want	4.5	11.3	3.0	67.7	13.5	3.74	0.982
I am encouraged to save due to the easy and convenient deposit and collection facilities around Makindye	7.5	33.1	10.5	36.8	12.0	3.13	1.215
MFIs have simplified access to savings by SMEs	0.0	20.3	11.3	27.1	41.4	3.89	1.156
Growth of my enterprise mainly depends on investments I make using my savings in the MFI	6.0	20.3	23.3	48.9	1.5	3.20	0.981

Source: Primary data (2020)

The study established the respondents' perceptions about savings deposits of SMEs in Makindye division. The views of respondents were determined basing on different items indicated in table 4.6 above. The research results reveal that majority of the key informants were in agreement that MFIs savings have contributed in fuelling stability of the SMEs in Makindye division (mean=3.78, std. deviation=0.801).

Study findings further revealed that majority of the respondents would access their savings anytime they would want particularly during loan cycle with a (mean =3.74, std =0.982)

The study sought to establish whether the SME operators in Makindye division are encouraged to save due to the easy and convenient deposit and collection MFI facilities around and the findings gave positive results. Most of the survey participants supported the argument that SMEs are encouraged to save due to the easy and convenient deposit and collection facilities around Makindye (mean=3.13, std. deviation=1.215).

The respondents were asked whether MFIs have simplified access to savings by SMEs in Makindye division and the findings where supportive. The evidence from the study show that a bigger percentage of respondents agreed that MFIs have simplified access to savings by SMEs in Makindye division (mean=3.89, std. deviation=1.156). This indicates that the terms and conditions to access savings from MFIs are simple and clear.

The study established whether growth of SMEs mainly depend on investments made using savings in the MFIs. The biggest percentage of the study participants were in agreement that growth of SMEs mainly depend on investments made using savings in the MFIs (mean=3.20, std. deviation=0.981).

4.3.3. Financial education/training and SMEs business performance

Objective three of the study was to evaluate the association between financial education/training in the Makindye division and the business performance of SMEs. Financial education/training was measured using items scored on a five-point Likert scale, A mean score result below 3 suggests low Financial education/training while a mean score result greater than or equal to 3 suggests a high level of Financial education/training on a particular item of the variable.

Table 4.7:Financial education/training and SMEs business performance

	SD	D	N	A	SA	Mean	Std. deviation
	Percentages						
I normally attend Financial education/ training sessions organized by MFIs	6.8	21.1	34.6	34.6	3.0	3.06	0.975
I have been able to attain basic business skills as a result of MFI financial training	0.0	15.8	24.8	51.1	8.3	3.52	0.858
I was trained about the loan facilities acquisition, repayments and consequences of default	0.0	9.8	6.0	72.2	12.0	3.86	0.747
The MFIs training programs have helped me to gain business management skills thus increasing my profits in the long run	0.0	12.8	31.6	34.6	21.1	3.64	0.956
I have gained financial discipline and better financial management as a result of the financial trainings	0.0	14.3	24.8	47.4	13.5	3.60	0.896

Source: Primary data (2020)

The study sought to establish the perceived level of respondents in regards to financial education/training of SMEs in Makindye division. The findings show that majority of the respondents agreed that they usually attend financial education/ training sessions organized by MFIs (mean=3.06, std. deviation=0.975).

The study established whether respondents have been able to attain basic business skills as a result of MFI financial training. The results indicate that the highest percentage of respondents supported that they have attained basic business skills as a result of financial training provided by MFIs (mean=3.52, std. deviation=0.858). This indicates that most of the operators of SMEs in Makindye division have gained basic business skills after being provided with financial training by MFIs.

The study sought to establish whether the respondents were trained about the loan facilities acquisition, repayments and consequences of default and the results were supportive. It is evident that most of the SME operators were trained about the loan facilities acquisition, repayments and consequences of default since most of the respondents supported the argument (mean=3.86, std. deviation=0.747).

Majority of the respondents said that MFIs training programs have helped them to gain business management skills and this has helped them to increase on their profits in the long run (mean=3.64, std. deviation=0.956). The study also found out that a bigger proportion of the respondents agreed that they have gained financial discipline and better financial management as a result of the financial trainings (mean=3.60, std. deviation=0.896).

Table 4.8:Correlation analysis between loans services, Savings deposits, financial education/training and business performance of SMEs

		Loans services	**Savings deposits**	**Financial education/training**	**Business Performance of SMEs**
Business performance	Spearman's Correlation Coefficient	.434**	.536**	652**	1.000
	Sig. (2-tailed)	.000	.000	.000	.
	N	133	133	133	133
		**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data (2020)

To test the significance of the relationship between loan services and business performance of Small Medium Enterprises, Spearman's rank correlation was used. Results from Table 4.6 reveal that loans services have a significant and moderate positive relationship with business performance of SMEs in Makindye division ($r=0.434$, P-value<0.01). The results show that an improvement in loans services moderately improves on the level of business performance of SMES in Makindye division.

The study findings also indicate that there was a moderate positive and significant relationship between savings deposits and business performance of SMEs in Makindye division as indicated by a correlation coefficient of 0.536 and a P-value (0.000) which is less than 0.01 level of significance. The results indicate that an increase in the savings deposits of SMEs moderately increase on the business performance of SMEs in Makindye division.

Findings show a significant relationship between financial education/training and business performance of Small Medium Enterprises ($r=0.652$, P-value<0.01). The findings show that additional financial education/training improves on the level of business performance of SMES in Makindye division.

CHAPTER FIVE

SUMMARY FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

Based on the findings described in chapter four, this chapter provides a review of the findings, discussions, conclusions and recommendations. In the first subsection, a summary of the findings is given, followed by discussions, conclusions and, finally, recommendations. The researcher also highlights the fields for further research.

5.2 Summary of findings

A summary of findings presents the key information about the findings of the specific objectives used in the study as presented below.

5.2.1 Loan services and SME business performance

Study results from correlation tests showed that there was a significant and moderately positive relationship between the loan service and the business performance of SMEs in the Makindye Division. These findings refuted the hypothesis that there was a major relationship between loan services and business results, given the fact that it was mild. Therefore, changes in the provision of credit facilities have a moderate effect on the business performance of SMEs in the Makindye Division.

5.2.2 Saving deposits and SME business performance

The study found that the relationship between savings deposits and the business performance of SMEs in the Makindye division was moderately positive and important. The findings provided the researcher with a forum to reject the null hypothesis in favor of the alternative hypothesis that the savings deposits in the Makindye division are substantially linked to the business performance of

SMEs. The results showed that as SMEs increase their savings deposits in MFIs, the business performance of SMEs in the Makindye Division may improve moderately.

5.2.3 Financial education/ training and SMEs business performance

The results of the correlation test showed that there was a relatively positive and significant relationship between financial education/training and market success for SMEs in the Makindye division. In favor of the alternative, the results presented sufficient evidence to reject the null hypothesis that "there is a significant relationship between financial education/training and business performance of SMEs in the Makindye division" since the p-value (0.000) was smaller than the significance level of 0.01. The results showed that the provision by microfinance institutions of financial education/training for SME owners marginally improved the market performance of SMEs in the Makindye division.

5.2.4 Micro finance credit policy and SMEs business performance

The results of the correlation analysis also showed that the relationship between the microfinance credit policy and the business performance of SMEs in Makindye was positive, moderate and meaningful. The evidence supported the rejection of the null hypothesis in favor of the alternative hypothesis that the credit policy for micro finance was substantially related to the business performance of SMEs in the Makindye division. The results suggested that the financial performance of SMEs in the Makindye division is moderately improved by an efficient microfinance credit policy.

5.3 Discussions of study findings

5.3.1 Loans services and business performance

A significant relationship between loan services and the business performance of SMEs in the Makindye Division was verified in the results of the report. These results are backed by those of Kuzilwa and Mushy (2013), who found that MFI loan services have a statistically positive and important relationship with the performance of Tanzania's SME activities. The study established whether MFI loan terms that are in the market are fair enough for owners of SMEs business and the results indicated a disagreement from the respondents. The results showed that the MFI loan terms were not fair enough for SMEs in Makindye division. The study results were refuted by Ifeanyi et al. (2014), which referred to the provision of loan terms that are fair enough for SMEs to increase their growth both in the short and long term. The credit terms offered by MFIs were found out to have hindered the owners of SMEs in Makindye from borrowing the amount of money needed for their businesses. The results differ with the study by Isern et al. (2005), which claimed that good credit terms allowed SME operators to borrow the amount of money needed for their businesses and this enhanced their business performance through income growth and alleviation of poverty. Study results revealed loan repayment period discomfort by Small Medium Enterprises owners. The evidence clearly highlights that the SMEs owners in Makindye division are not given enough period to repay their loans. The findings are not in agreement with that of Steel and Andah (2008) who found out that provision of enough period in which SMEs should repay their loans improved on the continuous demand for loans from micro finance institutions and this fueled growth of SMEs.

In terms of repayment schedule, the study revealed that the SMEs in Makindye division are provided with a good and flexible repayment schedule. This indicates that the repayment schedule in which the owners of SMEs pay their loans is favorable and flexible. The findings are in agreement with Pandey (2005) who highlighted that good and flexible loan repayment schedule given to SMEs by Micro finance institutions increased on the loan repayment compliance and financial performance of SMEs.

The findings also revealed that SME owners in Makindye division were in position to make good use of the money as a result of flexibility of loan collection processes of MFIs. The findings are in agreement with Nader (2008) who found out that flexible loan collection processes given to SMEs by microcredit institution enabled the SMEs to make good use of the money which enhanced on their growth and performance.

5.3.2 Savings deposits and business performance

A significant and positive relationship between savings deposits and the business performance of SMEs in the Makindye division was revealed by the correlation results of the analysis. The results showed that the increase in the savings deposits of small and medium-sized enterprises improved the business performance of small and medium-sized enterprises in Makindye. Results from the correlation test about savings deposits and business performance relationship of SMEs in Makindye division were positive and significant. This meant that the rise in deposit savings had a positive impact on the business performance of SMEs in Makindye Division.

The study found out that MFIs savings contributed in fueling stability of the SMEs in Makindye division. This shows that the SMEs savings with MFIs have helped in acquisition of more loans which have improved on the stability of SMEs. The results are in agreement with that of Kuzilwa (2005) contended that SMEs savings made with microfinance institution contribute in fuelling stability of SMEs through expansion in operation and growth in financial performance. The findings revealed that SME owners in Makindye division had access to their saving particularly during their loan cycle anytime they would want it. The findings are also supported by Ahlin et al. (2011) who alluded that access to savings by SMEs at any time they want from MFIs during a loan cycle is important for financial inclusion and it helps in the accumulation of assets and improved business performance of SMEs.

The study outcomes indicated that SME owners in Makindye division were encouraged to save because of the easy and convenient deposit and collection facilities of MFIs. The findings indicate that MFIs have easy and convenient deposit and collection facilities and this has enabled more SMEs in Makindye to save. The findings are also in agreement with Ekpe et al. (2010) who found out in their study that SMEs were motivated to save due to the easy and convenient deposit and collection facilities of the microfinance institutions and this significantly improved on the financial performance of SMEs.

The evidence from the study showed that MFIs had simplified access to savings by SMEs in Makindye division. The results are also supported by Anyanwu (2004) who argued in his study that simplified access to savings by SMEs from microfinance institutions enhanced performance of SMEs. The study established whether growth of SMEs mainly depended on investments made using savings in the MFI and the findings were greatly supported by the study respondents. The results are in line with Brannen (2010), who argued that small and medium-sized enterprises' growth depends primarily on the investments they make using microfinance savings, as it lowers the financial cost of lending and secures sustainable sources of funds.

5.3.3 Financial education/ training and business performance

Study findings about the correlation test about the relationship between financial education/training and business performance of SMEs revealed a positive and significant relationship. This signifies that an increase in financial education improves the business performance level of SMEs in Makindye division. The findings are in agreement with Kuzilwa & Mushi (2013) who found out that business and financial training provided to SMEs had a positive and significant relationship with the performance of SMEs in Tanzania. The study found out that owners of SMEs were attending financial education/ training sessions organized by MFIs. The findings are supported by Haile et al. (2012) who argued in their study that SME operators who normally attended financial education and training sessions organized by MFIs improved on the productivity and growth of their SMEs.

The results from the study indicated that SME owners had attained basic business skills as a result of financial training provided by MFIs in Makindye division. The findings are supported by Kennedy (2010) who argued that gaining financial management skills and basic business skills was beneficial to SME operators who attended financial training and this led to increased investment in business activities and the repayment of loans taken eventually. The study revealed that most of the SME operators were trained about the loan facilities acquisition, repayments and consequences of default. The findings are in line with Aryeetey (2005) who revealed that SME owners who were trained about the loan facilities acquisition, repayments and consequences of default resulted into improved financial performance of SMEs.

The results indicated that MFIs training programs had helped the SME owners in Makindye to gain business management skills and this helped them to increase on their profits in the long run.

The findings are also supported by Aryeetey (2005) who pointed out in his study that training offered to SMEs helped the owners to gain business management skills thus increasing on their profits in the long run.

The study found out that SME owners in Makindye division had gained financial discipline and better financial management as a result of the financial trainings. The findings are also supported by Haile et al. (2012) who alluded in their study that SME owners gained financial discipline and better financial management as a result of the financial trainings that were provided to them by MFIs.

5.3.4 Microfinance credit policy and business performance

The study found a positive and significant relationship between micro finance credit policy and business performance of SMEs in Makindye division. The findings are similar to that of Idowu (2015) who found out that credit policy of MFIs was positively associated with the performance of SMEs in Ghana. The study established whether the Micro finance credit policy limits the SMEs ability to borrow from MFIs. The study found out that the Micro finance credit policy had improved the SMEs ability to borrow. The findings are in agreement with Kipkoech (2015) who alluded that effective and efficient credit policy improves on the ability for SMEs to borrow from MFIs.

The study revealed that MFIs had availed SMEs with enough information on interest rates charged. The findings are supported by Lince (2011) who contended that an effective credit policy that ensures that MFIs avail SME owners with enough information on interest rates charged significantly improves on the business performance of SMEs. The results indicated that SMEs in Makindye division had access to loans at any time of need as a result of favorable Micro finance credit policy. The findings are in agreement with Omwono and Hakizimana (2013) who contended that favorable Micro finance credit policy enables SMEs to access loans at any time they need it and this protects, diversifies and increases their incomes, as well as accumulation of assets.

The outcomes from the survey revealed that SMEs were able to afford the interest rates charged by MFIs. The results are in disagreement with the argument of Diagne and Zeller (2001) that unaffordable interest rates charged by microfinance institutions limit access to credit and this may have negative consequences for SMEs and overall welfare. The findings showed that credit policy of MFIs was reasonable and favorable for SMEs in Makindye division. This is in line with Diagne and Zeller (2001) who alluded that reasonable and favorable credit policy by MFIs increases SMEs risk bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime.

5.4. Conclusions

The conclusions are presented in line with the specific objectives of the study. The conclusions are drawn based on the findings from the study.

5.4.1 Relationship between Loans services and business performance of SMEs in Makindye division

The lesson picked out from the study is that Loans services play a significant role on business performance of SMEs in Makindye if they are effectively delivered. The loans services are increasingly playing a tremendous role on business performance of SMEs in Makindye division despite some difficulties in MFI loan terms, credit terms, and loan repayment period which deter access to credit from MFIs by SMEs. Thus, this study calls for a need by different stakeholders to find a solution to some difficulties that would limit access to effective loans services by SMEs in Makindye division.

5.4.2 Relationship between Savings deposits and business performance of SMEs in Makindye division

The evidence from the study shows that savings deposits play a very significant role in boosting business performance of SMEs in Makindye division. For instance, MFIs have simplified access to savings by SMEs and there is also access to savings by SMEs at any time. However, there some setbacks that could in one way or another affect the business performance of SMEs in Makindye division in regards to savings deposits.

Despite the benefits of savings deposits on the performance of SMEs, there were some challenges that affected SMEs performance that relate to saving deposits. For instance, the study highlighted that deposit and collection facilities are not easy and convenient and this may affect the growth and expansion of the business performance of SMEs in Makindye division. Therefore, the study concludes that more efforts are needed to foster savings deposits through providing more easy and convenient deposit and collection facilities.

5.4.3 Relationship between Financial education/ training and business performance of SMEs in Makindye division

It was observed that financial education/ training provided to owners of SMEs plays a central role in the growth of business performance of SMEs in Makindye division. The most significant lesson learnt was that when SME owners in Makindye are provided with financial education/ training, they improve on basic business skills, financial discipline and better financial management skills and this plays a critical role on the business performance. However, it was noted that some SME owners do not regularly attend the financial education and training sessions organized by MFIs. Thus, the study concludes that there is need to encourage more SME owners in Makindye division to participate in financial training organized by MFIs.

5.5. Recommendations

Findings from specific objective one, findings revealed that the loans services are increasingly playing a tremendous role on business performance of SMEs in Makindye division despite some difficulties in MFI loan terms, credit terms, and loan repayment period which deter access to credit from MFIs by SMEs. Therefore, the study recommended that MFIs should revise the loan terms given to their borrowers and ensure that they are favorable for them to access loans. In the same line, the MFIs are recommended to provide enough loan repayment period to the SME operators since this would provide space for them to pay loans.

Findings from specific objective two, revealed that the relationship between savings deposits and the business performance of SMEs in the Makindye division was moderately positive and important. Therefore, the study recommended that Microfinance Institutions should sensitise SME owners in Makindye division on the value and benefits of saving with MFIs since this would encourage more to save. Still in line with the findings, about the role of saving deposits and business performance, the study recommends that MFIs should ensure that the terms of accessing savings from MFIs by SMEs are simplified to quicken access to their savings.

Findings from objective three revealed that financial education/ training provided to owners of SMEs plays a central role in the growth of business performance of SMEs in Makindye division. Therefore, the study recommended that should be training of SMEs in accessing, borrowing and utilization of loans received from MFIs.

Based on the credit risk theory, the study recommends that microfinance should ensure that the risks of products and activities to SMEs which are new to them are subject to adequate risk management procedures and controls before being introduced or undertaken to SMES.

Based on the Theory of Financial Intermediaries, the study recommends that microfinance institutions should adopt the paradigm used in the current theory of financial intermediation, which plays a major role in enhancing the development and growth of Uganda through their activities of mobilizing saving and loans.

5.6 Area for Further Research

Since the study concentrated only in Makindye division yet there are many places in Uganda where SMEs are operating, therefore there is need for a nationwide empirical study to get broader view on the relationship between Microfinance financing and business performance of SMEs.

5.7 Implication for the theory

The study findings are consistent with the Microfinance credit theory which alludes that MFIs contribute significantly towards the growth of SMEs. The theory provides that financial institutions should provide loans to its economic agents and this in line with the findings which indicated that SMEs in Makindye were in position to secure loans from MFIs under good terms to expand their businesses. The study found that SMEs are in position to save and have access to their credit from MFIs and this is in agreement with the theory which calls for MFIs to support SMEs through encouraging them to save as well as have access to their savings deposits.

5.8 Researchers contributions of the study

The study revealed that loans services play a significant role on business performance of SMEs in Makindye if they are effectively delivered. Therefore, it called for a need by different stakeholders to find a solution to some difficulties that would limit access, to effective loans services by SMEs in Makindye division.

The study highlighted that deposit and collection facilities are not easy and convenient and this may affect the growth and expansion of the business performance of SMEs in Makindye division. Therefore, the study added to the recommend that MFIs should add in more efforts are needed to foster savings deposits through providing more easy and convenient deposit and collection facilities.

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Appendix I: Questionnaire for SMEs along Salaama road Makindye Division

Introduction

I am Pius Kwarisiima, a student of Kyambogo University, I am conducting research about; Microfinance financing and performance of SMEs in Makindye division, Kampala District. The information is for academic purposes only and all comments are regarded as confidential and you do not have to show your name anywhere on the questionnaire. I will also humbly ask that you correctly complete this questionnaire in the spaces or options given.

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender:

a) Female ☐ b) Male ☐

2. Age

a) Below 20 years ☐ b) 20 – 29 years ☐ c) 30 – 39 years ☐

d) 40 – 49years ☐ e) Above 50 years. ☐ ☐

3. Marital status

a) Single ☐ b) Engaged ☐ c) Married ☐ d) Divorced ☐

e) Widowed ☐

4. Highest level of education Qualification

a) Certificate ☐ b) Diploma ☐ c) Bachelor’s Degree ☐ d) Masters ☐

e) Others (Specify)…………………….

Microfinance Financing		SD	D	N	A	SA
Loans services		1	2	3	4	5
L1	The MFI loan terms that are in the market fair enough for my business					
L2	Credit terms have hindered me from borrowing the amount of money needed for my business					
L3	I am at comfort with my loan repayment period					
L4	MFIs have a good & flexible repayment schedule					
L5	I am also able to make good use of the money as a result of flexibility of loan collection processes of MFIs					
	Savings					
S1	MFIs savings have contributed in fueling stability of my enterprise					
S2	Particularly during loan cycle I have access to my savings any time I want					
S3.	I am encouraged to save due to the easy and convenient deposit and collection facilities around Makindye					
S4	MFIs have simplified access to savings by SMEs					
S5	Growth of my enterprise mainly depends on investments I make using my savings in the MFI					
	Financial education/ training					
T1	I normally attend Financial education/ training sessions organized by MFIs					
T2	I have been able to attain basic business skills as a result of MFI financial training					
T3	I was trained about the loan facilities acquisition, repayments and consequences of default					
T4	The MFIs training programs have helped me to gain business management skills thus increasing my profits in the long run					

T5	I have gained financial discipline and better financial management as a result of the financial trainings					
	Micro finance credit policy					
P1	The Micro finance credit policy limits the SMEs ability to borrow from MFIs					
P2	MFIs have availed me with enough information on interest rates charged					
P3	I have access a loan at any time of need as a result of favorable Micro finance credit policy					
P4	My SME is able to afford the interest rates charged by MFIs					
P5	I feel the credit policy of MFIs is reasonable and favorable					

SECTION B: Study Variables

Please check your feelings on Loans services, savings, Financial education/ training, and Micro finance credit policy by following the rating below and tick the appropriate choice: 5 - Strongly Agree (SA) ,4 - Agree (A), 3 – Neutral (N), 2 -Disagree (D), 1 - Strongly Disagree (SD)

Section C: Performance of SMEs

Please check your feelings on Performance of SMEs by following the rating below and tick the appropriate choice: 5 - Strongly Agree (SA) ,4 - Agree (A), 3 – Neutral (N), 2 -Disagree (D), 1 - Strongly Disagree (SD)

	Performance of SMEs	**SD**	**D**	**N**	**A**	**SA**
	Profitability	**1**	**2**	**3**	**4**	**5**
P1	Profitability of my business has increased					
P2	My number of assets have also increased					
P3	I have been able to invest more in the business					
	Sales revenue					
P4	My sales volume has improved					

P5	The sales revenue of my business have improved					
P6	The number of repeat purchases have increased					
	Market growth					
P7	I have also managed to create a wider market for my business					
P8	My products and services have a lot of demand					
P9	I am able to favorably compete with other SMEs in Makindye Division					
	Productivity					
P10	I am able to produce more products					
P11	I am able to deliver more services					
P12	My production capacity is more than my estimated level of production					
	Organizational Size					
P12	I have managed to open up more branches for my business					
P14	I have been able to employ more workers					
P15	I now occupy a bigger space					

THANK YOU FOR YOUR TIME AND COOPERATION