

**THE ROLE OF MICROFINANCE INSTITUTIONS ON THE PERFORMANCE OF
SMALL AND MEDIUM ENTERPRISES
CASESTUDY: SELECTED SMES IN MAKINDYE EAST CONSTITUENCY
KAMPALA DISTRICT-UGANDA**

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**A RESEARCH REPORT SUBMITTED TO COLLEGE OF ECONOMICS
AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF
REQUIREMENTFOR THE AWARD OF BACHELOR'S
DEGREE IN BUSINESS ADMINSTRATION
OF KAMPALA INTERNATIONAL
UNIVERSITY
JUNE 2017**

DECLARATION

I hereby declare that this research report is my original work and has never been presented to any other university before for academic credit or any other purpose.

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APPROVAL

I certify that MR SENO IVAN carried out this research report under my supervision and is submitted with my approval as a university supervisor.

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ACKNOWLEDGEMENT

I want to thank the almighty GOD for the gift of life and for enabling me to reach this level of education.

I wish to acknowledge my father Okurut Simon peter and my mother Ajilong Joyce, my beloved uncles Asama Charles, Okoche David and Aunty Akia Grace for the financial, moral, emotional support rendered to me throughout my life and mostly education because without them this could have just remained a mere dream.

I also take this opportunity to acknowledge my supervisor Mr. Rutaro Abbas for the technical guidance and support on this research proposal without him I would not have achieved it .

On a special note I would love to thank the entire Kampala international university for the services rendered to me in my three year course.

To my friends, brothers and sisters who have been on my side throughout my education may GOD bless you abundantly?

DEDICATION

This research proposal is dedicated to my parents most especially to my mum Ms. Ajilong Joyce and my father Okurut Simon peter, my uncles Asama Charles, David, Julius my aunties Akia Grace, Akol Ruth, Alupo Rebecca, dear brothers and sisters, jimmy, nelson, bony, mike, Robert, Morris, noel, Emmy, victor, Aaron Enock and Mastula, Sheha, Madrine madu, morgana, mercy and other relatives for their moral, financial, spiritual support towards my life in all aspect. Because without them this report would have just been a mere dream may GOD bless you?

LIST OF ACRONYMS

BOU	Bank of Uganda
CBs	Commercial Banks
FIs	Financial institutions
MFIs	Micro Finance Institutions
NGO	Non-Governmental Organization
SMEs	Small and Micro Enterprises
UBOS	Uganda Bureau of Statistics
ILO	International Labor Organization
GDP	Gross Domestic Product
UNCTAD	United Nations Conference on Trade and Development
WBCSD	World business council for sustainable development
PSF	Private Sector Foundation
IMF	International Monetary Fund
SACCO's	Savings and credit cooperative society
UIA	Uganda Investment Authority
UNDP	United Nations Development Program

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ABSTRACT

The study examined the relationship between the role of microfinance institutions and the performance of small and medium enterprises in Makindye East Constituency Kampala Uganda. Using the selected SMEs in Makindye as the case study which includes SMEs around Kansanga, Kabalagala and Bunga. The study was based on three objectives namely; to establish the relationship between of microfinance institutions credit and the performance of SMES, to find out the role of microfinance institutions on the productivity of SMEs and to assess the role of microfinance institutions on profitability of SMEs in Makindye East Constituency

The study adopted both descriptive and analytical survey research designs a sample of 30 respondents was used from whom data was collected. Questionnaires and interviews were the main tools that were used to collect data from the respondents. Findings reveal that microfinance institutions are in place today but not so effective. The SMEs obtain micro credit loans and follow microcredit policies but still face a number of problems like high interest rates, unfavorable repayment periods which make it impossible for them to keep up with tight policies. Also the inability to pay back loans, short grace periods offered to them bring about the general poor performance

Based on the findings the researcher recommended that SMEs should put the following aspects into considerations; financial literacy which can be established through teaching the management tactics of how to handle credit from microfinance institutions. Selecting management with skills to handle assessment, collection and reconciliation should be implemented so as to have better performance levels in regard to microfinance credit.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Micro finance institution; is an organization that offers financial services to low income and populations almost all give loans to their members, and many offer insurance, deposits and other services. A great scale of organizations are regarded as microfinance institutions

Microfinance credit; is the ease with which small and medium enterprises can get finance to undertake productive ventures to expand their businesses and to acquire the latest technologies thus ensuring competitiveness and that of the nations as a whole (UNCTAD 2002). It therefore targets the informal sector that comprises of small and micro enterprises that are located in urban and semi urban areas. They are loosely structured therefore keep on changing from time to time depending on the market trends and other factors that affect their business since most of them are privately owned.

Microfinance; is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance institutions are the pivotal overseas organizations in each country that make individuals micro credit loans directly to villagers, micro-entrepreneurs, impoverished women and poor families. Overseas MFIs are like small banks with the same challenges and capital needs confronting any expanding small ventures. But with the added responsibility of serving economically marginalized populations

Many MFIs are creditworthy and are well run with proven records of success, many are operationally self-sufficient. Various types of institutions offer microfinance credit unions, commercial banks, NGOs, cooperatives and sectors of government banks. The emergence of “for profit” MFIs are growing

Performance; on the other hand is a process/manner by which SMEs execute their functions. Firm performance can be measured with different indicators such as profitability and growth in employment production level or even sales in addition; firms also have their own performance indicators (Meyanathan and Munter 1994) (McCormick and Atieno 2002). Studies by Whyte (1991), show that performance can be measured at both organization and individual levels and

this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potential in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved.

Small and medium enterprises; are businesses which are independently owned and operated by a few individuals. They can be defined in terms of sales, volume, and a number of employees in the business indicated by structural development, profitability and employment levels. They mainly engage in buying produce market vending, catering and confectionary, shop keeping, second hand clothing, health/herbal services, secretarial services, telephone services hand craft transport and many others (UBOS 2004).

In Uganda small and medium enterprises are enterprises employing more than 5 but not exceeding a maximum of 50 employees with the value of assets including land, building and working capital of less than Uganda shillings 50,000,000 (US\$30000) and annual income turnover of between Uganda shillings 10-50 million (US\$6,000-30,000), (Kasekende and Opondo, 2003).

1.2 Problem statement

Despite the fact that there is a wide spread of MFIs in and around Kampala whose main aim is to stimulate sustainable performance of small and medium enterprises through the provision of micro credit and non-finance services (MOF report, July 2008) Complaints about inadequate credit amounts and terms, mandatory weekly meetings and having to pay default are still a huge problem and this does not help the poor to meet their needs (Morduch 2005).

SMEs face a problem of inadequate collateral to secure loans. Much of the SMEs financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (Park 2006). The theory of capital puts emphasis on social networks and reciprocity arising from such networks (Putnam 1995). In the absence of social networks, SMEs continue to grapple with scarcity of collateral to secure bank loans. Yet there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs (Apire 2003; UNEP, 2007). This is not to imply that SMEs do not secure loans from banks.

Therefore it's against this background the researcher finds it necessary to carry out a study on the role of microfinance institutions on the performance of small and medium enterprise

1.3 Purpose of the study

The purpose of the study was to establish the relationship between Microfinance credit and the performance of SMEs in Makindye East Constituency

1.4 Objectives of the study

- a) To find out the role of MFIs on the productivity of SMEs in Makindye East Constituency
- b) To assess the role of MFIs on profitability of SMEs in Makindye East Constituency
- c) To establish the relationship between Micro finance credit and the performance of SMES in Makindye East Constituency

1.5 Research questions

- a) What is the role of microfinance institutions on the productivity of SMEs in Makindye East Constituency?
- b) What is the role of MFIS on profitability of SMEs in Makindye East Constituency?
- c) What is the relationship between micro finance credit and the performance of SMEs in Makindye East Constituency?

1.6 Scope of the study

1.6.1 Content scope

The study covered the role of Microfinance institutions on the performance of small and medium enterprises in Makindye East Constituency

1.6.2 Geographical scope

The study was conducted among the selected SMEs in Makindye East Constituency that is; Kansanga, Kabalagala, Bunga, and Muyenga,

1.6.3 Time scope

The study was carried out between February and June 2017.

1.7 The significance of the study

The findings of this study shall be used in different ways and by different people:

The research will help the researcher to gain a deeper understanding on how Microfinance institutions play a role on the performance of small and medium enterprises in Makindye East Constituency.

The study will help policy implementers and regulators most especially the bank of Uganda to enact appropriate laws and regulations for MFIs in order to help the public to easily access credit.

The study will help MFIs to adopt policies that will improve on the performance of SMEs as well as keeping them in business.

The study will avail information to donors and academicians intending to carry out research in the same area of study.

1.8 Operational definition of key concepts

Finance: refers to money or other liquid resource of government, business, group or individual.

Micro finance: is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services.

Micro finance institutions: these are organizations that offer financial services to low income populations. Almost all of them give loans to their members and many offer insurance, deposits and other services.

Performance: this is a process or manner in which small and medium enterprises execute their functions.

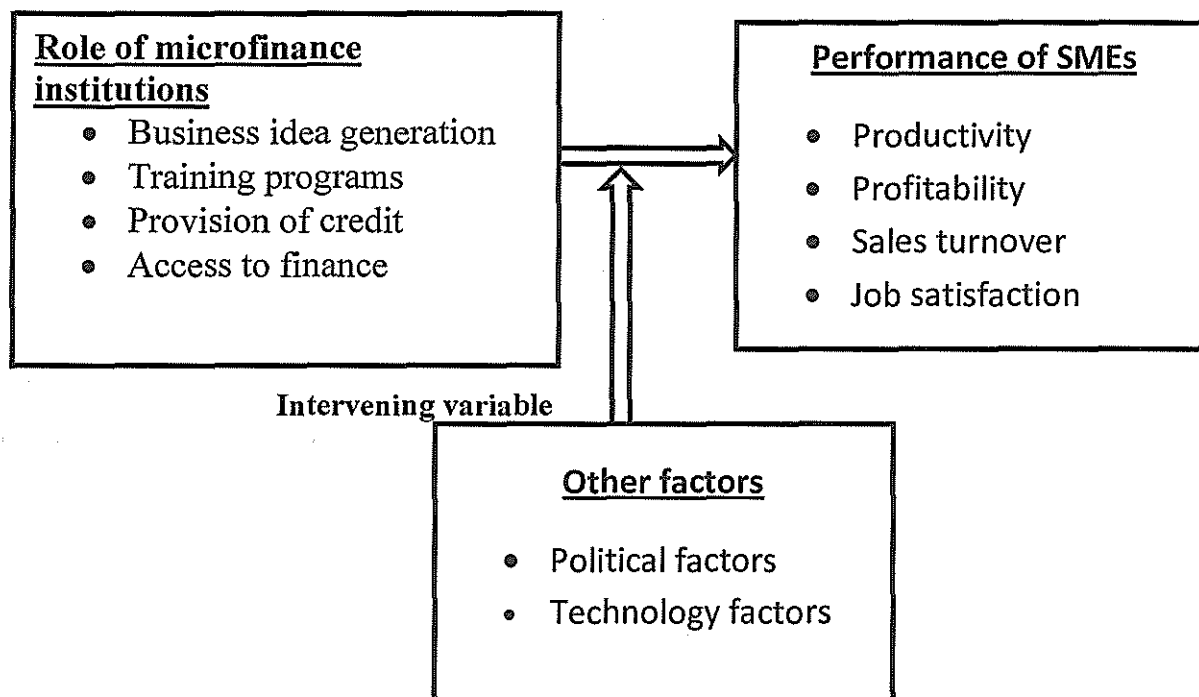
Small and medium enterprises: they are privately owned business in the categories of operations, partnerships or sole proprietorship.

1.9 Conceptual framework

The role of microfinance institutions on the performance of SMEs

Independent variable

dependent variable



CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter provides an insight of the related literature on the study of variables. It provides literature on the major aspects of the research, which includes small and medium enterprises, access to finance and performance. These will fulfill the purpose of the study of relating micro finance credit and the performance of small and medium enterprises

Uganda is still among the world's poorest economies despite its more recent commendable economic growth performance of GDP at 6.9% p.a for the period 1990-2002(World Bank 2004).It is against this context of poverty that the issue of credit in Uganda should be seen. In an impoverished country like Uganda, albeit one experiencing rapid economic growth, opportunities of individuals and macrocosmic growth, are likely to be constrained by lack of access to credit to invest(Okurut;2004).

2.2 Microfinance

Microfinance is an attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of finance services such as savings, loans and insurance living in both urban and rural areas and who are excluded to obtain such services from the formal financial services. (Schreiner and Colombet 2001)

Many poor MFIs derive from non-governmental organizations and have non-profit status. Their objective is to give access to credit to every poor individual with viable projects by Weiss and Montgomery 2005.

2.3 Microfinance institutions

Microfinance institutions offer credit services and to some extent saving facilities to micro and small scale industries and poor households who cannot obtain these services from the formal financial sector. MFI providers are concentrated in the central region which can be explained by the high rate of economic activities prevalent in this part of the country. Some of the MFIs like

FINCA, PRIDE have closed to even more than 51 branches with approximately 15000 clients no using micro finance services. (UNDP 2000)

According to (Graham 2000); the micro finance industry in Uganda is particularly interesting because, in addition to the well-established models of MFIs, it contains one commercial sector bank (Centenary rural Development Bank), which is saving to deepen their outreach to be able to serve poorer clients

2.4 Status of MFIs in Uganda

According to the (Ministry of Finance, planning and economic development 2001); MFIs are spread all over the country although the scale and intensity of their products and services differ from one district or area to another. Most MFIs have got their operations in rural areas in even though the large ones which are more established usually have their head offices in the city. For example: FINCA and pride Uganda. It should also be noted that most of these MFOs have largely concentrated themselves in urban areas and trading centers. Reliable estimates indicate that the central region of Buganda and Busoga have the biggest number of MFIs of about 33% and 23% respectively. The northern region has about 14% and the western region only has about 11% of the MFI

2.5 Mode of operation of MFIs

(Rogarly 2000) states that most of the MFIs operating in rural, pen urban and urban areas use the group Solidarity approach and Village banking methodology. This is because of the fact that most of the clients lack security or collateral, which is acceptable to MFIs. The clients are mobilized into groups and sensitized about the MFIs requirements for acquisition of the loans, the repayment schedules and other conditions

2.6 Constraints to microfinance credit

According to the bank of Uganda (report July 2008) some constraints are; cost of finance, inadequate knowledge of how to run business, microeconomic instability

2.7 The role of microfinance institutions

i. Training Programs

The outreach programs of microfinance banks in offering financial management training were another independent variable that had significant influence on the growth of small businesses in an area. On the objective influence of training programs provided by MFIs, the training acts as the eye opener on the ways of small business proprietors who lack the basic financial management skills to go about daily business affairs and account for every cent gained and given out from the business. For small business growth which was a dependent variable, offering of training in financial management acted as the starting point to equip the potential business people with financial management skills. It was doubtless that gaining financial management skills was beneficial to entrepreneurs and would lead to increased investment in business activities and the repayment of loans taken eventually. Kauffmann (2005) points to the concept of the micro-finance union developed by Friedrich Wilhelm Raiffeisen and his supporters as aimed at raising the business consciousness of the masses. Raiffeisen and company knew that if the masses were enlightened on business management, it would definitely lead to increased investment in the business activities given the MFIs provided low interest loans.

ii. Advisory Services

Maixe-Altes (2009) contends that microfinance institutions are unmistakable in their quest to spur on growth in business investment with initiation of advisory services for the entrepreneurs to continue seeking and wisely using their services. The reason in many MFIs offering financial training and advisory services to the people taking up their loans for entrepreneurial activities so that there is guaranteed loans repayment via wise investment. The pioneers of micro-finance Institutions whose impact remain etched in the books of history include Muhammad Yunus, Friedrich Wilhelm Raiffeisen, and Joseph Blatchford among others. The micro-finance organizations have thus become viable financial options to many small and medium enterprises

iii. Business Idea Generation

Meanwhile, starting in the 1970s, the MFIs experimental program in Bangladesh, Brazil, and a few other countries extended tiny loans to groups to invest in micro-businesses after assisting

them with business idea generation. Microfinance institutions right from inception endeavored ingenerating the viable business ideas for the willing small scale entrepreneurs. The business idea generation is an independent variable aimed at increasing growth of small businesses through ensuring the microfinance beneficiaries venture in viable business so that they eventually prosper and repay the loans taken from MFIs. According to (Yunus et al, 2003), this type of micro enterprise credit was based on solidarity group not only in lending to every member of a group but also on giving viable business ideas so that the micro-credit loans could be repaid. These “micro enterprise lending” programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor borrowers. Scholars and academicians claim that with the diversification on the other sectors rather the agricultural sector led to the emergence of small scale businesses spurred on by the micro credit organizations (Esipisu, 1996).

Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty (Sundaresan, 2008). For the international community, this means reaching specific Millennium Development Goals (MDGs) by offering policy ideas that enable the poor to empirically venture in self-employment

2.8 What are SMEs?

SMEs are arbitrary and vary significantly according to different stages of economic development; economic structures and issues that authors of studies intend to address(Castel-Branco,2003).Some analyses define SMEs in terms of total revenue, while others use the number of employees as an indicator(World business council for sustainable development(WBCSD,2007). SMEs are much easier to describe than to define and there is no generally agreed operational or numerical definition of what constitutes a SME. According to (Bolton report, 1971) an SME is one that has a relatively small market share, managed by its own in a personalized way and through a medium of formalized management structure. Over sixteen studies undertaken during 1990, which together formed the United Kingdom’s largest ever SME business Research project, used number of employees to define sizes of SME firms. Firms employing less than ten (10) people were considered as small SMEs and those employing between ten and hundred (10-100) people as medium SMEs. Majority of the SMEs in Uganda

employ between one to ten (1-10) people (Sserwanga, 2003) and therefore considered to be small SMEs. Though SMEs definition is individual country specific and is based on size and level of economic development, there is not yet an agreed definition for SMEs in Uganda. Attempts have been made to define SME in a developing country. For instance Elaina (as cited by Albaladejo, 2002) defines small enterprises as firms that employ between five and nineteen (5-19) workers while medium enterprises are firms that employ between twenty and twenty-nine (20-29) workers' micro enterprise is defined as an enterprise employing maximum four(4)people, annual sales/revenue turnover of maximum Ugandan shilling twelve(12)million and total assets of maximum Ugandan shillings twelve(12)million small enterprise is defined as an enterprise employing maximum fifty(50)people annual sales/revenue turnover of maximum Ugandan shillings three hundred and sixty million(360) million and total assets of maximum Ugandan shillings(360)million.(UIA 2008). Therefore an SME is a business with a head count ranging from five employees to ninety-nine (5-99) employees. This definition appears more realistic in the African context and for purpose of this study, it will be adopted

2.9 Challenges small and medium enterprises

SMES face a problem of inadequate collateral to secure loans. Much of the SMEs financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (park 2006). The theory of capital puts emphasizes on social networks and reciprocity arising from such networks (Putman 1995). In the absence of social networks, SMEs continue to grapple with security of collateral to secure bank loans. Yet there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs (Apire 2003). This is not to imply that SMEs do not secure loans from banks.

In addition to collateral, SMEs are required to that they have sufficient equity to contribute to their business which many of them lack (UIA, 2003). Evidence from the Uganda securities exchange (USE, Brochure, 2013) indicates that banks consider lack of collateral as a high credit risk because of transaction costs associated with availing credit to small and medium enterprises

Low level of technical and management skills; there is strong interdependence between human capital, social capital and financial capital. Technical and management skills determine the amount of social and financial capital generated for SMEs. In human resource management

studies greater attention has focused on the importance of human capital as a prerequisite for the survival of organizations including SMEs (Byars, & Leslie, 2000). As such SMEs lack good quality human capital which also means limited marketing and financial planning, lack of good quality business plans, poor business records and deficient corporate governance (Apire 2003). In addition due to their small size, a simple management mistake is likely to lead to collapse of SMEs hence opportunity to learn from past mistakes (Bowen Marara & Meurithi, 2009).

Competition from large enterprises; SMEs always face competition in accessing finance and markets (Griffiths 2003). A number of surveyed level studies have found that SMEs face greater obstacles than larger firms both in terms of accessing finance and the underlying costs of credit (Leo, 2011). Yet limited access to markets constraints SMEs from generating capital needed to run daily business operations compared to large firms

There is lack of professionalism both internal and external; ethics in business is important element for the survival of enterprises regardless of the size. One of the most important ingredients of ethics is trust. However there is evidence to the effect that SMEs in Uganda lack professionalism (Apire, 2003). This is exhibited in the corrupt tendencies, disrespecting business contracts (AIU, 2008) and deliberate concealing of business records on transactions (Kasekende & Opondo, 2003). Other ethical issues include unfair treatment of stakeholders and manipulation of organizational structure. There are also concerns of lack of professionalism outside the control of SMEs such as dubious legal systems (Kauffman 2005).

Inadequate capacity to afford long term financing; there are four major sources of long term financing in Uganda. These are; capital markets, long-term bank loans, leasing and retained earnings. Although long term financing favors enterprises in perfect markets, SMEs tend to suffer greatly due to their inability to secure long term financing even in such markets (Park 2006). This is true with Uganda where scarcity of long term finance is a key impediment to greater investment and growth of SMEs. Moreover, Uganda SMEs tend to have short term business outlook and operate under very difficult business conditions (UIA 2008).

2.10 Credit accessibility by SMEs

Credit is a transaction between two parties in which one (creditor or lender) supplies money, goods, services or securities in return for a promised future payment(s) by the other, (debtor or borrower). (Encyclopedia Britannica). The payment(s) normally include the element of interest to the lender (Bagonza, 1999). Credit embraces a bank credit and retail credit among others (Njuki, 1998). Credit is the business of banking and the primary basis on which bank's quality and performance is judged (Muller, 1976).

In a developing country context, access to credit is an important instrument for improving the welfare of the poor directly (consumption smoothing that reduces their vulnerability to short-term income shocks) (Binswanger and Khander, 1995) and for enhancing the productive capacity through financing investments. The demand for credit for productive investments usually comes from poor individuals and SMEs. This undertakes investments that can boost production, employment and income. Despite increased number of banks, access to credit remains different and costly (PSF ed 2000). The mere existence of credit extending institutions is not a guarantee of the availability of credit and accessibility to it (Bagonza, 1999). As a result, bank credit to the SME has failed to expand as a percentage of GDP, despite liberalization and reduced government domestic borrowing from the banking system as a whole (Bridge 1998; BOU ed. 2000).

Scholtens et al, 1999 revealed that access to credit is not only attributable to size, but instead it is the result of problems associated with the availability of information through which projects can be evaluated. Adverse selection (Akerlof, 1970) implies that there are qualitatively different types of credit applicants. In contrast with high quality applicants, low quality applicants are vulnerable to use the borrowed money for valuable investments and they will have a relatively large chance to default on the loan. Banks therefore prefer to select high quality applicants and the major way of examining a potential borrower is by analyzing all available information (Leland and Pyle, 1977). The selection problem results from the behavior of low quality applicants that presume to submit high quality projects but do not forward all relevant negative information because many SMEs barely keep records and do not prepare financial statements and financial plans, banks find it difficult to evaluate loan requests of these firms and distinguish good from bad projects. If there are proportionally many low quality credit applicants with SMEs, banks might refrain from extending credit to these firms. It is even possible that

banks do not want to offer credit to applicants that are prepared to pay high interest rates because banks may consider that to be a signal of low credit quality. In that case credit rationing may take place (Stiglitz and Weiss, 1981).

However the examination of credit applicants as well as the monitoring of existing clients is relatively easy if the applicant is a large firm. Large firms are usually well known and equipped to provide the relevant information to the bank. Small firms especially SMEs are less prominent and are not so much accustomed and sometimes not even able, to provide the required information. Therefore banks perceive loans to SMEs as risky. Moreover, investigating the creditworthiness of SMEs requires a lot of time of bank employees while the loan requests are relatively small. Banks thus consider loans to SMEs as very expensive and costly.

2.11 Performance

Performance is the relationship between the set targets or planned targets and the actual output achieved. If the targets achieved are not more than that targeted, then the organization is said to be not performing. (Uganda Bankers Institute News Letter; July 2004 by Odongo)

2.11.1 Theories of performance of firms

i. A formal integrated theory of growth of firms has been developed by Marris (1963), and the subsequently modified model (Marris, 1966) has become the standard one for the analysis of the managerially controlled firm. The Marris Model is a steady-state one—that is to say it is formulated in terms of a steady-state system in which all characteristics of the firm (assets, employment, sales, profit, etc.) are presumed to grow at the same constant exponential rate over time (Hay and Marris, 1979). In identifying the main determinants of the growth of demand, Marris recognized that firms are usually multiproduct and that diversification into new products is not just an important vehicle of competition, but the major engine of corporate growth. Again this is not a realistic assumption in the case of most small firms. There are significant costs attached to expanding by successful diversification and these costs of expansion all reduce the rate of return on capital (Hay and Morris, 1979). In addition, there are limits to the organizational and decision-making capacity of managers. Hence, Marris suggests that there are four major determinants of the rate at which firms grow: (1) the demand constraint that arises because costs of expansion reduce the profit

margin and/or raise the capital - output ratio; (2) the managerial constraint that arises because of the deterioration in efficiency of managers as expansion becomes more rapid; (3) the financial constraint that arises because of the takeover threat that the sale of shares by shareholders creates or exacerbates; and (4) the objectives that a management pursues (for example, growth, sales, and so on). Hence, Marris recognized that a theory of the growth of the firm requires a theory of stock-market valuation in which shareholders will be concerned only with current and future dividends and with capital gains, whereas managers seek to maximize the rate of growth of the same enterprise. Resources for expansion can be obtained by borrowing, new share issues, or retained earnings. However, the extent of borrowing is limited because higher debt-equity ratios expose both the borrower and the lender to increased risk; there is also a limit to the finances that can be raised through new share issues; and, in the case of retained earnings, there is a trade-off with the dividends expected by shareholders (Taylor and Thrift, 1982). The depression of share prices which excess drawing on these sources brings about

Increase in the threat of takeover. The essence of the model is the identification of Pressures on the firm to sustain the maximum rate of growth, given the financial Constraints, so that no limit is envisaged to the absolute size that the firm can

ii. Small-firm growth: the industrial economics approach

Small firms in most cases commence production at a scale below the minimum efficient size for their industry. If firms fail to achieve minimum efficient size for their specific industry they will be potentially vulnerable and may eventually close. Because of competition from other companies which are operating at or above the minimum efficiency. Many small firms, even if they are not efficient, may reach the minimum efficient size for their industry by selling to relatively uncompetitive and partially protected local and regional markets. Given that the long-run average cost curve is L-shaped rather than U-shaped (that is, costs per unit of current output above the minimum efficient scale do not vary with the volume of output), subsequent expansion will depend upon whether growth is a strategic goal for the firm, and whether the firm can meet the varying demands of the marketplace. Clearly distinctions need to be drawn between technological economies and managerial and financial economies, although the concept of economies of scale is a static one and our concern is with dynamic issues, namely the process of growth.

In reducing their costs, firms in an industry will be involved in a competitive Struggle, and, against a given industry demand, some firms will be forced out of the industry as other firms grow to their minimum efficient scale (Hitchens, 1976). The fact that firms exist at different sizes led to the rejection of the perfect-competition model and to the development of the concept of imperfect

Competition with falling demand curves to individual firms. Hence, some firms may expand to the minimum efficient scale in their industry even if they are not efficient producers.

2.11.4 Credit accessibility and performance of the SMEs

Cressy and Olofson(1997) find that smaller businesses have lower fixed total assets ratios, higher ratios of current liabilities to total assets and financially more risky. Scherr et al and Fox (1998) suggest that smaller companies like SMEs limit their issuance of outside equity in order not to reduce control of their firms. However it is harder for the SMEs to access debt financing for example, Berger and Udell (1995) argue that small and young firms with generally shorter banking relationships pay higher interest rates and are more likely to be required to pledge collateral. Peel and Wilson (1996) showed that in general SMEs have higher costs and reduced access to financing. Furthermore Levy (1993) concluded that access to financial services slows the growth of SMEs hence hindering their performance.

There is also a unique challenge to SMEs to access outside borrowing like creditor rights and legal efficiency that affect SMEs access to financing. Existing literature suggests that banks should be able to make more loans to smaller, riskier firms in countries that offer stronger creditor rights such as the priority of secured creditors in the case of default. Brush and Chaganti (1998) argue that ownership and creditors protection have significant positive influence on the size and performance of SMEs. Furthermore, Beck, Demirgnc-Kunt and Maksivmovic (2002) show that small firms are most constrained as a result of underdeveloped financial and legal systems and higher corruption. Liedholm and Mead (1993) argue that majority SMEs in Africa do not grow at all within their establishments of more than three years of existence. The major constraint for their failure was attributed to how credit is accessed from financial institutions.

2.12 Compliance costs

Compliance costs are the costs involved in accessing credit by the private sector in Uganda. In this context are transaction costs, financial or otherwise which a customer incurs in order to access credit (PSF ed.2000). Compliance costs include pre-credit access formalities, delays in loan processing, arrangement fees and tedious disbursement procedures (Nsereko, 1995). One of the biggest hindrances to access credit in Uganda is the bureaucratic procedure(s) that one has to go through to get credit. Some credit applications take from twelve to twenty (12-20) weeks for a decision to be reached. (Graham Beaver, 2002).

However, according to (Sanford, 1989), compliance costs are as important as efficiency costs despite their low visibility. It is sometimes difficult to tell what a compliance cost of doing business and in some instances what is considered as significant compliance costs are not costs at all but inconveniences which though real, are difficult to quantify. (Land care Research (Ed), 2001). According to Holt (2000), compliance costs are all “dead” they generate no added production or revenue to help pay their way. Costs of compliance depend on what the problem is, and the investment necessary to cure it.

Langford (2000), agreed that compliance costs outweigh statistical benefits to which they relate, but his focus was on compliance costs relating to income taxpayers. Glenn Yago and Ford (2000) examined alternative financing strategies that can increase access to capital (credit) for women starting up the business in the USA. Their focus was that conventional lending models of financial institutions in the institutions in the USA do not favor women because of the numerous credit access requirements and gender imbalance. Their study confirms that compliance costs are a major impediment of access to credit but they focused on women only. Kiiza and Kamya (2005) concentrated on factors that limit women from accessing credit from commercial banks in Uganda. They concluded that the more stringent lending requirements set by the formal financial institutions leads to low rates of women borrowers who are at a disadvantage of fulfilling the requirement. A number of forms have to be filled and documents have to be signed (Bagonza, 1999). Application procedures for many loans require completion of forms approaching five to ten (5-10) pages in length and insist on the provision of complex financial forecasts that realistically cannot be accurately verified by commercial banks or be prepared by SMEs (Graham Beaver, 2002).

Commercial banks usually require documentation to determine project viability. SMEs are usually not experienced in preparing the type of business (project) plans that banks regard as favorable (Kiiza and Kamya 2005). Hence, access to formal credit (commercial Banks) is restricted to small proportion of the population who can meet their stringent requirements which include merit, high minimum balances for account opening, onerous collateral requirements and long and costly bureaucratic processes (Okurut, 2004). Very few SMEs can afford to comply and thus cannot access credit.

2.13 Performance of SMEs

Firm performance is a multi-dimensional concept; it may be financial or non-financial. Firm's performance can be measured by sales, growth and development of new markets and products (Tadlian vinietal, 2002).

According to Bennet (2009), performance is related to the ability of the organization to keep its mission, programs, goals and activities aligned with its key stakeholders and constituents. Performance includes regular activities to establish organizational goal, monitor progress towards the goals and make adjustments to achieve those goals more efficiently and effectively

2.13.1 Indicators of performance measures used in small scale industries

i. Sales growth

A sale is the pinnacle activity, involved in selling products or services in return for money or other compensation. It's an act of completion of a commercial activity. Sales growth is often used as a measure of performance. The assumption is often made that if sales increase, profits will eventually follow (Thomas and Mason, 2007). A key determinant of success in a firm's growth is sales provided of course, that the profits and cash flows generated from sales are adequate to cover the costs incurred in generation of the revenue.

ii. Development of new markets and products

New markets development do not emerge nor do they appear but they are made by the activities of the firm (Anderson and Gatignon, 2003). New markets are created when firms correctly sense a

latent need to communicate their solution to that need. As new market can be created by carrying out marketing activities like product design, branding, promotion, pricing, sales and distribution of established products or innovating new products (Pawakapan, 2000) Innovation increases public welfare and as such new markets are thought to rise because buyers recognize the will be better off (Anderson and Gatignon, 2003). For most firms, successful new products are engines of growth (Cohen, Elias berg and Ho, 1997). New products generate future profitability and prevent obsolescence of the firm's product line (Pauwels, Silva-Risso, Srinivasn and Hanssens, 2004). Indeed aggregate evidence suggests that profitable firms do innovate (Pauwelsetal, 2004).

iii. Profitability

Pandey (2005) defines profitability as that income that gives the financial ability to generate income that surpasses its requirement for fulfilling the business objective.

Pandey (2005) argues that prices are one of the factors determining profitability for commodities greatly demanded by customers. This greater demand for commodities attracts higher prices and profits

The business financial performance is reported using a set of well-defined financial statements. These are the balance sheet, income statement and the cash flow statements that enable the relative financial performance of different organizations to be evaluated (Martin 1995)

2.14 Importance of the SMEs in the Economy

Until the 1960's many economists attributed the relatively small size businesses in the less developed countries to the scarcity of capital and administrative experience. It was often argued that with economic growth modern forms of large-scale production would in one sector after another supersede the small-enterprises. In order to ensure orderly transition small-enterprises were seen to deserve support. Small-enterprises as quasi-sponge for urban employment and provider of inexpensive consumer goods with little or no import contest serving an important pressure releasing and welfare-augmenting function (Kilby, 1969).

Small-enterprises also contribute to long-run industrial growth by producing an increasing number of businesses that grow up and out of the small sector. Thus the emergence of wholly modern small-enterprises Uganda industries is likely to be a prerequisite for any endurance.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

In order to obtain the information required to meet the objectives of the study was necessary to obtain data from different sources, including review of previous studies, interviews and questionnaires. The rest of this section details the approaches that were used to obtain the required information and how the data were being analyzed. The components of this chapter include research design, target population, sampling techniques and data collection methods

3.2 Research Design

The Researcher used a cross sectional research design in order to gather data in the shortest time period. Both descriptive and analytical research designs which involved qualitative approach when collecting data that are descriptive in nature to seek for opinions and attitudes from the study participants about the study

However to a small extent, the study also used the quantitative approach to address data so as to come up with conclusions and recommendations for implementation.

3.3 study Population

Table1: Data for this study was collected from Makindye-East Constituency from 72 managers and employees representing small and medium enterprises totaling to twenty (20) SMEs.

Category	Numbers of SMEs	Population	Sample size
Supermarkets	5	40	36
Retail shops	10	10	08
Restaurants	5	22	16
Total	20	72	60

3.4 Sample and Sampling Procedure

In selecting the sample of respondents' non-probability sampling technique called convenience sampling was used because not all respondents were willing to participate in the research and also not all SMEs required credit assistance since others were sufficiently funded by the owners

3.4.1 Purposive Sampling

Purposive sampling involves selecting a certain number of respondents based on the nature of the office. This method was appropriate because it enabled selection of informed persons who possessed vital data that was comprehensive enough to allow gaining a better insight into problem. In the study respondents were contacted in person, as the researcher needed firsthand information from them and the study keenly inquired respondents' views on the subject under study. This required the researcher to sample with a purpose in the researcher mind whereby he/she has to seek specific pre-defined groups of people for instance users of electronic systems like tellers, information and data sources and other staff.

3.4.2 Random Sampling

Random sampling method involves selecting respondents from the study population by chance. In this way every respondent has an equal chance of being included in the sample. This method was used to select customer respondents from the selected SMEs. This was used to avoid bias in obtaining samples. This was achieved by getting a list of employees from the managing directors and then a sampling interval was established by random method to select the respondents consistently.

3.5 Instrumentation

The research involved use of primary and secondary sources of gathering of information. Each of the units that were sampled was informed of the aims and objectives of the study, and consent was then met from them.

3.5.1 Primary data source was used for responses from the SMEs.

3.5.2 Secondary data was used to compare responses from primary data gathered from the field with the view of deriving a meaningful interpretation.

3.6 Data Collection

The research data collection involved assigning all interviewers to areas selected in the sampling procedure. The interviewer selected at random all businesses that fit in the category of Small and

Micro business Enterprises. Once the respondents agreed to assist in the research, the interviewer either;

- a) Asked the respondent questions contained in the questionnaire and fill it.
- b) Gave the respondents the questionnaire to fill out at the moment.
- c) Left the questionnaire with the respondent to be collected later,

3.6.1 Data Analysis

All responses from questionnaires were edited for accuracy in data. The data was then manually coded, organized and analyzed using the frequencies and percentages and there after interpreted it. The description statistics was used in the research to analyze the research findings. The following methods of analyzing the data were appropriately used for the study.

3.6.2 Editing

Editing of data is a process of examining the collected raw data to detect errors and omissions and to correct these where possible. It involved a careful scrutiny of the completed questionnaire. This was primarily used in primary data collection because of the danger of irrelevant data being collected, and the relevant information left out.

3.6.3 Data Coding

The edited data is coded. Coding involved assigning numbers to similar questions from which answers were given unique looks to make the work easier. In this case computer Packages was used to analyze the code data

3.6.4 Data presentation

After the data , was edited, it was then presented inform of frequency and tables after which the data were analyzed in form of pie-charts using Micro Soft Word and Micro Soft Excel, this was done to only quantitative edited data. Quantitative data was grouped and statistical description such as tables showing frequencies and percentages and pie- charts as well as graphs for better interpretation. However, qualitative data was analyzed in a way of identifying the responses

from respondents that were relevant to the research problem. Mainly such data was analyzed by explaining the facts collected from the field under which the researcher was able to quote respondents' responses.

3.7 Ethical Consideration

Before commencing the research, an introductory letter from the University was obtained and the purpose of the study was explained to the authorities to avoid inconvenience and misunderstandings about the purpose. The information collected was kept highly confidential

3.8 Limitations of the study

i. Financial Constraints:

The Researcher was limited by financial resources such as the transport costs and stationery to carry out the research effectively. In an effort to mitigate this shortcoming, the researcher sourced for funds from a few sponsors.

ii. Slow or non- response:

Since the researcher did not know the kind of respondents to deal with, some of them failed to respond or delay to do so. The researcher made convenient appointments with the respondents and encouraged them to respond and give true information in time.

Due to the sensitivity of the study, the respondents refused to give some data to the researcher citing the reasons behind the study. The researchers however overcome this by showing an introductory letter acquired from the faculty fully explaining the purpose of the research. The researcher also assured respondents that their ideas were treated with utmost confidentiality.

iii. Bureaucracy delayed the study.

From all the procedures, getting data from management took time. However, the researcher took time and appealed to the bureaucrats for data.

The limitation of the research was also inadequate primary data collection due to difficulty in getting appointment with senior top officials in selected SMEs

However, despite of the above limitations, the researcher was determined to gather data to fulfill the research.

CHAPTER FOUR

4.0 PRESENTATION, DISCUSSION AND ANALYSIS OF FINDINGS

4.1 Introduction

This chapter contains the findings of the study and their analysis, which was carried out as a view of exploring the role of micro finance institutions on the performance of SMEs in Makindye East division. A case study of selected SMEs in Makindye East Constituency

4.2 Presentation of findings on the demographic characteristics of the respondents

Table 2: Shows the sex group of respondents in percentage

Sex	Frequency	Percentage
Male	24	40%
Female	36	60%
Total	60	100

Source: primary data

The table above shows that 60% of the respondents were female and 40% were male. This therefore shows that majority of the group in need of credit are females. The survey also reveals that most of the small and micro enterprises are operated by women this is so because some of the females were single parents and others had their businesses opened for them by their husbands as a way of getting extra income to support their families

Table 3: Shows age of the respondents

Age	Frequency	Percentage (%)
20 and below	6	10
21-30	12	20
31-40	16	26.7
41 and above	26	43.3
Total	60	100

Source: primary data

Results in table 3 reveal that majority of the respondents who participated were in the 41 and above years and 31-40 years respectively. This is so because at this age most people need more to sustain their families for instance if they have children who are studying they tend to be at high schools, colleges and universities which forces people to work harder. This scenario forces even those people who are employed to open up businesses so as to have extra sources of income. Also it is at the category of 41 years and above that you will find those people who have retired from their jobs and they opt to invest.

Table 4: Shows the level of education of the respondents

Response	Frequency	Percentage (%)
Degree	28	47
Diploma	12	20
Certificate	16	26
Others	4	7
Total	60	100

Source: primary data

The high percentages of Degree holders (47%) as shown in table above means that most investors in Makindye are educated which means that even though they might be employed they are not in a position to earn enough hence they are forced to invest so as to get an extra income. The category of 'others' has the lowest percentage of respondents of 7% per cent. Generally it was discovered that a higher percentage of respondents were educated

Table 5: shows the response about the genesis of the business

Response	Frequency	Percentage (%)
Bought it	4	6.7
Founded it	12	20
Inherited it	24	40
Partnership	20	33.3
Total	60	100

Source: primary data

Out of the sixty (60) respondents a high percentage (40%) inherited their businesses and 33.3 % are in partnership. Small percentage of respondents either bought or founded their businesses. This scenario could be so because of lack of enough capital hence people end up partnering or waiting to inherit from their parents or their spouses

Table 6: shows the response on loan procedure

Response	Frequency	Percentage (%)
Complicated	28	46
Fair	8	13.3
Encouraging	6	10
Discouraging	18	30
Total	60	100

Source: Primary source

Table 6 above, shows that majority of the respondents represented by a high percentage of 47% believe that the procedures of obtaining a loan are complicated which makes investors get discouraged to borrow from financial institutions as represented by 30% .According to the respondents these complicated procedures that include issues like having a guarantee, collateral security, having been an account holder of the bank for a certain period of time with a very 'active' account hinder them from accessing credit.

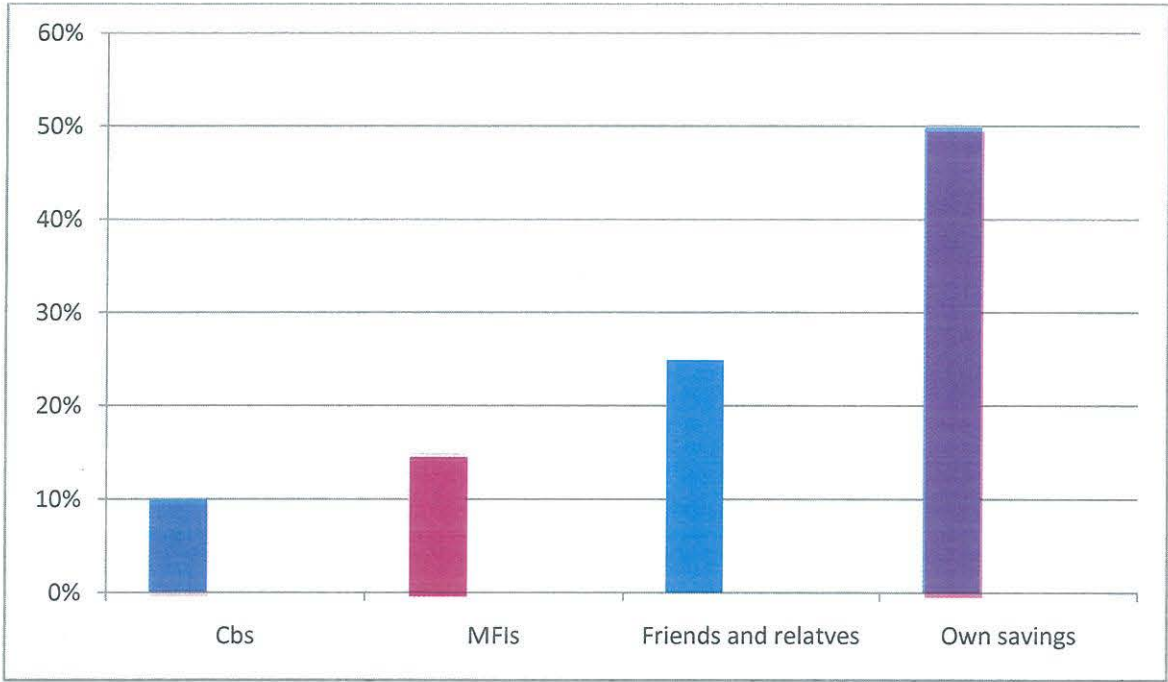
Table 7: shows the response on adequacy of loans in terms of collateral

Response	Frequency	Percentage (%)
Strongly agree	4	6.6
Agree	10	16.7
Not sure	4	6.6
Disagree	18	30
Strongly disagree	24	40
Total	60	100

Source: primary data

Table 7 shows that 40% of the respondents strongly disagreed and 30% disagreed that the loan given to them in terms of the collateral was adequate .These high percentages means that the amount of funds that respondents get compared to the security asked for by the financial institutions is very low. This scenario makes it hard for investors to go for loans as they will need more security to get the amount of funds that they want which at times these collateral are not available.

Graph 1: Shows the other sources of funds clients used



Source: primary data

Own saving had the highest percentage of 50% as a source of starting or additional capital. According to the respondents, they preferred raising funds through this means because it was cheap and reliable and no repayment was required. 25% of the respondents raised funds from friends because very low or no interest was charged, the procedures of obtaining the money were simple and short, no collateral was required the repayment was on condition that the business made profits and the repayment period was considerable. 15% of study sample got their finances from Micro-finance institutions because; the interest rates were lower compared to commercial banks, most businesses met requirements to borrow from MFIs and most MFIs offered financial management guidance.10% borrowed from CBs because; funds were readily available from the

bank, the interest charged was not fluctuating and availability of information concerning commercial banks. t of

Own savings and family sources form the most important sources of initial capital forming 50% and 25% respectively. Also according to further research they form important sources of additional capital. This is because their conditions are lenient as compared to the others. Though other sources of financing are also lenient from the research we found out that some people do not have those extra sources of funds like a property to sell and if it is available they are not willing to make it the opportunity cost of investing hence the low percentage. Considering the low incomes and savings rate in the country, SMEs fall back on these sources out of desperation. The small proportion of SMEs that receives some credit receives very modest amounts reflecting low activity levels

4.3 Problems encountered in financing the business

4.3.1 Friends and relatives

- i. Main problem was lack of trust and confidence in relation to repaying back the money.
- ii. The funds were not sufficient.
- iii. There was lack of specified duration for repayment of the funds.
- iv. It was unsafe to involve friends and relatives to avoid their influence in the management and running of the business.
- v. It was strenuous to the family members and friends.
- vi. Issues concerning the families internally

4.3.2 CBs

- i. Interest rates were high.
- ii. Found it hard to obtain collateral required.
- iii. Said repayment period was short.
- iv. Said that the credit worthiness evaluation process was long and strict on them and limited the amount they could borrow.

4.3.3 Own savings

- i. It was strenuous for them to finance businesses
- ii. Said the much they could save was not enough

4.3.4 MFIs

- i. Little information was available concerning MFIs.
- ii. Said micro-finance institutions are bureaucratic.
- iii. Problem in getting the collateral.
- iv. Repayment period was short.
- v. MFIs are not trustworthy.

4.4 Other sources for instance, sale of properties

- i. Said they did not have the properties to sell
- ii. Superstitions that selling of a property like land to invest, the business cannot prosper

Generally SMEs face difficulties in accessing credit thus undercapitalized. Of all the sources of capital available, they are only able to apply successfully to a small proportion. This is because entrepreneurs lacked about 80 % of collateral and information required.

Table 8: shows to what extent clients appreciate the services offered to them

Response	Frequency	Percentage (%)
Strongly agree	4	6.7
Agree	6	10
Not sure	2	3.3
Disagree	12	20
Strongly disagree	36	60
Total	60	100

Source: primary data

From the findings, a high percentage of 60% strongly disagreed and 6% disagreed that they appreciated the services offered to them by the various sources of funds they used. This high percentages could be so because most respondents depended on own savings and friends and relatives as their main source of finance. This scenario is so because the named sources of fund are convenient and readily available.

Table 9: shows information on the role of MFIs on performance of SMEs

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
MFI credit is the best way of improving performance of SMEs	13.3%	20%	0%	25%	41.7%
MFIs credit has played an important role in elevating status of your enterprise	3.3%	13.3%	6.7%	33.3%	43.3%
MFIs provides loan on time when needed by clients	8.3%	20%	8.3%	38.3%	25%
MFIs credit comes with affordable interest rates	16.7%	20%	13.3%	25%	25%
MFIs credit satisfies the financial needs of the enterprise	3.3%	13.3%	20%	26.7%	36.7%
Clients are satisfied with the treatment they get from MFIs employees	26.7%	23.3%	10%	20%	20%

Source: primary data

From the findings, majority of the respondents strongly disagreed that, MFIs credit is the best way of improving performance of SMEs as shown above with a high percentage of 41.7% and also a high percentage of 36.7% strongly disagreed that MFIs credit satisfies the financial needs of the enterprises

4.5 Findings on collateral requirements

During the study it was found out that many FIs don't have specific collateral requirements. Many apart from land titles accepts other things like inventory, household property, music systems, motor vehicle log books and other valuable items. However other groups get loans without collateral security, they only need to deposit a certain amount of money in order to get loan.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATION

5.1 Introduction

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

5.2 Summary of findings

It can be concluded that the credit service offered basically did not suit the respondents of small and micro businesses. This is shown by the response on the procedure of taking the loans of which 46% in table (6) said it was complicated, 30% said it was discouraging 13.3% said it was fair and 10% claimed that the loan procedures were encouraging. Most respondents found the loan procedure inadequate because of the collateral needed and the compliance costs. In table (7) 40% of the respondents strongly disagreed and 30% disagreed that the loan given to them in terms of collateral was adequate. The research has established that inaccessibility of credit has greatly affected the financial performance as well as the investment levels in SMEs. It is well established that majority of the respondents were afraid of borrowing from the MFIs because of fear of credit default and being subjected to courts of law or even losing their property as a result of auctioning. This is because of the high perceived risk Own savings and funding from relatives and friends seems to be the order of the day of most businesses in Makindye Division which in total represents a high percentage of 50. Young investors like fresh graduates are being supported by their parents and other relatives to start their own businesses instead of moving around the streets of Kampala looking for jobs. According to other respondents, these two sources of funds are convenient and termed as 'stress free'.

5.3 Suggestions on how SMEs should deal with credit inaccessibility

Some respondents said that SMEs should consolidate themselves in order to be able to access credit, others said that SMEs should take credit from informal financial institutions and shun away from banks which charge high interest rates. Others said forming their own SACCOS was a better option. Others advocated for strengthening of personal savings. Majority of the respondents said that increasing the size of their businesses in order to increase their chances of getting credit even when charged high interest rates as they will not erode all their profits.

5.4 Other areas looked into in the research

In the research, it was found out that the female compose the biggest percentage of 63.6% of the clients. The age group between 41 and above takes the biggest percentages of 43.3% shown in table (3). The level of education is mainly higher institutions which is at 47% of the respondents. The findings showed that majority of the respondents have been in business for more than four (4) years and also the majority of the respondents are involved in retail trade. The findings also showed that most of the respondents partnership in businesses (33.3%) in order to fulfill their aspirations and also due to lack of employment opportunities and in order to support each other financially.

5.5 Conclusion

Basing on the findings of the research it was established that credit inaccessibility greatly affects the growth, financial performance and the investment levels of SMEs in that it becomes hard for an investor to expand his or her businesses to match up or even out compete the competitors. Some potential investors end up not making their dreams come true due to shortage of funds and others start businesses which do not even celebrate their second birthday. We established that Small Business entrepreneurs who borrow from Commercial Banks and other financial institutions borrow in small amounts and not large amounts. This is associated to large amounts of funds required in repayment of the loans obtained and short repayment period, which inhibits large amounts borrowed. We also established that there were a number of problems faced by SMEs in funding their businesses. The problem faced by most respondents was the high interest rates charged on borrowing and loans from CBs, Lack of collateral, and lack of access to credit, lack of enough cash to meet the application costs, lack of knowledge of available loans and short repayment period. In order to combat the above difficulties, educational opportunities should be expanded to improve on the literacy and numeracy of the entrepreneurs in order to improve access to credit by SMEs and collateral levels should be lowered. After carrying out the research it was established that majority of investors preferred using own savings and funds from their friends and relatives to finance their businesses main reasons being convenience and less costly. In conclusion, the research has established that micro finance institutions play a vital role in determining the performance of SMEs thus determine the growth, financial performance and investments in the SMEs.

5.6 Recommendations

Most small and micro entrepreneurs are ignorant about MFIs. MFIs should create more awareness to the public so that those who need assistance may seek their services. This awareness can be created through the mass and electronic media such as television, radio and internet. Other methods include seminars, workshops, leaflet distribution and public rallies. They should expand their activities in order to reach out and assist more SMEs to foster growth in this young and important industry and restructure their loan programs from group-based loan schemes to individual based loans schemes, which are easier to access. This is because with the current economic hardships, it is difficult to get groups to guarantee loans for individuals. Since the age of an enterprise is important in accessing credit, short life expectancy of SMEs especially informal ones is an impediment to credit access. High mortality rates mean lost opportunities not only of accumulating business experience but also for building credibility and reputation necessary for accessing credit from financial institutions and suppliers of inputs and products. It is therefore necessary to put in place business 'clinics' for extending managerial and financial 'First Aid'.

5.7 Suggestions for further studies

Because of the limited time and funds, it was not possible to cover effectively all the areas of interest in the study and therefore more research is needed on the following area; the effect of high cost of living on the expansion of SMEs, the impact of market forces on interest rates and the effect of financial institutions profitability motive on interest rate levels.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear, Respondents;

I am SENO IVAN REG.NO.BBA/43548/143/DU a final year student of Bachelors of Business Administration at Kampala International University. I am currently conducting my research entitled the role of microfinance institutions on the performance of small and medium enterprises in Makindye Division as a partial requirement for the award of the above mentioned degree. I humbly request for your assistance in answering this questionnaire. The information collected during this research shall be treated with utmost confidentiality and will restrict to the purpose of this study.

Yours faithfully
Signature.....

SENO IVAN

REG.NO.BBA/43548/143/DU

Instructions

Please answer the question in this questionnaire by ticking where applicable [✓] or by filling in the spaces provided.

PART 1: RESPONDENTS BACKGROUND

1) What is your age?

20 years and below ☐ 21-30 ☐ 31-40 ☐ 41 and above ☐

2) What is your gender?

Male ☐ Female ☐

3) What is your religion?

a) Christian ☐ b) Muslim ☐ c) Any other ☐

4) What is your level of education?

- a) Certificate ☐ b) Diploma ☐ c) Degree ☐ d) Others ☐

PART II: FIRMS BACKGROUND

5) What type of business do you operate?

6) How did you start the business?

- a) Founded it ☐ b) Bought it ☐ c) Inherited it ☐ d) Partnership ☐ e) Others ☐

7) Have you ever received any credit facility?

- a) Yes ☐ No ☐

8) What is the size of your business in terms of?

- a) Sales
b) Employees.....
c) Assets.....

9) For how long have you operated this business?

10) What are the major activities and products of this business?

PART III: information on credits from microfinance institutions

11) Did you know about the operations of Micro Finance Institutions?

- Yes ☐ No ☐

12) If yes, how did you get to Know about Micro Finance Institutions (MFIs)?

- Friends ☐ Media ☐ MFI official ☐ Handbill ☐ Others ☐

13) Have you ever received any credit facility from MFIs.....?

14) What were the conditions or the collateral needed.....?

15) Did you find credit facility so adequate in terms of collateral required?

- Strongly agree ☐ Agree ☐ Not sure ☐ Disagree ☐ Strongly agree ☐

16) Did you work in the business before or after accessing credit facility?

- Before credit facility ☐ after credit facility ☐

17) Have you ever benefited from any services of Micro Finance Institution(s)?

- Yes ☐ No ☐

18) Which products of Micro Finance Institutions have you ever benefited from?

Credits ☐ Financial & Management ☐ Training ☐ Others ☐

19) Have you ever applied for credit facility from any MFI?

Yes ☐ No ☐

20) What percentage of loan applied was granted?

100 per cent ☐ 75-99 per cent ☐ 50-74 per cent ☐ Less than 50 percent ☐

21) How long does it take to access credit from your MFI?

Less than a week ☐ 1-2 weeks ☐ 2 -3 weeks ☐ 3-4 weeks ☐

22) Do you access more credit from MFIs than the traditional banks?

Yes ☐ No ☐

23) Do you see interest rates charged by microfinance institutions for their loans to be a burden?

Yes ☐ No ☐

24) What were your expectations about MFIs before doing business with them?

.....
.....

25) Have these expectations been met?

Yes ☐ No ☐

26) What other sources of financial credit do you recommend for small and micro enterprises?

Commercial Banks ☐ Microfinance institutions ☐ Friends and relatives ☐

Own savings ☐

27) Considering all the above sources of financial credit the assistance offered to you was highly appreciable?

Strongly agree ☐ Agree ☐ Not sure ☐ Disagree ☐ Strongly disagree ☐

PART III: INFORMATION ON THE PERFORMANCE OF SMES

28) Do you think that credit facility has affected your financial performance?

Yes ☐ No ☐

29) Have you seen any positive improvement since you received credit facility?

Yes ☐ No ☐

30) Do you see microfinance institutions credit as favorable for the development of your enterprise?

Yes ☐ No ☐

31) Do you manage to repay the loans taken MFIs on time?

Yes ☐ No ☐

Rate the situation concerning microfinance institutions and credit facilities in Makindye Division.

Instructions

Below are statements related to microfinance credit s. Read each statement carefully and put tick (✓) in the appropriate box which you agree with according to the key.

Note: Each statement should have only one tick

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
32	MFI credit is the best way of improving the performance of SMEs					
33	MFI credit has played an important role in elevating status of your enterprise					
34	MFI provides loan on time when needed by the clients					
35	MFIs credit comes with affordable interest rates					
36	MFIs credits satisfies the financial needs of the enterprise					
37	You are satisfied with the treatment clients get from MFIs employees					

Qn. In your own opinion, what should be done to make microfinance institutions credits an important tool for performance of SMEs in your area?

.....

.....

.....

.....

THANKYOU

APPENDIX 2: INTRODUCTORY LETTER



**KAMPALA
INTERNATIONAL
UNIVERSITY**

Ggaba Road, Kansanga* PO BOX 20000 Kampala, Uganda
Tel: +256 777 295 599, Fax: +256 (0) 41 - 501 974
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COLLEGE OF ECONOMICS AND MANAGEMENT DEPARTMENT OF ACCOUNTING AND FINANCE

JUNE, 19TH 2017

To whom It may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR SENO IVAN, REG NO.
BBA/43548/143/DU**

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

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

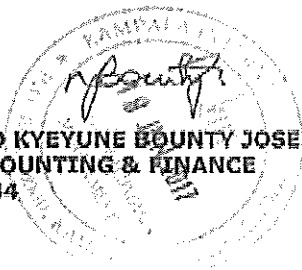
**Topic: - THE ROLE OF MICROFINANCE INSTITUTIONS ON THE
PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES.**

**Case Study - SELECTED SMEs IN MAKINDYE EAST CONSTITUENCY KAMPALA
DISTRICT- UGANDA**

We shall be grateful for your positive response.

Yours truly,

**Dr. KIRABO KYEYUNE BOUNTY JOSEPH
HOD - ACCOUNTING & FINANCE
0772323344**



APPENDIX 3: BUDGET

NO	ITEMS	QUANTITY	UNIT PRICE	TOTAL COST
1	Stationary	1ream of paper	15,000	15,000
2	Communication	Lump sum	10,000	2,000
3	Pilot study (preliminary study)	Lump sum	5,000	5,000
4	Typing, printing, and photocopying of questionnaires and draft reports	Several	60,000	60,000
5	Travel		27,000	54,000
6	Food and drinks			10,000
7	Miscellaneous			15,000
Total				161,000

APPENDIX 4 SAMPLE SIZE FOR A GIVEN POPULATION

Appendix A

Sample size (s) required for a given population size (N)

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	256	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384

(Source: Amin, 2005:454)

Note: From R.V. Krejcie and D.W. Morgan (1970), Determining sample size for research activities, Educational and psychological measurement, 30,608, Sage Publications.