BANK LOANS AND FINANCIAL PERFORMANCE IN SELECTED SMALL AND MEDIUM ENTERPRISES IN MAKINDYE DIVISION, KAMPALA-UGANDA

A Thesis Presented to the College of Higher Degrees and
Research of Kampala International University
Kampala, Uganda

In Partial Fulfillment of the Requirements for the Award of Degree in
Master of Business Administration

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September, 2012

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DECLARATION A

"I declare that this thesis is my original work and has not been presented for a degree or any other academic award in any University or Institution of Higher learning".

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19/10/2012

Date

DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".



Dr. Kibuuka Muhammad

23rd | OCT | 2012

Date

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DEDICATION

I dedicate this work to my beloved Buliba James, grandmother Nakuusi Presika, Aunt Juliet Wanyoto and Safinah Namboozo

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to the following persons who helped me throughout the course of this thesis.

The Almighty God, who has given me the grace, wisdom and enlightenment to cope with the task of accomplishing this research.

The BOT Chairman Alhajji Hassan Bassajjabalaba and Management of Kampala International University, to give me a scholarship from bachelor to master's degree.

My thanks to Dr. Novembrieta R. Sumil (DVC-CHDR) and Dr. Manuel Sumil (Administrator-CHDR) for advises, encouragement and guidance towards my thesis.

Thanks to Dr. Sekabira B. Kassim for the encouragement and advises towards my thesis.

My supervisor; Dr. Kibuuka Muhammad for the tireless efforts, advises and creditable suggestion for the refinement of the study.

Thanks goes to the Viva Voc panel members during my defense of thesis; Dr. Manuel Sumil, Mr. Muhammad Ssendagi, and Mr. Emmanuel Festus Rwabuhihi

Thanks to my family members; Mr. Buliba James, Robert, Moses, Isimah, and my uncles, James, Moses for the support and encouragement during the time of my study.

Thanks to respondents who give me the information on the study I carried out. My research assistant Richard, who traversed in Makindye Division to distribute and retrieve questionnaires

Mrs. Sarah Tamale for the spiritual support encouragement and love towards my life, lecturers of Kampala International University,

Colleagues in the class of MBA, Matthew Musoke, Viola, Frank

ABSTRACT

The study intended to establish the relationship between bank loans and financial performance of selected SMEs in Makindye Division. Using descriptive correlation, expost-factor and cross sectional designs. The researcher made questionnaires which helped to collect data on; 1) the profile of respondents; 2) extent of bank loans, 3) level of financial performance of SMEs and 4) the significant relationship between bank loans and financial performance of SMEs. Data was analyzed using frequencies, percentages, means, Pearson's Linear Correlation coefficient and regression analysis. The results revealed that more than 55.2% of SMEs in Makindye are owned by male, most of them are secondary drop out (46.1%), majority are below 30 years (47.4%), over 93.5% are sole proprietorship businesses and more than 27.9% have spent less than five years and above in business. The extent of bank loans was moderate (overall mean = 1.83) and access to bank loans was very high (overall mean = 3.53), short term loans was high (overall mean= 2.82) and long term loan access was moderate (overall mean = 1.89). The level of financial performance of SMEs was high in terms of profitability (mean =2.94), high on liquidity (mean = 2.53), sales growth was high (mean = 3.13), solvency was high (2.76). The extent of bank loans in terms of access to bank loans, short term loans and long term loan was found significantly correlated with all aspects of financial performance of SMEs (all sigs. > 0.05). And that the extent of bank loans altogether is significantly correlated with the level of financial performance of SMEs in general (r=0.939, sig. =0.032). This leads to a conclusion that bank loan is important for entrepreneurs and these results are significant at 0.05 the level of significance. it is recommended that there is need to; i) promote female entrepreneurs, ii) central bank should enforce commercial banks to set favourable interest rate, iii) banks should set favourable lending terms and conditions on both short and long term loans, iv) banks should encourage long term loans to be given to SMEs in Makindye, and v) to conduct training programs on access of loans. Suggestions for further research; i) a similar study in other regions of Uganda, that is central Eastern, Western and Northern Regions, ii) bank loan procedures among Small and Medium Enterprises, iii) terms and conditions among SMEs and others.

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ACRONYMS

SMEs	Small and Medium Enterprises
SSE	Small Scale Enterprises
SPSS	Statistical Package for Social Science
PLCC	Pearson's linear correlation coefficient
GDP	Growth Domestic Products
COMESA	Common Market for East and Southern Africa
FSL	Financial sector liberalization
ICA	Investment Climate Assessment
MFI	Micro Finance Institutes
DVC	Deputy Vice Chancellor
CHDR	College of Higher Degrees and Research
Sig	Significance
MBA	Master of Business Administration
BOT	Board of Trustees
UNDP	United Nation Development Programme
SA	Strongly Agree
A	Agree
D	Disagree
SD	Strongly Disagree
S.S.S	Senior Secondary School
KIU	Kampala International University
FIS	Financial Income System
UACE	Uganda Advanced Certificate Education
UCE	Uganda Certificate Education
SMEs	Small and Medium Enterprises
Ltd	Limited
RS	Rwandan shillings
US$	United States Dollar
ICT	Information Computer Technology

CHAPTER ONE
THE PROBLEM AND ITS SCOPE

Background

Uganda's small scale business history is traced back to first Arab traders in 1844, when chiefs conducted business on behalf of the King of Buganda; individuals were curtailed from establishing ventures. After World War II, Ugandans demanded economic independence (Ojok, 2000) and freedom to gin and export cotton without foreigners' interference. After independence a few Ugandans in Kampala started Small Scale Enterprises (SSE) for profit (Musiime, 2007). The independence government empowered more Ugandans to start enterprises (Davidson, 1995) but the major question was; could the new ventures succeed to give Uganda the intended economic growth.

Small and Medium enterprises (SMEs) worldwide have been recognized as engines of growth and development (Harper, 1984; *et al.*, Felsenstein, 1990 and Ba-el 1997) and in many countries there has been some considerable effort to support them so as to create the necessary employment opportunities, incomes and productive capacity. Besides the evidence available about the role of small enterprises, some of the reasons are; ease of formation, capital requirements, flexibility, mobility and a variety of other factors. Seen from a global perspective, small businesses have a specific niche in global economic afLows. The global market is dominated by world class competitors in the form of multinationals and for the developing countries; small businesses appears to be the way to compete. In developed countries, SMEs commonly follow "niche strategies," using high product quality, flexibility, and responsiveness to customer needs as a means of competing with large-scale mass producers (Hellberg, 2000).

In Uganda SMEs are reported to contribute about 20% of Uganda's GDP (Tulip and Bitekerezo, 1993). This figure may be much higher given that Uganda's GDP is constituted by mostly agricultural production. This is mainly by small holders who may not even fit in the definition of micro and small businesses. Besides, since a great component of GDP is non-monetized and largely subsistence, it is possible that the contribution of both micro and small units is much larger than 20%.

It is also reported by the Ministry of Planning and Economic Development (1992) that over 80% of Uganda's manufacturing output is by small enterprises. The sector also employs up to 2.6 million people in Uganda (Uganda Investment Authority, 1996).

Small firms find it difficult to obtain commercial bank financing, especially long term loans, for a number of reasons, including lack of security, difficulties in proving creditworthiness, small cash flows, inadequate credit history, high interest rates, savings mobilization, high risk premiums, underdeveloped bank borrower relationships and higher transaction costs (IFC, 2009). This is evidenced in the works of Scholtens (1999), Schiffer and Weder, (2001).

The lack of consistent indicators restricts extensive cross-country analyses of SME lending. It is extremely difficult to perform a cross-country analysis in the absences of a standard definition as to what constitutes an SME. Though SMEs are commonly defined as registered businesses with less than 250 employees (IFC, 2009), the definition still varies from country to country and even from bank to bank. In this respect, an OECD conference on SMEs in 2004 made two key policy recommendations to both member and non-member economies; develop greater international comparability of SME statistics, and develop a common definition of an SME.

SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint. They might not be able to access finance from local banks at all, or face strongly unfavourable lending conditions, even more so following the recent financial crisis. Banks in developing countries are in turn hampered by the lack of lender information and regulatory support to engage in SME lending. The overall result is absence of a well-functioning SME lending market, and SMEs are impeded in their growth, with negative consequences for innovation, economic growth and macro-economic resilience in developing countries Johannesburg, (2011).

A bank is an institution whose debts (bank deposits) are widely accepted in the settlement of other people's debts to each other. Effective banking, therefore, involves provision and establishment of financial systems, which ensure individuals hard-earned savings (bank deposits) are protected and managed well by wisely and economically investing them on productive ventures in the economy. Identification of sound business proposal of small and medium enterprises is one further activity of effective banking. Bank loans are therefore the fuel that propels the stagnated and sluggish small and medium enterprises to grow, develop, and transform a Very Low country into an economic power house.

According to Badagawa (2002), SMEs form the backbone of the private sector all over the world, but more especially in emerging economies. It is estimated that SMEs make up approximately 90% of Uganda's private sector. As the apex of private sector business associations in Uganda, SMEs are the primary constituency that the private sector foundation serves.

Small and Medium Enterprises contribute to employment, provision of basic goods and services, and generation of export and tax revenues for national socio-economic development. However, Uganda has one of the highest private business failure rates in the world. This is largely due to the lack of entrepreneurial skills, lack of access to high quality and affordable business development services, limited access to finance, limited knowledge of business opportunities, Very Low linkage with large-scale enterprises, lack of adequate technical and management support services and limited access to information on market opportunities (UNDP-Uganda, 2010).

Statement of the Problem

In Uganda SMEs performance is not satisfactory over the years, majority employ less than 10 workers are not growing and contribute less than 20% to GDP. Many SMEs that emerge in Makindye division, few transform to medium enterprises and few boast of expanded sales and profits. Owners are in Very Low working conditions many are renting and lack capital to expand (Ishengoma & Kappel, 2008)

Whereas many factors account for SMEs failure for example lack of inconclusive (capital, environment, government support etc), SMEs in Uganda find it

difficult to access finance due to the high interest rates, collateral requirements, high and multiple transaction cost and the strict terms that normally go along with the loans. By the nature of SMEs in Uganda; low capital investment, inadequate assets to be used as collateral, small size and lack of technology. Banks consider lending to SMEs in Uganda as being risky compared to larger firms. This may be attributed to lack of enough funds which ought to be obtained from the banks. While this problem has well documented in many reports, few researchers have bothered to investigate the causes and these few researches none has surveyed into the extent to which bank loans contribute to the financial performance of SMEs. This necessitate this study to cover this research gap by establishing the extent to which certain bank loans affect the financial performance of SMEs.

Purpose of the Study

This study intended to identify the various bank loans and correlate them with various dimensions of financial performance of SMEs. The study also intended to give light to SMEs on various bank loans they can access if they wish to expand their business ventures. It also aimed at reviewing literature related to the study variables and identify the gaps there in. It also tried to test the relevant theories on which it is based and validate them in perspective of this study's context.

Research Objectives

1) To determine the profile of small and medium enterprises in terms of:
   i. Gender
   ii. Age
   iii. Education level
   iv. Business type
   v. Number of years in business
2) To determine the extent of bank loans in terms of access to bank loans, short term loans and long term loans received by SMEs in Makindye Division
3) To determine the level of financial performance in terms of profitability, liquidity, sales growth and solvency small and medium enterprises in Makindye Division

4) To determine the significant relationship between the level of bank loans and level of financial performance of small and medium enterprises in Makindye Division.

Research Questions

1) What is the profile of small and medium enterprises in terms of: age, gender, Education level, business form and Number of years in business?
2) What is the extent of bank loans received by SMEs in Makindye Division?
3) What is the level of financial Performance among Small and Medium Enterprises in Makindye?
4) Are there significant relationship between the level of bank loans and level of financial performance of Small and Medium Enterprises?

Null Hypothesis

1) There is no significant relationship in the extent of bank loans and financial performance of Small and Medium Enterprises in Makindye according to their relevant profile characteristics.

Scope

Geographical Scope

The study was conducted in Makindye Division, in the areas of Makindye Division (Kibuye, Kabowa, Lukuli, Luwafu, Nsambya, Kansanga, Muyenga, Ggaba and Munyonyo) with many SMEs in different fields (retail shops, restaurant, hairdressing salons, telecommunication, stationary).

Theoretical Scope

This study was based on the Agency Theory by Emery *et al* (1991), which states that SMEs are of great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal finance, among other systemic and institutional problems in developing countries.

Content Scope

The study was confined to the extent of bank loans in terms of access to bank loans, short term loans and long-term loans as factors presumed to enhance finance

performance in terms of profitability, liquidity, sales growth and solvency of SMEs and relationship between the extent of bank loans and level of financial performance of SMEs).

Time Scope

The study was conducted within one year; it started with a proposal from January 2012 and final proposal was submitted in May 2012. The next step June 2012, collection of data in the field, computing and analyze data, July 2012, September 2012, defence and submission of the final thesis.

Significance of the Study

The findings are useful to the government as empirical information to identify the ways of how to support SMEs to access finance.

The findings of this study are beneficial to SMEs, their clients, employees, employers and owners of SMEs.

The study is useful to students and future researchers, as it contributes to literature concerning access of finance to SMEs

The finding is helpful to identify the loopholes that are not easily defected in financial operations.

The findings are useful to contribute to the available literature on SMEs and the different modes of payment used by SMEs in their day to day transactions.

The study is helpful to guide entrepreneurs and policy makers in formulating good economic strategies and credit policies to SMEs on how to access finance.

The study is useful to enhance efficient collection, client retention and utilization of resources of SMEs.

The findings are to give light to financial performance of SMEs and businessmen on various bank loans they ought to posses and practice if they wish to succeed in their business ventures

Operational Definitions of Key Terms

For purposes of this study, the following terms are operationally defined:

Bank is a financial institution where people deposit their money to keep it.

A Loan is an agreement in which a lender gives a borrower money expecting to be repaid later.

Bank Loan refers to a loan made by a bank; to be repaid with interest on or before a fixed date or bank loans are secured.

Short –term loans refers to the funds required for a short period of time, normally less than one year

A Retained profits refers to the percentage of net earnings not paid out as dividends but retained by the company to be reinvested in its core business or to pay debt.

Long-term loans refer to loans with long maturity time or period of six to 10 years.

Ordinary share capital, this involves the use of common shares in order to finance the firm through issue of ordinary shares to the existing shareholders or to the public.

Preference shares these are securities that have features of both ordinary shares and debentures/bonds.

Debentures/bond is a long-term promissory note for raising loan capital. Or is a loan term debt instrument/security issues by the business enterprises and government agencies.

Syndicated loan refers to a loan which is arranged by a lead bank.

Finance refers to the set of activities dealing with the management of funds or financial is regarded as blood of the organizations.

Financial performance refers to a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

Small scale enterprise refers to a business independently owned and operated, with a minimum of two and a maximum of 30 employees.

Medium enterprise is an enterprise where the investment in plant and machinery

Small and Medium enterprises are defined in terms of the characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/ Experts

Bank loans

A bank according to Akrani (2011) is defined as a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Loan

A loan according to Pollick (2003) is defined as a financial transaction in which one party agrees to give another party (the borrower) a certain amount of money with the expectation of total repayment. A loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount (Signoriello, 1991).

Short –term loans refers to the funds required for a short period of time, normally less than one year (Kakulu 2002)

Retained profits refers to the percentage of net earnings not paid out as dividends but retained by the company to be reinvested in its core business or to pay debt (Dictionary of Financial Terms,2008).

A bank overdraft is when someone is able to spend more than what is actually in their bank account. According to Yates, Jon (2011) an overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero.

Long-term loans these loans are commonly set for more than three years. Most are between three and 10 years, and some run for as long as 20 years. Long-term loans are collateralized by a business's assets and typically require quarterly or monthly payments derived from profits or cash flow (Entrepreneur Media, 2012)

Ordinary share capital, this involves the use of common shares in order to finance the firm through issue of ordinary shares to the existing shareholders or to the public.

Preference shares these are securities that have features of both ordinary shares and debentures/bonds.

Debentures/bond is a long-term promissory note for raising loan capital. Or is a loan term debt instrument/security issues by the business enterprises and government agencies.

Secured loan is a loan in which the borrower pledges some asset for example a car or property as collateral (Guttentag, 2007). Secured loans is where a seeker has to provide the bank with interest in collateral such as a savings account or a property in case the loan doesn't get repaid according to the set agreement, the bank has a right to repossess whatever you put up for the loan (Media Ingenuity Ltd 2012). According to Compare Infobase Limited (2010) secured loan is a promise to pay a debt, where the promise is secured by granting the creditor an interest in specific property (collateral) of the debtor, If the debtor defaults on the loan, the creditor can recoup the money by seizing and liquidating the specific property used for collateral on the debt. For startup small businesses, lenders will usually require that both long- and short-term loans be secured with adequate collateral.

Unsecured loans

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages: credit card debt , personal loans ,bank overdrafts ,credit facilities or lines of credit , corporate bonds (may be secured or unsecured). Unsecured loans according to Donaldson, (2007); Are types of bank loans allow a borrower to get a check or cash and pay it back in fixed installments over a certain fixed period of time, The unsecured loans are like a credit card, nothing is placed as a security for the loan in case the loan is not paid back, the bank gets nothing . Personal loan is an unsecured loan that requires no security in return for the loan (Media Ingenuity Ltd, 2012). According to Compare Infobase Limited (2010); unsecured Loan is the credit which a bank offers to its customer to meet his instant personal requirements ranging from home renovation to purchasing

of new laptop, a getaway with family or for reimbursing the credit card liabilities, for buying a new car or for child's education, etc. Personal loan simplifies the cash flow of the customer besides handling its immediate needs.

Subsidized loan

Subsidized loan is a loan that will not gain interest before you begin to pay it. It is known to be used at multiple colleges. An unsubsidized loan is a loan that gains interest the day of disbursement (Donaldson, 2007).

Mortgage loan

Mortgage loan according to Donaldson, (2007); is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security a lien on the title to the house until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it. Mortgage loans is where the bank loans allow the loan recipients to live in a home while paying it off over time, it is usually, a down payment of five percent to twenty percent is required to get the loan approved and the house is seized in foreclosure if payments are not made (Guttentag, 2007).

Demand loan

Demand loans according to Guttentag, (2007); are short term loans that are atypical in that they do not have fixed dates for repayment and carry a floating interest rate which varies according to the prime rate it may be secured or unsecured.

Student loan

Student loan according to Kantrowitz (2010); is designed to help students pay for university tuition, books, and living expenses. It may differ from other types of loans in that the interest rate may be substantially lower and the repayment schedule may be deferred while the student is still in education. It also differs in many countries in the strict laws regulating re-negotiating and bankruptcy. Education Loans offered by various banks in India provide much required assistance to fund your child's education when all other resources of finance get exhausted. Education Loans are offered by almost every Indian bank thus providing ample

opportunity to students to undergo higher education both in India and abroad (Media Ingenuity Ltd 2012).

Home equity loan

Home equity loan is a loan secured against your home that allows you release the value of your property as cash for almost any purpose (Media Ingenuity Ltd, 2012).

Syndicated loan is one that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as arrangers (Taylor, Alison; Sansone, Alicia, 2007). According to Kakulu (2007) syndicated loan refers to the loan which is arranged by a lead bank . Syndicated loan is an advance that is arranged and issued by more than one bank to a single borrower (Daily Monitor, 3th April 2012).

Financial performance of Small and Medium enterprises

Finance according to Dr. Sammeer Akrani, (2011) defined finance as the life blood of trade, commerce and industry.

Financial performance, According to Sandberg *et al.,* (2002) defined financial performance of small businesses as their ability to contribute to job and wealth creation through business start up, survival and growth. Financial performance can be measured using proxies like profitability, return on equity, liquidity, solvency, and sales growth and all these can be extracted from the financial statements and/or reports.

Profitability according to Felicia Dye (2012) profitability refers to the potential of a venture to be financially successful.

Liquidity according to Rosemary (2012) liquidity is a business firm's ability to repay its short-term debts and obligations on time. In economics liquidity is the amount of capital that is available for investment and spending. According to business and investments, liquidity is how easily an asset can be converted to cash, (Kimberly Amadeo, 2012). Liquidity refers to the ability of a business to turn its assets into cash (Jean Murray 2012)

Sales growth this is the amount by which the average sales volume of a firm's products or services has grown, typical from year to year, (Business

Dictionary, 2012). Sales growth is the increase in sales over a specific period of time, often but not necessarily annually.

Solvency According to Jean Murray (2012), solvency is the ability of a business to have enough assets to cover its liabilities.

Small enterprise according to Briscoe (1995) defined small enterprise as abusiness which is independently owned and personally managed by its owner and which employees less than 30 regular employees

Medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is more than Rs.5 crore but does not exceed Rs.10 crore.

Small and Medium enterprises are defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share.

Theoretical Perspectives

This study was based on the agency theory by Emery *et al* (1991), which states that SMEs are of great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal finance, among other systemic and institutional problems in developing countries.

The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations. Problems usually identified with agency theory may include: information asymmetry-a situation in which agents have information on the financial circumstances and prospects of the enterprise that is not known to principals (Emery *et al.*, 1991), moral hazard a situation in which agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals, adverse selection- this concerns a situation in which agents misrepresent the skills or abilities they bring to an enterprise as a result of that principal's wealth is not maximized Emery *et al.* (1991)

Nevertheless, the theory provides useful knowledge into many matters in SMEs financial management and shows considerable avenues as to how SMEs financial management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs.
The study is on the basis of this theory that proposes analyses the bank loans and financial performance of Small and Medium Enterprise.

Related studies

Short-term loan and financial performance of SMEs

According to Kasekende and Opondo, (2003); In Uganda, the financial system is small and with minimal linkage to the real economy. Uganda's saving/GDP ratio is about 12%, including both private and public sector savings compared to the continental average of 17.7%. The ratio of money supply to GDP is only12%. There is only one bank branch per 180,000 people in Uganda, compared to an average of 7,000 per bank branch in the Common Market for East and Southern Africa (COMESA) countries. Moreover, bank branches are concentrated in the urban centres. Out of 123 branches, 64 are found in the 4 largest urban areas. In the year 2000, total assets of the banking sector, as a ratio of GDP, stood only at 26% compared to 50% in neighbouring Kenya. Total loan portfolio, as a percentage of GDP, is only 6%. These statistics reveal that the domestic banking system plays a sub -optimal role in facilitating development in the sense that it is not financing much real economic activity. Worst still, the Table below shows that distribution of credit is lopsided against agriculture and in favour of trade financing and manufacturing. Yet agriculture is the main stay of the economy. But even the little credit that flows into agriculture is concentrated on marketing as opposed to production. Although this is not surprising1, the Table shows that the share of agricultural credit to total credit has been declining steadily over the last five years.

The study examines the impact of financial sector liberalization (FSL) policies on the financial management of small and medium-sized enterprises (SME) in Ghana; using six case studies. Its findings, which confirm and extend the conclusions of previous studies, are integrated into a framework that explains the impact of FSL and the factors at work. The main financial challenge facing SMEs is

access to affordable credit over a reasonable period. This is determined by the financing needs of SMEs and the action of investors. SME financing needs reflect their operational requirements, while the action of investors depends on their risk perception and the attractiveness of alternative investment (which affects their willingness to invest). Government borrowing, the general economic climate, availability of collateral, quality of SME record keeping, and SME investor relations skills affect the way in which this challenge is managed (Tagoe , Nyarko , Anuwa-Amarh, 2001)

SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Kayanula and Quartey 2000; Mead and Liedholm 1998; Fischer 1995). Previous studies (Dawson 1993; Steel and Webster 1992, 1991) focused on the impact of structural adjustment rather than FSL per se; thus, their conclusions on FSL are tentative. We confirm, extend, and integrate their findings in new ways. This should lead to reallocation of domestic credit toward SMEs and replace expensive forms of credit with cheaper ones (Cook and Nixson 2000). Critics point to its constraints and negative consequences, which include the urban bias of banks (ISSER 1999; Chandavarkar 1992), high transaction costs (Steel 1994), and market failure due to informational imperfections (Stiglitz 2002, 1994; Mosley 1999). These lead to an overreliance by banks on collateral for lending (Mambula 2002; Collier 1994).

Credit is provided in the context of information asymmetry on both sides (Fischer 1995) and can be resolved by demonstrating creditworthiness and project viability. However, because of Very Low accounting practices and record keeping, many SMEs are unable to do so (Cook and Nixson 2000; Binks, Ennew, and Reed 1992). This increases the risks and transaction costs (for monitoring and screening) of SME lending. Banks require collateral to manage this risk high transaction costs, risks related to small loans and lack of collateral restrict SME access to formal credit (Steel 1994). Their owners raise funds from friends and relatives (Osei et al. 1993), leading to inadequate working capital and investment funds, which threaten survival and impede growth. These issues exacerbate other managerial problems of SMEs. For example, they determine not just the level but also the nature of technology investment (Cobham 1999). Even with sound management and strong product

demand, the lack of credit constrains their capacity to respond to the market and expand production (Cook and Nixson 2000).

Recent studies show that SME development is closely linked with growth. For example, Beck *et al.* (2005a) find a robust, positive relationship between the relative size of the SME sector and economic growth, even when controlling for other growth determinants. According to Ayyagari *et al.* (2007), in high-income countries formal SMEs contribute to 50 percent of GDP on average. Furthermore, in many economies the majority of jobs are provided by SMEs. In OECD countries, for example, SMEs with less than 250 employees employ two-thirds of the formal work force (Beck *et al.*, 2008b; Dietrich, 2010). Using country level data, Ayyagari *et al.* estimate that, on average, SMEs account for close to 60 percent of employment in the manufacturing sector. According to SME Performance Review (EC, 2009), between 2002 and 2008, the number of jobs in SMEs increased at an average annual rate of 1.9 percent while the number of jobs in large enterprises increased by only 0.8 percent. In absolute numbers, 9.4 million jobs were created in the SME sector in EU-27 between 2002 and 2008. Also, it is often argued that SMEs are more innovative than larger firms. In developed countries, SMEs commonly follow "niche strategies," using high product quality, flexibility, and responsiveness to customer needs as a means of competing with large-scale mass producers (Hallberg, 2000, and Snodgrass and Biggs, 1996).

According to Oya ,Nataliya Mylenko and Saltane (2011) the study show that the world economies are recovering from the financial crisis of 2008-9, many economies urgently need to create employment opportunities for their citizens. In this respect, creation and growth of SMEs is an important item on the policy agenda due to evidence that points to significant contributions by SMEs to employment. In addition, regulatory measures are necessary to ease access to formal financial services by SMEs. Historically, SMEs have been more likely than larger firms to be denied new loans during a financial crisis. According to Hallberg (2000) argues that the events of the 1990s in Latin America and East Asia confirm this proposition. More recently, in the aftermath of the global financial crisis, SME Performance Review (EC, 2009) reports anecdotal evidence pointing to insufficient market

demand as the prime obstacle faced by SMEs, followed by difficulties in accessing finance.

Given the importance of SMEs in supporting sustainable, diversified, long-term economic growth, they have, indeed, attracted renewed attention in the wake of the 2008-9 financial crisis. Recently, at the Pittsburgh G-20 summit, the G-20 has committed to identifying lessons learned from the innovative approaches to the provision of financial services to SMEs and to promoting successful regulatory and policy approaches. SME development is high on the reform agenda of many governments. A broad range of policies and programs target improvements in SME business environments, as well as financial support to SMEs (Oya ,Nataliya Mylenko and Saltane, 2011).

The studies show that the vast majority deposits in the financial sector tend to be short term (up to 6 months) and are hardly appropriate for funding long-term lending on a large scale because of maturity mismatches. According to Kasekende and Opondo, 2003) the financial institutions themselves have suffered from governance and management weaknesses that have resulted into weak internal controls, inability to accurately assess lending risks, monitor loans and recover loans. In some situations, there have been shortages of skills and strong social pressures on loan officers to favour certain borrowers, especially those who are politically connected. The failure to correctly assess the creditworthiness of borrowers arises because of information asymmetry and the resultant adverse selection problem. To circumvent this problem, banks have generally required firms to pledge more collateral than the value of the credit they receive and/or limited their services to prime borrowers whose reputation, collateral and other types of guarantees reduce default risk to a minimum. As shown, prime borrowers are mainly foreign firms that enjoy the trust of foreign owned banks, dominating the banking sector. Equally significant, is the inability of the justice system to enforce commercial contracts. The experience of financial institutions is that courts take a relatively long time to dispose of cases involving breaches of contracts. This increases enforcement costs, which has discouraged bank lending to successful SMEs. However, efforts are underway to strengthen the commercial justice system by upgrading the capacity of commercial courts and revising commercial legislation.

Long-term loans and financial performance of SMEs

The studies show that most of the SME literature points to the fact that small and medium firms face higher barriers to long term loans than large firms, which limits their growth and development. According to Oya ,Nataliya Mylenko and Saltane, (2011) numerous studies that use firm-level survey data demonstrate that access to finance and the cost of credit do not only pose barriers to SME financing, but also constrain SMEs more than large firms. Small firms find it difficult to obtain commercial bank financing, especially long-term loans, for a number of reasons, including lack of collateral, difficulties in proving creditworthiness, small cash flows, inadequate credit history, high risk premiums, underdeveloped bank-borrower relationships and high transaction costs (IFC, 2009). This is evidenced in the works of Scholtens (1999), Schiffer and Weder (2001), Galindo and Schiantarelli (2003), IADB (2004), Beck *et al.* (2006), and Beck and Demirgüç-Kunt (2006).3 In particular, Beck *et al.* (2008a) conclude that smaller firms and firms in countries with underdeveloped financial and legal systems use less long-term loans, based on data from a firm-level survey in 48 countries.

A broad range of business environment factors are linked to SME performance. According to Ayyagari *et al.* (2007) find that lower costs of entry and better credit information sharing are associated with a larger size of the SME sector, while higher exit costs are associated with a larger informal economy. The overall banking structure is another important factor. Shen *et al.* 2009)

According to Berger and Udell (2006) shows that there is a gap between the prevalent conventional view in academic and policy circles and how banks are in practice interacting with SMEs. Contrary to the perception that banks in general are not interested in lending to SMEs, the findings show that most banks do indeed want to serve SMEs and find this segment profitable, especially as margins in other banking markets narrow due to intensified competition. Banks are increasingly applying to SMEs financing different transactional technologies that facilitate arms-length lending such as credit scoring and significantly standardised risk rating tools and processes. As well as special products such as asset based lending, factoring, fixed asset lending and leasing. According to Torre et al (2010) lending is just one

part of a larger overall package that banks provide to SMEs, banks find SMEs profitable through a combination of services. And this places cross selling at the heart of the banks SME business strategy.

The Bank of Uganda should come up with the right programmes and right managers to address the needs of SMEs and ensure matching of financial institutions and borrowers, given that there is too much liquidity in the Ugandan banking sector. The Government should resolve macroeconomic impediments and revisit policies that specifically impinge on SMEs. The banking sector must build partnerships with business development service providers such as Enterprise Uganda. The donor community is encouraged to provide its support in a coordinated and synergized manner. Entrepreneurs must recognize the benefit of using business services and patronize institutions such as Enterprise Uganda in order to enhance their competitiveness and creditworthiness.

In most developing economies, including Uganda, the formal financial sector is composed of a few formal financial institutions. As a result, the majority of the population accesses financial services from semi-formal and informal financial institutions. Currently, it is estimated that the microfinance subsector in Uganda provides financial services to 550,000 clients through 500 outlets and has a loan portfolio and deposit base of more than US$ 37 million and US$ 30 million respectively. Compared with the loan portfolio and deposit base of the formal banking sector, this represents a significant part of financial sector transactions in the economy.(Richard Apire; 2008).

The process of developing basic financial short-term and long-term markets was also instituted. The latter process started with the development of basic markets in short-term, highly liquid and relatively less risky financial instruments such as inter-bank loans and Treasury bills

Small businesses rely on both formal and informal finance. These options steadily increase over time as they build up their assets and reputations. However, while this holds true in economies where studies have been undertaken, the situation in economies where empirical data do not exist is less clear. The inadequacy of data on transactions between banks and SMEs is further complicated by a lack of national definitions of SMEs, which are important for guiding research in

policy issues and the formulation of policy proposals and the evaluation of their impacts. In Uganda, there is already a national definition for micro and small-scale enterprises, but none exists for medium-scale enterprises. There is a need to define a framework for guiding the promotion of medium-scale enterprises, which are widely recognized as an important sector. Without a nationally accepted definition, assertions about inadequate credit flow to SMEs, for example, become weak. Therefore, the challenge faced in promoting SMEs in Uganda is twofold

To enhance the scope and efficiency of Uganda's financial infrastructure, the Banking Act of 1969 was repealed, with the Financial Institutions Statute (FIS) replacing it in 1993. Changes in the Act included the removal of interest rate controls, reduction of barriers to entry by private banks and restriction of the direct role of government in administering credit. This framework was supplemented by parallel measures to strengthen the Bank of Uganda's banking supervision, to foster financial discipline through new legislation, regulations and policies, and to improve the efficiency and profitability of financial institutions. The reforms also led to the restructuring and privatization of inefficient financial institutions. Despite the reforms, Uganda's formal financial sector has undergone a series of upheavals in the recent past, the effects of which are still being felt. Some commercial banks were closed and there was an interruption in the sale of the largest public bank, the Bank of Uganda. These factors, together with a slow response by the Government to unfreeze savings accounts, and accordingly pay depositors of failed banks, contributed in a major way to the decline in the general public's confidence in the country's banking system.(Richard Apire; 2008).

Following the progress recorded in the money market, the process of establishing long-term and private financial instruments was also launched with the establishment of the Capital Markets Authority. In order to address the emerging weaknesses in the financial sector and increase its outreach, the Government is undertaking further reviews of the regulatory and supervisory framework. The FIS is being critically reviewed and the Micro-Deposit Taking Financial Institutions Bill is currently before Parliament for debate and possible enactment Nevertheless, the establishment of the Stock Exchange is an extremely important development in the financial sector, since it has provided yet more investment opportunities and sources

of funding for potential investors. Awareness remains to be created among the business community, particularly with respect to the listing requirements for the Stock Exchange, such as full financial disclosure and provision of audited accounts

According to Gerald Ssendula, (2004). Minister of Finance, Planning and Economic Development, Acknowledged the significant role played by SMEs in Uganda's economic growth and called for better measures of their contributions. He said that SMEs must understand why banks were discouraged from lending to SMEs. But he also requested banks to develop more positive attitudes towards SMEs. The symposium would be a step in the right direction for healthy interaction among SMEs, banks, the Government and the donor community, and he welcomed recommendations to be submitted at the end of the symposium, which could be included in his forthcoming budget.

Ugandan SMEs have to grow and compete in the global economy, and the banks have probably the most important role to play. Without finance, SMEs cannot acquire or absorb new technologies, nor can they expand to serve global markets or even establish business linkages with larger firms in the post-Doha period. Instead of relying on the bank, SMEs tend to rely on informal sources of funds such as family, friends, credit cards, supplier credit and customer advances. This is because commercial banks prefer selected customers such as Governments and large enterprises, thus crowding out SMEs. From commercial banks' point of view, lending to SMEs involves high transaction costs due to:

According to Ciobanu, (1998) the findings show that the long-term loans designed for SME's and corporations become more and more difficult to get. Despite these, performances can still be achieved, even on the background of a deep crisis. Compared to the big companies from EU and not only, the advantage of SME's is their increased flexibility and their capacity to implement new services and to market new products. In the absence of higher levels of decision and approval, the decision-making process in SME's is easier and thus, more efficient. In this context, SME's may act promptly by applying solutions adjusted to the market conditions. "The small entrepreneurs are the engine of the economy" is a well-known saying, but we are still far from reaching the level of the European Union.(*Delia Buceag; 2010)*

The main argument for favouring SMEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution to the creation of wealth, employment, and income generation. In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms. In Uganda, SMEs are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore have been tools for poverty alleviation. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources (Kasekende, 2001).

Small- and medium sized enterprises (SMEs) are the backbone of virtually all economies in the world, including those within the Kampala District Notwithstanding various definitional issues and data problems, SMEs number in the hundreds of thousands and account for upward of 90 per cent of all non-agriculture firms in most parts of Kampala. They also employ an overwhelming proportion of the domestic

Analyzing the status, strategies and resources of businesses and their products or services is very essential as it allows operators to determine how they will progress in the years to come. This also enables them to identify their strengths and how they will optimize them. On the other hand, business analysis also makes operators realize their weak points, allowing them to address them immediately with effective strategic actions. Conducting a business analysis also helps organizations to prepare for their future development and growth.

Largely as a result, SMEs' share of financing resources is disproportionately less than their relative importance in domestic employment and, to a lesser extent, value added. SME financing problems are due to both demand- and supply-side factors which have to be addressed as part and parcel of the on-going development and modernization of the financial sector in response to the increasing volume and complexity of business transactions associated with the integrated growth and globalization of ASEAN economies.

The findings of this study state that only 5 percent of SMEs have access to a loan, and 59 percent report difficulties accessing financial services. Given the

potential that SMEs have in boosting growth and employment, Uganda can gain substantially from removing bottlenecks to their growth. A World Bank, (2008) Investment Climate Assessment (ICA) study identifies the top constraints of SMEs as the electricity shortage, low access to finance and a Very Low transportation network. Such constraints add considerably to the cost of doing business an estimated 16 percent loss in sales per year. SME finance is constrained by lack of data, regulations and infrastructure for collateral and insufficient credit information. Policy making for the sector is severely constrained by the lack of data that would allow a better understanding of the problems and performance of ongoing initiatives. Regulations require loans to be collateralized and limit the types of acceptable collateral. At the same time the laws relating to security over movables (equipment) are antiquated, fragmented and do not offer Nigerian businesses an effective means of raising capital. The current credit information system does not address the needs of the SME sector, Isern *et al.,* (2009).

Financial providers are challenged to offer adequate services to SMEs. Checks, which are normally used as security in supplier credit (particularly in developing nations), have a very bad reputation in Uganda. As a result, checks are not considered reliable and hence do not function as credit or collateral. As noted earlier, the migration to electronic payment systems, including debit cards, should be a high priority for the CBN within its overall strategy to modernize payments.

Due to their characteristics however, SMEs in Uganda suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors.

Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed in their access to

credit because of high intermediate costs, including the cost of monitoring, and difficulties in enforcing loan contracts (United Nations-New York and Geneva, 2001).

In Uganda, strong SMEs tend to be located in urban and peri-urban centres and are usually registered. However, they face a number of constraints, which include difficulty in employing competent people with skills in financial management because of the salaries such people demand, financial problems arising from late payments by debtors, and the inability to raise their own finance and access financial services from formal sources. This category of SMEs usually looks to the banking sector and other financial intermediaries for instruments to finance working capital and to provide credit for short-term liquidity management. However, they often fail to access the financial resources in the required amounts because banks evaluate them on the basis of a checklist, including: Audited financial statements for the last three years including management accounts, Project proposal highlighting strengths, weaknesses, opportunities and threats, Financial projections, Monitoring costs, Credit or default risk because of the problem of information asymmetry, Enforcement costs. (United Nations-New York and Geneva, 2001)

Financial and accounting records are rarely in place, and where they are available, their accuracy is usually doubted. In instances where bank financing is provided, it is in most cases in amounts that are insufficient and at a high cost in relation to the term to maturity of loans and the real expected return on investment. In Uganda, loans are of a short duration, normally less than 5 years, and the average interest rate is way above the inflation rate. In the circumstances, it may be difficult for borrowers to realise a high enough real returns to finance repayments.

A study by Mugume, A. and Obwona, M. (2001) also shows that Ugandan-owned firms appear less likely to obtain credit than foreign-owned firms do because most banks in Uganda are foreign-owned. This is because there is an element of social interaction between foreign-owned firms and foreign-owned banks that supplement physical collateral.

Weak SMEs on the other hand, employ less than 5 people, mostly family members, are usually not legally registered, apply simple and relatively backward technology in production and, therefore, the quality of their products are likely to be Very Low. They may suffer from limited market access and fierce competition from

many rival producers. This category of SMEs usually does not have proper physical structures such as premises from which to operate business, and accessible roads and utilities, which are major impediments to accessing formal sector credit. In addition, there is a general lack of professionalism within this category of SMEs in terms of strategic planning procedures, decision-making processes and business planning, and management in general. Generally, the smaller the enterprise, the less likelihood its management will understand the need for financial management and the Very Lower the understanding of financial management. Likewise, the size and the distance from major cities/urban centres are negatively related to the level of awareness of financial instruments. That is, the smaller the size of the enterprise and the farther away from the city/urban centre the enterprise is, the less aware the firm is of the financial instruments available. This makes them vulnerable to shocks to revenue or costs and, therefore, are unlikely to expand beyond the rate allowed by investment of earnings. This explains why the turnover of a typical SME in Uganda is estimated at only Ushs.10 million (US$6000) a year. Thus, Very Low returns, lack of good financial records, and lack of collateral make them not creditworthy. It is no wonder then that their demise is considerable. Nevertheless, MFIs are increasingly filling the gap by providing finance to this category of SMEs, albeit at higher interest rates than those offered by the traditional banks. (Kasekende and Henry Opondo. 2003)

CHAPTER THREE
METHODOLOGY

Research Design

This study followed a descriptive correlational design. It also used a cross-sectional and an ex-post factor design and followed a quantitative paradigm. The study was descriptive in that the researcher intended to describe the extent of bank loan and the level of financial performance in selected SMEs.

The descriptive correlational design was used to establish whether there is a significant relationship between the extent of bank loans and the level of financial performance in the selected SMEs in Makindye.

The cross-sectional was used since the data were collected from the selected SMEs in Makindye division at once and for a short period of time. The researcher approached owners once and collected data from them one by one without attempting to check on them again.

It was quantitative in that variables were measured and analyzed using numbers, was interested in discovering the relationship between extent bank loans and levels of financial performance of SMEs, had pre-determined hypotheses, population, procedure, instrument and data analysis techniques.

Research Population

The study population composed of 250 owners of SMEs in Makindye Division. These owners of SMEs are in sectors; retail shops, restaurant, hairdressing salons, telecommunication, stationary.

Sample Size

The Sloven's formula was used to determine the sample size as seen below;

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

Where **n** = the required sample size, **N** = the known population size, $\mathbf{e^2}$ = the level of significance, which is 0.05 when the population size is known. The 154 SMEs will be selected from the Makindye division. (see appendix VII)

Sampling Procedure

The purposive and stratified random sampling was used to select owners of firms. For purposive sampling techniques, the researcher set up the following criteria for selecting respondents;

The entrepreneurs selected had to own retail shops, restaurant, hairdressing salons, telecommunication, and stationary.

Research Instrument

There were two sets of researcher made questionnaires directed to the owners of SMEs. One set were on bank loans and the other one on financial performance of selected SMEs. The questionnaire also consists of an introductory letter and a section of five (5) bio data questions, to determine the profile of respondents.

Researcher devised questionnaires to determine the extent of Bank Loans (independent variable). This consisted of 18 questions divided in three sections distributed as follows; 7 questions on access to bank loans, 6 on short-term loans and 5 on long-term loans. All questions in this section were closed-ended, based on four point Likert scale, ranging between one to four, where: 1 = strongly agree; 2 = agree; 3 = disagree; 4= strongly disagree.

The questionnaire on financial performance of SMEs (dependent variable) consisted of 21 questions divided into four sections distributed as follows; 6 on profitability, 7 on liquidity, 4 on sales growth and 4 on solvency. All questions in this section were closed-ended, based on five point Likert scale, ranging between one to four, where: 1 = strongly agree; 2 = agree; 3 = disagree; 4= strongly disagree.

Validity and Reliability of the Instrument

Content validity of the two instruments was ensured through use of valid concepts and/or words which measure the study variables as cited in literature. Content validity was used to ensure that the questionnaire was content valid.

Table 1

Content Validity index

Item	Valid Items	Total Items	Validity
Bank Loans	18	18	100%
Financial performance of SMEs	21	21	100%

Results in table 1 indicates that the instrument had a high degree of validity with 100%, which declare validity instruments.

Reliability of the data collected was tested using the Cronbach's coefficient alpha (a), computed using SPSS. The details of the results;

Table 2

Cronbach's alpha coefficients for reliability instrument

Item	Cronbach's Alpha	No of Items
Bank loans	**0.811**	**18**
Financial performance of SMEs	**0.823**	**21**

Results in table 2 indicates that the instrument had a high degree of reliability with an overall Cronbach's alpha of 0.811 and 0.823 which declare the instrument reliable.

Data Gathering Procedures

The following data collection procedures were implemented;

A. *Before the administration of the questionnaires*

The researcher requested for an introductory letter from the Deputy Vice Chancellor (DVC), College of Higher Degrees and Research addressed to the authorities to the Makindye Division.

The researcher then produced over 400 copies of the questionnaires and sat with all research assistants, discussed and briefs them on the sampling techniques

and data gathering procedures and how to use table 1 to select the actual number of participants.

B. During the administration of the questionnaires

Specifically, the researcher and the assistants requested the respondents the following; (1) to sign the informed consent; (2) to answer all questions without leaving any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires. Some respondents had to be guided on what to do by the data collectors and as such some questionnaires were retrieved on spot, while others were retrieved after some days or weeks. All questionnaires retrieved were checked if completely filled out.

C. *After the administration of the questionnaires*

On their return, the researcher edited and entered the questionnaire responses into the SPSS package, for further processing and analysis. Finally, a report was prepared and after approval from the supervisor, the final copy was submitted to CHDR for final examination.

Data Analysis

Data on completed questionnaires were edited, categorized or coded and entered into SPSS and summarized using simple frequency. Frequency counts and percentage distributions were used to analyze data on the profile of respondents. The same package was used to compute means to measure the extent of bank loans among SMEs in Makindye and the levels of financial performance of SMEs. To interpret data, the following numerical values and descriptions were used;

Data analysis

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Moderate
1.00-1.75	Strongly disagree	Low

To establish whether the extent of bank loans and level of financial performance of SMEs in Makindye are significantly correlated and to test the third

null hypothesis of the study, the Pearson's linear correlation coefficient (PLCC) was used, at 0.05 or 0.01 level of significance. At a multivariate level, financial performance of SMEs in Makindye was correlated with all bank loans using multiple linear regression analysis.

The regression analysis R^2 (coefficient of determination) was used to determine the overall contribution of bank loans towards financial performances of SMEs and to determine whether the independent variables included in the study are true explanatory variables of the dependent variable.

Content validity and the Cronbach's alpha were used to determine the level of validity and reliability of the research instruments. (table 1 and table 2 page 27)

Ethical Considerations

The researcher ensured that the study fulfills moral considerations of research, by guaranteeing utmost confidentiality for the respondents and the data they provided. To maintain research ethics, the following were done;

The researcher avoided questions on personality identity such as sexual behavior, cheating, bribery, corruption.

All questionnaires coded to provide anonymity of respondents responses

Respondents were requested to sign the informed consent

Authors quoted were fully recognized through citations and referencing

No respondent was threatened or coerced to participate.

Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error at 0.05 level of significance. Measures are also indicated in order to minimize if not to eliminate the threats to the validity of the findings of this study.

Extraneous variables which were beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

Instrumentation: The research instruments on bank loans and financial performance of SMEs are not standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

Testing: Research assistants brought about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants were oriented and briefed on the procedures to be done in data collection.

In anticipation, the researcher was reserve more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Profile of Respondents

The first objective of the study was to determine the profile of owners of SMEs and to achieve it five closed ended questions were asked in the questionnaire. Frequencies and percentage distributions were used to summarize the profile of owners of SMEs in Makindye Division in terms of gender, age, educational level, form of business and number of years in business as indicated in table 3.

Table 3

Profile of Small and Medium Enterprises in Makindye Division

(Item Analysis n = 154)

Gender	**Frequency**	**Percent**
Male	85	55.2
Female	69	44.8
Total	**154**	**100**
Age		
20-29	73	47.4
30-39	70	45.5
40 and above	6	3.9
Total	**149**	**100**
Educational Level		
Primary	42	27.3
Secondary	71	46.1
Certificate	17	11
Diploma	14	9.1
Bachelors	9	5.8
Total	**153**	**100**
Types of business		
Sole proprietorship business	144	93.5
Partnership	9	5.8
Limited company	1	0.6
Total	**154**	**100**
Number of years in business		
Less than one year	30	19.5
1-4 years	43	27.9
5-8 years	37	24
9 years and above	43	27.9
Total	**153**	**100**

Source: primary data 2012

The results in table 3 showed that gender, majority of respondents in the sample are male 85 with (55.2%), indicating that there are more male entrepreneurs in Makindye as compared to female 69 (44.8%). These are line with the findings of Lois and Annette (2005) which showed that female entrepreneurs in Uganda contribute over 45%, implying that male entrepreneurs contribute the bigger percentage of over 55%, which finding this study has shown exactly, although the study took place in only one part of Uganda and this is Makindye division. However Makindye contributes over 40% of all entrepreneurs in Uganda (Kasekende, et al., 2003 and Walter, et al., 2003).

The results further indicated that in respect to age, SMEs below 30 years age bracket contribute 47.4%, followed by the 30-49 age bracket (45.5%), while those above 50 years lagged behind (3.9%). This implies that most SMEs in Makindye division are quiet young. Lois and Annette (2005), Walter, et al., (2003) and Ministry of Finance, Planning and Economic Development (2008) have indicated that most SMEs in Uganda are in the age bracket of 30s or below and agitated for the entrepreneurship policy to address problems such young entrepreneurs in Uganda.

Concerning education level, majority of respondents in Makindye are secondary drop-out 71 with (46.1%) and lowest with bachelors 9 with (5.8%). This is in consistent with Lois and Annette (2005) and Ministry of Finance, Planning and Economic Development (2008) in which it is shown that 60% of the small and medium enterprises in Uganda are started by educated people, primarily dropout.

In respect to business form, sole proprietorship ventures dominate all other forms of ownership with 93.5%, means that it is easy to form enterprise in Makindye division to start a one man's business compared to other forms like partnerships (5.8%) and public limited companies (0.6%). This is in conformity with Lois and Annette (2005) who showed that over 90% of the SMEs in Uganda are engaged in a sole proprietorship venture. Similar reports are found in Kasekende, et al., 2003 and Walter, et al., (2003) and Ministry of Finance, Planning and Economic Development (2008)

Finally concerning the number of years spent in current business, results indicated that majority of respondents in Makindye (27.9%) have spend less than five and above nine years doing the business in which the researcher found out. This

implies a low level of small business survival, a sign of low level of access of bank loan. This is also explained by the fact that most SMEs in Makindye are still young men and women, who have less life experiences, are still highly mobile and their levels of dedication are still low. Such people when they start a business, they are so determined, yet small beginning ventures require much patience and endurance. The Ministry of Finance, Planning and Economic Development, (2008) clearly indicates that on a cumulative basis, majority (27.9%) of the SMEs in Uganda less than five years old.

The extent of Bank Loans by SMEs in Makindye Division

The independent variable in this study was bank loans of SMEs in Makindye Division. The second objective was set to determine the level of bank loans accessed by SMEs in Makindye division. Bank loans in this study were conceptualized in terms of access of bank loans, short-term loans and long-term loans.

Using a closed ended questionnaire, owners of SMEs in Makindye division were asked to rate themselves on the extent to which they access a loan on all these dimensions. All questions were rated using a four point Likert scale, where 1= strongly disagree, 2=disagree, 3=agree and 4=strongly agree. The self ratings of SMEs owners were analyzed using means indicating the extent to which they access each as indicated in the table below;

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Moderate
1.00-1.75	Strongly disagree	Low

Table 4 A

Extent of Bank Loans in terms of access to bank loans and short term loans

Items on Bank Loan	Mean	Interpretation	Rank
A. Access to Bank Loans			
You get challenges during the time of receiving a loan	3.53	Very high	1
You always seek financial assistance from Banks	3.36	Very high	2
Part of your capital is from the bank	2.59	High	3
Your business has benefited out the loans	2.32	High	4
You have always received loans from the bank	2.18	Moderate	5
You find it easy to get a loan from banks	1.64	Low	6
The interest rate charged on bank loans is favourable	1.49	Low	7
Average mean	**2.44**	**Low**	
B. Short Term Loans			
You usually get short term loans to increase your working capital	2.82	High	1
You usually find it easy to process short–term loans	1.71	Low	2
You usually get an overdraft loans from the bank	1.48	Low	3
The interest rate on short-term loan is favourable	1.46	Low	4
You always get a top-up loan from the bank	1.38	Low	5
The terms and conditions on short-term loans are flexible and favourable	1.36	Low	6
Average mean	**1.70**	**Low**	

Source: primary data 2012

Table 4 B (continuation)

Extent of Bank Loans in terms of long term loans

Items on Bank Loan	Mean	Interpretation	Rank
C. Long-Term Loans			
You usually get long-term loans to expand on your business	1.89	Moderate	1
The interest rate on long-term loan is favourable	1.44	Low	2
You usually find it easy to process long–term loans	1.42	Low	3
The terms and conditions on long-term loans are flexible and favourable	1.27	Low	4
You usually get a syndicated loan from the bank	1.21	Low	5
Average mean	**1.45**	Low	
Overall mean of the extent of Bank Loan	**1.86**	**Moderate**	

Source: primary data 2012

Results in table 4A and 4B, signify that entrepreneurs in Makindye division rated their extent of bank loans in terms of access to bank loans, short term loans and long term loans. All questions were rated using a four point Likert scale, ranging between 1 for low to 4 for very high. Their responses were analyzed using means as indicated in table 4A and 4B.

Results in table 4A shows that Access to Bank Loan was very high with mean of 3.53 means, the lowest mean was 1.49 and the average mean was low with 2.44 mean.

Results in table 4A shows that the short term Loan was high with mean rating of 2.82, the lowest mean of 1.36 and the average mean was low with 1.701. The study shows that most people of SMEs go for short term loans though the terms and conditions are not favorable to them.

Results in table 4B shows that the long term Loan was moderate with mean of 1.89, the lowest mean was 1.21 and the average mean was 1.446 mean. This

means that most of SMEs do not go for long term loan due to its terms and conditions attached. The overall mean for the extent of bank loan was moderate with 1.863. It implies that in general, there is a need of improvement during the extent of bank loan by SMEs by reducing interest rate, revising terms and conditions attached to the loan. Thus expansion of SMEs in Makindye Division.

The level of Financial Performance of SMEs in Makindye Division

The dependent variable in this study was financial performance and the third objective was to determine the level of financial performance of SMEs were divided into four major categories of profitability, liquidity, sales of growth and solvency which is perceived by the owners of SMEs in Makindye division were asked to rate the extent to which themselves on each of the items or questions asked on the four indicators by indicating one of the four numbers in the rating scale, where 1= strongly disagree, 2=disagree, 3=agree and 4=strongly agree. The following numerical values and descriptions were used to interpret responses;

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Moderate
1.00-1.75	Strongly disagree	Low

Table 5A and 5B shows the mean on how owners of SMEs rate their financial performance on all the four components of SMEs as seen on the table;

Table 5 A

Levels of Financial Performance of SMEs in terms of profitability and liquidity in Makindye Division

Categories	Mean	Interpretation	Rank
A. Profitability			
You give customers rewards	2.94	High	1
You make profit in your business	2.44	Moderate	2
You find it easy to determine your profit	1.7	Low	3
Your profit level has increased	1.69	Low	4
You encourage your sales staff to up-sell	1.66	Low	5
You treat your customers different	1.56	Low	6
Average mean	**1.99**	**Moderate**	
B. Liquidity			
You have easily assets to be converted into cash	2.53	High	1
You make most of your expenditures by cash	2.47	Moderate	2
Your business cash flows are well balanced; cash inflows are greater than cash outflows.	2.40	Moderate	3
You have saved some cash for investment	2.23	Moderate	4
Your level of inventory is generally low	2.18	Moderate	5
You always sell your products by cash	2.14	Moderate	6
Your daily cash flows are satisfactory	1.95	Moderate	7
Average mean	**2.27**	**Moderate**	

Source: primary data 2012

Table 5 B (continuation)
Levels of Financial Performance of SMEs in terms of sales growth and solvency in Makindye Division

Categories	Mean	Interpretation	Rank
C. Sales Growth			
The quality of your sales currently satisfy	3.13	High	1
Your sales volume has increased steadily	2.93	High	2
Your quantity of sales is high.	2.78	High	3
You are the market leader among people with a similar business	2.58	High	4
Average mean	**2.86**	High	
D. Solvency			
Your business is highly indebted	2.76	High	1
Your business liability is greater than the value of your assets	2.47	Moderate	2
You have enough assets to cover firm's liabilities	2.30	Moderate	3
You usually pay your obligations on due time	2.19	Moderate	4
Average mean	**2.43**	Moderate	
Overall mean	**2.39**	Moderate	

Source: primary data 2012

Results in table 5A and 5 B indicated that all the four components of financial performance of SMEs included in this study are moderate possessed by the SMEs in Makindye Division overall mean 2.388.

Results indicated that SMEs' profitability is high with the rate of 2.94 mean, the lowest mean rating of 1.56 low and the average mean rating is low with 1.998 mean.

Results in table 5A shows that the liquidity rated high with a mean rating of 2.53 means, the lowest mean rating of 2.58 high and the average mean rating is moderate with 2.271 mean.

Results in table 5B shows that the sales growth rated high with a mean rating of 3.13 means, the lowest mean rating of 2.58 high and the average mean rating is high with 2.855 mean.

Results in table 5B shows that the sales growth rated high with a mean rating of 2.76 means, the lowest mean rating of 2.19 high and the average mean rating is high with 2.431 mean. The overall means for the level of financial performance of SMEs is moderate with 2.388 mean. This implies that inadequate information about customer credit worthiness and thus lowest being interest rate charged on bank loans. In the aspect of low terms and conditions are flexible and favourable. This implies that respondents were not satisfied with terms and conditions of bank loans.

Relationship between the extent of Bank Loans and level of Financial Performance of selected SMEs in Makindye Division

The fourth and last objective was to establish whether there is a significant relationship between the extent of bank loans and level of financial performance of SMEs in Makindye division. The researcher tested a null hypothesis that the extent of bank loans and financial performance of SMEs are significantly correlated. To test this null hypothesis the researcher correlated the mean scores for bank loans and those for financial performance of SMEs in table 3A,3B and 4A,4B, using the Pearson's Linear Correlation Coefficient (PLCC), results of which are indicated in table 6.

Table 6
Significant relationship between the extent of Bank Loans and level of financial performance of small and medium enterprises
(Level of Significance = 0.05)

Variables Correlated	r-value	Sig.	Interpretation	Decision on Ho
Bank loans vs Profitability	.918	.010	Significant	Rejected
Bank loans vs Liquidity	.956	.001	Significant	Rejected
Bank loans vs Sales growth	.954	.046	Significant	Rejected
Bank loans vs Solvency	.929	.071	Not significant	Accepted

Results in table 6 showed that the extent of bank loans are significantly correlated with profitability, liquidity and Sales growth (sigs. < 0.05) except solvency which is not significantly correlated with financial performance of SMEs (all sigs. >0.05) and that the level of bank loans altogether is significantly correlated with the level of financial performance of SMEs in general (r=0.939, sig. =0.032). This leads to a conclusion that bank loan is important for entrepreneurs and these results are significant at 0.05 level of significance

Regression analysis for level of bank loans and financial performance of SMEs

Regression analysis helped rank the effect of bank loans on financial performance of SMEs in Makindye division. Table 7 shows results of this test.

Table 7

Regression Analysis of extent of Bank Loans and Financial Performance of SMEs

(Level of Significance = 0.05)

Variables Regressed	Adjusted R^2	F-value	Sig.	Interpretation	Decision on Ho
Bank loans vs Profitability	.804	21.535	.010	Significant	Rejected
Bank loans vs Liquidity	.896	52.504	.001	Significant	Rejected
Bank loans vs Sales growth	.865	20.268	.046	Significant	Rejected
Bank loans vs Solvency	.795	12.637	.071	Not significant	Accepted

Source: primary data 2012

The results in table 7 shows that bank loans vs profitability, liquidity and sales growth are significant and solvency is not significant affect financial performance of SMEs (F= 26.736, Sig. = .032). The results indicates that the bank loans together contribute towards financial performance of SMEs (adjusted r^2 =.804), which implies that SMEs have benefited from bank loans.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This final chapter summarizes the findings, conclusions and recommendations of the study.

The study intended to establish the relationship between the level of bank loans and the level of financial performance in selected SMEs in Makindye Division.

Findings

1. Respondents profile in terms of gender, age, education level, business form and years in business
   - 1.1 Majority of the respondents are male (55.2%) and female with (44.8%).
   - 1.2 Majority of owners of SMEs are below 30 years (47.4%) and over (45.5%) are below 39 years
   - 1.3 On educational level, most of SMEs are not graduates and over (46.1%) have secondary certificate
   - 1.4 Most of respondents in Makindye are sole proprietorship (93.5%)
   - 1.5 Years in business, most respondents have spent in business less than five years (27.9%).
2. The extent of bank as practiced in Makindye division ranged from good to fair. Evidently there were some respondents were not fully satisfied such as:
   - 2.1 The interest rate charged on bank loans is favourable
   - 2.2 The terms and conditions on short-term loans are flexible and favourab
   - 2.3 You usually get a syndicated loan from the bank
3. Majority of the respondents response on the level of financial performance of SMEs were good with these options most frequently rated:
   - 3.1 You give customers rewards
   - 3.2 You have easily assets to be converted into cash
   - 3.3 The quality of your sales currently satisfy
   - 3.4 Your business is highly indebted

4. There was a significant relationship between the extent of bank loans and the level of financial performance of SMEs in Makindye Division. Hence the null hypothesis was rejected.

Conclusions:

Based on the findings of this study, the following conclusions were drawn;

1. Respondents of the study were satisfied with the bank loans and financial performance of SMEs in Makindye Division. Although bank loans altogether are significantly correlated with financial performance, as it was theorized.

2. The Agency Theory this study was based on the great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal finance, among other systemic and institutional problems in developing countries.

Recommendations

In the light of the findings of the study, the following pointers were suggested:

1. Profile
   i) Banks should promote female entrepreneurs in Makindye Division
   ii) There is need to educate SMEs on formation of joint ventures/business since most of them are still running sole proprietorship business, which are more prone to risks and can hardly get assistance from organizations and loans from financial institutions.

2. Bank loans
   i) Banks should set easy policy to get a loans
   ii) central bank should enforce commercial banks to set favourable interest rate,
   iii) Banks should easy the process of accessing a loan
   iv) Banks should encourage its clients to use overdraft loan
   v) Banks should set favourable lending terms and conditions on both short and long term loans

vi) Banks should encourage long term loans to be given to SMEs in Makindye

vii) Banks should improve on their requirements of accessing loans, reduce on interest rate of loans

3. Financial performance of SMEs

i) Small and Medium entrepreneurs need to look for business of increasing their revenue and profits

ii) Small and Medium entrepreneurs should also emphasize assets acquisition in their businesses as this helps in consolidating the business and increasing their wealth, other than keeping liquid cash, which can lose value and can easily be spent on less important and unplanned things.

iii) Small and Medium entrepreneurs need to sale products which are quality in order to increase sales growth

iv) Owners of SMEs can also boost their public relations by attending social functions of their customers especially the most important ones like funerals, introduction ceremony and others. This increases customers' attachment to the entrepreneur and the business which increases chances of success.

v) They need to improve their financial records and accounting systems.

vi) Proper records need to be kept and maintained and the books of accounts have to be clear and should reflect a realistic picture of their operations and financial conditions.

vii) SMEs have to improve their operating efficiencies and capabilities as this impact on production costs and profits. Material wastage is a major source of high costs in small businesses.

viii) To increase their capacities and minimise wastage, SMEs need to invest in skills development and infrastructure to be able to benefit from e-finance.

ix) To conduct training programs on access of loans.

Suggestions for further research

i) A similar study in other regions of Uganda, that is central Eastern, Western and Northern Regions,

ii) Bank loan procedures among Small and Medium Enterprises

iii) Terms and conditions among SMEs and others.

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APPENDICES

APPENDIX I A:

KAMPALA INTERNATIONAL UNIVERSITY
EXPLORING THE HEIGHTS

Ggaba Road - Kansanga
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Fax: +256- 414- 501974
E- mail: admin@kiu.ac.ug
Website: www.kiu.ac.ug

OFFICE OF THE HEAD OF DEPARTMENT, ECONOMICS AND MANAGEMENT SCIENCES
COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

Date: 15th June.2012

RE: REQUEST OF FARIDAH NAGAMI MBA/5840/111/DU
TO CONDUCT RESEARCH IN YOUR DIVISION

The above mentioned is a bonafide student of Kampala International University pursuing Masters of Business Administration (Banking and Finance).

She is currently conducting a research entitled **"Bank Loans and Financial Performance in Selected SMEs in Makindye Division – Kampala, Uganda".**

Your division has been identified as a valuable source of information pertaining to her research project. The purpose of this letter is to request you to avail her with the pertinent information she may need.

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

Any assistance rendered to her will be highly appreciated.

Yours truly,

For Mr. Malinga Ramadhan
Head of Department,
Economics and Management Sciences, (CHDR)

NOTED BY:
Dr. Sofia Sol T. Gaite
Principal-CHDR

APPENDIX IB

TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear Respondents,

I am a Master Degreed of Business Administration candidate of Kampala International University and carrying out a research study entitled, **Bank Loans and Financial Performance in Selected SMEs in Makindye Division- Kampala, Uganda.** In view of this empirical investigation, I request you to be part of this study by answering my questionnaires. I assure that the information you provide to me shall be kept with utmost confidentiality and will be used for only academic purposes.

As you answer the questionnaire, please I remind you to respond to all of the items in the questionnaire and please do not leave any item unanswered, for this study to yield useful findings.

May I retrieve the questionnaire within five days (5)?

Thank you very much in advance.

Yours faithfully,
Ms. Nagami Faridah

APPENDIX II

CLEARANCE FROM ETHICS COMMITTEE

Date_____

Candidate's Data

Name_____

Reg. # _____

Course _____

Title of Study _____

_____

Ethical Review Checklist

The study reviewed considered the following:

___ Physical Safety of Human Subjects

___ Psychological Safety

___ Emotional Security

___ Privacy

___ Written Request for Author of Standardized Instrument

___ Coding of Questionnaires/Anonymity/Confidentiality

___ Permission to Conduct the Study

___ Informed Consent

___ Citations/Authors Recognized

Results of Ethical Review

___ Approved

___ Conditional (to provide the Ethics Committee with corrections)

___ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members _____

APPENDIX III

INFORMED CONSENT

I am giving my consent to be part of the research study of Ms. Nagami Faridah that will focus on Bank Loans and Financial Performance of Small and Medium Enterprises in Makindye.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials:_____

Name and signature of respondent

Date_____

APPENDIX IV A

PROFILE OF RESPONDENTS

1. Gender (Please Tick):

___ 1. Male

___ 2. Female

2. Age (Please Tick):

___ 1. 20-29 years

___ 2. 30-39 years

___ 3. 40 years and above

3. Education level (Please Tick):

___ 1. Primary

___ 2. Secondary

___ 3. Certificate

___ 4. Diploma

___ 5. Bachelors

4. What type of business do you have? (Please Tick):

___ 1. One or sole proprietorship business

___ 2. Partnership

___ 3. Limited Company

5. How many years have you been in the business (Please Tick):

___ 1. Less than one year

___ 2. 1-4 years

___ 3. 5-8 years

___ 4. 9 years and above

APPENDIX IV B

QUESTIONNAIRE TO DETERMINE THE LEVEL OF BANK LOANS

Direction 1: Please write your rating on the space before each option which corresponds to your best choice in terms of **bank loans** in your Sector. Kindly use the scoring system below:

Response Mode	Rating	Description	Legend
Strongly Agree	(4)	You agree with no doubt at all.	SA
Agree	(3)	You agree with some doubt	A
Disagree	(2)	You disagree with some doubt	D
Strongly disagree	(1)	You disagree with no doubt at all	SD

Bank Loans

A Access to bank loans

____ 1. You always seek financial assistance from Banks

____ 2. You find it easy to get a loan from banks

____ 3. Part of your capital is from the bank

____ 4. Your business has benefited out the loans

____ 5. You have always received loans from the bank

____ 6. The interest rate charged on bank loans is favourable

____7. You get challenges during the time of receiving a loan

B. Short-Term Loans

____ 1. You usually get short-term loans to increase your working capital

____ 2. You usually find it easy to process short–term loans

____ 3. The interest rate on short-term loan is favourable

____ 4. The terms and conditions on short-term loans are flexible and favourable

____ 5. You always get a top-up loan from the bank

____ 6. You usually get an overdraft loans from the bank

C. Long-Term Loans

____ 1. You usually get long-term loans to expand on your business

____ 2. You usually find it easy to process long–term loans

____ 3. The interest rate on long-term loan is favourable

____ 4. The terms and conditions on long-term loans are flexible and favourable

____ 5. You usually get a syndicated loan from the bank

APPENDIX IV C

QUESTIONNAIRE TO DETERMINE THE LEVEL OF FINANCIAL PERFORMANCE OF SMEs

Direction: Please write your preferred option on the space provided before each item. Kindly use the rating guide below:

Response Mode	Rating	Description	Legend
Strongly Agree	(4)	You agree with no doubt at all.	SA
Agree	(3)	You agree with some doubt	A
Disagree	(2)	You disagree with some doubt	D
Strongly disagree	(1)	You disagree with no doubt at all	SD

THE LEVEL OF FINANCIAL PERFORMANCE OF SMEs

A. Profitability

____ 1. You give customers reward
____ 2. You make profit in your business
____ 3. You find it easy to determine your profit
____ 4. You treat your customers differently
____ 5. You encourage your staff sale to up
____ 6. You distribute free samples to customer

B. Liquidity

____ 1. Your business cash flows are well balanced; cash inflows are greater than cash outflows.
____ 2. You always sell your products by cash
____ 3. Your level of inventory is generally low
____ 4. You make most of your expenditures by cash
____ 5. You have easily assets to be converted into cash
____ 6 Your daily cash flows are High
____ 7 You have saved some cash for investment

C. Sales growth

____ 1. Your sales volume has increased steadily
____ 2. You are the market leader among people with a similar business
____ 3. The quality of your sales currently satisfy

____ 4. Your quantity of sales is high.

D. Solvency

____ 1. You have enough assets to cover firm's liabilities

____ 2. You usually pay your obligations on due time

____ 3. Your business liability is greater than the value of your assets

____ 4. Your business is highly indebted

APPENDIX V

Validity of Statistics

1. Bank loans

Content validity Index formula = $\frac{\text{Valid items}}{\text{Total Valid Items}} \times 100$

Content validity Index = $\frac{18}{18} \times 100$

Content validity Index = 100%

2. Financial performance of SMEs

Content validity Index = $\frac{21}{21} \times 100$

Content validity Index = 100%

APPENDIX VI

Cronbach's alpha coefficients for reliability instrument

Cronbach's Alpha	No of Items
0.811	18
0.823	21

APPENDIX VII

The Sloven's formula

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

Where

n = sample size ?

N = population size = 250

e^2 = the level of significance (0.05)

$$n = \frac{250}{1 + 250(0.05)^2}$$

$$n = \frac{250}{1 + 250(0.0025)}$$

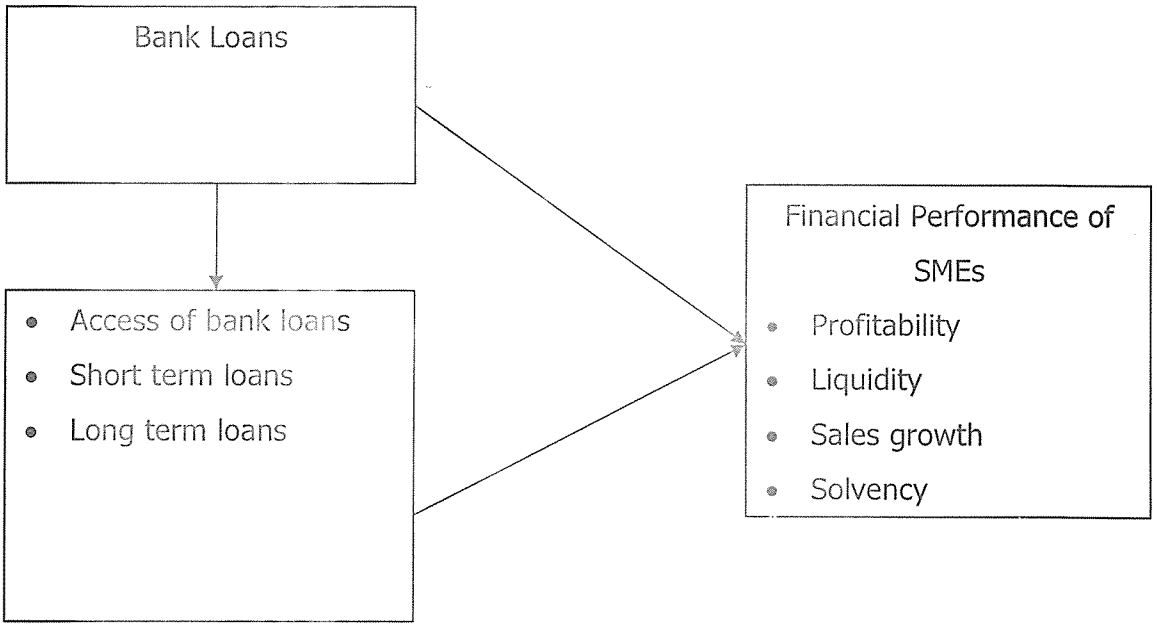
$$n = \frac{250}{1.625}$$

n = 154

APPENDIX VIII

CONCEPTUAL MODEL

In this model, the reviewed concepts operationalised to achieve study objectives were extracted from the various literatures and theoretical suggestions and summarized into a frame or a scheme of concepts for easy understanding of the whole study. The concepts are summarized in fig.1



Fig;1 Conceptual model relating SMEs financial performance to bank loan developed from review of extant literature (Abor, 2007; Berk, Stanton, & Zechner, 2007; Laursen, Mahnke, & Vejrup-Hansen, 1999; Ottewill, Jenning, & Magirr, 2000; Taglianvini, 2002; Pansiri & Temtime, 2006; Watson, McCracken, & Hughes, 2004).

CURRICULUM VITAE

Personal Profile



First Name:	Nagami
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Gender:	Female
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Nationality:	Ugandan
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Educational Background

Year	School/Institution	Award Obtained
2011-2012	Kampala International University	Master of Business Administration
2007-2010	Kampala International University	Bachelor of Business Administration
2004-2006	Kampala International University	Diploma in Secretarial and Office Management
2002-2003	Brethren Memory S.S.S	Uganda Advanced Certificate of Education (U.A.C.E)
1998-2001	Brethren Memory S.S.S	Uganda Certificate of Education (U.C.E)
1990-1997	Musunga Primary School	Uganda Primary Leaving Examination

Working Experience

Year	Organization	Position
1. August 2011 to date	KIU	Acting Head of Curriculum Review

2.	2011 to date	KIU	Assistant Lecturer
3.	August 2010 –July 2011	KIU	Examination Officer
4.	2008 –July 2010	KIU	Administrative Assistant
5.	2006-2007	KIU	Secretary

Other Relevant Data

- Training of trainees
- Module development
- Curriculum Review and computerized data analysis using SPSS
- Published books titled "who is your friend" and A general guide on how to win a job