

**FINANCIAL SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN UGANDA: A CASE OF KAMPALA CAPITAL CITY**

BY

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**A DISSERTATION SUBMITTED TO THE DIRECTORATE OF RESEARCH
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DECLARATION

I **Mugabe Julius**, hereby declare that this dissertation is my original work and it has never been submitted to this or any other institution of higher learning for any award.

Signature:..... Date:.....

APPROVAL

This is to certify that this dissertation titled “*The relationship between financial services and performance of SMEs dealing in wholesale in Kampala Capital City*” by Mugabe Julius (21/U/GMBA/14342/PE) has been done under our supervision and we now approve it for submission.

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DEDICATION

This dissertation is dedicated to my mother Mrs. Irene Aliganyira, my wife Judith, our children Elijah and Eisha, my brother and sisters plus friends of MBA class who have been supportive throughout the course.

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LIST OF ACRONYMS/ABBREVIATIONS

ATM:	Automated Teller Machine
CVI:	Content Validity Index
EUG:	Enterprise Uganda
GDP:	Gross Domestic Product
KCCA:	Kampala City Council Authority
MFPEd:	Ministry of Finance, Planning and Economic Development
MTIC:	Ministry of Trade, Industry and Cooperatives (MTIC)
OECD:	Organization for Economic Co-operation and Development
PSFU:	Private Sector Foundation Uganda
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Science
UBOS:	Uganda Bureau of Statistics
UGX:	Ugandan Shillings
UIA:	Uganda Investment Authority
UNECA:	United Nations Economic Commission for Africa

ABSTRACT

The general objective of the study was to examine the relationship between financial services and financial performance of SMEs in Kampala Capital City. The specific objectives of the study were; (i) to examine the relationship between credit services and financial performance, (ii) to establish the relationship between investment services and financial performance, and (iii) to investigate the relationship between saving services and financial performance of SMEs in Kampala Capital City. The study considered a correlation research design considering a quantitative research approach. The study targeted 381 owners of SMEs but 278 managed to respond back hence showing 73.0% response rate. Data was collected using a questionnaire. Spearman's rank correlation analysis was used to examine the relationship between the independent and dependent variables. The study revealed that there is a moderately positive and significant relationship between credit services and financial performance of SMEs in Kampala Capital City ($r = 0.423$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. Furthermore, credit services were positive significant predictors of financial performance by 21.6% (Adjusted R Square = .216, $p < 0.05$) with β value (.451**). The study also revealed that there is a moderately positive and significant relationship between investment services and financial performance of SMEs in Kampala Capital City ($r = 0.449$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. Furthermore, investment services positively and significantly predicted the financial performance of SMEs by 17.4% (Adjusted R Square = .174, $p < 0.05$) with β value (.276**). The study further revealed that there is a moderately positive and significant relationship between saving services and financial performance of SMEs in Kampala Capital City ($r = 0.477$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. Furthermore, savings services were the highest significant predictor of financial performance of SMEs by 25.2% (Adjusted R Square = .252, $p < 0.05$) with β value (.409**). Additionally, over financial services with the constructs of (credit services, investment services and saving services) combined influenced the financial performance SMEs in Kampala Capital City by 31.4% (Adjusted R Square = .314, $p < 0.05$) with β value (.206*). The study concluded that effectiveness and efficiency in the financial services (credit services, investment services, and saving services) significantly influences the financial performance of SMEs in Kampala Capital City. The study recommended that SMEs owners and financial institutions need to sit down and make a comprehensive assessment of the existing credit services. There is need to iron out challenges and barriers faced by businesses in accessing credit channels, such as complexities in loan application processes, affordability of interest rates, and removing the physical collateral requirements. It was also recommended that financial institutions need enhance their communication and educational outreach efforts to businesses regarding the diverse investment options available and lastly, it was recommended that banks focus on improving transparency and create more awareness about their savings products, ensuring competitive interest rates, and facilitating more open communication with businesses regarding negotiated terms.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

World over, the financial performance of most of business largely depends on the nature and the accessibility of financial services they have (Rajnoha, Papula & Mokriš, 2019). However, Kelley and Nakosteen (2015) revealed that SMEs tend to struggle to have access to different financial services such as credit, investment and savings services which largely affect their financial performance. This chapter presents the background to the study, statement of problem, purpose to the study, research objectives, research question, study hypothesis, conceptual framework, scope of study, study justification, significance, and operational definitions of key terms.

1.2. Background to the study

The background of the study has been presented in four different perspectives including historical background, theoretical background, conceptual background and contextual background.

1.2.1 Historical background

The history of financial performance in business can be tracked back in the emergence of trade and commerce in ancient civilizations. In ancient times, records of financial transactions and debt in Mesopotamia and Egypt indicate early concerns about profitability and liquidity (Islam & Deegan, 2008). During the Islamic Golden Age, the importance of accountability and profitability in business transactions was emphasized in all businesses. The emergence of double-entry bookkeeping during the Italian Renaissance laid the foundation for assessing profitability and tracking liquidity. With the growth of industrialization in Europe and the formation of corporations during the Industrial

revolution, measuring profitability and liquidity became crucial for shareholders and investors. This was strengthened by the establishments of stock exchanges and securities regulations in the 18th and 19th centuries which further emphasized the need for businesses to demonstrate profitability and liquidity to attract investment (Ferris & Wallace, 2012; Islam & Deegan, 2008). Furthermore, the development of modern accounting standards by organizations like the International Accounting Standards Committee and technological advances in the 20th century enabled businesses to analyze profitability and liquidity more effectively. SMEs struggle by all means to make sure the profitability is enough to attract funds and also remain liquid to meet its financial obligations whenever, they fall due (Ahmed & Nicholls, 2014). World over today, assessing profitability, liquidity, and return on investment remains essential for SMEs, guided by accounting principles, financial ratios, and analytical tools to evaluate and communicate their financial performance.

The financial performance of Small and medium enterprises has not been good as SMEs are plagued by many problems including stagnation and failure in most sub-Saharan African countries (Bekele & Zekele, 2008). The financial performance of SMEs in the African context has undergone significant developments since the 1960s, with varying degrees of success in profitability, liquidity, and return on investment. Following the wave of decolonization in the 1960s and 1970s, many African nations gained independence and embarked on nation-building efforts. However, economic challenges, including political instability, inadequate infrastructure, and policy fluctuations, posed obstacles to finance performance (Ndikumana & Verick, 2008). Over time, efforts were made to address these challenges. Economic reforms, privatization initiatives, and market liberalization measures were implemented across the continent, promoting private sector growth and

entrepreneurship (Mthuli & Hailu, 2019). Additionally, financial sector reforms sought to enhance liquidity and improve access to finance for SMEs (Beck et al., 2007). However, SMEs continued to experience financial challenges and according to African Development Bank (20219), 70% of the SMEs in Africa collapse within the first 2 years of their establishment due to financing-related reasons and inadequacy in the basics of enterprise management. This is according the Kenya National Bureau of Statistics (2016) which posits that about 46% of the SMEs surveyed ceased operations within the first year of establishment.

In Uganda, after gaining independence in 1962, Uganda faced significant economic challenges that negatively impacted the financial performance of businesses. Political unrest, economic mismanagement, and policy fluctuations were prevalent, hampering business growth (African Development Bank, 2019). The 1971 Amine coup led by Idi Amin exacerbated the situation, causing political instability and economic hardships. Amin's regime implemented policies like nationalization and expropriation, which resulted in the decline of the private sector. Many businesses faced disruptions, asset losses, and limited access to financing. By 1976, around 70% of businesses transferred to Ugandans had collapsed due to their inability to generate profits (Ofcansky, 1987). Additionally, the Guerrilla war waged by the National Resistance Army (NRA) from 1980 to 1986 further impacted business financial performance. Widespread infrastructure destruction, displacement of people, and high costs of conducting business caused numerous enterprises to collapse due to insufficient profit generation to cover operational expenses.

In the 1990s, Uganda underwent significant economic reforms that had a positive impact on the financial performance of businesses, including SMEs, with a focus on profitability,

liquidity, and return on investment. The country implemented a comprehensive structural adjustment program supported by international financial institutions, which aimed to liberalize the economy, promote private sector growth, and improve the investment climate (Mbabazi & Venter, 2018). The reforms included trade liberalization, deregulation, privatization of state-owned enterprises, and the establishment of institutions to support SME development. These measures created a more conducive environment for businesses to operate, fostering increased profitability through market competition and improved access to finance. Furthermore, efforts were made to enhance liquidity by strengthening the financial sector and expanding access to banking services. The reforms also aimed to attract foreign direct investment, which provided opportunities for businesses to generate higher returns on investment (Nkurunziza & Buscemi, 2014; Mbabazi & Venter, 2018). The sustained implementation of these reforms and the commitment to fostering a business-friendly environment has contributed to the improved financial performance of SMEs in Uganda. However, Abaho, Aarakit, Ntayi and Kisubi (2017) indicated that only 30% of the SMES that start survive up to the 3rd year of their establishment due to poor financial performance which is linked to limited access to financial services. Therefore, this study examined the relationship between the financial services and financial performance of SMEs in Kampala Capital City.

1.2.2 Theoretical background

The study was guided by the Rational Expectation Theory, which was primarily developed by John F. Muth in the early 1960s and further refined by economists such as Robert Lucas, Thomas Sargent, and Neil Wallace in the 1970s. This theory challenged the prevailing assumptions of adaptive expectations (Robert, 1972; Mishkin, 1983) and posits that

individuals, including business owners, are forward-looking and adjust their expectations based on their understanding of the underlying economic structure (Robert, 1972; Mishkin, 1983).

According to the theory, businesses make predictions about variables such as credit availability, inflation, interest rates, and government policies based on their understanding of how these factors interact (Carla, 2020). Business owners are considered rational decision-makers who utilize all available information to form expectations about the future. The theory assumes that business operators have a coherent understanding of the underlying economic structure and use it to make predictions (Iván & Alfonso, 2014).

That said, the theory's strength lies in its recognition that business operators base their decisions on expectations of the future, considering economic dynamics and changes (Sargent, 2008). It has implications for economic policy and forecasting, suggesting that policy actions may not have the desired effects if individuals have accurately anticipated them (Sargent, 2008). However, critics argue that the theory assumes an unrealistic level of knowledge and rationality, as business operators may lack access to relevant information or have cognitive limitations, hindering their ability to form completely rational expectations (Hanish, 2005).

Nevertheless, the rational expectations theory remains relevant in studying the relationship between financial services and financial performance of SMEs. When SME operators have rational expectations about the future state of the economy, including interest rates and inflation, they may make financial decisions accordingly. Rational expectations can shape financial behaviors and investment decisions, potentially influencing financial performance

at both the individual and aggregate levels. Understanding how business operators form expectations and incorporate information about financial services was crucial for analyzing the relationship between financial services and financial performance within the framework of the rational expectation's theory.

1.2.3 Conceptual background

The study was guided by two variables which are financial services and financial performance of SMEs. According to Neely, Gregory and Platts (2018) financial performance is defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period.

On the other hand, According to World Bank (2015) financial services refer to the range of products and services provided by the financial industry, which includes commercial banks, investment banks, insurance companies, and asset management firms. These services are designed to help individuals, and businesses manage their finances, invest their money, and mitigate risk. Financial services are a critical component of any economy, as they facilitate the flow of capital and the allocation of resources. However, in this study, financial services have been looked at in three different constructs of credit services, investment services and saving services.

Different scholars have defined these constructs, according to Ritter, Silber and Udell (2017) credit services refer to the various financial products and services that allow consumers and businesses to borrow money, manage debt, and build credit history. These services are typically provided by banks, credit unions, and other financial institutions and in this study,

credit services have been looked at as interest rate, collateral security and credit administration. Bank investment services refer to the range of financial products and advisory services offered by banks to help individuals and institutions invest their money. These services are designed to assist customers in growing their wealth, managing their portfolios, and achieving their financial goals (Eton, Eze & Maduekwe, 2017). In this study, investment services have been looked at as mutual funds, portfolio management service and stocks & bonds brokerage. On the other hand, Botha, Nieman and van-Vuuren (2014) looked at saving services as the various products and services offered by banks to help individuals save and grow their money. These services aim to provide safe and convenient options for customers to accumulate funds for short-term or long-term goals. In this study, savings services have been looked at in form of deposit on saving account and interest on saving. In this study, the financial performance of SMEs has been looked at in form of profitability, liquidity and return on investment Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy (Rehman, Khan & Jawaid, 2014) and they contribute immensely to the economic development of any country. According to Nkurunziza (2015) SMEs are defined as enterprises employing a minimum of 5 people and a maximum of 50 people, with an annual sales/revenue turnover of more than UGX 360 million and total assets of more than UGX 360 million. The SMEs were regarded as one of the important element of a country's development and this plays a crucial role in the economy of Uganda.

1.2.4 Contextual background

SMEs are a critical sector for economic growth in Uganda, accounting for 90% of the entire private sector, employ 80% of the workforce and contribute up to 33% of the Gross Domestic

Product (UNECA, 2020). Over 80% of Uganda's SMEs are located in urban areas taking up most of the business activity in cities. According the UBOS (2014) majority of the SMEs are located in Kampala city, and earlier Hatega (2007) study pointed out that majority of SMEs operate in Kampala Capital City. The study considered the dominant category of SMEs in Kampala which is Trade. These were considered as a baseline to assess the financial performance of SMEs, as they were highly representative as echoed in earlier studies (Barungi, 2018).

Regardless of the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy (Uganda Investment Authority, [UIA], 2021). These very concerns abound elsewhere. At the height of a number of initiatives undertaken by the government of Uganda aimed at improving and promoting the business environment, reduce the cost of compliance with business regulations, the reforms have not improved the situation as the performance of SMEs in Uganda is still below the expectation (UIA, 2021) and this poses a threat to the Ugandan economy since SMEs are great contributors to the Gross Domestic Product.

Despite the Ugandan government and financial institutions implementing various measures to promote SMEs including providing financial support through Uganda Development Bank (UDB) worth UGX 1.2 trillion at low-interest rates, investment services and creating a favorable business environment to favour SMEs operations, only 15% of SMEs in Uganda have access to formal financial services (Ministry of Trade, 2021; UIA, 2021). They had continued collapsing, only 70% of SMEs celebrate their 3rd birthdays, about 50% of the remaining do not survive beyond their 5th birthday and only 5% to 10% SMEs survive and

make it to maturity to graduate to large companies (Private Sector Foundation Uganda, 2019; United Nations Development Programme, UNDP-Uganda, 2020). Therefore, it was necessary to examine the relationship between financial services and finance performance of SMEs in Uganda.

1.3 The problem statement

More than 800 small and medium-sized enterprises (SMEs) in United States of America encountered financial difficulties primarily related to profitability, liquidity, and economic uncertainty between 2019-2022 (PayPal, 2022). Similarly, in Europe, approximately 4,000 SMEs grappled with performance and survival challenges during the COVID-19 pandemic, due to financial challenges as a result of a sudden drop in demand and disruptions to their supply chains (Bartik et al., 2020). In Africa, around 40% of SMES in Africa collapsed and stopped their operation and some lost the assets as they were confiscated by the landlords in order to recover their rent arrears. Majority of those that remained operating are struggling debts with reduced revenues by 80% in some countries which has affected their profitability and financial capacity to settle all their financial obligations (Nkundabanyanga et al., 2020; African Development Bank, 2022). In South Africa particularly, only 20% of SMEs managed to make profits between 2020 to 2022 during Covid-19 while 80% of SMEs registered losses and are not in position to meet all their operations costs (African Development Bank, 2022). In Uganda, 69% of SMEs in the Kampala metropolitan region register net income of less than UGX 10 million yearly, making them too unprofitable to be subject to taxation (World Bank, 2017). Profit maximization is a component of business performance which was considered the major goals of business enterprises. Whereas Uganda has the highest rate of business start-ups, it was also among the countries with the highest

number of SMEs that perform poorly and close business few years after establishment (Ernst & Young, 2011). Only 30% of newly established enterprises in Uganda live to see their third year (Uganda Investment Authority, 2018). The Ugandan government established support institutions, for example the Directorate of Micro ,Small and Medium Enterprises under the Ministry of Trade, Industry and Cooperatives (MTIC) with its affiliated institutions, Departments and Agencies for example; Investment and Private Sector Development in the Ministry of Finance, Planning and Economic Development (MFPED); Uganda Investment Authority (UIA); Research Institutions and Makerere University Entrepreneurship Centre among other private institutions that include Private Sector Foundation Uganda (PSFU) and Enterprise Uganda (EUG); have continued to design and implement the necessary policies and programmes that support the development and performance of registered SMEs. Despite such efforts, the survival percentage of SMEs had decreased from 50% to 30% in 2018 (Abaho *et al.*, 2017). During the COVID-19 pandemic, approximately 40% of SMEs collapsed due to poor financial performance. Many SMEs struggle in debts and collapse due to financial challenges as they cannot meet their financial obligations whenever they fall due (Asiimwe & Katono, 2022). That said, Dzokoto and Amoah (2020) emphasized that for businesses to remain performing well financially, they must have access to financial services. However, what was not clearly known was how SMEs can maintain or grow their financial performance. Therefore, this study investigated the relationship between financial services and financial performance of SMEs in Kampala Capital City

1.4. Purpose of the study

The purpose of this study was to examine the relationship between financial services and financial performance of SMEs in Kampala Capital City.

1.5. Objectives of the Study

- i) To examine the relationship between credit services and financial performance of SMEs in Kampala Capital City.
- ii) To establish the relationship between investment services and financial performance of SMEs in Kampala Capital City.
- iii) To investigate the relationship between saving services and financial performance of SMEs in Kampala Capital City.

1.6 Research Questions

- i) What is the relationship between credit services and financial performance of SMEs in Kampala Capital City?
- ii) What is the relationship between investment services and financial performance of SMEs in Kampala Capital City?
- iii) What is the relationship between saving services and financial performance of SMEs in Kampala Capital City?

1.7 Hypotheses of the Study

- H₀₁:** There is no significant relationship between credit services and financial performance of SMEs in Kampala Capital City.
- H₀₂:** There is no significant relationship between investment services and financial performance of SMEs in Kampala Capital City.
- H₀₃:** There is no significant relationship between saving services and financial performance of SMEs in Kampala Capital City.

1.8 Conceptual framework

This study followed a conceptual framework developed by the researcher in regard to the concepts of financial services and financial performance of SMEs. The study hypothesized that there was a relationship between financial services and financial performance of SMEs as illustrated in the Figure 1.1.

Independent variable (Financial Services)

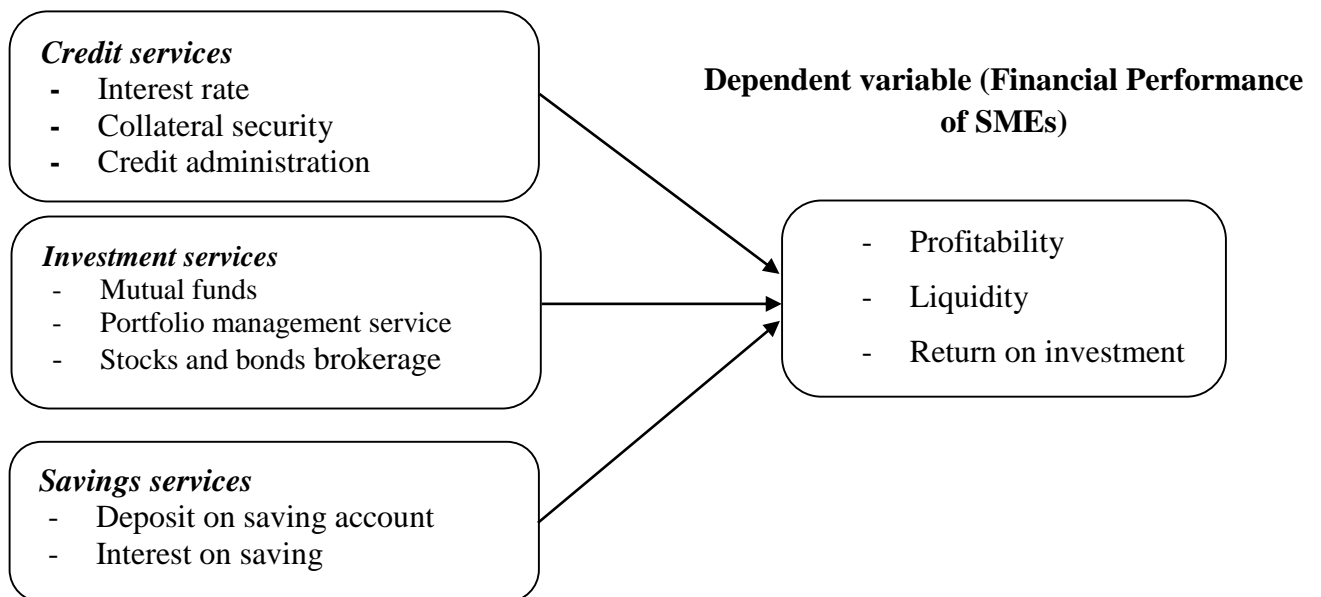


Figure 1.1: The Study Conceptual Framework

Source: Adapted from Claessens (2016), Mbuva & Wachira (2019), Gashema & Mokuu, (2019) and modified by the Researcher 2023.

From the conceptual framework above, the independent variable of the study was financial services represented by constructs of credit services, investment services and saving services. The dependent variable of financial performance of SMEs was represented by profitability, liquidity, and return on investment. It was observed that when small businesses have easy access to credit, their businesses develop quickly. When credit is available in sufficient amounts, bulk purchases are made, which helps meet customer demand and

hence improved financial performance. The conceptual framework hypothetically implies that the access to financial services leads to improved financial performance of SMEs, which this study seeks to investigate while considering SMEs in Kampala Capital City. Nevertheless, the previous research conducted by Claessens (2016), Mbuva (2019), and Mokuu (2019) primarily concentrated on the availability of loans as a means of accessing credit. In contrast, the current study extends beyond that by incorporating investment services and savings services to comprehensively explore the interconnectedness of all these components of financial services with the financial performance of SMEs.

1.9 Justification of the study

Some studies have been conducted in relation to financial services and the financial performance of SMEs, but most of studies such as Chaudhry and Qureshi (2015), Van der Zwan, Verhoef and Milne (2015), Ngugi and Were (2015), Lee and Park (2016), Berger and Udell (2016), Cowling, Liu, Ledger, and Zhang (2016), Mahagaonkar and Newman (2017), Olawale and Garwe (2017), Yadav and Sreejesh (2018), Sen, Misra, and Kar (2019) and Kiptoo and Kibet (2020) among others that focused relatedly on the financial services and financial performances of SMEs were not conducted in Uganda, hence creating local literature gap. However, the few that were conducted in Uganda such as Asimwe, Muhwezi, and Kisaka (2018) and Kuteesa and Ssentongo (2019) were not carried out on SMEs in Kampala Capital City, hence leading to limited information about financial services and financial performance of SMEs financial performance of SMEs in Kampala Capital City. Therefore, to bridge this literature gap, the researcher examined the relationship between financial services and financial performance of SMEs Kampala Capital City.

1.10 Scope of the study

1.10.1 Geographical scope

The study was conducted in SMEs in Kampala Capital City focusing on SMEs dealing in Trader. This study covered the five divisions of Central, Nakawa, Makindye, Rubaga, and Kawempe Division. Kampala Capital City was considered because it had many SMEs compared to other districts in Uganda, hence a potential source of information for this study.

1.10.2 Content scope

The study examined the relationship that exists between financial services and financial performance of SMEs. However, more emphasis was put on how the constructs finance services (credit services, investment services and saving services) are related to the financial performance of SMEs. Correlation analysis was used to determine the relationship exist between the credit services, investment services and saving services and the financial service while regression analysis was used to determine the predictability of constructs finance services (credit services, investment services and saving services) to the financial performance.

1.10.3 Time scope

The study considered the time scope from 2018 and 2022. This was best because the period covers a duration in which several SMEs had exhibited low levels of financial performance, with majority complaints associated with access to financial services (KACITA, 2021).

1.11 Significance of the study

Financial institutions such as Commercial banks, Microfinance institutions and SACCOs will use the data from this study to fully understand the different obstacles that SMEs

experience when trying to get finance at all phases of development. To create regulations or policies that would ensure that more enticing financial services are offered to fulfill the ever-increasing business demands of SMEs, financial intuitions may get greater knowledge into SMEs and their different financial services demands from the study findings.

The results of the study may help owners of SMEs identify the practices and regulations followed by the financial institutions from which they acquire financing. The strict terms and conditions demanded by the funding institution may be easier for SMEs to handle after careful using these study findings.

The study will contribute to the body of knowledge on SMEs' performance and financial services in Uganda. This will be of interest to policy makers, scholars and researchers who may require developing and advancing their knowledge in this area of study. It will also act as a source of literature for researchers carrying out studies related to this one.

By carrying this study, the researcher may be able to identify which financial services have the greatest impact on SME performance. This information can be useful in developing targeted interventions to support SME growth and sustainability.

Conducting research in this area can enhance Kyambogo University's research profile and contribute to its reputation as a center for academic excellence in the field of business and economics.

1.12 Operational Definition of key Terms

Financial services: These refer to a range of services provided by financial institutions, such as banks, credit unions, insurance companies, investment firms, and other entities that

manage money. These services include various financial products and services, credit, insurance products, financial planning and advisory services.

Performance: This refers to the ability of businesses to achieve their goals and objectives, maintain profitability, and grow their business over time.

Credit services: These refer to the provision of financial assistance or support to individuals, businesses, or organizations in the form of credit or loans. It involves lending money or extending credit to a borrower, who is expected to repay the amount borrowed with interest and any other applicable fees over a specified period of time.

Investment services: This refers to the range of financial products and services offered by banks to help individuals and businesses invest their money. These services are typically provided by the bank's investment division or through partnerships with investment firms.

Saving services: These services offered by banks refer to the various accounts and products designed to help individuals and businesses save and manage their money.

SMEs: These refer to businesses with a relatively small number of employees and lower revenue compared to larger corporations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this section, the researcher examines literature related to the study's objectives. The review of this literature not only identifies a gap but also serves as the foundation for the methodology to be employed in the study. The sources of the literature reviewed include journal articles, textbooks, working papers, and dissertations that have been conducted both locally and internationally.

2.2 Theoretical Review

The study was guided by the Rational Expectation Theory. The rational expectations theory was primarily developed by John Muth in the early 1960. However, its formulation and refinement were further advanced by economists such as Robert Lucas, Thomas Sargent, and Neil Wallace in the 1970. The theory emerged as a significant development in macroeconomics, challenging the prevailing assumptions of adaptive expectations (Robert, 1972; Mishkin, 1983). The rational expectations theory argues that individuals such as business owners are forward-looking and adjust their expectations based on their understanding of the underlying economic structure (Robert, 1972; Mishkin, 1983).

The rational expectation theory suggests that businesses make predictions about variables such as credit availability, inflation, interest rates, and government policies based on their understanding of how these factors interact (Carla, 2020). Business owners are rational decision-makers who use all available information to form expectations about the future. The theory further assumes that business operators have a coherent understanding of the underlying economic structure and utilize it to make predictions (Iván & Alfonso, 2014).

The strength of the theory is based in its efforts to recognize that business operators base their decisions on their expectations of the future, considering economic dynamics and changes (Sargent, 2008). The rational expectations theory has important implications for economic policy and forecasting. It suggests that policy actions, such as changes in monetary or fiscal policy, may not have the intended effects if individuals have accurately anticipated them. For instance, if people anticipate that a central bank will increase interest rates to combat inflation, they may adjust their behavior in advance, potentially neutralizing the intended impact of the policy (Sargent, 2008). On the other hand, critics of the rational expectations theory argue that it assumes a level of knowledge and rationality that may not always hold in the real world. Hanish (2005) contends that business operators may not have access to all relevant information or may have cognitive limitations that prevent them from forming completely rational expectations hence failing to make correct predications regarding the availability financial services and level of finance performance of the business in the future.

Therefore, the rational expectation theory remains relevant in this study of examining the relationship between financial services and financial performance of SMEs. For instance, if SMEs operators have rational expectations about the future state of the economy, including interest rates and inflation, they may make decisions regarding financial services such as borrowing, investing, or saving accordingly. Rational expectations can shape financial behaviors and investment decisions, potentially impacting financial performance at both the individual and aggregate levels. Understanding how business operators form expectations and incorporate information about financial services was essential for analyzing the

relationship between financial services and financial performance within the framework of the rational expectations theory.

2.3 Conceptual Review

This section captures a review on the all the study variables used in this study.

2.3.1 Credit services

Credit services refer to the various financial products and services that enable individuals and businesses to borrow money and manage their credit profiles. Over the past few years, the credit services industry has seen a significant amount of innovation, driven in part by advances in technology and changes in consumer behavior. One of the most significant trends in the credit services industry has been the rise of alternative lending platforms. These platforms, which include peer-to-peer lending, crowdfunding, and online marketplace lending, have emerged as an alternative to traditional banks and credit unions. The global alternative finance industry grew by 17% in 2020, reaching a total value of \$304.5 billion (Cambridge Centre for Alternative Finance, 2021). This growth has been driven by the increasing demand for access to credit and the growing acceptance of digital technologies.

2.3.2 Investment services

Investment services refer to the range of financial products and services offered by banks to help individuals, businesses, and institutional clients manage and grow their investment portfolios. These services typically include investment advisory, brokerage, asset management, and other related services (Cerulli Associates, 2018). Banks act as a trusted partner or agents and provide personalized advice based on the client's goals, risk tolerance, and financial situation. Furthermore, through investment services, banks can use behavioral

finance to better understand their clients' biases and help them make more informed financial decisions. A study by the CFA Institute found that investors are more likely to work with financial institutions that demonstrate an understanding of behavioral finance (CFA Institute, 2018).

2.3.3 Saving services

Saving services refer to the range of products and services offered by banks to help individuals and businesses save and manage their money effectively. These services typically provide secure and convenient options for depositing funds, earning interest, and accessing savings when needed (Blinder, Ehrmann, de Haan, & Jansen, 2017). Saving services cater to various needs, such as short-term savings, long-term goals, emergency funds, and other financial objectives. Banks offer savings accounts, which are basic deposit accounts that allow customers to safely keep their money while earning interest. Furthermore Mishkin (2016) revealed that savings accounts typically provide easy access to funds through methods such as ATM withdrawals, checks, or online transfers. These accounts are often used for short-term savings, day-to-day expenses, and emergency funds.

2.3.4 Financial Performance of SMEs

According to Neely, Gregory, and Platts (2018), financial performance refers to an evaluative assessment of a company's ability to effectively utilize its primary business assets and generate revenue. This concept is also commonly employed as a broad indicator of a firm's overall financial well-being during a specific timeframe. Luan, Chen, and Tang (2021) revealed that those macroeconomic conditions, such as GDP growth and inflation, have a significant impact on the profitability of SMEs. Similarly, Liu and Lu (2018) found that

market competition affects the financial performance of SMEs, with intense competition leading to reduced profitability.

2.4 Empirical review

The study empirical review has been presented following the order of research objectives.

2.4.1 Credit services and financial performance

Chaudhry and Qureshi (2015) in Pakistan found that access to credit services was positively associated with the performance of SMEs. In a surveyed of 400 SMEs, it was found that those with access to credit services had higher levels of sales, profitability, and growth compared to those without access. Similarly, Mahagaonkar and Newman (2017) in India found that access to credit services had a positive impact on the growth and employment of SMEs. SMEs with access to credit services were more likely to invest in new technology, hire additional employees, and expand their operations. These studies suggest that credit services are a crucial factor in supporting the growth and success of SMEs in Asia. However, this study current wants to ascertain if such findings are applicable in an African country like Uganda.

Furthermore, Lee and Park (2016) in South Korea found that high-interest rates on loans and strict collateral requirements made it difficult for SMEs to obtain credit services, which negatively affected their performance. It was found out that those SMEs with higher interest rates and collateral requirements had lower levels of sales and profitability compared to those with lower interest rates and less strict collateral requirements. Similarly, a study by Nguyen and Nguyen (2019) in Vietnam found that high-interest rates and collateral requirements were major barriers to SME growth and development. It was found out that with high-interest

rates and strict collateral requirements were less likely to invest in new technology, expand their operations, and hire additional employees. Besides these studies being carried out side the Ugandan perspective, the studies only focused on interest rate charges and collateral requirements needs hence leaving out other constructs of credit services. Therefore, this current study is necessary to look at credit services in totality but also to ascertain if such findings are applicable in Uganda.

Van der Zwan, Verhoef and Milne (2015) in their study in South Africa revealed that access to credit positively affects the performance of SMEs. The study showed that SMEs with access to credit were able to invest in new equipment, hire more employees, and increase their sales revenue. The study also found that SMEs that had difficulty accessing credit had lower levels of growth and profitability. Similarly, in Nigeria, Olawale and Garwe (2017) revealed that SMEs with access to credit were more likely to expand their business operations and enter new markets. However, access to credit alone is not sufficient for SMEs to achieve high levels of performance. According to a study by Ndikumana and Ntunja (2019) in Tanzania, the effective use of credit is also critical for the performance of SMEs. The study showed that SMEs that used credit for productive purposes, such as investing in new technology or expanding their operations, had higher levels of profitability and growth than those that used credit for non-productive purposes, such as personal expenses. Therefore, it necessary for this study to be carried and access if the SMEs in Kampala-Uganda not only get credit services but also use and invest such credit effectively.

Ngugi and Were (2015) and Kiptoo and Kibet (2020) in their study in Kenya found that SMEs that had access to credit were able to increase their production, improve their marketing strategies, and expand their customer base. However, on contrary, Azong and

Mokube (2018) in their study in Cameroon found that although access to credit was positively associated with the growth of SMEs, it did not necessarily lead to an improvement in their profitability. The study suggested that this could be due to high interest rates and other costs associated with borrowing SMEs were doing badly. Kuteesa and Ssentongo (2019) found that SMEs in Uganda that had access to credit had higher sales and profits than those that did not. Similarly, a study by Asimwe, Muhwezi, and Kisaka (2018) found that SMEs that had access to credit had higher levels of productivity, sales growth, and employment growth than those that did not. However, the two studies didn't go deep to examine the extent to which credit services are related to the SMEs performance which this current study seeks to ascertain by examining the relationship between financial services and performance of SMEs in Kampala Central Business District.

2.4.2 Investment services and financial performance

Berger and Udell (2016) emphasize the positive relationship between access to external capital and the performance of small and medium-sized enterprises (SMEs). Their research suggests that investment services, particularly in the form of corporate finance and underwriting, play a vital role in providing SMEs with access to the capital they need to support their growth and expansion plans. One way that bank investment services facilitate access to capital for SMEs is through debt financing. Banks can help SMEs secure loans or lines of credit to finance their operations, invest in infrastructure, hire additional staff, or purchase necessary equipment. This access to debt financing enables SMEs to fund their day-to-day operations, maintain liquidity, and pursue growth opportunities. Additionally, Berger and Udell (2016) banks can assist SMEs in raising funds through equity financing. This involves issuing shares of ownership in the company to external investors, allowing

SMEs to raise capital without taking on additional debt. By facilitating equity financing, banks enable SMEs to attract investment from venture capitalists, private equity firms, or angel investors, providing them with the necessary resources to expand their businesses, develop new products or services, and enter new markets. Furthermore Berger and Udell (2016) revealed that the injection of capital facilitated by investment services can enable SMEs to seize market opportunities and expand their market presence. This could involve entering new geographical markets, diversifying their product or service offerings, or pursuing strategic acquisitions. These actions can contribute to increased revenues, improved profitability, and enhanced long-term performance for SMEs. That said, was carried out of Uganda scope; therefore, the current study in needed to test the applicability of such findings in Ugandan perspective.

In their study conducted in India, Sen, Misra, and Kar (2019) shed light on the role of investment services in aiding small and medium-sized enterprises (SMEs) to identify and evaluate investment opportunities. investment services leverage their market knowledge and expertise to assist SMEs in recognizing potential avenues for growth and expansion. In addition to identifying acquisition targets, investment services also enable SMEs to explore strategic partnerships. Banks, with their industry expertise, can help SMEs identify potential partners with complementary strengths or resources. Such partnerships can lead to collaborative ventures, joint marketing efforts, or shared research and development initiatives (Sen *et al.*, 2019). By leveraging these strategic alliances, SMEs can enhance their market position, access new customer segments, or tap into new distribution channels. These partnerships can positively impact SMEs' financial performance by expanding their market presence and unlocking new revenue streams. Furthermore, Sen *et al.*, (2019) revealed that

investment services offered by banks can assist SMEs in evaluating investment projects. Banks provide valuable financial analysis and due diligence services to assess the feasibility and potential returns of investment opportunities. This evaluation process involves scrutinizing factors such as market conditions, financial projections, risk assessments, and regulatory considerations. By leveraging the expertise of banks, SMEs can make more informed investment decisions, minimizing risks and maximizing the chances of success. Well-executed investment projects can contribute to the diversification of revenue streams for SMEs, reducing dependence on a single product or market and enhancing overall financial performance. However, the study was conducted in India, hence the findings need to be tested to check if they are applicable in the Ugandan perspective.

The research conducted by Shehzad, Naeem, Sial & Ramzan (2019) in Pakistan highlights the importance of effective risk management for small and medium-sized enterprises (SMEs) and its impact on their financial performance. The study reveals that investment services play a significant role in assisting SMEs with risk management, which is crucial for maintaining financial stability and enhancing performance. Bank investment services provide SMEs with risk mitigation strategies. This includes offering tools and solutions to hedge against risks such as foreign exchange rate fluctuations or interest rate volatility. By providing SMEs with access to financial instruments like derivatives, banks enable SMEs to protect themselves against adverse market movements. For example, banks can assist SMEs in implementing currency hedging strategies to minimize the impact of exchange rate fluctuations on their import/export activities (Shehzad *et al.*, 2019). Effective risk management facilitated by bank investment services is particularly important for SMEs due to their inherent vulnerability to financial shocks. SMEs often have limited resources and

are more susceptible to economic fluctuations, market uncertainties, or unexpected events (Shehzad *et al.*, 2019). By providing risk management tools and solutions, banks contribute to the financial stability of SMEs, reducing the likelihood of adverse outcomes and enhancing their overall performance. However, these study findings need to be tested in Ugandan perspective since the study was conducted in Pakistan.

2.4.3 Saving services and financial performance

Yadav and Sreejesh (2018) highlight the significance of saving services, specifically business savings accounts and term deposits, in providing SMEs with a secure and accessible platform to store their surplus funds. These specialized accounts offer SMEs a higher interest rate in comparison to regular transactional accounts, enabling them to earn interest on their idle cash. The utilization of saving services plays a crucial role in effective liquidity management for SMEs. By channeling their excess funds into these accounts, SMEs ensure that their liquidity is appropriately managed and readily available for various purposes. This includes meeting operational needs, addressing unexpected emergencies, or capitalizing on strategic investment opportunities (Yadav & Sreejesh, 2018). Furthermore, Yadav and Sreejesh (2018) revealed the ability to earn interest on idle cash provides an additional avenue for SMEs to enhance their financial standing. Instead of keeping excess funds idle, SMEs can generate a passive income through interest earnings on their savings. This can contribute to their overall profitability and serve as a valuable financial resource for future expansion, innovation, or diversification efforts. However, the study didn't test the relationship that exists between the two variables which this current in Kampala Capital City seeks to do.

According to Cowling, Liu, Ledger, and Zhang (2016) saving services not only provide a secure place for SMEs to store their excess funds but also offer significant support in effectively managing their cash flow. SMEs often encounter challenges related to irregular cash inflows and outflows, making it crucial for them to maintain sufficient working capital for optimal financial performance. SMEs can allocate their surplus cash into interest-bearing accounts, allowing them to earn returns while simultaneously preserving a buffer for their operational requirements. Firstly, Cowling *et al.*, (2016) it helps SMEs avoid cash flow crunches by ensuring that they have readily available funds to meet their financial obligations as they arise. Instead of facing financial strain during periods of low cash flow, SMEs can rely on the interest earned from their bank savings to bridge any temporary gaps and maintain a stable cash position. Secondly, utilizing bank saving services enables SMEs to reduce their reliance on expensive short-term financing options. When SMEs face cash flow shortages, they may resort to costly methods such as short-term loans or credit lines, which often come with high interest rates and fees. The interest earned from their bank savings can be used to cover short-term financial needs, reducing their dependency on external sources of funding and minimizing the associated financial burden (Cowling *et al.*, 2016). However, the study was done Asia, such findings need to be checked if they are applicable in Ugandan perspective but most especially in Kampala Capital City.

According to report by OECD (2018) saving services provide SMEs with a safe and secure way to protect their funds. By depositing their excess cash in bank accounts, SMEs can mitigate the risk of theft, loss, or mismanagement associated with holding cash on-premises. Banks typically provide deposit insurance, which safeguards SMEs' funds up to a certain threshold, providing an added layer of protection. This risk mitigation aspect of saving

services enhances the financial stability of SMEs and instills confidence in their operations. Furthermore OECD (2018), revealed that saving services often form the basis of a broader relationship between SMEs. By maintaining savings accounts with a bank, SMEs establish a relationship that can lead to other financial services, such as credit facilities, trade financing, or advisory services. This relationship-based approach allows financial institutions to have a deeper understanding of SMEs' financial needs, enabling them to provide tailored solutions that support the financial performance of SMEs in the long run. However, the above study did not go deep to examine the relationship between the saving services and financial services, it just gave an explanatory phrase. Therefore, this current is necessary to deeply examine the relations that exist between the two variables.

2.5 Literature gap

The literature reviewed revealed that different scholars and academicians have written about financial services and financial performance of SMEs. However, a number of gaps have been found from the above literature reviewed. For instance, no studies had examined the relationship between financial services and financial performance of SMEs combining the three constructs of credit services, financial advisory services and saving services. On top of that, most of the studies reviewed were done in more developed countries in Europe, Asia, Nigeria, Ghana, Kenya among others hence creating a literature gap in the Uganda perspective. The few studies that were done in Uganda did not clearly bring out how the two variables, financial services and financial performance of SMEs were related. Besides that, no study has been carried on financial services and performance of SMEs specifically focusing on SMEs in Kampala Capital City. Therefore, there was a need for this study to be centered on Uganda in order to bridge that literature gap and also clearly bring out the

relationship that exist between financial services and financial performance of SMEs dealing in Kampala Capital City. Therefore, that necessitated this current study to examine the relationship between financial services and financial performance in Uganda while taking a case of SMEs in Kampala Capital City.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter presents the study methodology clearly indicating different methods that were used. The section presents the research approach, research design, study population, determination of sample size, sampling techniques, sources of data, data collection methods, data collection tools, procedures of data collection, data quality control, data processing, analyzing and presentation and ethical consideration.

3.2 Research design

The study used correlation research design. This research design employs a scientific method to explore the connection between multiple variables. It seeks to determine if alterations in one variable correspond to changes in another variable, without manipulating any of them or establishing causation (Creswell, 2018). The relevance of this research design lies in its focus on testing rather than constructing theories, which aligns with the goals of the study. It captures the information that facilitates the running of correlations and regressions. The study considered a quantitative research approach. Since the study aim at examining the relationship that exists between the study financial services and financial performance, the researcher used quantitative research approach to collect numerical or measurable or quantifiable data (Mugenda & Mugenda, 2013). Therefore, the study used a correlation analysis to examine the extent to which two variables were related.

3.3 Study Population

According to Kombo and Tromp (2016) population is collection of items or objects or individuals where the sample size is taken from. According to the report on Uganda business

register 2018/19(UBOS), there were 47072 SMEs involved in trader in Kampala Capital City.

Table 3.1: Number of SMEs in Trader in Kampala Capital City

Division	Number dealing in Trader
Lubaga	7473
Central	23506
Nakawa	4425
Makindye	6208
Kawempe	5460
Total	47072

3.4 Sample size determination

According to Kumar (2019), a sample size refers to a specific portion or subset of the population that the researcher collects data from to obtain the required information for the study. For this research, only one respondent who was the owner of the SME was selected from each SME that meets the study's criteria. Thus, the targeted sample size was 381 participants. The sample size was considered basing on Krejcie, and Morgan (1970) as presented below.

Table 3.2: Sample Size

Division	Number dealing in Trader	Samples size
Lubaga	7473	60
Central	23506	190
Nakawa	4425	36
Makindye	6208	50
Kawempe	5460	45
Total	47072	381

Source: A report on Uganda Business Register 2018/19 (UBOS)

3.5 Sampling Technique

The study utilized a systematic sampling technique to select SMEs for inclusion in the study. Systematic sampling is a probabilistic approach where a specific Nth number of items from the population is chosen to participate in the study (Bryman, 2018). In each division that made up Kampala Capital City, SMEs were assigned numbers based on lists that was obtained from KCCA, and specifically, every fifth (5th) SME on the account of 1,2,3,4,5 was selected for the study. This process was repeated until the desired sample size was reached. In this study, the owners of SMEs were purposively selected to take part in the study, since it was believed that they had more information regarding financial performance and they are the main funders of the business.

3.6 Data collection methods

The study employed the survey method as the primary approach for collecting data, with surveys serving as the main tool for gathering information directly from respondents. As highlighted by Bryman (2018), surveys are a widely recognized technique for obtaining data from the field, allowing researchers to systematically collect information from participants. In this case, the researcher distributed structured questionnaires to respondents, who were given the flexibility to complete them at their convenience, following the provided instructions, and return them afterward. This method proved to be cost-effective, minimizing expenses associated with data collection, and ensured a high level of confidentiality, encouraging respondents to provide honest and accurate answers. Additionally, the self-administered nature of the surveys helped reduce potential bias or influence from the researcher, making it a practical and efficient means of collecting primary data.

3.7 Data collection tools

The study considered a structured questionnaire survey as the main data collection tool. A structured questionnaire was used in gathering primary data which was used to collect quantitative data. Mugenda and Mugenda (2013) defined a questionnaire as a formal set of questions or statements designed to gather information from respondents that accomplish research objectives. The questionnaire was created in line with the following criteria: a Likert scale with response categories ranging from “strongly disagree”, “disagree”, “neutral”, “agree”, and “strongly agree” on a 1,2,3,4,5 rating scale. Closed-ended questions were used to limit the respondents from giving irrelevant information (Mugenda & Mugenda, 2013). The questionnaire was preferred because it gave a great degree of assurance and allowed collection of large amounts of data in the shortest time.

3.8 Data collection procedure

With the approved proposal and data collection tools from the supervisor, the researcher proceeded to have an introductory letter from Kyambogo University Directorate of Research. The introductory letter introduced the researcher to different authorities and the respondents. The letter was also presented to KCCA to request for permission to conduct the study in Kampala Capital City. However, data collection tools were first pre-tested on 10 people who were not part of the main study. The results from pre-testing (pilot study) helped to test reliability of data collection tools for the main study. After getting the permission and the consent from respondents, the researcher embarked on data collection and by disturbing questionnaires which were collected back after 5 days.

3.9 Data quality control

According to Yin (2014) data quality control is regarded as essential and this was achieved by ensuring the validity and reliability of the study of instruments

3.9.1 Validity test

The validity, according to Amin (2005) is defined as how well a test measures what it is intended to assess. Face and content validity was evaluated on the data gathering tools. The supervisor assessed the tools for face validity, making comments on the questions in the questionnaire. As proposed by the supervisor, the questions that were considered as vague were removed or rephrased. Furthermore, content validity was concerned with how well the instrument examines or measures the construct in question. To determine this, two research experts at the level of research supervisors at Kyambogo University were asked to Rank the questions in the questionnaire as relevant (R) or irrelevant (I.R). Complex wording, limited selections, and missing options were all open to comment from the research experts. Content Validity Indices (CVI) was calculated based on expert ratings using the formula: $CVI = \frac{R}{(R+IR)}$.

Validity was considered because the CVI of the items was above 0.7 as recommended by (Mugenda & Mugenda, 2013).

Table 3.3: Validity Test of the tool

Construct	Total Items	Relevant Items	Irrelevant	CVI
Credit Services	08	07	01	.875
Investment Services	09	07	02	.778
Saving Services	07	06	01	.857
Financial Performance	07	06	01	.857
Average				.842

However, the items that were ranked as irrelevant were redefined to make them relevant

3.9.2 Reliability

This is the ability of a data collection to deliver consistent results even when employed in a variety of situations (Creswell, 2013). To ensure dependability, the instruments were pre-tested on ten persons who were not part of the main study. The pre-testing results were entered into SPSS Ver. 20 and reliability was assessed using Cronbach test scores (alpha values). The tools' alpha values were higher than 0.7 hence regarded as reliable/dependable as recommended by (Mugenda & Mugenda, 2013).

Table 3.4: Reliability test of tool

Construct	Item tested	Alpha values
Credit Services	08	.749
Investment Services	09	.946
Saving Services	07	.854
Financial Performance	07	.772

3.10 Measurement of study variables

Financial Services

The financial services in this study was measured basing of constructs of credit services, investment services and saving services as put forward by different scholars such as (Claessens, 2016; Mbuva, 2019). The items measuring the variable were ranked on a five-point scale, where “5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree”.

Financial performance

The financial performance of SMEs was measured using dimensions of profitability, liquidity and return on investment as suggested by (Mokua, 2019). The items were ranked on a 5 Likert scale where “5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree”.

3.11 Data analysis and presentation

The quantitative data collected was edited for completeness and accuracy. The quantitative data collected using the questionnaire was analyzed using SPSS Ver.23. Descriptive statistics, correlations and regression analysis was run. Spearman correlations were run to ascertain the linear dependence degree between financial services and financial performance. This technique was preferred because of its efficiency and being straight forward in giving results. A linear and multiple regressions were also run to know how much each of the independent variable constructs predicts the dependent variable. From the regression model, the study generated adjusted R square that explained combined predictability levels of all the constructs of the independent variable to the dependent variable. The level of significance in this study was treated at ($p = .05$) and the ANOVA table was based on to describe the best fit of the model. After data analysis, tables were be used in presenting the study results where necessary.

3.12 Ethical consideration

The study considered confidentiality, informed respondents' consent, and plagiarism as ethical considerations, following the guidelines of Yin (2014). Confidentiality of respondents' views was upheld by informing them in advance that the information provided

would be solely for academic use, and any details obtained on private matters would be treated with the utmost confidentiality.

In terms of consent, participants were briefed, and their informed consent was obtained, ensuring that respondents had a clear understanding of the study's expectations before participating. Only those who voluntarily consented were included in the study.

To prevent plagiarism, literature from other researchers and scholars was paraphrased and rephrased. All citations were fully referenced to acknowledge the contributions of other scholars.

3.13 Study limitation

There was a challenge of language barriers in ensuring that respondents understood the questions in the questionnaire as intended because some didn't know English well. However, this concern was addressed by employing research assistants who interpreted the questions for the respondents.

The participants changed their behavior or responses due to ethical constraints or the awareness of being observed, known as the Hawthorne effect. To address this potential issue, the researcher strictly followed ethical guidelines and obtained informed consent from all participants. Additionally, strategies like debriefing were used to reduce participant biases and improve the validity of the findings. These measures created a favorable environment for participants to provide genuine and unbiased responses, thereby enhancing the overall integrity of the study.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF STUDY FINDINGS

4.1 Introduction

This chapter shows the presentation, analysis and interpretation of the study findings from the field. It includes the presentation of the Bio-data and descriptive statistics following order of the study objectives which included examining the relationship between credit services and financial performance of SMEs in Kampala Capital City, the relationship between investment services and financial performance of SMEs in Kampala Capital City and the relationship between saving services and financial performance of SMEs in Kampala Capital City.

4.2 Response rate

Below is the figure that shows participants who responded to the questionnaire and those who did not.

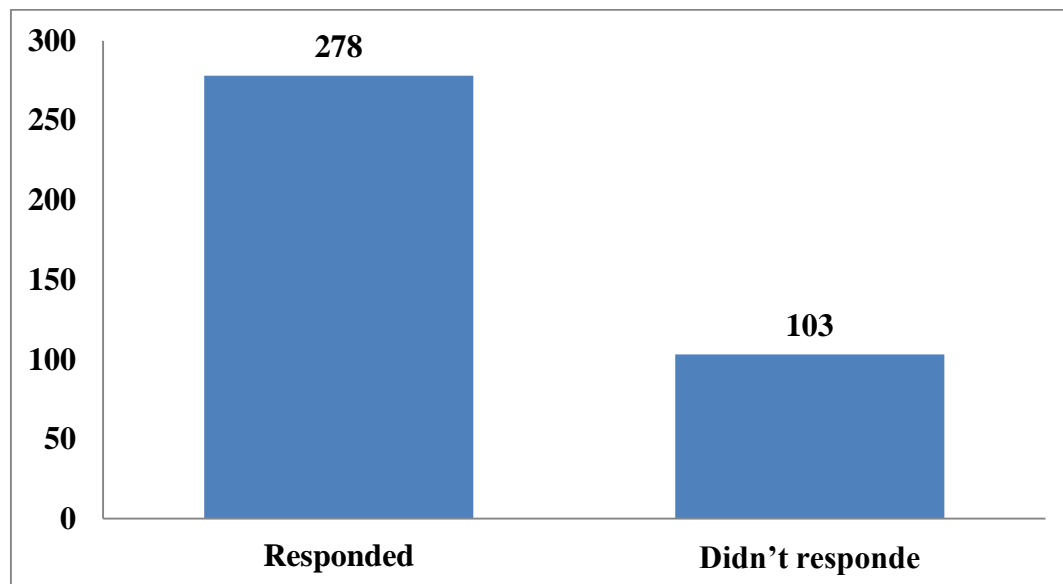


Figure 4. 1: Respondents' response rate

Source: Field data (2023)

From Figure 4.1, out of 381 targeted participants, 278 (73.0%) responded back while 103 (27.0%) did not provide responses. The response rate exceeds the recommended 70% threshold suggested by the Guttmacher Institute (2006), affirming the commendable level of participant in the study.

4.3 Bio-data of the respondents

The study gathered respondents' bio-data inform gender, age education level, and time taken running SMEs business. The findings were presented through frequency and percentage as shown in the tables below.

Table 4.1: Gender of respondents

Category	Frequency	Percent
Male	161	57.9
Female	117	42.1
Total	278	100.0

Source: Field data (2023)

From Table 4.1, majority 57.9% of the respondents were male whereas 42.1% of the respondents were female respondents. This could be attributed to the factor that men are perceived to be more business oriented than women. It would suggest potential gender-related differences in business orientation, participation, or access to resources. The perception that men are more business-oriented than women could also highlight cultural or societal biases that influence business ownership or management, which might be relevant if the study is examining such factors.

Table 4.2: Age of respondents

Category	Frequency	Percent
18-29 years	32	11.5
30-39 years	163	58.6
40-49 years	59	21.2
50 years and Above	24	8.6
Total	278	100.0

Source: Field data (2023)

As per Table 4.2, out of a sample of 278 respondents, majority 58.6% of the respondents were aged 30-39 years, followed by 21.2% of the respondents who were aged 40-49 years, then 11.5% of the respondents who were aged 18-29 years, and the least proportion 8.6% of the respondents were aged 50 years and above. This showed that majority of the respondents were still in their youthful years. Therefore, they were still flexible and energetic to run the demanding tasks of operating of running an SME business in Kampala City.

Table 4.3: Education level of respondents

Category	Frequency	Percent
Primary	12	4.3
Secondary	35	12.6
Certificate	32	11.5
Diploma	39	14.0
Degree	125	45.0
Masters	29	10.4
Others	06	2.2
Total	278	100.0

Source: Field data (2023)

Results in Table 4.3 indicate that majority 45.0% of the respondents had bachelor's degrees, 14.0% held diplomas, 12.6% had reached in secondary schools, 11.5% had certificates, 10.4% had master's degree, 4.3% had reached in primary while only 2.2% had attained other qualifications including post graduate diplomas and professional courses. Therefore, all the

respondents had formal education and majority of them having an education level of secondary level and above, were educated enough to understand the questions asked and they gave reliable answers.

Table 4.4: Time taken running SMEs business

Category	Frequency	Percent
Less than a year	9	3.2
1-5 years	110	39.6
6-9 years	91	32.7
10 years and above	68	24.5
Total	278	100.0

Source: Field data (2023)

Findings in Table 4.4 revealed that majority 39.7% of the respondents had spent 1-5 years, followed by 32.7% who had spent 6-9 years, then 24.5 years had spent 10 years and above while the remaining 3.2% were new and had only spent less than a year. This showed most of the respondents has run their businesses for more than a year. This meant that they had more information regarding financial services and financial performance of SMEs in Kampala Capital City.

4.4 Empirical Findings on the Study Objectives

This section highlights the empirical findings in relation to the study objectives. Before presenting the correlation analysis on each objective, the researcher runs descriptive statistics which include percentages, means and standard deviations on different statements of each study variable.

4.4.1 Credit Services and Financial Performance of SMEs in Kampala Capital City

The first objective of this study was to examine the relationship between credit services and financial performance of SMEs in Kampala Capital City. Credit services were measured using a five-point Likert scale that is; 1= Strongly Disagree to 5= Strongly Agree to ascertain the level of agreement or disagreement towards the variable statements. A mean score value below the threshold of 3 suggests a disagreement while a mean score value greater than or equal to the threshold of 3 suggests an agreement to a particular statement of the variable by most of the respondents.

Table 4.5: Respondents' Perceptions of Credit Services among SMEs in Kampala Capital City

Item	SD		D		N		A		SA		Mean	Std. Dev
	F	%	F	%	F	%	F	%	F	%		
We have a lot of channels where to access credit for our business	88	31.7	57	20.5	36	12.9	79	28.4	18	6.5	2.58	1.357
The credit accessed is enough for our business	98	35.3	95	34.2	44	15.8	32	11.5	09	3.2	2.13	1.118
The loan application processes are easy	50	18.0	93	33.5	70	25.2	64	23.0	01	0.4	2.54	1.046
The interest charged on the loan we get are affordable	126	45.3	104	37.4	30	10.8	14	5.0	04	1.4	1.80	.924
Loans are always approved and disbursed in time	41	14.7	85	30.6	97	34.9	46	16.5	09	3.2	2.63	1.028
The financial institution assigns a person to administer and manage the loan(s) they offer to us	07	2.5	20	7.2	16	5.8	183	65.8	52	18.4	3.91	.867
We don't need physical collateral security to access a loan from a bank	148	53.2	78	28.1	22	7.9	16	5.8	14	5.0	1.81	1.125
We are always given enough information regarding different credit services offered that may benefit out business	36	12.9	76	27.3	93	33.5	63	22.7	10	3.6	2.77	1.054
AVERAGE											2.52	1.065

Source: Field data (2023)

From Table 4.5, majority of the respondents 52.2 % revealed that they didn't have a lot of channels where to access credit for their business, then 12.9% were neutral while 34.9% agreed that they had a lot of channels where to access credit for their business. The findings were supported by a low mean value of (Mean = 2.58) on top of showing inconsistency in responses because of the standard deviation was above one (1.357). This implies that the majority of the people running the SMEs in Kampala City had limited channels from which they get funds to finance their businesses. This was because majority of the SME traders depended largely on their personal savings.

Furthermore, results from Table 4.5 revealed that majority 69.5% of the respondents opposed the statement the credit they accessed was enough for their business, then 15.8% were neutral while 14.7% agreed with the statement. The findings were supported by a low mean value of (Mean = 2.13) and there was also much variance in responses because of the standard deviation was above one (1.118). This meant that the credit accessed by SME traders were enough confirming the reason which they still operating as SMEs not large companies.

On the issue of the loan application processes in banks being easy, majority 51.5% of the respondents disagreed with it 25.2% remained neutral while 23.4 agreed with the statement. The findings were supported by a low mean value of (Mean = 2.54) with much variance in responses because of the standard deviation was above one (1.046). This meant that the process of applying for loans was difficulty. This was so because banks do due diligence to ensure that credit is extended to the right and party and this process may be difficulty for loan applicants because of the requirements needed by the bank.

Still from Table 4.5, majority 82.7% of the respondents revealed that the interest charged on the loan they get was not affordable, 10.8% remained neutral while 6.4% agreed with statement. This findings were supported by low mean value of (Mean = 1.80) with little variance in responses because of the standard deviation being below one (.924). This meant that indeed the SME traders were charged high interest rates on the loans they got from the banks. These made the credit facility become more expensive hence making some SMEs to use only their personal savings which are usually not enough to expand the business.

Still from Table 4.5, scoring a low mean value of (Mean = 2.63) with inconsistency in responses because of the standard deviation being above one (1.028), majority 45.3% of the respondents opposed the statement that loans were always approved and disbursed in time, 34.9% remained neutral while only 19.8% agreed with the statement. This was attributed to the fact that banks have to first do due diligence on the personal/businesses that need loans. This process sometimes takes a long period hence delaying the approval and disbursement of loans in time.

Still from Table 4.5, majority 84.2% of the respondents agreed that the financial institution assigns a person to administer and manage the loan(s) they offer, 5.8% while only 9.8% disagreed with the statement. This findings were supported by a high mean value of (Mean = 3.91) with little variance in responses because of the standard deviation being below one (.867). This was so because for the each loan extended to a person or the business, the bank assigns a person to manage and supervise that loan and that person is the loan officer who monitors the loan for the application date to until the loan is fully paid back.

Additionally, from Table 4.5, majority 81.3% of the respondents disagreed with the statement that SMEs traders need physical collateral security to access a loan from a bank, 7.9% was neutral to the statement while 10.8% agreed with the statement. Besides, showing variances in responses because of the standard deviation was above one (1.125), the statement scored a low mean value of (Mean = 1.81) which supported the study findings. This was because majority of the banks usually demand a collateral security from business before extending a credit facility to them.

Lastly, from Table 4.5, majority 39.9% of the respondents disagreed with the statement that they are always given enough information regarding different credit services offered that may benefit their business, 33.5% remained neutral while 26.3% were agreement with the statement. This findings were supported by a low mean value of (Mean = 2.77) with much variance in responses because of the standard deviation being above one (1.054). This was because banks aim at making profits, therefore, the terms and information available regarding credit services tend to be benefiting the credit providers.

4.4.1.1 Relationship between Credit Services and Financial Performance of SMEs in Kampala Capital City

To establish whether there is a statistically significant relationship between credit services and financial performance of SMEs in Kampala Capital City, the researcher conducted a Spearman's rank correlation analysis and the findings are presented in Table 4.6.

Table 4.6: Correlation Analysis between Credit Services and Financial Performance of SMEs in Kampala Capital City

		Credit Services	Financial Performance
Credit Services	Spearman's Correlation Coefficient	1.000	.423**
	Sig. (2-tailed)	.	.000
	N	278	278
Financial Performance	Spearman's Correlation Coefficient	.423**	1.000
	Sig. (2-tailed)	.000	.
	N	278	278

****.** Correlation is significant at the 0.01 level (2-tailed).

Source: Field data (2023)

The study findings in Table 4.6 revealed that there is a moderately positive and significant relationship between credit services and financial performance of SMEs in Kampala Capital City ($r = 0.423$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. The findings imply that an improvement in the availability and accessibility of credit services will effectively lead to an improvement in financial performance of SMEs in Kampala Capital City. Therefore, this indicates that so as to improve financial performance, there should be an improvement in the performance of credit services as these have a direct and significant influence on the financial performance of SMEs in Kampala Capital City.

4.4.2 Investment Services and Financial Performance of SMEs in Kampala Capital City

The second objective of this study was to establish the relationship between investment services and financial performance of SMEs in Kampala Capital City. Investment services were measured using a five-point Likert scale that is; 1= Strongly Disagree to 5= Strongly Agree to ascertain the level of agreement or disagreement towards the variable statements.

A mean score value below the threshold of 3 suggests a disagreement while a mean score value greater than or equal to the threshold of 3 suggests an agreement to a particular statement of the variable by most of the respondents.

Table 4. 7: Respondents’ Perceptions on Investment Services among SMEs in Kampala Capital City

Item	SD		D		N		A		SA		Mean	Std. Dev
	F	%	F	%	F	%	F	%	F	%		
The business always invests in mutual funds to potentially earn higher returns compared to traditional savings accounts	87	31.3	79	28.4	40	14.4	66	23.7	06	2.2	2.37	1.212
Our bank(s) facilitate the business participation in the stock market by offering brokerage services	99	35.6	85	30.6	53	19.1	31	11.2	10	3.6	2.16	1.127
The bank(s) always help the business to invest in debt instruments such as bonds	99	35.6	86	30.9	35	12.6	55	19.8	03	1.1	2.20	1.156
The banks often provide access to treasury bills and other government securities	98	35.3	86	30.9	35	12.6	50	18.0	09	3.2	2.23	1.201
The business invests in Exchange-Traded Fund investments traded on stock exchanges	108	38.8	75	27.0	51	18.3	40	14.4	04	1.4	2.13	1.125
The business operates a retirement plan for the employees with the business banks	110	39.6	107	38.5	35	12.6	23	8.3	04	1.4	1.93	.974
The banks always offer investment advisory services to the business	95	34.2	62	23.4	36	12.9	77	27.7	05	1.8	2.39	1.253
The banks always offer money market funds to the business to invest in short-term and low-risk securities	97	34.9	85	30.6	53	19.1	37	13.3	06	2.2	2.17	1.114
AVERAGE											2.20	1.145

Source: Field Data (2023)

From Table 4.7, it was revealed that majority 59.7% of the respondents opposed the statement that the business always invests in mutual funds to potentially earn higher returns compared to traditional savings accounts, 14.4% remained neutral to the statement while 25.9% agreed with the statement. The findings were supported by low mean value of (Mean = 2.37) with higher variance in responses since the standard deviation was above one (SD = 1.212). This was because the culture and knowledge of investing in mutual funds in Uganda is still low, therefore, it may be had for hard for SMEs to invest in them.

Additionally, majority 66.2% of the respondents opposed the statements that their bank(s) facilitate the business participation in the stock market by offering brokerage services 19.1% were neutral to the statement while 14.8% agreed with the statement. This was support by a low mean valve of (Mean = 2.16) on top of registering high response variance since the since the standard deviation was above one (SD = 1.127). This could be attributed to the fact that most of the businesses in Uganda are not listed on stock exchange market and there is limited knowledge in the communities regarding stock markets.

On the whether the bank(s) always help the business to invest in debt instruments such as bonds, 66.5% of the respondents disagreed with it, 12.6% were neutral and 20.9% just agreed with the statement. It was supported by a low mean value of (Mean= 2.20) with high variance in responses since the standard deviation was above one (SD= 1.156) which confirmed the results. This is because the culture of investing in instruments like bonds is still low in Uganda hence not attracting much attention of SME traders.

Still from Table 4.7, scoring a low mean value of (Mean = 2.23) with inconsistency in responses because of the standard deviation being above one (1.201), majority 66.2% of the

respondents opposed the statement that the banks often provide access to treasury bills and other government securities, 12.6% remained neutral while 21.2% agreed with the statement. This was attributed to the fact that the culture of investing treasury bills and other government securities is still low in Uganda and more business don't have knowledge about such investments.

Furthermore, results from Table 4.7, majority 65.8% of the respondents disagreed that the business invests in Exchange-Traded Fund investments traded on stock exchanges, 18.3% remained neutral while 15.8% agreed with the statement. This findings were supported by a low mean value of (Mean = 2.13) with much variance in responses because of the standard deviation being above one (1.125). This was so because banks in Uganda don't usually offer investment services. Therefore, investing in Exchange-Traded Fund investments traded on stock exchanges is not usually participated in by SMEs.

Additionally, from Table 4.7, majority 78.1% of the respondents disagreed with the statement that the business operates a retirement plan for the employees with the business banks, 12.6% were neutral to the statement while 9.7% agreed with the statement. Besides, showing little variance in responses because of the standard deviation was below one (.974), the statement scored a low mean value of (Mean = 1.93) which supported the study findings. This was because by the nature of SMEs, these small and medium businesses may not have the capacity to operate retirement plans for all their employees.

Regarding the issue of the banks always offering investment advisory services to the business, majority 57.6% of the respondents disagreed with it, 12.9% remained neutral while 29.5 agreed with the statement. The findings were supported by a low mean value of (Mean

= 2.39) with much variance in responses because of the standard deviation was above one (1.253). This meant that the banks were always offering investment advisory services to the business. This was because most of SMEs were being run on the advice of the owners, friends and relatives.

Lastly, from Table 4.7, majority 65.5% of the respondents disagreed with the statement that the banks always offer money market funds to the business to invest in short-term and low-risk securities, 19.1% remained neutral while 15.5% were agreement with the statement. This findings were supported by a low mean value of (Mean = 2.17) with much variance in responses because of the standard deviation being above one (1.114). This was because SMEs don't always request for money market funds to invest in short-term and low-risk securities. This was so because most SME owners lacked knowledge about short-term and low-risk securities.

4.4.2.1 Relationship between Investment Services and Financial Performance of SMEs in Kampala Capital City

To establish whether there is a statistically significant relationship between investment services and financial performance of SMEs in Kampala Capital City, the researcher conducted a Spearman's rank correlation analysis and the findings are presented in Table 4.8 below.

Table 4. 8: Correlation Analysis between Investment Services and Financial Performance of SMEs in Kampala Capital City

		Investment Services	Financial Performance
Investment Services	Spearman's Correlation Coefficient	1.000	.449**
	Sig. (2-tailed)	.	.000
	N	278	278
Financial Performance	Spearman's Correlation Coefficient	.449**	1.000
	Sig. (2-tailed)	.000	.
	N	278	278

****.** Correlation is significant at the 0.01 level (2-tailed).

Source: Field data (2023)

The study findings in Table 4.8 revealed that there is a moderately positive and significant relationship between investment services and financial performance of SMEs in Kampala Capital City ($r = 0.449$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. The findings imply that an improvement in the investment services will effectively lead to an improvement in financial performance of SMEs in Kampala Capital City. Therefore, this indicates that so as to improve financial performance, there should be an improvement in the investment services as these have a direct and significant influence on the financial performance of SMEs in Kampala Capital City.

4.4.3 Saving Services and Financial Performance of SMEs in Kampala Capital City

The third objective of this study was to investigate the relationship between saving services and financial performance of SMEs in Kampala Capital City. Saving services were measured using a five-point Likert scale that is; 1= Strongly Disagree to 5= Strongly Agree to ascertain the level of agreement or disagreement towards the variable statements. A mean score value below the threshold of 3 suggests a disagreement while a mean score value greater than or equal to the threshold of 3 suggests an agreement to a particular statement of the variable by most of the respondents.

Table 4.9: Respondents' Perceptions on Saving Services among SMEs in Kampala Capital City

Item	SD		D		N		A		SA		Mean	Std. Dev
	F	%	F	%	F	%	F	%	F	%		
The business has some good savings on the bank account	24	8.6	94	33.8	78	28.1	71	25.5	11	4.0	2.82	1.034
I make savings on regular basis	26	9.4	83	29.9	90	32.4	69	24.8	10	3.6	2.83	1.014
I receive reasonable interest on the savings I make in a bank	63	22.7	131	47.1	45	16.2	35	12.6	04	1.4	2.23	.986
I always negotiate with bank about the interest to paid	84	30.2	139	50.0	24	8.6	26	9.4	05	1.8	2.03	.963
The banks charge reasonably on the business' savings account	53	19.1	106	38.1	58	20.9	54	19.4	07	2.5	2.48	1.084
I always fix some money in bank for specified period of time	89	32.0	97	34.9	27	9.7	46	16.5	19	6.8	2.31	1.266
Excess funds are always automatically transferred from sweep accounts to a business's checking account into a higher-earning account	117	42.1	86	30.9	48	17.3	27	9.8	-	-	1.94	.985
AVERAGE											2.38	1.047

Source: Field Data (2023)

From Table 4.9, majority 42.4% of the respondents opposed the statement that the business has some good savings on the bank account, 28.1% remained neutral while 29.0% agreed with the statement. The findings were supported by a low a mean value of (Mean = 2.82) with inconsistency in responding to the statement with standard deviation was above one (Std. Dev = 1.034). This was because these SMEs had limited funds and majority didn't have much to save in the bank.

Similarly, from Table 4.9 majority 39.3% of the respondents opposed the statement that SME traders made savings on regular basis, 32.4% remained neutral while 28.4% agreed with statement. This was supported by a low mean value of (Mean = 2.83) with inconsistency in responses because of the standard deviation being above one (SD = 1.014). This meant that SME traders were not making savings on regular basis because they were not making much profit. Therefore, they didn't have excess to save in the bank.

On whether the SME traders received reasonable interest on the savings they make in a bank, a large number of the respondents 69.8% disagreed with the statement, 16.2% remained neutral while 14.0% agreed with the statement. It was supported by a low mean value of (Mean = 2.23) and showed little variances because of the standard deviation being below one (SD = .986). This was because majority of the SMEs didn't know have express funds to fix in the bank to earn interest on it. The funds they had were running the business operations.

Still from Table 4.9, majority 80.2% of the respondents opposed the statement that SME traders always negotiated with bank about the interest to paid, 8.6% remained neutral about the statement while 11.2% agreed with statement. It was supported by a low mean value of (Mean = 2.03) with little variations in responses because of the standard deviation being

below one ($SD = .963$). This is because majority of SMEs had no funds to fix in the bank to negotiate with bank about the interest to be paid.

Furthermore, majority 57.1% of the respondents opposed the statement that the banks charge reasonably on the business' savings account, 20.9% remained neutral while 21.9% just agreed with the statement. It was supported by a low mean value of ($Mean = 2.48$) on top of showing much variations in responses because of the standard deviation was above one ($SD = 1.084$). This was because the banks charge high fees for managing and administering the bank accounts owned by the SMEs.

On whether the SME owners always fix some money in bank for specified period of time, majority 66.9% respondents opposed the statement, 9.7% remained neutral while 23.3% just agreed with the statement. This was supported by a low mean value of ($Mean = 2.31$) with much variations in responses because of the standard deviation being above one ($SD = 1.266$). This was because the SMEs didn't have excess funds to fix in the bank. The funds they were used to the run the operations of the business.

Last from Table 4.9, 73.0% of the respondent opposed the statement that excess funds are always automatically transferred from sweep accounts to a business's checking account into a higher-earning account, 17.3% remained neutral while only 9.8% just concurred with statement. This was supported by a low mean value of ($Mean = 1.94$) with little variations in responses because of the standard deviation being below one ($SD = .985$). This was because the SME didn't have excess funds; therefore, majority didn't have what to transfer to the bank accounts.

4.4.3.1 Relationship between Saving Services and Financial Performance of SMEs in Kampala Capital City

To establish whether there is a statistically significant relationship between saving services and financial performance of SMEs in Kampala Capital City, the researcher conducted a Spearman's rank correlation analysis and the findings are presented in Table 4.10 below.

Table 4. 10: Correlation Analysis between Savings Services and Financial Performance of SMEs in Kampala Capital City

		Saving Services	Financial Performance
Saving Services	Spearman's Correlation Coefficient	1.000	.477**
	Sig. (2-tailed)	.	.000
	N	278	278
Financial Performance	Spearman's Correlation Coefficient	.477**	1.000
	Sig. (2-tailed)	.000	.
	N	278	278

****.** Correlation is significant at the 0.01 level (2-tailed).

Source: Field data (2023)

The study findings in Table 4.10 revealed that there is a moderately positive and significant relationship between saving services and financial performance of SMEs in Kampala Capital City ($r = 0.477$, $N=278$, $P\text{-value}=0.000$) at a 0.01 level of significance. The findings imply that an improvement in the saving services will effectively lead to an improvement in financial performance of SMEs in Kampala Capital City. Therefore, this indicates that so as to improve financial performance, there should be an improvement in the saving services as these have a direct and significant influence on the financial performance of SMEs in Kampala Capital City.

4.4.4 Financial Performance of SMEs in Kampala Capital City

The study also sought to assess the financial performance of SMEs in Kampala Capital City. Financial performance was measured using a five-point Likert scale that is; 1= Strongly Disagree to 5= Strongly Agree to ascertain the level of agreement or disagreement towards the variable statements. A mean score value below the threshold of 3 suggests a disagreement while a mean score value greater than or equal to the threshold of 3 suggests an agreement to a particular statement of the variable by most of the respondents. The findings are presented in Table 4.11 below.

Table 4. 11: Respondents' Perceptions on Financial Performance of SMEs in Kampala Capital City

Item	SD		D		N		A		SA		Mean	Std. Dev
	F	%	F	%	F	%	F	%	F	%		
The revenue from the business keeps growing every year	10	3.6	65	23.4	103	37.1	87	31.3	13	4.7	3.10	.933
Every year our gross profit increases	07	2.5	70	25.2	114	41.0	78	28.1	09	3.2	3.04	.874
Every year our net profits increase	10	3.6	68	24.6	130	46.8	64	23.0	06	2.2	3.00	.840
The business has the capacity to meet all its operation costs	14	5.0	25	9.0	111	39.9	114	41.0	14	5.0	3.32	.896
Our cash inflows are always higher than the cash outflows	13	4.9	25	9.0	120	43.0	108	38.8	12	4.3	3.28	.860
The business uses more owner's equity than the debts/loans	13	4.7	27	9.7	79	28.4	124	44.6	35	12.6	3.51	.990
The business has managed to open more branches using business profits	87	31.3	77	27.7	44	15.8	59	21.1	11	4.0	2.39	1.237
AVERAGE											3.09	0.947

Source: Field data (2023)

From Table 4.11, majority 36.0% of the respondents agreed with the statement that the revenue from the business keeps growing every year, 37.0% remained neutral while 27.0% disagreed with the statement. The findings were supported by a moderate mean value of (Mean = 3.10) with consistency in responding to the statement with standard deviation was below one (Std. Dev = .933). This implies that SMEs were at least earning some revenue and it was increasing or growing every year which showed a sign of growth.

Results from Table 4.11 indicate that majority 41.0% of the respondents remained neutral to the statement that every year gross profit increases, 27.7% disagreed while 31.3% agreed with statement. This was supported by a moderate mean value of (Mean = 3.04) with consistency in responses because of the standard deviation being below one (SD = .874). This meant majority of the participants didn't want to disclose whether their gross profits increases. But that said, a large number of participants agreed that the gross profits were increasing as a result of increase in revenue.

On whether the every year net profits of SMEs increases, majority 46.8% of the respondents remained neutral to the statement, 28.2% disagreed while 25.0% agreed with statement. This was supported by a moderate mean value of (Mean = 3.00) with consistency in responses because of the standard deviation being below one (SD = .840). This meant majority of the participants didn't want to disclose whether their net profits increases every year. But that said, a large number of participants disagreed which showed that the net profits were not increasing and this could have attributed to increased statutory costs that reduce the net profit of the SMEs.

Additional, from Table 4.11, majority 46.0% of the respondents agreed with the statement that the business had the capacity to meet all its operation costs, 40.0% remained neutral while 14.0% disagreed with statement. It was supported by a relatively high mean value of (Mean = 3.32) with little variations in responses because of the standard deviation being below one (SD = .896). This meant that the businesses had the capacity to meet all its operation costs which implied that the SMEs had the capacity to sustain themselves.

Furthermore, majority 43.1% of the respondents concurred with the statement that the business cash inflows are always higher than the cash outflows, 43.0% remained neutral while 13.9% just disagreed with the statement. It was supported by a relatively high mean value of (Mean = 3.28) with little variation in responses because of the standard deviation was below one (SD = .860). This was so because some of the SMEs were registering some profits though the profits were little.

On whether the business uses more owner's equity than the debts/loans, majority 57.2% respondents agreed the statement, 28.4% remained neutral while 14.4% disagreed with the statement. This was supported by a relatively high mean value of (Mean = 3.51) with little variance in responses because of the standard deviation being below one (SD = 3.51). This so was because the SME owners were using more of their personal funds than loans from leaders and financial institutions.

Last from Table 4.11, majority 59.0% of the respondent opposed the statement that the business has managed to open more branches using business profits, 15.8% remained neutral while 25.1% just concurred with statement. This was supported by a low mean value of (Mean = 2.39) however with much variations in responses because of the standard deviation

being above one (SD = 1.237). This was because these SMEs were not making more profits to allow the owners of such SMEs to open more branches.

4.5 Regression analysis

This study employed a regression analysis to evaluate the degree to which financial services with constructs of credit services, investment services, saving services predicated financial performance of SMEs in Kampala City.

4.5.1 The predictive potential of credit services on financial performance

A linear regression was employed to determine the predictive potential of credit services on financial performance.

Table 4. 12: The predictive potential of credit services on financial performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.948	.133		14.611	.000
Credit Services	.451	.051	.468	8.799	.000
Model Summary					
R Square	.219				
Adjusted R Square	.216				
F	77.422				
Dependent Variable: Financial Performance					

Results in Table 4.12 showed that credit services positively and significantly influenced 21.6% to the total variance in the financial performance of SMEs (Adjusted R square =0.216). It also showed a goodness of fit (F= 77.422, p < 0.05).The model further indicated b= 0.451, p=.000 which showed that credit services statistically and positively contribute to financial performance of SMEs. Therefore, a unit increase credit services leads to 0.451

increase in financial performance of SMEs. Similarly, a unit decrease credit services leads to 0.451 decrease in financial performance of SMEs.

4.5.2 The predictive potential of investment services on financial performance

Furthermore, a linear regression was used to run the predicative potential of investment services on financial performance.

Table 4. 13: The predictive potential of investment services on financial performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.483	.085		29.165	.000
Investment Services	.276	.036	.421	7.704	.000
Model Summary					
R Square	.177				
Adjusted R Square	.174				
F	59.347				
Dependent Variable: Financial Performance					

Results Table 4.13 showed that investment services had a positive and significant influence of 17.4% to total variance in financial performance of SMEs in Kampala City (Adjusted R square =0.174). It also showed a goodness of fit (F= 59.347, p < 0.05). The findings further indicated results of b= 0.276, p= .000 which showed that investment services statistically and positively predicted the financial performance of SMEs. This meant that a unit increase in investment services is associated with 0.276 increase in financial performance of SMEs. Likewise, a unit decrease investment services leads to 0.276 decrease in financial performance of SMEs in Kampala City.

4.5.3 The predictive potential of saving services on financial performance

Similarly, a linear regression was used to establish the predictive potential of saving services on financial performance and presented below.

Table 4. 14: The predictive potential of saving services on financial performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.112	.105		20.093	.000
Saving Services	.409	.042	.505	9.719	.000
Model Summary					
R Square	.255				
Adjusted R Square	.252				
F	94.456				
Dependent Variable: Financial Performance					

The findings Table 4.14 revealed that saving services had a positive and significant influence of 25.2% to total variance in financial performance of SMEs in Kampala City (Adjusted R square =0.252). A goodness of fit was also established (F= 94.456, $p < 0.05$). The findings indicated results of $b = 0.409$, $p = .000$ which showed that saving services statistically and positively predicted the financial performance of SMEs. This implied that a unit increase in saving services leads to 0.409 increase in financial performance of SMEs. Furthermore, a unit decrease saving services leads to 0.409 decrease in financial performance of SMEs in Kampala City.

4.5.4 The predictive potential of financial services on financial performance

To determine the combined predictive potential of constructs of financial services (credit services, investment services and saving services) to the financial performance of SMEs, a multiple regression was performed.

Table 4.15: The predictive potential of financial services on financial performance

Variables	Model 1			Model 2			Model 3		
	B	Std. Err	Beta	B	Std. Err	Beta	B	Std. Err	Beta
Sex of Respondents	-.012	.076	-.009	.008	.064	.006	.008	.064	.006
Age bracket	-.047	.054	-.059	.038	.046	.048	.038	.046	.048
Education	.051	.026	.116	.036	.022	.082	.036	.022	.082
Time running SMEs	.062	.050	.086	.091*	.042	.125*	.091*	.042	.125*
Credit Services				.218**	.068	.227**	.146**	.099	.152**
Investment Services				.072	.048	.110	.188*	.085*	.232*
Saving Services				.260**	.055	.321**	.216*	.144*	.237*
Overall Construct							.206*	.124	.237*
R ²	.018			.329			.331		
▲R ²	.004			.312			.314		
F-Statistics	F=1.246, P>.05 (.292)			F=18.930, P<.05			F=18.982, P<.05		

Note:

a) ** $P < .01$, * $P < .05$

b) *Std. Err – Standard Error*

c) *Model 1- Individual Factors, Model 2 – Independent Variables Constructs, Model 3 – Overall constructs (Financial Services)*

From the results, Model 1 involved regressing bio-data variables which included gender, age, education, and time taken running the SMEs. The findings indicated that the bio-data variables, with the exception of the time taken to run the SMEs, did not possess significant predictive power concerning the financial performance of SMEs in Kampala City ($P > 0.05$, 0.01). Additionally, the mode exhibited an insignificant positive contribution, accounting for only 0.4% of the total changes in the financial performance of SMEs in Kampala City (Adjusted $R^2 = .004$, $F=1.246$, $P>.05$).

Then Model 2 involved capturing the constructs of financial services (credit services, investment services and saving services). The model made a positive significant contribution of 31.2% to the total variance in financial performance (Adjusted $R^2 = .312$, $F=18.930$, $P<.05$). Furthermore, basing on b values, credit services scored $.218^{**}$, investment services scored $.072$ and saving services scored $.260^{**}$. This showing credit services and saving services were positively and significantly predicted the changes in financial performance of SMEs in Kampala City while investment services were insignificant predictors of financial performance.

Lastly, the Model 3 involved the addition of financial services combined to the overall model to assess their predictive potential to financial performance of SMEs in Kampala City. The model made a positive significant contribution of 31.4% to the total variance in financial performance SMEs in Kampala City (Adjusted $R^2 =0.314$, $F=18.982$, $P<.05$). The remaining 68.6% was due to other factors that were not considered in this study. Furthermore, financial services combined scored b-value of $.206^*$, $p<.05$. This meant that a unit increase in financial

services leads to .206 increase in the financial performance of SMEs in Kampala City holding other factors constant.

CHAPTER FIVE: SUMMARY, DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section offers a thorough overview and analysis of the research findings, encompassing a detailed summary, discussion, and the presentation of conclusions and recommendations. The outcomes are systematically arranged to correspond with the study's goals, investigating the relationship between credit services and the financial performance of SMEs in Kampala Capital City. Additionally, relationship between investment services and the financial performance of SMEs in Kampala Capital City, as well as the relationship between saving services and the financial performance of SMEs in Kampala Capital City.

5.2 Summary of the Study Findings

The summary of the study findings is presented in line with the specific objectives of the study and highlighted in the sub-sections below.

5.2.1 Credit Services and Financial Performance of SMEs in Kampala Capital City

The study findings revealed that credit services had a moderately positive and significant relationship with financial performance of SMEs in Kampala Capital City ($r = 0.423$, $N=278$, $P\text{-value}<0.01$). The findings resulted into the rejection of the null hypothesis in support of the alternative hypothesis which stated that there is a significant relationship between credit services and financial performance of SMEs in Kampala Capital City. Furthermore, it was that credit services positively and significantly influenced 21.6% to total variance in financial performance of SMEs (Adjusted R square =0.216). The findings indicated that an improvement in credit services significantly leads to an improvement in the financial performance of SMEs in Kampala Capital City.

5.2.2 Investment Services and Financial Performance of SMEs in Kampala Capital City

The study findings revealed that investment services had a moderately positive and significant relationship with financial performance of SMEs in Kampala Capital City ($r = 0.449$, $N=278$, $P\text{-value}<0.01$). The findings resulted into the rejection of the null hypothesis in support of the alternative hypothesis which stated that there is a significant relationship between investment services and financial performance of SMEs in Kampala Capital City. Furthermore, results revealed that investment services had a positive and significant influence of 17.4% to total variance in financial performance of SMEs in Kampala City (Adjusted R square =0.174). The findings indicated that an improvement in investment services significantly leads to an improvement in the financial performance of SMEs in Kampala Capital City.

5.2.3 Saving Services and Financial Performance of SMEs in Kampala Capital City

The study findings revealed that saving services had a moderately positive and significant relationship with financial performance of SMEs in Kampala Capital City ($r = 0.477$, $N=278$, $P\text{-value}<0.01$). The findings resulted into the rejection of the null hypothesis in support of the alternative hypothesis which stated that there is a significant relationship between saving services and financial performance of SMEs in Kampala Capital City. Furthermore, that saving services had a positive and significant influence of 25.2% to total variance in financial performance of SMEs in Kampala City (Adjusted R square =0.252). The findings indicated that an improvement in saving services significantly leads to an improvement in the financial performance of SMEs in Kampala Capital City.

5.3 Discussion of the Study Findings

The discussions of the study findings are presented in line with the specific objectives of the study and are highlighted in the preceding sub-sections.

5.3.1 Credit services and the financial performance of SMEs in Kampala Capital City

It was revealed that credit services had a significant positive relationship with financial performance and also credit services positively and significantly predicted the variance in financial performance of SMEs. This could stem from improved liquidity, increased capital for business operations, and the ability to seize profitable opportunities, fostering overall financial health for SMEs. These results align with the findings of Chaudhry and Qureshi (2015) who similarly observed a positive association between access to credit services and SME performance. Access to credit services exhibited higher levels of sales, profitability, and growth compared to those without access, emphasizing the positive impact of credit services on SME success. Additionally, the findings were in line with Van der Zwan, Verhoef, and Milne (2015) and Olawale and Garwe (2017) whose findings further support the study's findings that access to credit positively impacts SME performance because access to credit leads to investment in equipment, hire employees, and increase sales revenue.

The study also acknowledges the potential challenges identified by Lee and Park (2016) in South Korea, and Nguyen and Nguyen (2019) regarding high-interest rates and strict collateral requirements negatively affecting SMEs' ability to obtain credit services. This adds a nuanced perspective to the study findings, recognizing that barriers such as interest rates and collateral requirements can impede the positive correlation between credit services and SME performance. The study's focus on assessing credit services in totality, beyond interest rates and collateral, is justified by the limitations noted in the existing literature.

Furthermore, the contrasting results from Azong and Mokube's (2018) which did not find a direct improvement in profitability despite a positive association between credit access and SME growth, offer a cautionary note. The study recognizes the importance of delving deeper into the relationship between credit services and SME performance, aligning with the current study's aim to examine the extent to which credit services are related to SMEs' performance in Kampala Central Business District.

5.3.2 Investment services and the financial performance of SMEs in Kampala Capital City

The study revealed that investment services were positively and significantly related with financial performance and investment services had a positive and significant influence in predicting the financial performance of SMEs in Kampala Capital City. This can lead to strategic allocation of capital, informed decision-making in identifying growth opportunities, and the facilitation of partnerships, contributing to enhanced market position and diversified revenue streams for SMEs. These findings align with Berger and Udell's (2016) assertion that investment services, encompassing corporate finance and underwriting, are essential for SMEs to access external capital, supporting growth and expansion plans through avenues like debt and equity financing. The injection of capital facilitated by these services enables SMEs to pursue opportunities, expand market presence, and enhance long-term performance.

Relatedly, Sen, Misra, and Kar's (2019) emphasized the role of investment services in aiding SMEs to identify and evaluate investment opportunities. Investment services provide market knowledge and expertise, assisting SMEs in recognizing growth avenues, strategic partnerships, and investment projects. The study suggests that strategic alliances and

partnerships facilitated by these services contribute to enhanced market position, access to new customer segments, and tapping into new distribution channels, positively impacting SMEs' financial performance. Furthermore, the findings were in line with Shehzad et al. (2019) who revealed that investment services assist SMEs in implementing risk mitigation strategies, including hedging against foreign exchange rate fluctuations and interest rate volatility.

5.3.3 Saving services and the financial performance of SMEs in Kampala Capital City

The findings revealed that saving services and financial performance had a positive relationship and also saving services had a positive and significant predictive potential to the financial performance of SMEs in Kampala Capital City. This was so because saving services provide a secure platform for surplus funds, and facilitating a stable cash position, ultimately contributing to enhanced profitability and overall economic success. These findings were in line with the findings by Yadav and Sreejesh (2018) who accentuated the significance of saving services, particularly business savings accounts and term deposits, in providing SMEs with a secure platform to store surplus funds. It's clear that specialized accounts offer higher interest rates, aiding in effective liquidity management for SMEs and contributing to overall profitability.

Furthermore, the findings were resonated with the findings of Cowling, Liu, Ledger, and Zhang (2016) that highlighted that saving services not only secure excess funds but also support effective cash flow management for SMEs. The interest-bearing accounts can help SMEs avoid cash flow crunches, reduce reliance on expensive short-term financing, and maintain a stable financial position. Additionally, the OECD report (2018) emphasizes the safety and security aspects of saving services for SMEs, providing a means to protect funds

and mitigate risks associated with holding cash on-premises. Additionally, it suggests that saving services form the basis of a broader relationship between SMEs and financial institutions, potentially leading to various financial services.

5.4 Conclusions

The study concluded that there was strong positive correlation between credit services and the financial performance of SMEs in Kampala Capital City. Therefore, SMEs in Kampala Capital City stand to benefit significantly from effective utilization of credit services, as it positively impacts their overall financial performance since credit services provide essential financial support, facilitating business growth, operational continuity, and investment opportunities. This underscores the importance of access to credit services for SMEs and emphasize the need for policymakers and financial institutions to facilitate and promote such services to foster the growth and sustainability of small businesses.

Furthermore, the research also concluded that investment services positively and significantly shaping the financial performance of SMEs in Kampala Capital City. It was evident that strategic and well-managed investments play a pivotal role in enhancing the overall economic success of businesses. This meant that fostering an environment conducive to access and utilization of investment services such stock markets, Treasury bills and other securities can be a key driver for the sustained growth and prosperity of SMEs in the district, urging policymakers and financial institutions to prioritize and facilitate such financial opportunities for small businesses.

Lastly, this study concluded that there is a substantial and positive relationship between saving services and the financial performance of SMEs in Kampala Capital City with saving

services contributing significantly to changes in financial performance of SMEs. This emphasized the crucial role that savings play in influencing the economic success of SMEs. Therefore, cultivating a culture of savings is integral to enhancing overall business prosperity. The implied encouraging and promoting saving services among SMEs can be a key factor in fostering financial stability, resilience, and sustained growth, underscoring the importance of financial institutions and policymakers in facilitating avenues for businesses to save effectively and secure their financial well-being.

5.5 Recommendations

The following recommendations were put forward;

5.5.1 Credit services and financial performance of SMEs in Kampala Capital City

It is recommended that SME owners and financial institutions should collaborate to conduct a comprehensive review of current credit services. Both parties should address barriers to accessing credit, such as the complexities of loan application processes, high interest rates, and the requirement for physical collateral. Financial institutions, in particular, should take responsibility for simplifying loan procedures, ensuring transparency in interest rate structures, and exploring alternative forms of collateral to improve access to credit for SMEs.

5.5.2 Investment services and financial performance of SMEs in Kampala Capital City

Financial institutions should also take the lead in enhancing communication and educational outreach to businesses about various investment opportunities. This can be achieved through organizing workshops, webinars, or distributing informational materials that explain the benefits of mutual funds, stock market participation, debt instruments, government securities, retirement plans, investment advisory services, and money market funds.

5.5.3 Saving services and financial performance of SMEs in Kampala Capital City

Furthermore, banks should prioritize improving transparency and raising awareness about their savings products. They should offer competitive interest rates and foster open communication with businesses regarding negotiated terms. Additionally, banks should focus on developing user-friendly online banking platforms, providing clear information about interest rates and negotiation processes, and introducing features like automatic fund transfers to higher-yielding accounts to enhance customer convenience and satisfaction.

5.6 Areas for Further Research

The following areas were identified for future studies:

- (i) Risk management strategies and performance of SMEs
- (ii) Technology innovations & adaptations and performance of SMEs
- (iii) Government regulations & policies and performance of SMEs

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APPENDICES

Appendix I: Consent form for participants

Dear Sir/Madam

To qualify for the award of Master’s Degree in Business Administration of Kyambogo University, I’m conducting a study *“The relationship between financial services and financial performance of SMEs in Kampala Capital City”*. As a key stakeholder, please feel free to participate, for this is purely an academic study. The views that you will give will be purely used for academics which is the reason of this study.

The following are key considerations

Particulars	Narrations/Explanation
Nature of the study	Academic and non-profit or funded
Target study objective	<ul style="list-style-type: none"> • To examine the relationship between credit services and financial performance of SMEs in Kampala Capital City. • To establish the relationship between investment services and financial performance of SMEs in Kampala Capital City. • To investigate the relationship between saving services and financial performance of SMEs in Kampala Capital City.
Respondents’ role	To free give true information about the objectives under study without anything in exchange
Respondents’ privacy	There is no need to provide information anywhere that may expose the respondent’s identity
Respondents’ limit	As a respondent, you are only limited to give information in the field
Terms for terminating or withdrawing from the process	The respondent is free to withdraw at any time if S/he feels not comfortable with the study.

If you feel comfortable and agreeing with the above information, append your signature to show that you have formally consented to take part in the study.

Signature:

Researchers’ Name:

Telephone No:

Appendix II: Questionnaire for data collection

Dear Respondent,

I'm **Mugabe Julius** a student at Kyambogo University undertaking Masters in Business Administration. I'm conducting a study on "*The relationship between financial services and financial performance of SMEs in Kampala Capital City*", therefore, I'm kindly requesting you to fill in or tick the most appropriate answer for questions presented below. The study is purely academic; therefore, all the responses received will be handled with utmost confidentiality.

Section A: Bio-data

Write or tick (✓) in the space or box (es) provided in the front of the given options

1. Sex of respondents

Male

Female

2. Age group of respondents (in years)

18 to 29

30 to 39

40 to 49

50+

3. Respondent's highest level of education

Primary

Secondary

Certificate

Diploma

Degree

Masters

Others:

4. Time taken running SMEs business?

Less than 1

1-5years

6-9years

10years and above

For Section B, C, D & E, respond by ticking only one option: (1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree)

SECTION B: Credit Services

Code	Item	Ranking				
		1	2	3	4	5
B1	We have a lot of channels where to access credit for our business					
B2	The credit accessed is enough for our business					
B3	The loan application processes are easy					
B4	The interest charged on the loan we get are affordable					
B5	Loans are always approved and disbursed in time					
B6	The financial institution assigns a person to administer and manage the loan(s) they offer to us					
B7	We don't need physical collateral security to access a loan from a bank					
B8	We are always given enough information regarding different credit services offered that may benefit out business					

SECTION C: Investment Services

Code	Item	Ranking				
		1	2	3	4	5
C1	The business always invest in mutual funds to potentially earn higher returns compared to traditional savings accounts					
C2	Our bank(s) facilitate the business participation in the stock market by offering brokerage services					
C3	The bank(s) always help the business to invest in debt instruments such as bonds					
C4	The banks often provide access to treasury bills and other government securities					
C5	The business invests in Exchange-Traded Fund investments traded on stock exchanges					
C6	The business operates a retirement plan for the employees with the business banks					
C7	The banks always offer investment advisory services to the business					
C8	The banks always offer money market funds to the business to invest in short-term and low-risk securities					
C	The investment portfolios of the business are always managed by the bank.					

SECTION D: Saving Services

Code	Item	Ranking				
		1	2	3	4	5
D1	The business has some good savings on the bank account					
D2	I make savings on regular basis					
D3	I receive reasonable interest on the savings I make in a bank					
D4	I always negotiate with bank about the interest to paid					
D5	The banks charge reasonably on the business' savings account					
D6	I always fix some money in bank for specified period of time					
D7	Excess funds are always automatically transferred from sweep accounts to a business's checking account into a higher-earning account					

SECTION E: Financial Performance of SMEs

Code	Item	Ranking				
		1	2	3	4	5
E1	The revenue from the business keeps growing every year					
E2	Every year our gross profit increases					
E3	Every year our net profits increases					
E4	The business has the capacity to meet all its operation costs					
E5	Our cash inflows are always higher than the cash outflows					
E6	The business uses more owner's equity than the debts/loans					
E7	The business has managed to open more branches using business profits					

END: THANK YOU

Appendix III: Table for determining sample size from a given population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384
<i>Note: N is Population Size; S is Sample Size</i>					<i>Source: Krejcie & Morgan, 1970</i>				

Krejcie, R. V. and Morgan D. W. (1970). Determining sample size for Research Activities: Educational and Psychological Measurement.

Appendix IV: Introductory Letter

Appendix V: Plagiarism Test Index