THE MICROFINANCE CREDIT SERVICES ON THE PERFORMANCE OF SMES IN MAKINDYE EAST DIVISION
A CASE STUDY OF UNITED BANK OF AFRICA
UBA- KANSANGA BRANCH

BY

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A DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S DEGREE OF BUSINESS ADMINISTRATION ACCOUNTING AND FINANCE OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I Mande Fadil declare that this is my own work, it has never been submitted to any institution and it was done personally.

Sign.. Date......17/09/2018.......................................

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DEDICATION

This work is dedicated to my kind parents Mr. and Mrs. Chelogoi Difas who tirelessly and generously supported me throughout the study.

I also dedicate this work to my supervisor Madam Irau Florence who gave me academic skill as well as correcting this work. Her time, energy and support were of paramount pertinence and cannot be done away with.

ACKNOWLEDGEMENT

LIST OF ABBREVIATION

APEC	Asia-Pacific Economic Cooperation
GDP	Gross Domestic Product
LDC	Least Developed Countries
LF	Large Entreprises
MFI	Micro finance Institutions
MSE	Micro and Small Business Enterprises
OECD	Organization for Economic Cooperation Development
PRIDE	Small Enterprise Development Agency
SME	Small and Medium Enterprises
UBA	United Bank of Africa
SPSS	Scientific Package for Social Sciences
USE	Uganda Securities Exchange
MFCS	Microfinance credit services

ABSTRACT

SMEs are the drivers of the Ugandan economy for they make up close to 90% of the businesses in Uganda. Despite their major role in the Ugandan economy, an SME is yet to list on the Uganda Securities Exchange (USE). All the companies currently listed on USE are large companies. There are many obstacles to SME participation on Uganda's capital markets major among which is a lack of informational disclosure. Information disclosure is a critical requirement of capital markets. This arises from not only the fear of disclosing sensitive information on the part of the business owners but also a lack of both human and institutional capacity to meet the disclosure requirements of the capital markets. However empirical evidence shows that private equity and debt capital which ranges from business angel to venture capital financing can provide a platform upon which SMEs can tap into the potential of Uganda's capital markets. Private Equity and debt markets offer specialized mechanisms that address the difficulties associated with SMEs. The financial intermediaries that operate in these markets actively screen, contract with, and monitor the small businesses they invest in over the course of their relationships.

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CHAPTER ONE

1.0. Introduction

This chapter presents eight sub-sections that is introduction, the background of the study, statement of the problem, objectives of the study, research questions, significance, and scope of the study and definition of the key terms.

1.1. Background to the study

This section discusses and provides good information regarding the background of the study and it considers four different perspectives, namely historical perspective, theoretical perspective conceptual perspective and contextual perspective.

1.1.1. Historical perspective:

Micro finance institutions (MFI) play a critical role in the world economy. They not only provide a vast range of employment opportunities but are also a breeding ground for innovations in all sectors of the economy. Innovations that have transformed this world were not born in the posh offices on Wall Street or Trafalgar square but in garages, and back offices of little known towns. Micro finance institutions (MFI) contributes to SMEs and makes up over 90% of business units in the world and account for between 50%-60% of the total employment while SMEs engaged in manufacturing account for between 40 and 80 per cent of manufacturing employment (Kennedy &Hobohm, 1999). It is estimated that through Micro Finance Institutions, SMEs employ over 22% of the adult population in developing countries (Peter Quartey 2001).

Micro finance institutions (MFI) became perfect solution for fighting poverty. The actual beginning of the development of micro-credit services was an attempt to enable the poor to initiate simple activities that generate income in order to find the way out of poverty by lending them tiny micro amounts of money. The evaluation has been conducted by Lechner and Reiter Institute of Social Research, Vienna, and commissioned by the Austrian Ministry of Foreign Affairs, Department for Development Cooperation. The evaluation team consisted of the Walter Reiter (team leader), Andy Carlton, Hannes Manndorff and Andrew Obara. Elisabeth Rhyne acted as additional advisor and was involved in the preparation of the evaluation and the analysis of the findings. The evaluation of microfinance as an instrument of the Austrian Development Cooperation has comprised three stages: The first stage consisted of the assessment of Austria's microfinance interventions in Zimbabwe and was carried out in1999. During the

second stage, ADC's microfinance strategies and their application in Mozambique and Namibia were evaluated in early 2000. The assessment of microfinance as an instrument of the Austrian Development Cooperation in Uganda represents the final stage of the evaluation cycle. While in the first two stages the evaluations have focused on the analysis of the institutions supported by Austria and the assessment of ADC's policies and structures, the focus of the final stage has shifted to the analysis of the environmental conditions of microfinance in Uganda and how these conditions the on the performance of the microfinance industry and the institutions supported by Austria. This overview is part of the output of the evaluation and is open to a wider public than the assessment of ADC's microfinance policies and strategies in Uganda.

1.1.2. Theoretical perspective.

The Pecking-order model. This model was initially proposed by Myers (1994) and suggests that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt, and finally external equity. This model attempts to avoid the resulting risk that profitable investment projects were foregone by seeking to finance them internally. If retained earnings are insufficient, they can opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers can only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing can reflect a company's need for external funds and unlike the trade-off approach there can not necessarily be any target or optimal level of gearing

1.1.3. Conceptual perspective:

Microfinance also called microcredit services is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise have no other access to financial services. It initially had a limited definition - the provision of microloans to poor entrepreneurs and small businesses lacking access to banking and related services.

Loan Funds is a source of money from which loans are made for multiple small business development projects Borrowers tend to be small producers of goods and services — typically artisans, farmers, and women who have no credit history or access to other types of **loans** from financial institutions.

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Money transfer generally refers to one of the following cashless modes of payment or payment systems: Electronic funds transfer, an umbrella term mostly used for bank card-based payments. Wire transfer, an international expedited bank-to-bank funds transfer. Giro, also known as direct deposit.

Savings account is an account provided by a bank for individuals to save money and earn interest on the cash held in the account. A savings account was used to save money for specific expenses or for longer-term undefined goals, all while earning interest on the money in the account.

Employment is a relationship between two parties, usually based on a contract where work is paid for, where one party, which may be a corporation, for profit, not-for-profit organization, co-operative or other entity is the employer and the other is the employee.

Economic growth is an increase in the capacity of an *economy* to produce goods and services, compared from one period of time to another. It was measured in nominal or real terms, the latter of which is adjusted for inflation.

Economic Sustainability is the ability of an economy to support a defined level of economic production indefinitely.

A **government policy** is declaration of a government's political activities, plans and intentions relating to a concrete cause or, at the assumption of office, an entire legislative session. In certain countries they are announced by the head of government or a minister of the parliament.

Gender violation "violence against women" is understood as a violation of human rights and a form of discrimination against women and shall mean all acts of gender-based violence that result in, or is likely to result in, physical, sexual, psychological or economic harm or suffering to women, including threats of such acts.

1.1.3. Contextual perspective.

There are many registered commercial banks in Uganda but for the purpose of this study, the researcher considered only the best one of them being the United Bank of Africa-(U.B.A) Kansanga Branch, with a lot of customers and capital base. This is because United Bank for Africa (U.B.A) Plc is one of Africa's largest financial institutions with operations in 19 African

countries and 3 global financial centers; New York, London and Paris. UBA has more than eight million customers and 700 business offices globally and has been operating in Africa since 1949, referred to then as the British and French Bank Limited (BFB). It took over the assets and liabilities of BFB and was incorporated as a limited liability company on 23 February 1961 under the Compliance Ordinance (Cap 37) 1922.

In 2006, the bank interconnected its 428 African branches making it the largest online real time branch network in Africa. Africans are able to withdraw or deposit money in any of these branches regardless of where their accounts are domiciled hence making the researcher to chose U.B.A Bank as a case study.

1.2. Statement of the problem

Ideally, Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. These include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral, that are repayable in frequent installments. Borrowers are organized into groups, which reduces the risk of default. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many microcredit services programs have targeted one of the most vulnerable groups in society - women who live in households that own little or no assets by providing opportunities for self-employment.

Despite of SMEs large contribution in country's development and economic growth, In Uganda, most of the SMEs have low return on capital employed, low net profit margin and kept a small capital and their growth and development in developing countries are mainly inhibited by access of finance, poor managerial skills, lack of training opportunities and high cost of inputs (Cook and Nixson, 2000). The SMEs face limited access to financial services from formal financial institutions to meet their working and investment needs (Kessy and Temu, 2009). According to Mosley (2001), MFI argued that to be a cheaper source of finance to SMEs.

1.3. General objective
The study aimed to assess the microfinance credit services on the performance of SMEs in Makindye East Division.

1.3.1. Specific objectives.

To ascertain whether loans fund improves on the performance of SMEs in Makindye East Division.

To determine the relationship of money transfers services on performance of SMEs in Makindye East Division.

To find out whether savings accounts promotes on the performance of SMEs in Makindye East Division

1.4. Research questions/hypothesis

Basing on the objective above, the following questions were answered by this study:

i) How does loan funds promotes on the performance of SMEs in Makindye East Division?

ii).What is relationship of money transfers on performance of SMEs in Makindye East Division?

iii). How does savings accounts promote on the performance of SMEs in   Makindye   East Division?

1.5. Scope of the study

Geographical scope

To cover all the regions in the entire country was impossible because of the different geographical conditions hence the study was conducted in Makindye East Division using United Bank of Africa (UBA) Kansanga branch, where the topographic and geographic conditions are favorable to the researcher.

Content scope

Due to the fact that the researcher was required to give a good and accurate data for this research therefore, the researcher used United Bank of Africa (UBA) with quality information and content representing the entire country.

Time scope

The research would have been conducted thoroughly, but due limited time frame that is May to June and financial constraints. For these reasons, the research covered Kansanga only using United Bank of Africa (UBA) as a case study in Makindye East Division. The microfinance credit services on the performance of SMEs in this area were analyzed, looking at its

contributions and in what form, and of course the response of SMEs to the contributions of this institution to their enterprise.

1.6. Significance of the study

This study can contribute to the body of knowledge for the microfinance credit services on the performance of SMEs in Makindye East Division.

This study was intended to shed light on the relationship between microfinance credit services and the performance of small and medium enterprise. This can help them come out with substantive possible alternative policy interventions which might help to address problems and challenges that small and medium enterprises face.

This study can offer empirical evidence for microfinance credit services on the performance of small and medium enterprises for use in short term and long term interventions especially in the fight against poverty.

A study of this nature is equally very important because it is going to enlighten the government and the public on the role of MFI in the SMEs sector.

1.7. Conceptual Framework

Conceptual framework shows interconnections relationships for the microfinance credit services on SMEs performance. The concept was converted into variables to assist easy measurement even though the degree of precision with which they were measured may vary from scale to scale. The conceptual frame work of this study was governed by microeconomic theory. Traditional microeconomic theory treats finance as a corporate factor of production. Irrespective of firm size and age, finance is normally required for three standard uses, that is for start-up capital in machinery and acquisition of buildings, financing working capital during start-up or while expanding and purchase of operating materials. Implementation of a business activity can only take place when these factors are in place; otherwise the activity has to be aborted. Financing of factors of production was undertaken from own savings, generated internal profits (for on-going businesses) or external funds (for start-ups and on-going businesses). Credit services become important when internal sources of finance are inadequate for an envisaged entrepreneurial activity as figure 1 below indicates:

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Figure 1: Conceptual Model

The MFI Services	Performance on SME's
• Loans • Money transfers • Savings	• Increased employment • Growth • Sustainability

External actors
- Government policy
- Community reaction
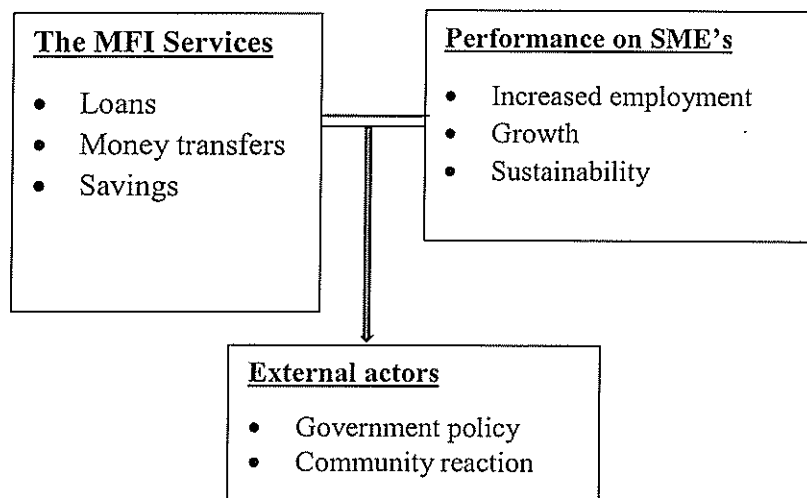
The conceptual model of the study showed that the business needed to be connected to credit services as well as macroeconomic factors. Credit services are major factors that were used in order to improve businesses to grow and interest rate could be fairly. Then, both loans and money transfers could be improved on performance of SMEs. However, macro-economic factors needed to be improved by the government to enable growth and economic benefits of the businesses. Macroeconomic factors were used to promote development of SMEs in the country especially when SMEs were adequately connected on business infrastructures and the government reduced tax rate as well as operates at economy transaction costs. Despite of constraints that were faced by small businesses, microcredit services seemed to be the major driving factors for the business to succeed. Indicators for the business growth were; increased employment, profits, sales, outlets and business service. Therefore, the model entailed the microcredit services as well as macroeconomic factors if utilized and managed properly the country's economy could grow and automatically industrial sector also could grow sustainably.

1.8. Definition of some terms.

Statement of the problem.

This is the specific statement that clearly converts the purpose of research study. The statement focuses on the phenomenon that the research desires to describe, predict, control and explain some research expressed the problem in question form.

Hypothesis: is a researcher's anticipated explanation or opinion regarding the results of research Study for example more microfinance institution increases the productivity of small enterprises.

Objective; is any kind of desired and or condition or specific aspect of the phenomenon under study that researcher desires to bring out at the end of the research study for example research may to factors may contributed to development of small scale enterprises.

Conceptual perspective: This part of the background the researcher conceptualizes on defines the variables in conceptualizing a given variable.

Contextual perspective. In the contextual background, the researcher is expected to usher in the situation in a nearest interest, ne-alternating the concern on problem with the D.V in the context tendering empirical indicators of the existence of the problem.

Historical perspective: The Historical background brings to picture the area or institution or study, the population in question and its characteristic and also trace the history of the problem being investigated which is usually on the DV, in addition to narrating how the problem come about historical attempts by other researchers to deal with the same problem that is to carry studies with the same D.V as you should be given showing gaps the left to justify your study

1.9. Limitation of the study

This study was carried out under time and financial constraints. These constraints were Negative effect on both during the overall undertaking of the study and on the final findings. This is because the researcher was highly in need to extend the study area but he failed due to limited resources (time and funds), that is why this particular study was done in Kansanga, Makindye East Division.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents the literature reviews from various studies that are related to this study in hand. It can explore through different written sources so as to get an understanding and experience from other places through the works of other scholars.

2.1. Theoretical Review

The Pecking-order model. This model was initially proposed by Myers (1994) and suggests that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt, and finally external equity. This model attempts to avoid the resulting risk that profitable investment projects were foregone by seeking to finance them internally. If retained earnings are insufficient, they can opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers can only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing can reflect a company's need for external funds and unlike the trade-off approach there can not necessarily be any target or optimal level of gearing

2.2. Conceptual Review.

MFC services all over in the world are known to play a major role in social economy development. This is apparently the case of Uganda, where MFC services contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. Different countries define SMEs on their own perspectives. Many advanced countries define SMEs as firms employing between 10 and 250 workers (or, in some countries, 500). SMEs are generally viewed as occupying the middle of the firm size distribution larger (and typically more formalized) than "micro-enterprises," which are usually informal units employing at most a handful of people (Jaques, 2000). In many small and less-developed countries, and in this regard, firms employing 250 or 500 people can well be among the larger firms in the country. There are various MFC services across the World and these have been functioning differently because of different constraints such as management problems as well as

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financial constraints (Fowel, 1998). Several SMEs are operating at different stages. For example a large proportion of SMEs are relatively stable in their technology, market, and scale. In light of this, many SMEs are in retail or service sectors. A significant number are at best static and a worst heading for failure.

Other SMEs are technically advanced specialists filling crucial product or service niches within complex modern economies. Examples come from the German mittel stand and technically savvy sub-contractors in Japan and northern Italy (Hoiley, 2000). SMEs are seen by those coming from developing countries as a means for alleviating and eradicating poverty and that have been indicated into the Uganda poverty alleviation and reduction policy. Despite this, SME picture in developing countries varies greatly. Some more dynamic emerging market economies, notably in East Asia, present thriving SME sectors, including significant numbers of skill-intensive subcontractors (Hoiley, ibid). Many more developing countries, though, suffer from a "missing middle". They typically have very large numbers of informal micro-enterprises. They may also have a handful of larger firms-possibly ventures created by foreign investment (in large-scale activities like mining, for example), or family-controlled conglomerates built up over generations (Georges, 1998).

2.3. The loan funds on performance of SMEs

Loan Funds is a source of capital from which loans are made for multiple small business development projects. Borrowers tend to be small producers of goods and services — typically artisans, farmers, and women who have no credit history or access to other types of loans from financial institutions and thereafter this loan was used as capital to start up their business hence SMEs. The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (**MSMEs**). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Uganda, micro enterprises are those engaging up to 4 people, in most cases family members or employing more capital. The majority of micro enterprises fall under the informal sector.

There is a strong similarity between physical fitness and the health of a business. The Cash Flow of a business was likened to the blood circulating through a person. If there is blood loss in the

flow, the consequences are swift and predictable. According to Sudhir and Subrahmanya (2009) and Dalrymple (2004), growth over a period of time was used for performance measurements of SMEs since this, rather than short term performance, can reflect the long-term strategy of the firm. The researchers (Sudhir and Subrahmanya) probed how far Indian SMEs carried out technological innovations as a result of technology and other related inputs acquired through subcontracting relationships and achieve growth using the case study approach covering two SMEs in Bangalore. It was established that customer requirements was the major causal factors while internal factors such as self-efforts and in-house technical capability along with external factors in the form of technical inputs, suggestions and initiative from Large Enterprises (LE) customers was the sources of innovations for these SMEs. Because of these innovations, SMEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of SME performance.

Different scholars in different nations define SME's in different perspective. Small and medium-sized enterprises (SMEs), typically employing between 10 and 250 workers, form the backbone of modern economies and was crucial engines of development through their role as seedbeds of innovation. Ainley (2005) argues that in much of the developing world, though, SMEs are under-represented, stifled by perverse regulatory climates and poor access to inputs. A critical missing ingredient is often capital. According to Ainley (ibid), tinier firms-micro-enterprises-frequently get more attention, as donors seek to help the very poor: the recent Nobel Peace Prize awarded to Muhammad Yunus of the Grameen Bank visibly demonstrates the emphasis given to this approach. But the type of support inherent to microfinance lending is generally ill adapted to serving their slightly larger, and arguably more dynamic, cousins, the SMEs Voibly, 2004). New options are emerging for meeting SMEs' financial needs, including commercial banks moving "down-market," micro-credit services institutions moving "up," and creative application of venture capital investing ideas. There is argument that governments can help by removing artificial policy and regulatory obstacles to SME lending-importantly; policies that promote greater competition within the financial sector as a whole are generally likely to be especially good news for smaller borrowers like SMEs. External factors can help too-for example by promoting development of credit services information systems and reform of collateral regulations. They can also usefully play a selective pump-priming role; for example, they can partially guarantee commercial lenders' moves into SME lending. Private investors-sometimes with collaboration from and in partnership with the public-sector have a key role, too. For

example, in the case of firms facing high-risk, high return scenarios, home-grown "angel investors" can step in (World Bank, 2002).

10In this regards, donor support for traditional microfinance models has helped provide basic financial services to millions of poor people. According to the International Monitory Fund (IMF), in order to help build dynamic competitive economies in developing countries, the time has come to pay greater attention to the potential of small and medium-sized commercial firms to promote economic growth (IMF, 2000).

In the same report, it was noted that the difficulties that SMEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms In this case, suppliers of finance (MFIs) may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit services. Such credit services rationing is said to occur if among loan applicants who appear to be identical some receive credit services while others do not; or there are identifiable groups in the population that are unable to obtain credit services. According to Asia-Pacific Economic Cooperation (2003), it is recognized that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. This without a close relationship between MFIs and SMEs may not be achieved. In a study about MFI-SME financing in Afghanistan by Mennonite Economic Development Associates (2009) it was established that financing interventions that focus exclusively on SMEs may in the end prove to be a high credit services risk. While there is value in focus and specialization in financial service delivery, it can also become weakness if the needs of SMEs are set at to limit its affordability and access.

2.4The money transfers services on performance of SMEs

Money transfer generally refers to one of the following cashless modes of payment or payment systems: Electronic funds transfer, an umbrella term mostly used for bank card-based payments. Wire transfer, an international expedited bank-to-bank funds transfer. Giro, also known as direct deposit and therefore this money transferred was used abroad to buy equipments and goods for the businesses. According to the American Bankers' Association (2001), micro finance refers to institutions giving out services to SMEs like borrowing money. Typical forms of credit services

include credit services cards, personal loans, and overdrafts and home loans. These terms also refer to the debt repayment of your agreement with a credit services or, such as 60 months, 48 months in form of duration. Organization for Economic Co-operation and Development (2006) indicates that MFIs are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit services to the SME sector. There is a strong similarity between physical fitness and the health of a business. The Cash Flow of a business was likened to the blood circulating through a person. If there is blood loss in the flow, the consequences are swift and predictable. According to Sudhir and Subrahmanya (2009) and Dalrymple (2004), growth over a period of time was used for performance measurements of SMEs since this, rather than short term performance, can reflect the long-term strategy of the firm. The researchers (Sudhir and Subrahmanya) probed how far Indian SMEs carried out technological innovations as a result of technology and other related inputs acquired through subcontracting relationships and achieve growth using the case study approach covering two SMEs in Bangalore. It was established that customer requirements was the major causal factors while internal factors such as self-efforts and in-house technical capability along with external factors in the form of technical inputs, suggestions and initiative from Large Enterprises (LE) customers was the sources of innovations for these SMEs. Because of these innovations, SMEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of SME performance.

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Cooperation (2003), it is recognized that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. This without a close relationship between MFIs and SMEs may not be achieved. In a study about MFI-SME financing in Afghanistan by Mennonite Economic Development Associates (2009) it was established that financing interventions that focus exclusively on SMEs may in the end prove to be a high credit services risk. While there is value in focus and specialization in financial service delivery, it can also become weakness if the needs of SMEs are set at to limit its affordability and access.

2.5 Savings accounts on the performance SMEs Market

Savings account is an account provided by a bank for individuals to save money and earn interest on the cash held in the account. A savings account was used to save money for specific expenses or for longer-term undefined goals, all while earning interest on the money in the account and therefore this account was used to save money for the purposes of security, hence the SMEs were able to sustain its existence due to this mode of avoiding a risk of loss.

What makes microfinance such an appealing idea is that it offers "hope to many poor people of improving their own situations through their own efforts," (Stanley, Fischer2008). *Microfinance* refers to small-scale financial services for both credit services and deposits— that are provided to people who running certain business; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas. Microfinance programs also offer skill-based training to augment productivity and organization support and consciousness-raising training to empower the poor 'Microfinance is one of the most important economic phenomena in the world in the last 50 years' (VinodKhosla, co-founder of Sun Microsystems and partner, KeinerPerkins Caulfield & Byers, quoted in Rai, S. (2004).Market size for this demographic is enormous. The Global Development Research Center estimates that 500 million people own small or micro businesses and only 10million of these entrepreneurs and producers have access to credit services and other financial services. Indeed estimates suggest fewer than 2 per cent of the poor have access to financial services.

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factors in the form of technical inputs, suggestions and initiative from Large Enterprises (LE) customers was the sources of innovations for these SMEs. Because of these innovations, SMEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of SME performance.

In the same report, it was noted that the difficulties that SMEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms In this case, suppliers of finance (MFIs) may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit services. Such credit services rationing is said to occur if among loan applicants who appear to be identical some receive credit services while others do not; or there are identifiable groups in the population that are unable to obtain credit services. According to Asia-Pacific Economic Cooperation (2003), it is recognized that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. This without a close relationship between MFIs and SMEs may not be achieved. In a study about MFI-SME financing in Afghanistan by Mennonite Economic Development Associates (2009) it was established that financing interventions that focus exclusively on SMEs may in the end prove to be a high credit services risk. While there is value in focus and specialization in financial service delivery, it can also become weakness if the needs of SMEs are set at to limit its affordability and access.

2.6 The Role of Microcredit services in SME development
Lack of access to credit services has been identified as one of the major constraints hindering the development of small businesses, and therefore the supply of entrepreneurial activities not just in Uganda, but in other developing countries. Commercial banks have traditionally concentrated their lending mainly to large formal enterprises which possess collateral and, therefore, contended to be less risky. According to a 1997 study on the supply and demand for financial services in Uganda by K-Rep, less than 5% of households (not necessarily all entrepreneurs) in the urban and rural areas in Uganda had access to credit services from formal sources. Women's World Bank estimated that worldwide, less than2% of low-income entrepreneurs have access to financial services. Although the role of credit services as a determinant for successful

entrepreneurial activity may look obvious when using a partial analysis, the dynamics in the entrepreneurial processes makes this role less obvious. The analysis of an entrepreneurial activity shows that finance does not in itself create economic opportunities. Rather it is entrepreneurial people who see ways in which they can generate income from situations, skills or contact or other push factors. It is in this context that the role of credit services should be seen.

Entrepreneurial success was defined in a conventional sense in terms of a firm's profit generation and growth in terms of employment, output, and sales etc. over-time. Through growth a firm can graduate from one size to a higher one. In addition, firms that are also realizing results like increased employment of family members, and increased household welfare (increased access to education, health, better housing) and those businesses that are able to survive under intense competition are also included. In a competitive situation these successes cannot happen unless a firm is developing an edge that allows it to take advantage of opportunities. The issue then becomes that of how credit services can assist in a process of exploiting such opportunities (Kuzilwa, 2003).As it was cited by Kuzilwa 2003 linked McCormick with the determinants of supply of entrepreneurial activities. Utilizing the Scott and Twomey model explaining the supply of entrepreneurship, McCormick distinguishes what are called *predisposing* and *triggering factors* and how these are created by economic reforms. Predisposing and triggering factors and how these are created by economic reforms. Predisposing factors include entrepreneurs' background (education, work experience, personal ties), perception and personality which are Important human capital that influences the ability of an entrepreneur in dealing with business environment. Triggering factors are those that actually trigger the entrepreneurial activity? This include, for example, increase in the domestic demand for a particular commodity to increased processing capacity and market opportunity, or an opportunity to export due to linkage to a particular chain. Triggering factors have been seen as opportunity for profitable activity. Triggering and disposing factors are seen jointly to be necessary conditions for supply of entrepreneurial activities. At the same time there are factors, named as *constraining-factors,* which are said to be against entrepreneurial activities. These include lack of financial resources, lack of information, lack of appropriate education, and weak markets.

2.7Credit services, MFI-SME relationship and performance

Organization for Economic Co-operation and Development (2006) reported that the SMEs sector does not have access to external funds due to stringent terms that the financiers tend to tie to their

credit services and investment, this leads to the possibility that capacity building are seriously impaired.

In the same report, it was noted that the difficulties that SMEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms. In this case, suppliers of finance (MFIs) may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit services. Such credit services rationing is said to occur if among loan applicants who appear to be identical some receive credit services while others do not; or there are identifiable groups in the population that are unable to obtain credit services. According to Asia-Pacific Economic Cooperation (2003), it is recognized that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. This without a close relationship between MFIs and SMEs may not be achieved. In a study about MFI-SME financing in Afghanistan by Mennonite Economic Development Associates (2009) it was established that financing interventions that focus exclusively on SMEs may in the end prove to be a high credit services risk. While there is value in focus and specialization in financial service delivery, it can also become weakness if the needs of SMEs are set at to limit its affordability and access.

2.8 Model guiding business financing.

Challenges facing MFI in serving MSEs are the little amount and high interest rates offered by MFIs do not meet MSEs needs (Mnenwa and Maliti, 2008), the interest of MFIs is very high compared to that of commercial banks because micro credit services is more expensive in analysis, investigation and follow up, at the same time the loan amount is very small compared to that offered by the commercial banks, this is because of lack of enough fund by MFIs. (http://www.microfinancegateway.org); Nightmare of non-repayment: In MFI the repayment must secure between 90%-95% being reasonable standard, this is why the MFIs providing loans to urban MSEs require such high collateral (Micro and Small Enterprises and Micro financing in Africa September 2005).Most of the theoretical work on small firm finance and the behavior of institutions that lend to small scale enterprises have been undertaken on the industrial countries. A large proportion of this work has tended to concentrate on firms that, in terms of size, lie

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towards the upper end of the spectrum, where the range of ownership and financing options becomes wider.

2.8.1 The Pecking order model

This model attempts to avoid the resulting risk that profitable investment projects were foregone by seeking to finance them internally. If retained earnings are insufficient, they can opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings are less exposed than equity investors to errors in valuing the firm. Managers can only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing can reflect a company's need for external funds and —unlike the trade-off approach — there can not necessarily be any target or optimal level of gearing. This model was initially proposed by Myers (1994) and suggests that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt, and finally external equity.

Central concern appears to be a concentration by small firms on "sources of finance that minimize intrusion into business" (Lopez-Gracia and Aybar-Arias, 2000). Consequently firms do not have an optimal debt-equity ratio but rather it varies, justified by the firm's need of external finance. The pecking-order model to a great extent tells the way certain characteristics of a firm may influence gearing decisions. As Myers suggested, some entities follow a certain hierarchy to determine which the next alternative source of finance is, and that fear of intrusion and dilution of power in an entity may cause a certain sources to be selected. Myers (1994) suggests that issuing debt secured by collateral may reduce the asymmetric information related costs in financing. The difference in information sets between the parties involved may lead to the moral hazard problem (hidden action) and/or adverse selection (hidden information). Hence, debt secured by collateral may mitigate asymmetric information related cost in financing.

2.9. Problems faced by Micro Entrepreneurs.

2.9.1 The MSE's inability to offer marketable collateral for loans

Microfinance clients are either very small businesses or poor individual who usually have few assets, non – existent credit services histories, and low income levels (Shima, 2004).This is a problem because it means these clients can not offer any collateral to microfinance providers against loans. As a result, microfinance institutes (MFIs) may either raise their interest rates (which are already high for small loan transactions) or turn down/rejects hundreds of applications.

2.9.2 Poor Institutional viability of micro enterprises

Poorly constructed business ideas with lack of consideration of demand and costs render the micro venture unsustainable, and microfinance may incorrectly get the blame for it. For instance, in the case of micro crop farming, farmers often fail to account for their personal consumption between the sowing and harvesting periods and realize they face shortage of money. As a result, they often end up using the loan for personal matters. The problem arises when it's time to pay back the loan – the farmer is forced to take up a second loan to pay the original loan. This may lead to a vicious cycle where the farmer gets inundated with debt.

2.9.3 Lack of knowledge about microfinance services

Many micro entrepreneurs live in far off rural areas and often remote villages have little formal education which leads to two issues: a lack of knowledge about the existence of financial services for the poor and little access to microfinance services offered by MFIs

2.10 Problems faced by Micro finance providers:

2.10.1 Inability to exploit growth opportunity

Lack of access to finance or funds means micro entrepreneurs cannot inject money into their businesses (say, to buy more resources or hire more people) to grow them after observing a surge in demand. Moreover, the remote locations of micro businesses means they have little information pertaining to their market, such as customer needs and competitor strength and weaknesses. As a result, many critics may find faults with the idea of microfinance, not realizing that this isn't really a problem, but just a challenge that was overcome as the business grows and increases in capital base.

2.10.2 Few organizational resources and poor governance.

Micro entrepreneurs have limited skills, qualifications and exposures to handling businesses. While they need to be trained through capacity building initiatives by the MFIs, many micro entrepreneurs may not grow as planned because of these problems. For instance, they may borrow more money than needed, or miss- allocate it in their business and end up bearing the burden of large interest payments instead of enjoying the fruits of their business.

2.10.3 Low bargaining power

In case micro entrepreneurs operate in competitive markets, their individual bargaining power is diminishing when dealing with customers because of their small size. However, at the other end

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of the spectrum, there still isn't any respite because micro entrepreneurs deal with MFIs on an individual basis, which also erodes their bargaining power.

2.11 Review of Past Studies

Amin *et al*, (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 households before they received loans. They find that while microcredit services is successful in reaching the poor, it is less successful in reaching the vulnerable, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also finds little evidence on the program participants. The results, Coleman further explains, are consistent with Adams and von Pischke's assertion that "debt is not an effective tool for helping most poor people enhance their economic condition" and that the poor are poor because of reasons other than lack of access to credit services. According to Mosley (1999), microfinance makes a considerable contribution to the reduction of poverty. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average, smaller loans reduce poverty much more by lifting borrowers above the poverty line, whilst institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people. Mosley and Hulme (1998) shows that programs that targeted higher-income households (those near the poverty level) had a greater advantage on household income than those below the poverty line who were not helped much and the very poorest were somewhat negatively affected.

In conclusion, the researcher pointed to low population density, poor infrastructures and low household income levels as constraints to the MFIs' performance in all the institutions in Makindye East Division. Both primary and secondary data were collected; primary data was collected from some few SME's through questionnaires, interviews were also conducted. UBA which is a microfinance institution was used as a case study to get the insight of MFI operations. The study findings pointed out that to large extent MFI operations in Uganda has brought positive changes in the standard of living for people who access their services, clients of MFI complained about high interest rate charged, and the weekly meetings was pointed out as barrier as the time spent in weekly meetings could be used for other productive activities. The study recommended MFI to lower its interest rate, increase loan funds and provide proper trainings to SMEs.

Research gaps: Therefore, the reviewed previous studies failed to show the microfinance credit services on improving the performance of SMEs in Uganda. Previous studies failed to examine

the effect of MFI on small and medium enterprises growth and sustainability. Not only that, also they failed to determine the influence of credit services terms and liquidity levels on SMEs performance as well as to determine whether MFIs provide favorable credit terms to SMEs in Uganda or to determine microcredit services access challenges faced by SME owners in Uganda. Therefore, this study takes the mentioned weakness above as one of the research gaps found out in this study that triggered the researcher to undertake this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design, description of the study area, the study population, the sampling methods, data collection methods, and the data analysis techniques that were used for the study.

3.1 Research design

The study employed cross-sectional research design. It is not repetitive in nature as it was carried out once at a particular point in time. Moreover, it facilitated the study to examine a section of the population at a single-time period.

3.2 Description of the study area

The study was conducted in Kansanga involving small and medium entrepreneurs who had benefited from UBA credit services schemes in the region. The study specifically dealt with those enterprises centered in Kansanga which have small and medium enterprises beneficiaries of UBA credit services.

3.3 Sampling method.

3.3.1 Target population

The population is a group from which the study expects to get useful information and draw conclusions for the study. Target population for this study were entrepreneurs from small and medium enterprise who have been beneficiaries of UBA credit services schemes or MSE s clients who had access to UBA Microfinance credit services and loan officer/employees of (UBA, Loan Department) making a population of 112 (one hundred twelve people). The selection of the officers for interviewing was based on the knowledge of their presence during the period covered by the research.

3.3.2 Sample size.

This study used a sample of 112 respondents whereby clients of UBA who were involved in small and medium enterprises and having been beneficiaries of UBA credit services and UBA officials mostly from credit services/loan department were also included in this study.

Table 1 Sample Size

Target Popn.	Sample Size (N)	Frequency	Percent (%)
Customers	82	65	80%
UBA staff	30	25	20%
Total	**112**	**90**	**100%**

Using slovin's formula

$n = N / (1 + (N*e^2))$

but

$N = 112$

$e = 5\% = 0.05$

$n = ?$

Solution:

$n = N / (1 + (N*e^2))$

$n = 100 / (1 + (100*.05^2))$

$n = 112 / 1.25$

n = 90

3.4 Sampling techniques

In the course of conducting this study, the researcher applied simple random sampling and purposive sampling method in data collection.

3.4.1 Simple random Sampling Technique

Simple random sampling was chosen as an ideal method for this study due to its nature that is representativeness, fairness and lack of biasness. Every person in the area of study had an equal chance to be selected as a respondent.

3.4.2 Purposive Sampling Technique.

The study also employed purposive sampling technique based on the position held by respondents during the survey. Moreover, respondents were chosen based on the researcher's judgment that they have desirable characteristics and can provide the required information. Furthermore, purposive sampling technique was used to select bank official who directly engaged in proving loans to SMEs. All senior officers such as managers were selected purposefully because of key positions, knowledge and experience in their job position.

3.5 Data Collection Methods

Kothari (2004) advises that while deciding about the methods of data collection to be used for the study, the researcher should keep in mind two types of data; namely primary and secondary. The instruments for collecting data were therefore selected depending on the type of data the researcher was collecting. In order to collect data needed in this study; the researcher used a questionnaire, interview and observation methods for collecting the primary data, and documentary method for collecting secondary data.

3.5.1 Primary Data Collection Methods

3.5.1.1 Questionnaires

Questionnaire was at first pre-test to a small number of respondents to check if the instrument can measure what claimed to be measured. Thereafter, questionnaires were distributed by the researcher to the respondents for collection of raw data. They filled in a self-administered manner. In this regard, they were formulated in English.

3.5.1. 2 Interviews

Interviews was arranged to allow respondents to freely provide their views related to the problem that is being investigated. The purpose of use for this method was to supplement the questionnaire method of data collection so as to obtain the qualitative data that was collected using questionnaires. In other words, it can help to get data that serve as a support in narrating the microfinance credit services on performance of small and medium enterprises. Interviews were semi-structured; i.e. some of the questions and topics were predetermined. Other questions arose during the interview sessions and thus the method appeared to be informal and conversational, but carefully controlled and structured. Interviews were used to collect data from respondents who had no time to fill in questionnaires but can express themselves verbally.

3.5.1.3 Observation

Observation is an eye sight inspection followed by writing or drawing, depending on what the researcher surveys (Adam and Kamuzora, 2008). During data collection, the researcher visited established enterprises and obtained firsthand information related to information to be collected through interviews and questionnaires.

3.5.2 Secondary Data Collection

Secondary data are those data obtained from literature sources or data collected by other people for some other purposes (Adam and Kamuzora, 2008). The study was collected from secondary data using documentary review technique as was presented below:

Documents Review Technique

The study reviewed various documents as part of secondary data collection technique. Data was collected from documented materials such as books, reports, and electronic archives in forms of websites. The purpose of such method is to get archival information to support raw data collected from field in the course of the study.

3.6 Data processing and Analysis

The qualitative data collected was analyzed using statistical and qualitative approaches in order to make meaningful presentations and conclusions. Data that was collected from the 90 respondents was examined and arranged basing on the research objectives. The data that was collected was arranged into a more workable framework that enabled the researcher to classify and organize them. In order to make meaningful presentation of the data collected and to match it with the study objectives and research questions, the data was subjected to various steps including; editing in order to identify missing gaps, spelling mistakes, incomplete answers and to eliminate unwanted data; coding, classification of data with common characteristics. In the statistical method, analysis of clearing and forwarding data focused on various process and procedures involved by the port and other agents activities and were done at three levels; The researcher described the study population by background characteristics purposely relating to MFI on small and medium enterprises growth and sustainability, the influence of credit services terms and liquidity levels on SMEs performance and as to whether MFIs provide favorable credit services terms to SMEs in Makindye East Division or to determine microcredit services access challenges faced by SME owners in Makindye East Division.

3.7 Validity and reliability.

A pilot study was conducted to test-run the practicability of the study and to detect flaws in the data collection process. This helped to discover errors on the issues raised such as ambiguous instruction or wording, inadequate time limit and measurability of variables defined. Copies of the questionnaire were given to senior colleagues, statisticians and loan officers before the pilot study. The views of the loan officers were considered very important because they work with the entrepreneurs and they understand their level of perception on the subject matter. Fifty copies of the questionnaire were used for the pilot study. Therefore the results that were obtained from this study were reliable and used as a source of further references.

3.8 Ethical considerations

Ethical considerations in conducting a research were not overlooked. Nearly every research study can have the potential of affecting subjects in some way, either psychologically or physically. Researcher dealing with human subjects must take great care to ensure that all precautions are taken to alleviate any potential harm to subjects. These include carefully planning a study as well as debriefing subjects upon completion of the project (Payne and Payne, 2004). Saunders (2007) defines research ethics as the appropriateness of researcher's behaviour in relation to the right of those who become the subject of the study work. In this study ethical procedures were considered throughout the period of research study and the researcher ensured that names of respondents cannot appear on the questionnaire to ensure confidentiality of the respondents as it is a part of the ethical procedure to ensure that respondents are protected.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.0 Introduction

The chapter based on the five sub-sections mainly. The introduction; the socio-economic characteristics of respondents, examination of the contributions of MFI on small and medium enterprises growth and sustainability, the relationship between credit terms, liquidity levels and SMEs performance, and establishing whether MFIs provides favorable credit terms to SMEs in Makindye East Division.

4.1 Socio-economic Characteristics of Respondents

The typical characteristics of respondents are crucial interpreting and discussing research findings in terms of age, gender, education level, experience in microfinance institutions, credit management and SMEs financing and management. Such information would provide general image and meaningful information on the impact of microfinance credit towards the performance of Small and Medium Enterprises (SMEs) in Makindye East Division.

Table 4.1: Gender of the respondents

General characteristics	Frequency	Percent
Gender distribution		
Male	47	52.2
Female	43	47.8
Total	**90**	**100**

Source: field source (2018)

The study sampled 112respondents. However, only 90 (90%) respondents successfully filled and returned the questionnaires. Therefore, the study analysis was based on 90% response rate.

4.1.1 Gender distribution of respondents

UBA provides microfinance services to people of all gender. Thus, this study chose respondents from both genders. As Table 4.1 shows that 47% of respondents surveyed were male, while 43% were female in this study. The implication is that gender balance was considered as the

number of respondents participated in this study is almost equal between males and females. In this study, as every member in the study population had equal chance of being selected.

Table 4.2 The age of the respondents

Age attribution	Frequency	Percent
20-30 Years	24	26.7
31-40 Years	36	40.0
41-50 Years	23	25
51 Years and above	7	7.8
Total	**90**	**100**

Source: field source (2018)

4.1.2 The age of the respondents

UBA provides microfinance services to people of all ages except those less than 20 years. As Table 4.2 shows that 26.7% between 20-30 years, 40% between 31-40 years, 25% 41-50 years and 7.8% above 51 years. The implication is that all adults were considered as beneficiaries of micro credit services in UBA.

Table 4.3 Education level of respondents

Education level	Frequency	Percent
Secondary level	26	28.4
College	19	20.4
University	17	19.0
No formal education	0	0
Total	**90**	**100**

Source: field source (2018)

4.1.3 Level of education

Education level of respondents was also taken into account in order to find out levels of education of respondents surveyed in kansanga. Table 4.1 shows that most of the respondents (30.1%) had primary education level followed by 28.0% that had secondary education level.

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While 20.4% respondents had college and the remaining 19% respondents had university education level that represented most of the bank officials.

The implication is that majority of the respondents have attained their primary education which implies they can own and operate micro enterprises and the basic knowledge in business that can enhance them to access loan from financial institutions.

4.2 Uses of Bank loans

4.2.1 Bank loan Allocation

The study aimed to assess how bank loans were spent by customers in the study area. Figure 2 shows that the capital for business injection was scored higher (37.8%), thereafter followed by agricultural activities (31.1%), education consumption (23.3%), and the least was household consumption (7.8%) respectively.

Figure 2: Respondents views on the uses of Loans
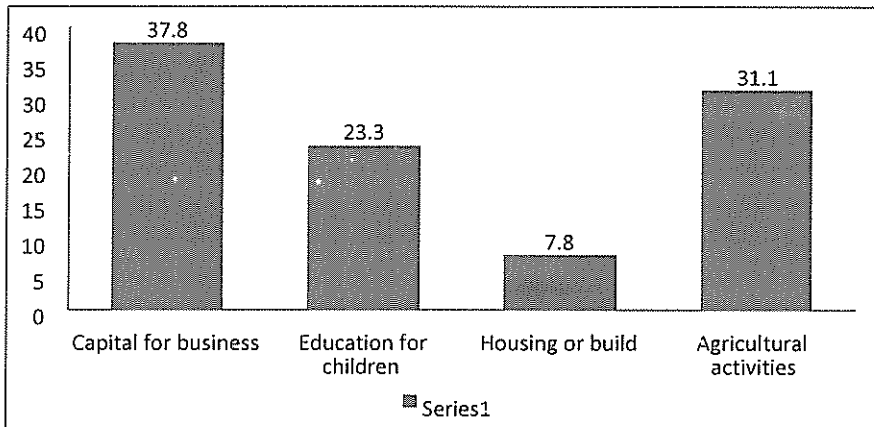
Source: field source (2018)

This implies that that UBA loan scheme is more effective in helping the beneficiaries raising their economic position through businesses and agricultural activities as well as investing in their children's education. Majority of SMEs are rooted in business and agricultural sector. Moreover, the consequences of loan obviously could be to pay education and other household consumptions.

4.3. The relationship between loan funds on performance of SMES

4.3. 1 Generation of employment opportunities through credit scheme.

Microfinance aims at empowering the poor to come out of poverty. Figure 3 shows that 65.6% agreed that they had used a loan from UBA to employ people, such as agriculture or business activities while 34.4% used the loans in other ways such as to develop already started enterprises or using the loans for other activities such as education or housing. This implies that poverty refers to as when someone's "resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities (Peter,2000). Although it was not the aim of MFI to effect direct education and other economic activities out of business direct"

Figure 3 : Creation of Employment
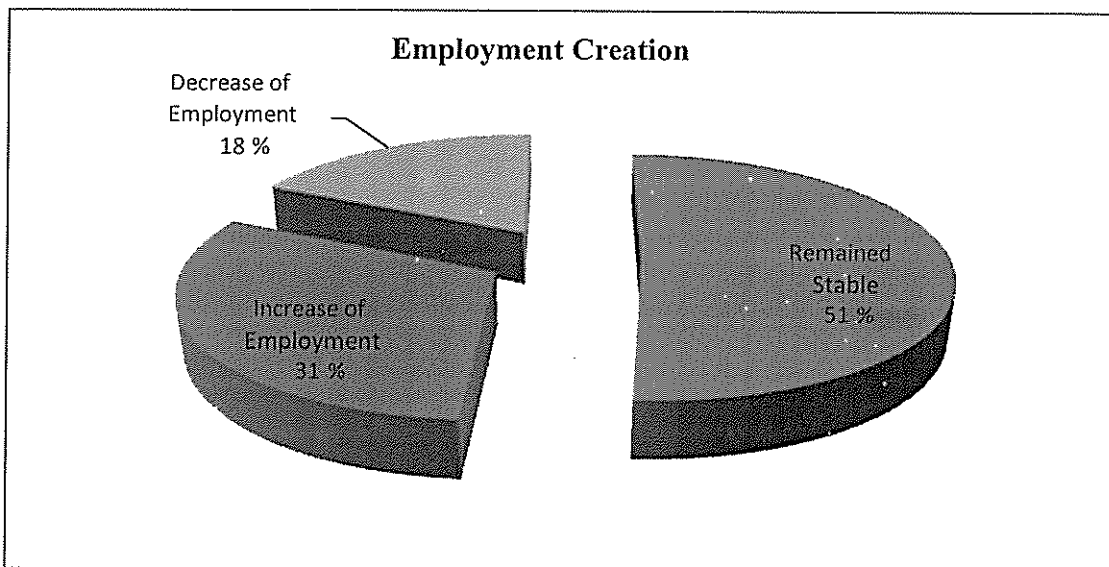
Source: field source (2018)

Figure 4 shows that after loan access some of micro entrepreneur manage to increase employment and retain their workers and managed to create stable employments hence contribute toward the growth of micro enterprises. From the preceding discussion, it is apparent that SMEs constitute the most important national employment base.

4.3.2 Growth of Business Assets and Business Diversification

Among the key performance indicators that were examined during the administration of this study were: asset, increase in returns, increase in stock levels/Diversification and Increase in retained earnings. Table 4.4 shows the impacts of loan on assets, and diversification.

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Table: 4.4: Contribution of loan to Firm Performance

Loan Help In Better Firm Performance	Frequency	Percent
Increase in Assets	36	35.5
Increase in returns	28	31
Increase in stock levels/Diversification	16	17.7
Increase in retained earnings	12	13.3
TOTAL	**90**	**100%**

Source: field source (2018)

Table 4.4 above indicates importance of loan to respondents' firm performance. The results indicates that loan help business overall firm performance in diverse ways. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (28%) opted for increase in returns as their definition for importance of loan with respect to improvement in overall firm performance. increase in retained earnings (13.3%). This according to respondents is because of pressures to repay loan which limits expansion thus the business inability to retain excess funds. Increase in stock levels and product diversification or inventory (17.7%) also on the high side implied that loan taken are used to purchase materials for production, thus businesses are able to add up their stock to meet increasing demand. Definitely, with an increase in assets both physical and financial, the analyses of the data indicate that SMEs reaped significant benefits through loans accessed from UBA bank. Overall, the results showed appreciable improvements in financial and physical assets. They managed to diversify and accumulate assets, which provide protection against risk and vulnerability to their business.

4.3.3. Loan provided when needed by the clients
Table4.5: Loan provided when needed by the clients

Responses	Frequency	Percent
Strongly agreed	30	33.3
Agree	24	26.6
Neither agree nor disagree	8	8.8
Disagree	16	11.1
Strongly disagreed	14	15.5
Total	**90**	**100**

Results on Table 4.5 indicate that 33% of respondents strongly agreed and 26.6% agreed on the importance of firm size and liquidity level on SMEs performance. While 8.8% of out 90 respondents remained silent, 11.1% disagreed and 15.5 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

During the field survey it was also, revealed that sometimes age influence access to credit. Being in the business for many years influence the financing decision, it was argued that being an older firm means there is lower informational problems. The reason is information required by the lenders to evaluate and process applications is readily available because these businesses have an established reputation or track record. On the other hand, the new firms are not likely to meet the collateral requirements of the banks since they have not accumulated sufficient assets. Combined with the absence of information on their financial records, this makes difficult to lenders to assess lending proposals submitted by new firms. Similarly klapper and Udell, (2001) argue that firm Size is significant in determining its liquidity levels. The traditional models to determine the optimal liquidity demonstrate that there are economies of scale associated with the cash levels required to confront the normal transactions of the firm, so that larger firms can keep lower cash holdings. It's therefore important to consider that firm size is related to another set of factors that may influence liquidity levels such as the level of fixed costs and these costs are proportionately greater for SMEs.

4.3.4. Loans provided when with affordable interest rates

Table 4.6: Loans provided when with affordable interest rates

Responses	Frequency	Percent
Strongly agreed	36	40
Agree	28	31
Neither agree nor disagree	4	4.4
Disagree	16	18
Strongly disagreed	6	6.7
Total	90	100

Results on Table 4.6 indicate that 40% of respondents strongly agreed and 31% agreed on the importance of firm size and liquidity level on SMEs performance. While 4.4% of out 90 respondents remained silent, 18 % disagreed and 6.7 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.3.5 Are trading license asked when processing for a loan

Table 4.7: Are trading license asked when processing for a loan

Responses	Frequency	Percent
Strongly agreed	60	67
Agree	25	28
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	90	100

Results on Table 4.7 indicate that 67% of respondents strongly agreed and 28% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.3.6 Do clients make returns in time

Table 4.8: Are trading license asked when processing for a loan

Responses	Frequency	Percent
Strongly agreed	60	67
Agree	25	28
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 4.7 indicate that 67% of respondents strongly agreed and 28% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.3.7 Satisfaction of the clients by UBA employees
Table 4.9: Satisfaction of the clients by UBA employees

Responses	Frequency	Percent
Strongly agreed	70	78
Agree	15	17
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	90	100

Results on Table 4.8 indicate that 78% of respondents strongly agreed and 17% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.4. The relationship between money transfers on performance of SMES

Table 5.1 Are money transfers services improved the performance o SMES

Responses	Frequency	Percent
Strongly agreed	30	33.3
Agree	24	26.6
Neither agree nor disagree	8	8.8
Disagree	16	11.1
Strongly disagreed	14	15.5
Total	90	100

Source: field source (2018)

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Table 5 shows that after money transfers access some of micro entrepreneur manage to increase employment and retain their workers and managed to create stable employments hence contribute toward the growth of micro enterprises. From the preceding discussion, it is apparent that SMEs constitute the most important national employment base.

4.4.2 Growth of Business Assets and Business Diversification through money transfers services

Among the key performance indicators that were examined during the administration of this study were: asset, increase in returns, increase in stock levels/Diversification and Increase in retained earnings. Table 5.2 shows the impacts of loan on assets, and diversification.

Table: 5.2: Contribution of loan to Firm Performance

Loan Help In Better Firm Performance	Frequency	Percent
Increase in Assets	36	35.5
Increase in returns	28	31
Increase in stock levels/Diversification	16	17.7
Increase in retained earnings	12	13.3
TOTAL	90	100%

Source: field source (2018)

Table 5.2 above indicates importance of loan to respondents' firm performance. The results indicates that loan help business overall firm performance in diverse ways. Respondents chose more than one important reasons of money transfers services to their firms. Percentage wise, most respondents (35.5%) opted for increase in returns as their definition for importance of loan with respect to improvement in overall firm performance. increase in retained earnings (31%). This according to respondents is because of pressures to repay loan which limits expansion thus the business inability to retain excess funds. Increase in stock levels and product diversification or inventory (17.7%) also on the high side implied that loan taken are used to purchase materials for production, thus businesses are able to add up their stock to meet increasing demand. Definitely, with an increase in assets both physical and financial, the analyses of the data indicate that SMEs reaped significant benefits through loans accessed from UBA bank. Overall, the results showed appreciable improvements in financial and physical

assets. They managed to diversify and accumulate assets, which provide protection against risk and vulnerability to their business.

4.4.3. Money transfers provided when needed by the clients
Table 5.3: Money transfers provided when needed by the clients

Responses	Frequency	Percent
Strongly agreed	30	33.3
Agree	24	26.6
Neither agree nor disagree	8	8.8
Disagree	16	11.1
Strongly disagreed	14	15.5
Total	**90**	**100**

Results on Table 5.3 indicate that 33.3% of respondents strongly agreed and 26.6% agreed on the importance of firm size and liquidity level on SMEs performance. While 8.8% of out 90 respondents remained silent, 11.1% disagreed and 15.5 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

During the field survey it was also, revealed that sometimes age influence access to credit. Being in the business for many years influence the financing decision, it was argued that being an older firm means there is lower informational problems. The reason is information required by the lenders to evaluate and process applications is readily available because these businesses have an established reputation or track record.

4.4.4. Money transfers services provided when with affordable charge rates
Table 5.4: Money transfers provided when with affordable charges

Responses	Frequency	Percent
Strongly agreed	36	40
Agree	28	31
Neither agree nor disagree	4	4.4
Disagree	16	18
Strongly disagreed	6	6.7
Total	90	100

Results on Table 5.4 indicate that 40% of respondents strongly agreed and 31% agreed on the importance of firm size and liquidity level on SMEs performance. While 4.4% of out 90 respondents remained silent, 18 % disagreed and 6.7 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.4.5 Clients using a Money transfers services in UBA
Table 5.5: Clients using money transfers services

Responses	Frequency	Percent
Strongly agreed	65	72
Agree	20	22
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	90	100

Results on Table 5.5 indicate that 72% of respondents strongly agreed and 22% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance.

4.4.6 Do clients make returns in time
Table 5.6: Are trading license asked when processing for Money transfers services

Responses	Frequency	Percent
Strongly agreed	60	67
Agree	25	28
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 4.7 indicate that 67% of respondents strongly agreed and 28% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

4.4.7 Satisfaction of the clients by UBA employees
Table 5.7: Satisfaction of the clients by UBA employees

Responses	Frequency	Percent
Strongly agreed	70	78
Agree	15	17
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 5.7 indicate that 78% of respondents strongly agreed and 17% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant loans to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.
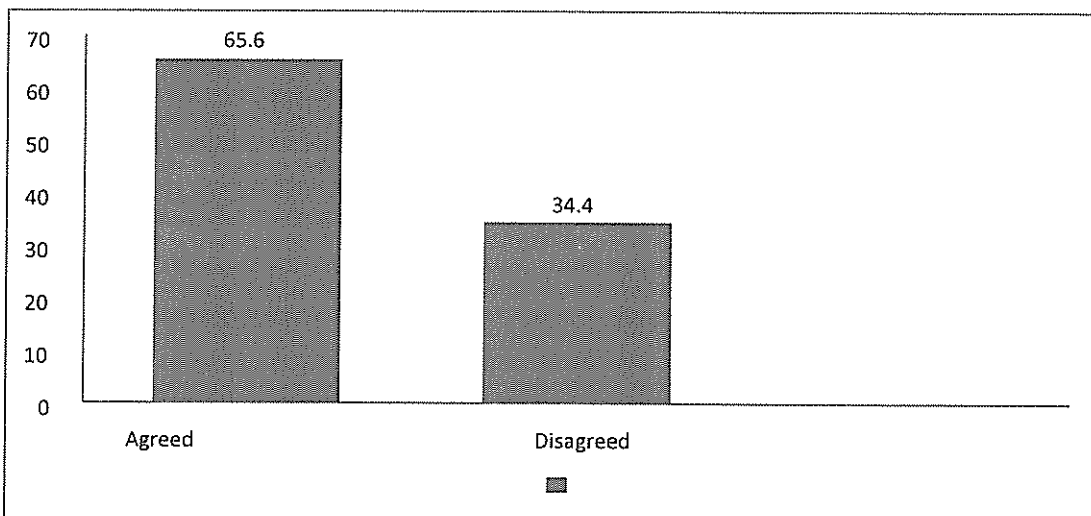
Figure 3: Do clients usually use money transfers services

Source: field source (2018)

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6.1 The relationship between savings account on performance of SMES

Table: 5.8: Contribution of savings account to Firm Performance

Loan Help In Better Firm Performance	Frequency	Percent
Increase in Assets	36	35.5
Increase in returns	28	31
Increase in stock levels/Diversification	16	17.7
Increase in retained earnings	12	13.3
TOTAL	90	100%

Source: field source (2018)

Table 5.8 above indicates importance of loan to respondents' firm performance. The results indicates that loan help business overall firm performance in diverse ways. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (28%) opted for increase in returns as their definition for importance of loan with respect to improvement in overall firm performance. increase in retained earnings (13.3%). This according to respondents is because of pressures to repay loan which limits expansion thus the business inability to retain excess funds. Increase in stock levels and product diversification or inventory (17.7%) also on the high side implied that loan taken are used to purchase materials for production, thus businesses are able to add up their stock to meet increasing demand. Definitely, with an increase in assets both physical and financial, the analyses of the data indicate that SMEs reaped significant benefits through **savings account** accessed from UBA bank. Overall, the results showed appreciable improvements in financial and physical assets. They managed to diversify and accumulate assets, which provide protection against risk and vulnerability to their business.

6.1.3 Savings account provided when needed by the clients
Table 5.9: savings account provided when needed by the clients

Responses	Frequency	Percent
Strongly agreed	30	33.3
Agree	24	26.6
Neither agree nor disagree	8	8.8
Disagree	16	11.1
Strongly disagreed	14	15.5
Total	90	100

Results on Table 5.9 indicate that 33% of respondents strongly agreed and 26.6% agreed on the importance of firm size and liquidity level on SMEs performance. While 8.8% of out 90 respondents remained silent, 11.1% disagreed and 15.5 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to clients having savings account in Kansanga branch; it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

6.1.4. Savings account provided when with affordable charges
Table 6:1 Savings account provided when with affordable charges

Responses	Frequency	Percent
Strongly agreed	36	40
Agree	28	31
Neither agree nor disagree	4	4.4
Disagree	16	18
Strongly disagreed	6	6.7
Total	90	100

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Results on Table 6.1 indicate that 40% of respondents strongly agreed and 31% agreed on the importance of firm size and liquidity level on SMEs performance. While 4.4% of out 90 respondents remained silent, 18 % disagreed and 6.7 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant savings account to SMEs in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

6.1.5 Clients getting savings account and satisfied
Table 6.2: Clients getting savings account and satisfied

Responses	Frequency	Percent
Strongly agreed	85	94
Agree	5	6
Neither agree nor disagree	0	0
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 6.2 indicate that 94% of respondents strongly agreed and 6% agreed on the importance of firm size and liquidity level on SMEs performance. While 0% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant to savings account and satisfied in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

6.1.6 Do clients usually use savings account
Table 6.3: clients using savings account

Responses	Frequency	Percent
Strongly agreed	60	67
Agree	25	28
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 6.3 indicate that 67% of respondents strongly agreed and 28% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant savings account and satisfied in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

6.1.7 Satisfaction of the clients by UBA employees
Table 6.4: Satisfaction of the clients by UBA employees

Responses	Frequency	Percent
Strongly agreed	70	78
Agree	15	17
Neither agree nor disagree	5	6
Disagree	0	0
Strongly disagreed	0	0
Total	**90**	**100**

Results on Table 4.8 indicate that 78% of respondents strongly agreed and 17% agreed on the importance of firm size and liquidity level on SMEs performance. While 6% of out 90 respondents remained silent, 0 % disagreed and 0 % out of 90 respondents strongly disagreed. The study revealed that firm size is one of the most important criteria used by UBA Bank to grant savings account and satisfied in Kansanga, it implies that small and medium enterprises are financially more constrained than large firms. As this study is focused on small and medium sized firms, it seems logical to consider size as a determinant of access to finance. The result of this findings is in contrast with the study conducted by Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

Moreover, UBA is providers is formal micro-finance providers, it was revealed that SMEs do not find it easy to acquire a loan. Though her requirements are not easy to be met, it is easier than the requirements needed by other commercial banks. It was found out that loans that are within savings are not a problem to get but when it goes beyond the savings it become a problem. Other members can stand as a security for a loan for someone who does not have the needed security. The surety must be a trust worthy person and of course a faithful and high savings member. What it takes to get a loan is difficult to provide by the customers or members at a particular business level or of a particular business type. UBA only accept fixed immovable assets and preferably land and buildings since they was owned in this context. More so, the borrower must be investigated and found that he/she has the capacity to repay. This is done by an expert counseling the member and providing skills needed to proceed. According to the field study, it is noticed that UBA has strict requirements for loans out of savings and this is because they do not target the very poor.

Also, when a business is in its early stage, it requires at least a certain sum of money in its account for the MFI to consider the application for a loan. When the enterprise cannot provide the required equity capital, they are bound to provide household belongings as collateral for the loan. These MFIs also employ some kind of financial and psychological measurements and when they find out that the prospective borrowers meet the needs, it is then that the loan was granted. It is generally said that people care more on things that they have worked for or items that they own. This and other reasons explain why MFIs deem it necessary for borrowers to have minimal equity contribution before applying for a loan. The source of the minimal equity capital is known by the MFIs because the client may be at high risk of non respecting the terms of repayment had it been the funds were borrowed from somewhere (Ledgerwood,1999).

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, conclusion and recommendations of the study.

5.1 Summary of Findings

The study examined the microfinance credit services on the performance of SMEs in Makindye East Division.

5.1.1 Findings on loan funds on performance of SMES

The specific objectives included assessing the contribution of microfinance on small and medium enterprises growth and sustainability, examining the relationship between credit terms, liquidity levels and SMEs performance in Makindye East Division and examining whether microfinance institutions provide favorable credit terms to SMEs in Makindye East Division or not. The research design used was case study strategy whereby a single unit was selected data collection methods includes interviews, questionnaires, observation and documentary review. Data were analyzed through Statistical Package of Social Science.

Findings revealed that due to credit obtained from UBA Bank in Kansanga, SMEs have been able to expand their business operations, profit growth, reduction of poverty among others. It was also revealed that collateral, age or experiences of the SMEs owners and size of the firm influence the access of credit. Generally respondents indicated that microfinance loans from UBA had brought an increase to business profit growth trend. It was concluded that the nature of the structure of most SMEs in Makindye East Division makes debt financing one of the most convenient ways for start – up firms. They depend on banks for loans to boost their business, one of the advantage of taking a bank loan is that its less risky, some of the UBA SMEs customers explained indicated that in the event of default or not being able to repay loan on time, the bank next move is usually to restructure the loan repayment, be it date or monthly payments, to suit the current state of the business making it more flexible and also less risky since their collateral or security that was given to the bank because of the loan application is not confiscated unlike other micro

Positive relationship has been established between MFIs loans and SMEs performance, growth and sustainability. The study confirms the positive contributions of MFIs loans towards promoting SMEs production, efficiencies and competitiveness. Although MFI sector in Makindye East Division faces insufficient funds problems which militate against their efforts to grant sufficient loans to SMEs, yet their tendencies to boost the financial needs of SMEs is

considerably acknowledged. Furthermore, it has been unveiled that government policies and programs designed to develop SMEs in Makindye East Division are ineffective and thereby need to be re-conceptualized.

5.1.2 Findings on money transfers on performance of SMES

The specific objectives included assessing the contribution of microfinance on small and medium enterprises growth and sustainability, examining the relationship between money transfers, liquidity levels and SMEs performance in Makindye East Division and examining whether microfinance institutions provide favorable terms on money transfers to SMEs in Makindye East Division or not. The research design used was case study strategy whereby a single unit was selected data collection methods includes interviews, questionnaires, observation and documentary review. Data were analyzed through Statistical Package of Social Science.

Findings revealed that due to money transfers services obtained from UBA Bank in Kansanga, SMEs have been able to expand their business operations, profit growth, reduction of poverty among others.

5.1.3 Findings on savings account on performance of SMES

The specific objectives included assessing the contribution of microfinance on small and medium enterprises growth and sustainability, examining the relationship between savings account services, liquidity levels and SMEs performance in Makindye East Division and examining whether microfinance institutions provide favorable terms to SMEs in Makindye East Division or not. The research design used was case study strategy whereby a single unit was selected data collection methods includes interviews, questionnaires, observation and documentary review. Data were analyzed through Statistical Package of Social Science.

Findings revealed that due to savings account services obtained from UBA Bank in Kansanga, SMEs have been able to expand their business operations, profit growth, reduction of poverty among others. It was also revealed that collateral, age or experiences of the SMEs owners and size of the firm influence the access of accounts internationally.

5.2 Conclusion

5.2.1 Conclusion on loans and the performance of SMES

The intension of this study was to assess the microfinance credit services on the performance of SMEs in Makindye East Division, it was concluded that most SMEs use loans as working

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capital mainly to source raw materials for production. The research findings confirmed that the role of financial institutions toward SMEs success is a vital important. Also, some beneficiaries benefited from loan once acquired for example according to the results in the field some of SMEs interviewed concluded that there are positive changes in terms of sales revenues, physical assets, financial assets among others.

Credit terms given by the MFIs are not favorable and if made favorable , the liquidity levels of the SMEs was high because they would be able to afford borrowing at any given time without worrying about the barring terms. This helps (SMEs) to maintain or even improve their performance in terms of expanding their capital base as well as harvesting more profit arising from increased business activity. The researcher also concludes that when making decisions on credit, most SMEs considered flexibility, loan size and the collateral security as the most important aspects. It is therefore important for MFIs to appreciate that if the three aspects are favourable, they would be a necessary infrastructure to facilitate good relations between the MFIs and SMEs. This helps to step up the SME performance

For instance with the increasing number of government contracts, most contractors apply for loans to enable them execute these government projects. The nature of the structure of most SMEs in Makindye East Division makes debt financing one of the most convenient ways for start – up firms. They fall on banks for loans to boost their business

It can also be concluded that one advantage of taking a bank loan is that its less risky, per face-to-face interview, some business customers explained that for some banks for example, in the event of default or not being able to repay loan on time, the bank next move is usually to restructure the loan repayment, be it date or monthly payments, to suit the current state of the business .making it more flexible and also less risky since their collateral or security that was given to the bank because of the loan application is not confiscated unlike other micro finance institutions.

5.2.2 Conclusion on money transfers and the performance of SMES

The researcher found out that money transfers services obtained from UBA has helped managers of UBA Bank in Kansanga in their day to day interactions with owner-managers of the SMEs and this helps in efficiently managing their businesses transactions.

Microfinance institutions are an asset to the developing countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and their small up to medium enterprises the money transfers. It is in fact the truth that products and services put forth to the

beneficiaries are not by themselves a solution to the numerous problems affecting SMEs. These problems range from business skills, lack of financial intermediation services, and the lack of markets, technology etc. The financial intermediation services can only provide a platform for the attainment of considerable growth and sustainability of SMEs. It should be noted that microfinance does not serve or solve all the problems of the poor but it serves as a means of helping them to boost their economic activities or augmenting their status.

Microfinance is only a portion of what is needed to boost enterprise activities and developing new markets, increasing income, create and accumulating assets and promoting a culture of entrepreneurship.

5.2.3 Conclusion on savings account and the performance of SMES.

The intension of this study was to assess the microfinance savings account services on the performance of SMEs in Makindye East Division, it was lastly concluded that most SMEs use savings account to save money and make withdraws at any time when needed to finance the businesses. The research findings confirmed that the role of financial institutions toward SMEs success is a vital important. Also, some beneficiaries benefited from savings account once acquired for example according to the results in the field some of SMEs interviewed concluded that there are positive changes in terms of sales revenues, physical assets, financial assets among others because they can withdraw their money from their account at any time.

5.3 Recommendations

5.3.1 Recommendations on Loans and the Performance of SMES

To ensure that MFIs enhance participation in SMEs, sustain the growth and maximal contribution to economic growth and development of the nation, the following recommendations are hereby proffered. Based on the available findings the following are the key policy recommendations:

(i)   In a management perspective, MFIs need to improve their credit terms because the findings indicate that they are not favorable but in my opinion, there is need to make the presented terms more flexible and reduce on the terms against collateral especially when there is a delay by the SMEs to repay their loans. This requires an understanding of the nature of operations by SMEs such too much exposure to bad debtors.

(ii)   Apart from provision of tax incentives, and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions.

(iii)   Reduction of interest rate of SME loans, since SMEs are the engine of growth for developing economies like Makindye East Division. Bank loans are usually one of the fastest means of acquiring credit for SMEs. This credit is what helps them in boosting their business and in effect economy growing as a result. Thus the cost of such loans should be reviewed downwards to enable smooth repayment and increase in the demand for loans by SMEs to enable growth in their business which can in effect affect the economy as a whole positively.

(iv)   In order for SMEs to improve their performance, it is recommended that owners and managers should maintain adequate liquidity levels through designing strategies to meet their revenue targets. It also requires effective current asset management such as maintaining adequate stock levels which enables them to avoid stock outs whilst avoiding dead stock because it also creates losses. SME owners/ manager need to ensure that they maintain adequate cash levels in order to be able to meet their working capital obligations such as paying their staff on time so that the motivation of timely salaries enable them to continue being committed to delivery of results. These cash levels also help to pay the business suppliers on time because the survival of any business depends on how reliable its suppliers.

5.3.2 Recommendations on money transfers services and the Performance of SMES

(i)   Government and MFIs themselves should enhance the out-reach of microfinance through creating awareness of the activities and operations to SMEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the money transfers services. Regular campaigns at the local government and ward levels can help to achieve this effectively. More so, the expansion of MFIs through the establishment of rural branches is an imperative for increase access to MFIs services.

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(ii) Also, the government through responsible ministries should undertake periodic review of the activities of MFIs in line with the microfinance policy objectives/targets so that modifications and corrective action could be taken where necessary. Such an exercise is important if MFIs must effectively support the sustainable growth of SMEs in the country.

(iii) The bank should provide technical assistance and capacity building that prepares SMEs in Makindye East Division; provide capacity building efforts that could lead to well-managed, sustainably financed SME support mechanisms (especially credit guarantees) at the national level. These mechanisms could be government led, but also could be independent guarantee funds. Technical assistance should help to strengthen controls for SMEs financing, but efforts are required as well to build the financial infrastructure and control framework for the SMEs operation in Makindye East Division. There should be support to change the strategic or operational capacity and behavior of financial institutions to monitor issues concerning their relationship with SMEs.

5.3.3 Recommendations on savings account services and the Performance of SMES

(i) Most of the Micro and Small Enterprises have low level of education; the government should design a way to enhance entrepreneurial skills in this segment through offering them education on business initiation skills and management. This was done by incorporating entrepreneurial based curriculum in teaching subjects in schools at all levels so as to inculcate entrepreneurial spirit especially among the youth. Curriculum change in Makindye East Division is necessary as entrepreneurial studies are taught in colleges and universities and not in primary or secondary schools.

(ii) The UBA in Kansanga should develop effective SME business training program and offer proper consultation to their clients. Majority of SME clients are ordinary level leavers which has impact in their record keeping, preparing marketing strategy and overall decision making. Despite the fact the UBA plc train and advice their clients on adhering to the terms and conditions especially on how savings accounts is important, clients propose that business training should be emphasized which shall help them on

how best to identify opportunities in the market, proper marketing strategies, business management and entrepreneurial skills that can help in business growth.

However, the theoretical contribution of this particular study is on the extended body of knowledge. The study contributes in the body of knowledge whereby academician and other scholars get knowledge about the effects of microfinance services in improving SMEs Makindye East Division.

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QUESTIONNAIRE FOR THE BENEFICIARIES OF UBACREDIT SERVICESS

Dear Respondent,

This questionnaire aims to collect data for partial fulfillment of the requirements for the award of A Bachelors' Degree of Business Administration (BBA) accounting and finance awarded by Kampala International University. The researcher intends to assess the microfinance credit services on the performance of small and medium enterprises using UBA-Kansanga Branch as a case study.

Therefore the researcher declares that, this research is for academic purpose only. You are kindly invited to complete this questionnaire as directed for a purpose of facilitating the study. Information from this document was confidential and in no way can it be communicated to any person. Thank you in advance.

PLEASE NOTE: Your name should not appear anywhere in this document.

Section A: General Information

Instructions

Answer all questions

Read carefully and put tick (√) in the appropriate box.

1. Gender:

Male	
Female	

2. Age: (in years)

20 – 25	26 – 30	31 – 35	36 – 40	41 – 45	46 – 50	Over 51

3. What is the level of education?

a. No formal education	
b. Secondary	
c. College	
d. University	

e. Others (mention) _____

4. What were the uses of a loan?

a. Capital for business	
b. Education for children	
c. Housing	
d. Agriculture	

e. Others (mention) _____

Section B

Instructions

Below are statements related to UBA credit services scheme. Read each statement carefully and put tick (√) in the appropriate box which you agree with according to the key.

Note: Each statement should have only one tick

a). The relationship between loan funds on performance of SMES in Makindye East Division

		Strongly agree	agree	Neutral	Disagree	Strongly disagree
5	Do U.B.A credit scheme best way of creasing employment opportunities.					
6	Do U.B.A loan funds played an important role in elevating status of your enterprise					
7	U.B.A provides loan funds when needed by the clients					
8	U.B.A loan funds availed with affordable interest rates?					
9	U.B.A clients asked for trading	.				

		Strongly agree	agree	Neutral	Disagree	Strongly disagree
	license while processing loans?					
10	Do clients usually make returns on time?					
11	Do clients satisfied with the treatment from UBA employees?					

b) The relationship between money transfers on performance of SMES in Makindye East Division

		Strongly agree	agree	Neutral	Disagree	Strongly disagree
12	Do U.B.A money transfers services best way of improving the performance of SMEs					
13	Do U.B.A money transfers services played an important role in elevating status of your enterprise					
14	U.B.A provides money transfers services when needed by the clients?					
15	U.B.A money transfers services availed with affordable charges?					
16	U.B.A clients get money transfers services and satisfied?					
17	Do clients usually use money transfers services?					
18	Do clients satisfied with the treatment from UBA employees?					

c) The relationship between savings account on performance of SMES in Makindye East Division

		Strongly agree	agree	Neutral	Disagree	Strongly disagree
12	Do U.B.A savings account best way of improving the performance of SMEs					
13	Do U.B.A savings account played an important role in elevating status of your enterprise					
14	U.B.A provides savings account services when needed by the clients					
15	U.B.A savings account services availed with affordable charges?					
16	U.B.A clients get savings account services and satisfied?					
17	Do clients usually use savings accounts?					
18	Do clients satisfied with the treatment from UBA employees?					

THANKS FOR YOUR COOPERATION

APPENDIX II:
TIME SCHEDULE OF ACTIVITIES

Activity	Period	Output
Report writing	March 2018	Report submission for approval
Field customization	March 2018	Initial information collection
Developing information	March 2018	Developing of instruments
Data collection	JUNE 2018	Coding and entering data
Data analysis	July – August2018	Analyzing and interpretation of data
Preparing report	September 2018	Submission of dissertation

APPENDIX III
BUDGET ESTIMATE

Number	Activity	Cost
1	Stationary	65,000
2.	Typing and printing	45,000
3.	Transportation	100,000
4.	Meals	50,000
5.	Photocopying	15,000
6.	Internet and airtime	45,000
7.	Miscellaneous	120,000
8	Lodging	400,000
	Total	**840,000**

COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

May, 7ᵗʰ 2018

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR MANDE FADIL
       REG NO 1153-05014-01759**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

Topic: -   **THE MICROFINANCE CREDIT SERVICES ON THE PERFORMANCE OF SMES IN MAKINDYE EAST DIVISION.**

Case Study: -   **UNITED BANK OF AFRICA (UBA) – KANSANGA BRANCH.**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

**DR. JOSEPH B. K. KIRABO
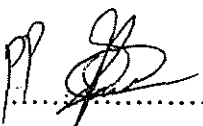HOD – ACCOUNTING AND FINANCE
0772323344**

12/09/2018

TO:

MADAM IRAU FLORENCE

KAMPALA INTERNATIONAL UNIVERSITY,

KAMPALA UGANDA

Dear Madam,

RE: ACCEPTANCE LETTER FOR MANDE FADIL REG NUMBER: 1153-05014-01759

This is to inform you that UBA Kansanga branch has received a letter dated 7th /May/2018 from Kampala International University, Kampala to take up Mande Fadil to do this research study at the United Bank for Africa, Kansanga branch. This is to allow him at the bank branch for the specific of research.

This is therefore to confirm that he is accepted by the branch management for his research study at Kansanga branch

Wabbi Dan Ssambwa

Branch Manager.