BANK LOANS AND FINANCIAL PERFORMANCE OF SMALL BUSINESS ENTERPRISES IN ADJUMANI DISTRICT, UGANDA

BY

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A RESEARCH REPORT SUBMITTED TO COLLEGE OF ECONOMICS AND MANAGEMENT AS A REQUIREMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF A BACHELOR OF BUSINESS ADMINISTRATION (FINANCE AND ACCOUNTING) OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I hereby declare that this research proposal is my own effort and has never been produced anywhere in Kampala International University or any other institution of higher learning for any award.

SIGNED: .... DATE: 03/07/2019..

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APPROVAL

This Research Proposal has been developed and is now submitted with the approval of the following supervisors:

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DR. KIRABO K.B JOSEPH

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DEDICATION

This report is dedicated to my entire family more especially for making my education process successful. Great tribute goes to my University Supervisor Dr. Kirabo K.B Joseph for the guidance and sense of direction during the writing of this report.

Lastly I also dedicate this Piece of work to all my friends for the support and encouragement; May God blesses you all.

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I thank the Almighty God who has made me complete this work; I also wish to express my sincere gratitude to my parents. My friends and other family members for their support throughout my stay at the University and during the writing of this report.

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LIST OF ACRONYMNS

GDP:	Gross Domestic Product
GVA:	Gross Value Added
LPE:	Law of Proportionate Effect
MFI:	Microfinance Institutions
OECD:	Organization for Economic Cooperation and Development
RoU:	Republic of Uganda
SBEs:	Small Business Enterprises
UBOS:	Uganda bureau of Statistics
USAID:	United states Agency for International Development

ABSTRACT

The main aim of the study was to examine the effect of bank loan on financial performance of small business enterprises, a case study of Adjumani District. It was guided by the following objectives; to examine the effect of commercial loan financing on the financial performance of small business enterprise, to determine the effect of retained earnings financing on the financial performance of small business enterprise and the effect of Trade Credit financing on the financial performance of small business enterprise in Adjumani district. In the study a cross sectional research design was used, where both qualitative and quantitative research methods were used. The total number of respondents who participated in the study was 50 and these were entrepreneurs of small business enterprises. Data was collected from respondents by use of questionnaires and an interview guide as the research instrument. Data was analyzed using tables and descriptions were done using percentages.

The study revealed that acquired assets pays off funding cost leaving the SBE with the asset value. SBEs in their limited asset base have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations usage of funds increases investment prospects of SBE. Funds also increases chances of SBE success, application of this funding reduces agency costs and SBE is able to finance more projects increasing returns. It was concluded that commercial loan financing has a positive effect on financial performance and this effect is statistically significant in predicting financial performance of SBEs. SBEs that use commercial loan financing will expand their business operations and experience significant increase in their profitability. Trade credit financing has a positive and significant effect on financial performance of SBEs. It therefore follows that trade credit is a significant predictor of financial performance. SBEs that use trade credit in financing their operations are likely to see their output and revenues increase thus increasing their level of profitability. The study recommended that investors and managers of SBEs should consider sources of business financing as important determinants of financial performance. SBEs should come together to form larger groups in order to access bigger commercial loans from banks, microfinance institutions and other lenders which are cheaper to source as they carry lower transaction costs and such costs are shared by SBEs in the group reducing its impact on individual SME's financial performance.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter presented the background to the study, statement of the problem, general objective of the study, specific objectives, research questions, and scope of the study, significance of the study and operational definition of key terms.

1.1 Background to the Study

1.1.1 Historical Perspective

The roots of bank loan can be traced back to the roots of civilization itself. Written loan contracts from Mesopotamia that are more than 3,000 years old showed the development of a credit system that included the concept of interest (Carlin, & Mayer. 2003). Legitimate banks were developed from the indenture servitude that was rampant by individuals known as moneylenders. It is from Italian moneylenders who would set up benches in the local market place (with the word for bench being "banca") that we coin the word 'Bank' (Payner, and Redman 2007). Banks in Africa started giving loans to white settlers in the 1950's. Getting to the 1990's, loans given to customers did not perform which called for an intervention. Most suggestions were for the evaluation of customer's ability to repay the loan, but this didn't work as loan defaults continued (Modurch, 1999). This brought about crises in the Banking sector.

Later in the 1970s, banks shifted its attention to poverty eradication. Development projects reflected people-oriented objectives rather than exclusively the construction of material structures. Projects related to food production, rural and urban development, and population, health and nutrition were designed to reach the poor directly. Bank operations also expanded to identify and encourage policies, strategies, and institutions that helped countries succeed. The Bank initiated sectoral and structural adjustment loans deemed necessary for the success of its projects. In the 1980s, the Bank continued to enlarge its focus on issues of social development. Issues of social life, including education, communications, cultural heritage, and good governance came to the fore (Adams, 2010).

Small business enterprises (SBEs) are lifeblood in the global economy; they play a significant role in their economies as key generators of employment and income, and as drivers of innovation and growth. Small business enterprises (SBEs) employ more than half of the private sector labour force in OECD economies. Given their importance in all economies, they are essential for the economic recovery from the current economic and financial crisis. When bank lending is reduced, SBEs tend to be more vulnerable and affected than larger corporations (Beck, 2009) and credit sources tend to dry up more rapidly for small firms than for large companies during economic downturns (ECB, 2013a). In countries like the United States of America and United Kingdom, it is not only the big businesses that provide the foundations of the Nations economies, SBEs have boosted economies, Green (2002) and continue to account for a substantial amount of GDP and employment. Even according to World Bank, (2015). "Small and medium-size enterprises account for the largest share of employment in the developing world. They are also more likely than large firms to be credit constrained. These businesses need working capital to operate, to grow and to compete in the marketplace so as to be sustainable.

In Africa, a bank loan is a severe problem for SBEs and unavailability of finance to SBE sector has been viewed as a critical element for the development of SBEs. Fatoki and Assah (2011) highlights the consequences of limited levels of bank loan to SBEs. Normally SBEs face higher transaction costs than larger enterprises in obtaining bank loan facilities and availability of funds to finance working capital (Beck et al., 2005). SBEs represent over 90% of the enterprises and account for 50 to 60% of employment. SBEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine (Abor and Quartey, 2010). Thus SBEs are widely recognized as the key engine of economic development. As a result of this recognition, central debates around Africa in particular has been how to stimulate economic growth through the development of SBEs.

Small business enterprises (SBEs) play a major role in economic development in every country, including in African countries. Studies indicate that in both advanced economies and developing countries SBEs contribute on average 60 percent of total formal employment in the manufacturing sector (Ayyagari et al, 2007). For African economies, the contribution of the SBE sector to job opportunities is even more important. Taking into account the contribution of the informal sector, SBEs account for about three-quarters of total employment in manufacturing.

In Uganda, the primary tools for enhancing SBEs performance include investment in infrastructure, social assistance, training and other forms of public assistance. Development of micro enterprises in towns and remote rural areas have become widespread, even though these have been supported, Despite the contributions of SBEs, their major barriers to growth and development appear to be shortage of both equity financing and debt. Thus, according to Lader (1996), one other important problem that SBEs often face is lack of adequate financial resources thus the survival of SBE'S still remains uncertain thus the need to investigate into bank loan and SBE'S performance.

SBEs employ more than 2.5 million people, constitute up to 90 percent of the private sector and contribute over 70 percent to total GDP (Ankunda 2010). For developing countries, small-scale enterprises would generally mean enterprises with less than 50 workers and medium-size enterprises would generally mean those that have 50-99 workers. However majority of these SBEs are not sustainable and its probed that their failure to be sustainable roots from levels of bank loan, thus this study investigates into effects of bank loans on financial performance of SBE's.

1.1.2 Theoretical Perspective

The study will be guided by the following theories; Theory of Business Growth and the Sociological Theory. The SBE's sector plays a crucial role in maintaining high employment and income generation and is therefore critical for a country to achieving sustainable growth. To enhance their role, SBEs need to focus on a number of key business challenges such as reducing costs, improving employee productivity and building competitive advantage through producing quality products and services and other entrepreneurial interventions. To achieve the growth potential of theSBE's sector the government has to play a role of providing the necessary infrastructure to the sector and this is only achievable through taxing the same sector i.e. reaping the benefits of the said infrastructure. The sociological theory of entrepreneurship holds social cultures as the driving force of entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of the society, and such role expectations base on religious beliefs, taboos, and customs. Weber (1920) held religion as the major driver of entrepreneurship, and stressed on the spirit of capitalism, which highlights economic freedom and private enterprise. Capitalism thrives under the protestant work ethic that harps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur.

1.1.3Conceptual Perspective

A crucial element in the performance of the SBE sector is access to bank loan, particularly to bank financing, given the relative importance of the banking sector in serving this segment. A number of studies have shown that bank loan is a greater obstacle for SBEs than it is for large firms, particularly in the developing world, and that access to bank loan adversely affect the growth of the SBE sector more than that of large companies (Beck et al, 2006). Thus the availability of bank loan is a concern to performance of SBEs.

According to the financial growth cycle paradigm proposed by Berger and Udell (1998) financial needs and the financing options available for SBEs change throughout the various phases of a firm's lifecycle. In general, because of the unique features that characterize SBEs during the start-up phase, such as informational opacity (Berger &Udell, 1998), a lack of trading history and the high risk of failure SBEs in this stage depend heavily on insider funding sources.

Adequate resourcing of small and medium sized enterprises (SBEs) is of paramount importance because of their contribution to gross value added (GVA) and employment (Ayyagari et al. 2007). Provision of resources to small firms is a function of the willingness of funders to lend, combined with demand for investment finance. The preferred primary source of finance for small firms is internal equity, as they typically adhere to the pecking order theory (Mateev et al, 2013). If this source is inadequate for investment needs, firms seek finance externally, of which the most important source is bank debt (Beck et al., 2008). Reliance on bank finance causes SBEs to be particularly vulnerable if there is an abrupt and extensive disruption to the world financial system resulting in a credit crunch (Udell, 2009).

Regardless of SBEs being considered as a major driver of innovation and employment, as well as their potentiality in a country's economic development, recent empirical studies have refined this view, suggesting that the future of SBE sector might be jeopardized due to financial constraints (Fatoki and Assah, 2011). SBE sector are commonly more being financially constrained and experience financial difficulties in access to finance.

1.1.4Contextual Perspective

In Adjumani district, interest rates and financial performance of Small businesses are so interrelated in that almost 58% of the small businesses do get loans from different financial institutions of which they have to pay back with some interest. Some financial institutions set low interest rates and others still have high interest rates. High interest rates affect small business enterprise in that it becomes so hard in the process of loan repayment and some end up underdeveloped, collapsing or selling off their securities in order to raise money for loan repayment (Ssewanyana, 2017).

Adjumani district is one of the districts with financial institutions that offer savings or loans from financial institutions. Small businesses have come up forinstanceChapati makers, Butcheries, Boutiques, Kiosks, restaurants among others. However, the Bank of Uganda annual report (2004) put its forward that most of the small business enterprise people do get loans from different financial institutions like banks, micro-finance institutions, money lenders among others. This has occasionally led to collapse of many small business enterprises and therefore the researcher intends to establish the effects of bank loans on the financial performance of small business enterprise in Adjumani district.

1.2 Statement of the Problem

Small business enterprisehave untapped source of economic growth and provide society with different solutions to management, organizations and business problems and exploit entrepreneurial opportunities (Ssewanyana, 2017). Despite encouraging remarks about capacities of SBEs enterprises to boost local economy (USAID, 2018) briefs indicate that these micro enterprises grow less rapidly and are likely to close sooner after they have started. In Adjumani district, there exists several institutions which render bank loan facilities, to mention Centenary Bank, Stanbic, Bank of Africa, Baroda, Opportunity, Eco bank, and many microfinance, SACCOs and village banks, however even with the existence of these several bank loan institutions, many SBE's continue to perform poorly in terms of profitability, inventory turnover and cash flows with some even collapsing thus the performance of most of the SBE's in Adjumani district still remains uncertain. This has therefore prompted the researcher to investigate on the effects of bank loans on financial performance of SBE's using Adjuman district as a case study.

1.3 Purpose of the Study

The purpose of the study was to establish the effects of bank loans on financial performance of SBE's.

1.4 Objectives of the Study

i. To examine the effect of commercial loan financing on the financial performance of small business enterprise in Adjumani district
ii. To determine the effect of retained earnings financing on the financial performance of small business enterprise in Adjumani district
iii. To establish the effect of Trade Credit financing on the financial performance of small business enterprise in Adjumani district

1.5 Research Questions

i. What is the effect of commercial loan financing on the financial performance of small business enterprise in Adjumanidistrict?
ii. What is the effect of retained earnings financing on the financial performance of small business enterprise in Adjumanidistrict?
iii. What is the effect of Trade Credit financing on the financial performance of small business enterprise in Adjumanidistrict?

1.6 Research hypothesis

H_1: There is a significant relationship between commercial loan financing and the financial performance of small business enterprise in Adjumani district.

H_2: There is a significant relationship between retained earnings financing on the financial performance of small business enterprise in Adjumani district.

H_3: There is a significant relationship between Trade Credit financing on the financial performance of small business enterprise in Adjumani district.

1.7 Scope of the study

1.7.1 Content Scope

This study established the effect of bank loans on financial performance of SBE's in Adjumani district. The study also focused on the effect of commercial loan, retained earnings and Trade Credit financing on the financial performance of small business enterprise in Adjumani district

1.7.2 Geographical Scope

This study was carried out in Adjumani district, Kampala Metropolitan region.

1.7.3 Time Scope

This study focused on information generated about the research problem in a timeframe of 10 years, from 2009 to 2019. The actual data collection processes will be carried out within a period of 2 months.

1.8 Significance of the Study

The study has been motivated by the need to understand the dimensions of bank loan and financial performance of SBE's. The study will also add to the body of knowledge on bank loan studies and serve as a basis for future research.

The findings from this study shall provides information for the regulatory organizations involved in promoting investment, such as the Capital Markets Authorities and the Investment Authorities in Uganda, to assist them analyze and harness the financial resources relevant to SBE'S. It may also provide a basis for further research in bank loan issues focusing on Uganda.

1.9 Operation definition of key terms

Bank loan: Refers to theamount of money provided by a lender and taken by a borrower, payable at some future date on specific terms and conditions and governed by legal contract

Small business enterprises: Small business enterprise (SBEs) can be defined as ..' any entity, whether or not incorporated or registered under any law, (which consists) consisting mainly of persons carrying on small(business) enterprise concerns in any economic sector (or which has been) and established for the purpose of promoting the interests

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presented the theoretical, conceptual review, literature review, empirical review and research gaps.

2.1 Theoretical Review

2.1.1 Theory of Business Growth

The SBE's sector plays a crucial role in maintaining high employment and income generation and is therefore critical for a country to achieving sustainable growth. To enhance their role, SBEs need to focus on a number of key business challenges such as reducing costs, improving employee productivity and building competitive advantage through producing quality products and services and other entrepreneurial interventions. To achieve the growth potential of the

SBE's sector the government has to play a role of providing the necessary infrastructure to the sector and this is only achievable through taxing the same sector i.e. reaping the benefits of the said infrastructure.

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect (LPE). Gibrat (1931) stipulates that the rate of growth of a firm is independent of its initial size. By implication it would mean that large firms are preferable in context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, given that young firms are usually smaller than older ones (businesses) for the reasons discussed earlier; Jovanovic(1982) argues that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other larger firm in the same sector as time goes by.

2.1.2 Sociological Theory

The sociological theory of entrepreneurship holds social cultures as the driving force of entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of the society, and such role expectations base on religious beliefs, taboos, and customs. Weber (1920) held religion as the major driver of entrepreneurship, and stressed on the spirit of capitalism, which highlights economic freedom and private enterprise. Capitalism thrives under the protestant work ethic that harps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur.

2.2 Conceptual Review

2.2.1 Bank loan

Bank loan has been defined by Biney (2006) as an amount of money provided by a lender and taken by a borrower, payable at some future date on specific terms and conditions and governed by legal contract. Ribeiro (2006) also defines bank loan as the offer of money to a person or entity with the expectation that repayment would be made with interest either by installments or in one amount by a specified date, where necessary a lender will protect himself, by asking the borrower to provide some collateral. Due to intense competition amongst financial institutions, some financial institutions do not take collateral in order to win clients to their banks.

According to Rouse (1989), bank loan is an art rather than science because it involves experience and common sense. This assertion to some extent is true. These two factors alone can perfect some aspect of bank loan, but not to its entirety. It is through science that lenders come out with accounting procedures, credits and risk's analysis to assess customer's ability to pay, regulatory framework among other factors. He explained that a lender lends money and does not give it away. There is therefore a judgment that on a particular future date repayment will take place. The lender needs to look into the future and ask whether the customer will repay by the agreed date. He indicated that there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment.

Bank loan has been a major source of funding for most businesses. There is the need therefore for banks and other financial institutions to be careful in their loan administration to prevent the inherent risk associated with the product in order to maximize shareholders returns and enhance the image of the institution (Agyemang, 2010). Banks have over the years helped customers to augment capital for most businesses and make them financially strong to accelerate nation building. Anaman (2006) maintains that as much as banks' bank loan help business to flourish, banks also have its fair share in the forms of fees and incomes to sustain its operations.

2.2.3 Financial performance of small business enterprises

Small business enterprise (SBEs) can be defined as ..' any entity, whether or not incorporated or registered under any law, (which consists) consisting mainly of persons carrying on small(business) enterprise concerns in any economic sector (or which has been) and established for the purpose of promoting the interests of or representing small (business) enterprise concerns in any economic sector (or which has been) and established for the purpose of promoting the interests of or representing small (business) enterprise concerns, and includes any federation consisting wholly or partly of such association, and any branch of such organization'. SBEs are classified according to their total full-time equivalent of paid employees, total annual turnover, and total gross asset value excluding fixed (South Africa, 1996).

Small business enterprise (SBEs) generally face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Lack of access to credit is almost universally indicated as a key problem for SBEs. Credit constraints operate in a variety of ways in Uganda where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. Thereare various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees, lack of collateral and longtime lending procedures. Financial constraint remains a major challenge facing SBEs in Kena (Wanjohi and Mugure, 2008). Small-scale enterprises play a major role in facilitating economic growth in Ugandan economy.

The greatest hindrance to their active participation is the access to affordable credit and at reasonable terms. Republic of Uganda (RoU) (1992) focused on the role of small business enterprise and stressed the potential of the SBE sector to function as a catalyst of growth for the country's development. In the past, the Ugandan economy has been characterised by slow growth.

2.3 Review of related literature

2.3.1 Commercial Loan Financing and Firm Performance

Commercial loan financing describes the funds borrowed from private individuals, banks, co-operatives, microfinance institutions and other lenders to support SBEs business operations (Munyuny, 2013). The funds are borrowed under the terms and conditions of the lending party and the borrowing SBE is normally required to pay back the principal amount plus interest. Commercial loan financing is measured by funds usage, sustainability of funds and repayment period.

Timoshenko (2012) argues that commercial loans constitute a major source of external funding for the Latvian SBEs. In 2009, it rose from 33% to 35% in 2012, signifying its importance as a financing option favoured by entrepreneurs in the SBEs business. This prompted the Latvian Government to come up with programmes that would see the operators in the sector access more funding from commercial banks. In such cases the Government takes the position of a guarantor to institutions advancing loans to SBEs by covering all costs in cases where the SBEs become bankrupt. The Parliamentary Act has seen many firms access more funds to start and operate their business. Vo et al., (2011) observes that firms at start-up stage had reservations in sendingloan requests to banks in Vietnam. They either assumed that they did not urgently require commercial loans or it was hard to attain approval for formal loans due their stage in business cycle. However, their counterparts; those that were in operation for some times (about 86%) found it very appealing to use commercial loans to launch expansion programmes and keep their business activities in operation than other forms of financing. Mishra and Soota (2014) recognized commercial loans as a vital source of financing that can be utilized by firms to expand their projects, modernize and renovate their existing equipment and carrying out technological updates.

Abouzeedan (2003) states that the Small Business Administration (SBA) an American Government agency participates in SBEs funding by encouraging and motivating banks and other financial institutions to lend to SBEs and start-up ventures by guaranteeing up to 90% of the loan amount to qualified borrowers. The study believes that commercial loans remains a principal source of financing for SBEs in Sweden into the unforeseeable future even though SBEs continue facing competition from large businesses for the same funds.

Agbozo and Yeboah (2012) observes that 53% of respondents intimate to be using commercial loans as a key source of financing with 35% indicating that access to loan had risen over the period and loans were mostly preferred as they basically depended on the good relationship between the borrowers and the lenders. Xiao (2014) claims that SBEs that utilized commercial loans reduced financial distress allowing them to finance more projects hence, generating more cash flows. Quianoo (2011) outlines reasons that may push SBEs to seek commercial loan funding as to finance activities such as opening new branches, commencing new investment projects among other factors. Commercial loans were mostly suited for SBEs financial needs as they were more realistic and reliable in European countries as they lacked options such as those available to large enterprises such as issuing shares and debentures in the capital markets.

Egbuna and Agali (2013) observe that 20% of respondents in the study indicated that they obtained their commercial loans from banks and 22.9% sourced from friends and relatives at a fair interest in Nigeria. Osoro and Muturi (2013) still observes that 50% of respondents in the SBEs obtained their initial capital as commercial loans from Micro-Finance Institutions (MFIs) and 20% acquired their loans from friends in Kisii-Uganda. Kihimbo et al., (2012) claim that among the SBES in Kakamega Municipality in Uganda, commercial loans were some of the sources of beginning capital. These loans were acquired from friends, Commercial banks and MFIs. All these prior studies alludes to the fact that commercial loans have been utilized by SBEs to finance business operations ranging from start-up capital and capital to finance continuing activities at various levels of business cycles.

Commercial bank lending sets the objectives, standards, and parameters that guide loan officers in granting loans and management of the loan portfolio. The lending policy provides a framework within which the credit risk arising from lending will be originated and managed in order to minimize the risk of financial loss (Othieno, 2010). Carpenter et al., (2002) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. The insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of small and medium business failure in developing economies. Makokha (2006) revealed that inadequacy of capital hinder the expansion of businesses. His study further found that larger loans enabled SBEs to graduate to medium enterprises. Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to the sustainability of small and medium enterprises.

Providers of credit attribute to the high interest rate to high cost of administration of overdue loans and defaulters which eventually push up lending cost without corresponding increase in loans turnover. Defaulters of loan reduce financial institutions resource base for further lending, thus, weaken staff morale and affecting the borrower's confidence. The consequence is that financial institutions must set the risk premium sufficiently high to compensate for the risk leading to differentials in the required return and the expected return on a loan.

Saunders et al., (2007) added that the promised return on the credit may well differ from the expected return on a credit due to the presence of default risk. However, the lender has to recognize that by setting high risk may have actually reduced the probability of repayment. In Africa, loan repayment performance has been very poor and this has affected the small business financing. For instance, about 45% small agriculture loans granted in Ghana are not repaid as bemoaned (Aryeetey et al., 2000).

Rosenberg et al., (2009) supported that financial institutions prefer large loans because the administrative costs decrease proportionately to the size of the loan. SBEs consider small loans amount to meet immediate needs because SBEs don't have capacity or experience to handle large sums of money in their businesses and even can lead to business failure. Short-term debt is the best financing tool because it is perceived to be cheaper (Jun et al., 2003). Short term debt adapts more easily and facilitates bank relations between the firm and the lender due to frequent renewals and hence firms might obtain credit condition benefits.

Short term debt loans solve the problem of underinvestment because management is more frequently monitored due to periodic credit renewal. Ozkan (2000) argues short term debt can mitigate agency conflicts between shareholders and debt holders. SBEs in their limited asset base have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations. This in turn limits sources of financing are available to SBEs. Pelham (2000) argued that long term debts provide small firms with more competitive advantages when compared with large firms. According to his study there was is a direct positive and significant relationship between long term loans and financial performance of the small businesses.

Loans are given depending on savings with financial institution and the SBEs previous loan repayment. Most of these loans are lent out depending on the collection convenience, payment and flexibility with experienced clients. Financial institutions tend to meet their clients working capital by giving short term loans and limit long term loans. Financial institutions cite weak SBE management and governance, unreliable financial information on SBE operations, lack of medium- and long-term resources for typical SBE lending, and complicated procedures to register and seize collateral as the main constraints to funding SBEs with large loans amount (Odongo, 2014).

SBEs tend to lose commitment of repaying the loan because of the small loan amount borrowed and there is high possibility of not performing to the expectations of the FIs since they also don't meet SBEs needs as they expect to bigger amount of loans. While the loan size can have some impact on the SBEs performance but it is minimal compared with those of big loan size in the same sector and its relationship to create good performance is insignificant to this kind of businesses (Odongo, 2014). Thus it is vital that the current establishes the relationship between this variable (commercial loan financing) and financial performance of the firms in question (SBEs).

2.3.2 Retained Earnings Financing and Firm Performance

The relationship between retained earnings and firm performance has been established by many researchers (Frank and Goyal., 2005; (Njeru et al., 2012; Wang., 2013). Frank and Goyal (2005) while discussing financial theories underscored the fact that financial managers have a tendency to utilize retained earnings compared to external funding. Retained earnings (Njeru et al., 2012) constitute to be an important source of financing for established SBEs in developing economies. Wang (2013) argues that Chinese SBEs in Taizhou depended on retained earnings as a source of financing to a level that Micro-financing which was formerly a popular source of funding lost prominence among its customers. The net effect was a sustained decrease in micro financing; on average doubling the application of retained earnings led to a decline in the usage of micro financing by a staggering figure of 22.8%. The consumption of retained earnings by SBEs as a form of funding meant a decline in the utility of some alternative funding. Abouzeedan (2003) clarifies this trend by asserting that retained earnings are one of the cheapest financing sources that SBEs can access and utilize. Retained earnings are becoming handy among Swedish SBEs during times of resource scarcity; especially as their number continue to balloon overstretching the available financing options. Xiao (2014) claims that use of ploughed funds prevented firms from being undervalued hence, motivating finance managers to opt for this form of funding.

Timoshenko (2012) argues that once firms survived the first phase of the growth cycle, they had a tendency of delinking funding efforts from personal savings and instead depended on retained earnings to finance business expansion programmes. Retained earnings are a vital funding option during periods of external funding distress along the SBEs growth and economic cycles (business life).Agbozo and Yeboah (2012) underscore the importance of retained earnings financing when the study claims that 25% of respondents in Ghana agreed that they considered it as a vital source and used it to finance their business operations. Kyokutamba (2012),Egbuna and Agali (2013) highlight the significance of retained earnings in financing SBEs' start-up and operational activities. In Nigeria 21.4% of respondents agreed that they sourced their finances from retained earnings; this is in line with prior studies which highlighted this fact. Chepkemoi (2013) asserts that SBEs in Uganda heavily depended on retained earnings to finance their investments in their early stages of inception. This was due to the fact that they were still young and had not established sufficient network to qualify for external financing. The popularity of retained earnings as a form of financing among SBEs, calls for a critical examination of their effect on the financial performance of these enterprises in Lurambi Sub-County.

2.3.3 Trade Credit financing and firm performance

According to Munyuny, (2013), trade credit refers to the credit extended to SBEs by their suppliers whom they have purchased goods or services from on a credit basis for a given period of time after which they pay later when the credit period expires. Taketa and Udell (2007); Klapper (2006); Berger and Udell (2004)asserts that trade credit in Japan accounted for 22.67% of debt financing sourced by non-farm, non-financial and non-real estate for profit SBEs and in the United States of America in the same segment, it was about one-third. This is almost equal to commercial bank financing to the same segment in the States. In economies with less well established financial systems and with weak legal systems that make financial contracts difficult to enforce, SBES and other firms might find trade credit a very useful tool and an alternative form of financing that can fill the prevailing financing gap. The size of trade credit extended to SBEs is determined by the type and nature of the product in question. Trade credit will be high if the product is less divestible hence non-standardized. The study contents that during the Japanese financial crisis, trade credit was more extensively used compared to all other financing options combined. Trade credit is of great importance in developing countries especially for firms that are less credit-worthy in the eyes of other forms of lending and lenders in the financial markets.

Munyuny (2013) claims that trade credit was an important source of funding as it enabled firms to cut down on the transaction costs, led to reduction on risk, allowed enterprises to benefit on discounts and was an important tool in correcting market imperfection in emerging economies and in times of financial crisis in developed economies. Timoshenko (2012) claim that trade credit application was on the upsurge among Lativian SBEs. Its usage increased by 13% from 2009 to 2012. A view that is shared by Abouzeedan (2003) when commenting that short term credit is heavily depended on by SBEs especially trade credit as it is highly flexible and less volatile.

This is because renewal can be done as many times and it can be easily converted into long-term finance. Xiao (2014) observed that SBEs that utilized trade credit expanded their operations faster in emerging economies where financial institutions were underdeveloped. Firms can also utilize it whenever they are facing emergencies that they were unprepared to handle during liquidity crisis in the short-run both in the first and third world economies (Munyuny, 2013). Agbozo and Yeboah (2012) found that in Ghana 83% of respondents agreed that they used trade credit as a form of financing and 67% agreed that accessibility to trade credit had improved over the years. It was mostly utilized by SBEs as traders preferred to use it as a refinancing tool with a view to patronizing their product chain of distribution. Kihimbo et al., (2012) observes that 6.7% of SBEs in Kakamega Municipality used trade credit as their initial capital to finance up to 10% of their new business ventures. There is all indication that trade credit has been widely used as a source of financing in both developing and developed world; as a main source, as an alternative and complementary source of capital; hence the need for this study to explore its effect on financial performance of SBEs.

2.4 Empirical review

Rosenberg et al., (2009) supported that financial institutions prefer large loans because the administrative costs decrease proportionately to the size of the loan. SBEs consider small loans amount to meet immediate needs because SBEs don't have capacity or experience to handle large sums of money in their businesses and even can lead to business failure. Short-term debt is the best financing tool because it is perceived to be cheaper (Jun et al., 2003). Short term debt adapts more easily and facilitates bank relations between the firm and the lender due to frequent renewals and hence firms might obtain credit condition benefits.

Short term debt loans solve the problem of underinvestment because management is more frequently monitored due to periodic credit renewal. Ozkan (2000) argues short term debt can mitigate agency conflicts between shareholders and debt holders. SBEs in their limited asset base have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations. This in turn limits sources of financing are available to SBEs. Pelham (2000) argued that long term debts provide small firms with more competitive advantages when compared with large firms. According to his study there was is a direct positive and significant relationship between long term loans and financial performance of the small businesses.

Loans are given depending on savings with financial institution and the SBEs previous loan repayment. Most of these loans are lent out depending on the collection convenience, payment and flexibility with experienced clients. Financial institutions tend to meet their clients working capital by giving short term loans and limit long term loans. Financial institutions cite weak SBE management and governance, unreliable financial information on SBE operations, lack of medium- and long-term resources for typical SBE lending, and complicated procedures to register and seize collateral as the main constraints to funding SBEs with large loans amount (Odongo, 2014).

SBEs tend to lose commitment of repaying the loan because of the small loan amount borrowed and there is high possibility of not performing to the expectations of the FIs since they also don't meet SBEs needs as they expect to bigger amount of loans. While the loan size can have some impact on the SBEs performance but it is minimal compared with those of big loan size in the same sector and its relationship to create good performance is insignificant to this kind of businesses (Odongo, 2014). Thus it is vital that the current establishes the relationship between this variable (commercial loan financing) and financial performance of the firms in question (SBEs).

Wang (2013) argues that Chinese SBEs in Taizhou depended on retained earnings as a source of financing to a level that Micro-financing which was formerly a popular source of funding lost prominence among its customers. The net effect was a sustained decrease in micro financing; on average doubling the application of retained earnings led to a decline in the usage of micro financing by a staggering figure of 22.8%. The consumption of retained earnings by SBEs as a form of funding meant a decline in the utility of some alternative funding. Abouzeedan (2003) clarifies this trend by asserting that retained earnings are one of the cheapest financing sources that SBEs can access and utilize. Retained earnings are becoming handy among Swedish SBEs during times of resource scarcity; especially as their number continue to balloon overstretching the available financing options. Xiao (2014) claims that use of ploughed funds prevented firms from being undervalued hence, motivating finance managers to opt for this form of funding.

Timoshenko (2012) argues that once firms survived the first phase of the growth cycle, they had a tendency of delinking funding efforts from personal savings and instead depended on retained earnings to finance business expansion programmes. Retained earnings are a vital funding option during periods of external funding distress along the SBEs growth and economic cycles (business life).Agbozo and Yeboah (2012) underscore the importance of retained earnings financing when the study claims that 25% of respondents in Ghana agreed that they considered it as a vital source and used it to finance their business operations. Kyokutamba (2012),Egbuna and Agali (2013) highlight the significance of retained earnings in financing SBEs' start-up and operational activities. In Nigeria 21.4% of respondents agreed that they sourced their finances from retained earnings; this is in line with prior studies which highlighted this fact. Chepkemoi (2013) asserts that SBEs in Uganda heavily depended on retained earnings to finance their investments in their early stages of inception. This was due to the fact that they were still young and had not established sufficient network to qualify for external financing. The popularity of retained earnings as a form of financing among SBEs, calls for a critical examination of their effect on the financial performance of these enterprises in Lurambi Sub-County.

2.5 Research Gaps

Many scholars such as Munyuny, (2013) have researched about the bank loans and performance of small business enterprises all over the world. Munyuny, (2013) asserts that commercial loan financing describes the funds borrowed from private individuals, banks, co-operatives, microfinance institutions and other lenders to support SBEs business operation. The funds are borrowed under the terms and conditions of the lending party and the borrowing SBE is normally required to pay back the principal amount plus interest. Commercial loan financing is measured by funds usage, sustainability of funds and repayment period. Taketa and Udell (2007); Klapper (2006); Berger and Udell (2004)asserts that trade credit in Japan accounted for 22.67% of debt financing sourced by non-farm, non-financial and non-real estate for profit SBEs and in the United States of America in the same segment, it was about one-third. However, no study has been carried out on the effect of bank loans on the financial performance of small business enterprises in Adjumani District, Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, the study provides methods that will be used to collect data from the respondents in order to address the research problem. The chapter delt with the research design, population of the study, sample size, sampling method, data collection methods and instruments, sources of data, procedure of data collection, data presentation and analysis, ethical considerations, limitations of the study.

3.1 Research Design

The researcher carried out the study using cross sectional research design. This is an approach to research under qualitative method that focuses on gaining an in depth understanding of a particular event at a specific time. cross sectional research design provide data that is usually gathered through a variety of means including but not limited to interviews, document collection. cross sectional research design was used by the researcher because; it is a good source of ideas about behavior, provides an opportunity for innovation, good method to study rare phenomena and it was also a good alternative or complement to the group focus of psychology

3.2. Population of the Study

The study was carried out among the entrepreneurs and loan schemes of Adjumani district. The district has a population of over 2042 entrepreneurs (UBOS, 2014) that will be considered for the study.

3.3. Sample Size

Out of a total of 2042 respondents, only 181 respondents will be selected according to Morgan and Krejcie table as given by Amin, (2005). But due to limited time of the University calendar, only 50 respondents were considered and these included entrepreneurs of small business enterprises and a few financial institutions in Adjumani district.

3.4. Sampling Technique

The researcher employed a combination of sampling techniques. Simple random sampling technique was used to give equal opportunity to eligible respondents so as to avoid biased findings. Likewise the researcher adopted a purposive sampling technique to be used in selecting respondents perceived by the researcher to have vast information regarding the study.

3.5 Data Collection Methods and Instruments

The researcher used the methods of interviewing and questioning using the following tools or instruments.

3.5.1 Questionnaires

A standardized self-administered questionnaire was developed as a suitable tool for the respondents to express themselves. The questions were both open and closed ended. A covering letter accompanied the questionnaire, informing the respondents of the importance of expressing their true feelings in answering the questions, and ensuring their confidentiality. Questionnaires are relatively quick in collecting information. 50 questionnaires were administered to the entrepreneurs. Questionnaires were more advantageous for the group because potential information can be collected from a large portion of a group.

3.6 Sources of Data Collection

The researcher got data from two sources;

3.6.1 Primary source

The researcher gathered data by using questionnaires and interview guides. This helped the researcher to get first hand, raw data that has never been acquired by any one for the same purpose. This data was obtained directly the respondents.

3.7 Procedure of data collection

After the approval of the data collection instruments which are the interview guides and pre-tested questionnaires, a Letter of Introduction was obtained from Kampala International University, which enabled data collection from Adjumani district. An interview guide was developed to facilitate the conversation with respondents. This helped to eliminate fears and create a friendly atmosphere. Data collection procedure began by introducing the purpose of the visit to the administrators of Adjumani district and the different banks that give loans to entrepreneurs. Permission was sought to meet the respondents in order to conduct the interviews with them.

3.9 Data presentation and analysis

After obtaining filled questionnaires, raw data was cross checked for consistence, edited and coded. The researcher then entered data into a computer programme so as to run categorized frequency counts and score tables, pie chart, bar graph with varying percentages then calculate interpretations and drawing conclusions were done in accordance with number of each item. After processing data will be entered into the computer using excel and Microsoft word. Findings were presented by the use of frequency tables and pie charts. Means and standard deviation, regression analysis and correlations were determined.

3.10 Ethical Considerations

In conducting the study, therefore, explanations about its aims were made clear to the respondents, so as to obtain their informed consent. Anonymity of the respondents was assured and the data that they provided was treated with utmost confidentiality. As such, the respondents participated in the study voluntarily; mentioning of their names was avoided. The researcher obtained recommendations and introductory letters to ensure that he treats with concern, respect and without suspicion.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS

4.0 Introduction

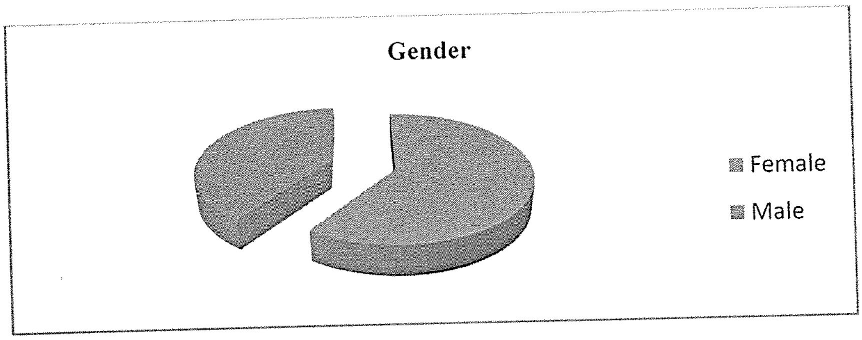
This chapter presents the major findings of the study, their discussion and analysis. It presents the bio-data of the sample population, the effects of commercial loan financing on the financial performance of small business enterprises, the effects of retained earnings on the financial performance of small business enterprises and the effects of trade credit financing on the financial performance of small business enterprises. Before any detailed analysis was carried out, the raw data was thoroughly checked to minimize errors of inconsistence and incompleteness. Where necessary, a re-visit to the field was made.

4.1 Presentation

4.1.1 Bio-data of the respondents

This shows the socio-demographic characteristics of the research respondents. This includes the age, sex, categories, level of education and their marital status. It is interpreted inform of frequencies and percentages and a theoretical presentation of the findings follows thereafter.

Figure 4.1: Showing Distribution of respondents by sex



Source: primary data, 2019

Figure 4.1 shows that, the sample was made up of 30 female represented by 60% and 20 men represented by 40%. This implied that the study was mainly dominated by males since they are so much in business and therefore they were able to provide relevant information concerning the effects of bank loan on the financial performance of small business enterprises.

Table 4.1: Showing the age of respondents

Age	Frequency	Percentage
15-25	11	22%
26-35	22	44%
36-45	10	20%
Above 46	07	14%
Total	**50**	**100%**

Source: Primary Data, 2019

Table 4.1 reveals that the respondents with the age 26-35 years of age represented 50% contributed the highest number of respondents who took part in the study followed by 22% that were in the age bracket of 15-25 years of age, 20% followed and they were in the age bracket of 36-45 and lastly were respondents with the age of Above 46 and these were represented by 14% as shown in the table above. The biggest number of respondents between the age of 26-35 was due to the fact most of the respondents who were involved in the study were youths. These groups of respondents were mature and reliable as far as this study was concerned. The respondents of this group are also observed to be strong in participating in various business and entrepreneurship and training and in addition they had stayed at an organization for a considerable time and therefore, they were able to provide relevant information concerning the effects of effect of bank loan on financial performance of small business enterprises.

Table 4.2 Showing respondents' level of education

Response	Frequency	Percentage
Primary	12	24%
Secondary	20	40%
Diploma	15	30%
Degree	03	06%
Total	**50**	**100%**

Source: Primary Data, 2019

Table 4.2 above showed that most of the respondents had gone up to attainment of a secondary level of education and these were 40%. 15 respondents represented by 30% had diploma, 12 respondents represented by 24% were primary leavers and finally only 3 respondents represented by 6% had University degrees.

Table 4.3: Showing the how long entrepreneurs have dealt with financial institutions

Response	**Frequency**	**Percentage**
1-6 months	11	22%
6-12 months	10	20%
1-3 years	20	40%
4-10 years	06	12%
Above 10 years	03	06%
Total	**50**	**100**

Source: Primary data, 2019

Majority of the respondents as shown in table 4.3 have dealt in financial institutions for a period ranging from 1-3 years. These were followed by respondents who have dealt in financial institutions for a period ranging from 1-6 months. 20% of the respondents have been in financial institutions for a period ranging from 6-12 months. Other entrepreneurs showed that they have dealt with microfinance institutions for a period ranging from 4-10 years while 06% have been dealing with financial institutions for over 10 years. This implied that majority of the respondents were able to provide the information on the topic, "effects of bank loan on financial performance of small business enterprises in Adjumani district" since they have been dealing with these institutions for quite a number of years.

Table 4.4: Showing the types of businesses mostly carried out in Adjumani district

Response	Frequency	Percentage
Dry cleaners	01	02%
Restaurant	05	10%
Boutique	07	14%
Tailors	02	04%
Hair stylist	05	10%
Beverage vendoring	02	04%
Kiosk	06	12%
Boda-boda	04	08%
Perishable sales (Tomatoes etc)	03	06%
Live stock	02	04%
Carpentry	03	06%
Retail shops	10	20%
Total	**50**	**100**

Source: primary Data

According to the data presented in table 4.4, it was found out that majority of the respondents in small and medium are engaged in retail shops 20%. Respondents alleged that retail shops are many because they require moderately little capital to be started.

Results also showed that many respondents engage in boutiques. These were represented by 14% of the respondents who said that boutiques are easy to maintain since clothes take long to get old.

Findings also indicated that entrepreneurs in Adjumani districts engaged in Kiosk business while 10% of the respondents were in hair styles 04% of the respondents were in beverage vendoring.

Data in table above also showed that 08% of the respondents were in the business of boda-boda while 06% of the respondents dealt in perishable products such as green peppers, tomatoes, mangoes, pumpkins among others whilst 02 people represented by 04% of the respondents were in live stock and only 02% of the respondents were in dry cleaning business.

Restaurant was identified as one of the booming business among the people in Adjumani district and these were represented by 10% of the respondents. 04% of the respondents were in the tailoring business while 06% of the respondents were in the carpentry business.

Basing on the findings above, it implied that majority of the entrepreneurs are in retail shops which shows that bank loans have effects on financial performance of small business enterprises Adjumani district.

4.2 Effects of bank loan on financial performance of small business enterprises

The researcher was interested in assessing the effects of bank loan on financial performance of small business enterprises. The following are some of the statements where the respondents were asked to indicate as strongly agree, agree, not sure, disagree or strongly disagree to the statements that determine the effect of commercial loan financing on the financial performance of small business enterprise. Table 4.5 contains the responses obtained from respondents

Table 4.5: The effect of commercial loan financing on the financial performance of SBEs (N=50)

Commercial Loan financing	SA		A		NS		D		SD	
	F	%	F	%	F	%	F	%	F	%
There is easy access of funds depending on SBEs ability	32	64	10	20	-	-	6	12	2	4
There is flexibility in the repayment period allowing SBEs enough time to repay	35	70	5	10	-	-	5	10	5	10
The funds are less risky to use	26	52	15	30	2	4	4	8	3	6
Acquired assets pays off funding cost leaving the SBE with the asset value	40	80	2	4	-	-	8	16	-	-
The funds are self - sustaining in the long run	38	76	8	16	-	-	4	8	-	-
The SBE is able to engage in risky ventures with high returns	31	62	4	8	5	10	6	12	4	8
Usage of funds increases investment prospects of SBE	29	58	9	18	10	20	-	-	2	4

Source: Primary Data

According to the results presented in table 4.5, majority 40(80%) of the respondents showed that acquired assets pays off funding cost leaving the SBE with the asset value while 2(4%) agreed which implied that acquired assets pays off funding cost leaving the SBE with the asset value. Only a small percentage of 16% of the respondents disagreed with the statement.

The funds are self - sustaining in the long run. This was supported by 38(76%) of the respondents who strongly agreed and 8(16%) of the respondents agreed. There were no respondents that were not sure, although 4(8%) of the respondents disagreed with the statement respectively.

Results in table 4.5 also indicated that there is flexibility in the repayment period allowing SBEs enough time to repay. 35(70%) of the respondents strongly agreed while 5(10%) of the respondents agreed. However, there were no respondents that were not sure while those that disagreed with 5(10%) and 5(10%) respectively.

Data in table 4.5 above also showed that there is easy access of funds depending on SBEs ability with 32(64%) of the respondents having agreed strongly while 10(20%) of the respondents agreed. There were no respondents that were not sure while 6(12%) of the respondents disagreed and 2(4%) of the respondents strongly disagreed respectively.

The SBE is able to engage in risky ventures with high returns, this was supported by 31(62%) of the respondents who strongly agreed while 4(8%) of the respondents agreed. 5(10%) of the respondents were not sure while 6(12%) of the respondents disagreed with the statement and only 4(8%) of the respondents strongly disagreed with the statement respectively.

Respondents also revealed that usage of funds increases investment prospects of SBE, 29(58%) of the respondents strongly agreed while 9(18%) of the respondents agreed. 10(20%) of the respondents were not sure while 2(4%) of the respondents strongly disagreed that usage of funds increases investment prospects of SBE.

4.3 The effect of retained earnings on the financial performance of small business enterprise

The second objective of the study was to establish the effects of retained earnings on the financial performance of small business enterprise. Respondents were interviewed on a scale of 1-5 where 1= strongly agree, 2=Agree, 3=Not Sure, 4=Disagree and 5=Strongly Disagree and their responses are tabulated as below;

Table 4.6: The effect of retained earnings on the financial performance of small business enterprise

Retained earnings	N=50									
	SA		A		NS		D		SD	
	F	%	F	%	F	%	F	%	F	%
The funds are attractive as project launch does not need approval of outsiders	2	4	10	20	11	22	21	42	6	12
The usage of funds avoids possibility of a change in control	7	14	9	18	5	10	9	18	20	40
Flexible they can be committed to diverse functions	14	28	11	22	10	20	10	20	5	10
Use of these funds increases chances of SBE success	30	60	12	24	-	-	3	6	5	10
Application of this funding reduces agency costs	23	46	13	26	5	10	6	12	3	6
Chances of receivership, liquidation and bankruptcy	21	42	15	30	10	20	2	4	2	4
Application of these funds reduces tax burden to an SBEs	18	36	16	32	7	14	5	10	4	8
The usage of funds does not involve payment of cash	3	6	1	2	16	32	7	14	23	46
The funds boost SBEs credit rating attracting more funding	16	32	10	20	9	18	10	20	5	10

Source: Primary Data, 2019

According to the results in table 4.6, it was revealed that majority of the respondents strongly agreed that the use of these funds increases chances of SBE success and these were represented by 30(60%) of the respondents. 12(24%) of the respondents agreed that the use of these funds increases chances of SBE success. There were no respondents that strongly agreed while 3(6%)

of the respondents disagreed and only 5(10%) of the respondents strongly disagreed with the statement. This therefore implied that the use of funds increases chances of SBE success since the majority agreed.

Results in table also revealed that application of this funding reduces agency costs with the majority having strongly agreed and these 23(46%) of the respondents, 13(26%) of the respondents agreed that application of this funding reduces agency costs while 5(10%) of the respondents were not sure while 6(12%) of the respondents disagreed and only 3(6%) of the respondents strongly disagreed with the statement that application of this funding reduces agency costs.

Data in table also revealed that as far as retained earnings are concerned, there are chances of receivership, liquidation and bankruptcy. Most 21(42%) of the respondents strongly agreed while 15(30%) of the respondents agreed and only 10(20%) of the respondents were not sure. 2(4%) of the respondents disagreed and strongly disagreed respectively.

According to the results in table, it was also revealed that application of these funds reduces tax burden to an SBEs. 18(36%) of the respondents strongly agreed while 16(32%) of the respondents agreed. 7(14%) of the respondents were not sure while 5(10%) of the respondents disagreed and only 4(8%) strongly disagreed with the statement respectively.

Respondents also revealed that as far as flexibility is concerned, they can be committed to diverse functions and this was supported by 14(28%) of the respondents. 11(22%) of the respondents revealed that as far as flexibility is concerned, they can be committed to diverse functions. However, 10(20%) of the respondents were not sure while 10(20%) disagreed and 5(10%) of the respondents strongly disagreed with the statement respectively.

The funds boost SBEs credit rating attracting more funding. Majority of the respondents who constituted of 16(32%) of the respondents strongly agreed with the statement, while 10(20%) of the respondents agreed. 9(18%) of the respondents were not sure while 10(20%) of the respondents disagreed and only 5(10%) strongly disagreed with the statement respectively. This implies that the funds boost SBEs credit rating attracting more funding since majority of the respondents agreed with the statement.

Results in table also revealed that the usage of funds avoids possibility of a change in control. This was supported by 7(14%) who strongly agreed while 9(18%) agreed. However, 5(10%) of the respondents were not sure and only 9(18%) of the respondent disagreed and 20(20%) strongly disagreed with the statement that the usage of funds avoids possibility of a change in control

Other respondents however responded that the usage of funds does not involve payment of cash, this was supported by 3(6%) of the respondents and 1(2%) who agreed with the statement. 16(32%) of the respondents were not sure while 7(14%) disagreed and 23(46%) of the respondents strongly disagreed with the statement respectively.

Respondents agreed that the funds are attractive as project launch does not need approval of outsiders. This was supported by 2(4%) of the respondents who strongly agreed while 10(20%) of the respondents agreed while 11(22%) of the respondents were not sure and only 21(42%) of the respondents disagreed and only 6(12%) of the respondents strongly disagreed respectively.

4.4 Effect of Trade credit financing on financial performance of small business enterprises

The third objective of the study was to establish the effect of trade credit financing on financial performance of small business enterprises. Respondents were interviewed on a point Linkert scale and their responses are presented in the table below;

Table 4.7: Showing the effect of trade credit financing on financial performance of small business enterprises (N=50)

Statement	SA		A		NS		D		SD	
	F	%	F	%	F	%	F	%	F	%
Usage of this funding line reduces transaction costs for SBEs.	50	100	-	-	-	-	-	-	-	-
The funding increases the SME's credit score.	35	70	6	12	5	10	4	8	-	-
Discounts are offered reducing the cost of borrowing.	31	62	10	20	-	-	9	18	-	-
The funding is flexible and the credit terms can be renewed.	33	66	12	24	1	2	3	6	1	2
The SME is able to finance more projects increasing returns.	43	86	-	-	3	6	2	4	2	4
Use of these funding results in high quality products.	26	52	8	16	6	12	7	14	3	6
The SBE has time to plan for repayment/expenditure hence maintaining continuous production schedule.	32	64	7	14	-	-	11	22	-	-
Available funds can be committed to the most urgent need.	16	32	10	20	13	26	9	18	2	4
This funding reduces SBE's financial distress.	28	56	10	20	2	4	10	20	-	-

SOURCE: Primary Data, 2019

At the Adjumani district, usage of this funding line reduces transaction costs for SBEs. This was revealed by 50(100%) of all respondents that participated in the study.

Data in table 4.7 of the research findings also revealed that the SBE is able to finance more projects increasing returns. 43(86%) of the respondents strongly agreed while 3(6%) of the respondents were not sure and only 2(4%) of the respondents disagreed while 2(4%) of the respondents strongly disagreed that the SBE is able to finance more projects increasing returns.

Results also showed that the funding increases the SBE's credit score. This was supported by 35(70%) of the respondents that strongly agreed, 6(12%) of the respondents agreed while 5(10%) of the respondents were not sure whether the funding increases the SBE's credit score. The minority 4(8%) of the respondents disagreed that the funding increases the SBE's credit score.

According to the results in table 4.7 of the research findings also showed that the funding is flexible and the credit terms can be renewed. This was supported by 33(66%) of the respondents who strongly agreed and 12(24%) of the respondents agreed. Respondents who were not sure were 1(2%), 3(6%) of the respondents disagreed while 1(2%) of the respondents strongly disagreed that the funding is flexible and the credit terms can be renewed.

Results in table 4.7 also revealed that discounts are offered reducing the cost of borrowing. This was supported by 31(62%) of the respondents who strongly agreed, 10(20%) of the respondents agreed. There were no respondents that were not sure while 9(18%) of the respondents disagreed while there were no respondents that strongly disagreed with the statement.

According to the results in table 4.7, it was revealed that use of these funding result in high quality products. This was supported by 26(52%) of the respondents that strongly agreed, 8(16%) of the respondents agreed while 6(12%) of the respondents were not sure and only 7(14%) and 3(6%) of the total number of respondents disagreed and strongly disagreed respectively.

Results also indicated that the SBE has time to plan for repayment/expenditure hence maintaining continuous production schedule. 32(64%) of the respondents strongly agreed while 7(14%) agreed, there were no respondents that were not sure while 11(22%) of the respondents disagreed and they were no respondents that strongly disagreed.

Data presented in table 4.7 revealed that this funding reduces SBE's financial distress with the majority 28(56%) of the respondents. 10(20%) of the respondents agreed while 2(4%) of the respondents were not sure and only 10(20%) of the respondents disagreed that This funding reduces SBE's financial distress.

Results in table 4.7 also showed that available funds can be committed to the most urgent need with the majority 16(32%) of the respondents having agreed while 10(20%) of the respondents agreed. 13(26%) of the respondents were not sure while 9(18%) of the respondents were not sure and only 2(4%) of the respondents disagreed respectively.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter involves the conclusions, recommendations and areas for further research which were based on the objectives, and the findings from the research study.

5.1 Discussion of the study findings

The major aim of carrying out research was to investigate on the effects of bank loans on the financial performance of small business enterprises in Adjumani District and the objectives were also observed in this study. The results obtained were both primary and secondary; questionnaires were used to scrutinize each objective in turn as follows. The result revealed that, most of the respondents have dealt with Microfinance institutions for a period of years ranging from 1-3 years. Respondents were also in the age group of 26-35 years. These groups of respondents were mature and reliable as far as this study was concerned. The respondents of this group are also observed to be strong in participating in various business and entrepreneurship and training and in addition they had stayed at an organization for a considerable time. Regarding the level of education, it was observed that the respondents with certificate level were many compared to others and these were (40%) followed by respondents with Diploma (30%) and then secondary level (24%). The study also found out that most of entrepreneurs in Adjumani district are involved in retail shops (20%).

5.1.1 Commercial loan financing on financial performance of small business enterprises

The findings of the study indicated that acquired assets pays off funding cost leaving the SBE with the asset value. SBEs in their limited asset base have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations. This in turn limits sources of financing are available to SBEs. The study findings are in line with Pelham (2000) who argued that long term debts provide small firms with more competitive advantages when compared with large firms. According to his study there was is a direct positive and significant relationship between long term loans and financial performance of the small businesses.

Study findings also indicated that there is flexibility in the repayment period allowing SBEs enough time to repay. High interest rates affect small business enterprise in that it becomes so hard in the process of loan repayment and some end up underdeveloped, collapsing or selling off their securities in order to raise money for loan repayment. The study results are in line with Odongo, (2014) who asserts that loans are given depending on savings with financial institution and the SBEs previous loan repayment. Most of these loans are lent out depending on the collection convenience, payment and flexibility with experienced clients. Financial institutions tend to meet their clients working capital by giving short term loans and limit long term loans. Financial institutions cite weak SBE management and governance, unreliable financial information on SBE operations, lack of medium- and long-term resources for typical SBE lending, and complicated procedures to register and seize collateral as the main constraints to funding SBEs with large loans amount.

Findings of the study revealed that usage of funds increases investment prospects of SBE. The study results are in line with Chepkemoi (2013) asserts that SBEs in Uganda finance their investments in their early stages of inception. This is due to the fact that they were still young and had not established sufficient network to qualify for external financing. The popularity of retained earnings as a form of financing among SBEs, calls for a critical examination of their effect on the financial performance of these enterprises.

5.1.2 Effect of retained earnings on the financial performance of SBEs

Findings of the study indicated that funds increases chances of SBE success. The study findings are in line with Beck et al., (2005) who asserted that SBEs face higher transaction costs than larger enterprises in obtaining bank loan facilities and therefore availability of funds helps to increase on their success rate. Abor and Quartey, (2010) further adds that SBEs represent over 90% of the enterprises and account for 50 to 60% of employment. SBEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine Thus SBEs are widely recognized as the key engine of economic development. As a result of this recognition, a central debate around Africa in particular has been how to stimulate economic growth through the development of SBEs.

Results in the table above also revealed that application of this funding reduces agency costs with the majority having strongly agreed. According to ECB, (2013a), given their importance in all economies, they are essential for the economic recovery from the current economic and financial crisis. When bank lending is reduced, SBEs tend to be more vulnerable and affected than larger corporations and credit sources tend to dry up more rapidly for small firms than for large companies during economic downturns.

Findings revealed that there are chances of receivership, liquidation and bankruptcy and application of these funds reduces tax burden to SBEs. The study results are in line with business growth theory of Max weber (1920) who stressed that SBEs need to focus on a number of key business challenges such as reducing costs, improving employee productivity and building competitive advantage through producing quality products and services and other entrepreneurial interventions. To achieve the growth potential of them sector the government has to play a role of providing the necessary infrastructure to the sector and this is only achievable through taxing the same sector i.e. reaping the benefits of the said infrastructure.

5.1.3 Effect of trade credit financing on the financial performance of SBEs

Study findings revealed that SBE is able to finance more projects increasing returns. The study findings were in line with Adams, (2010) who asserted that development projects reflected people-oriented objectives rather than exclusively the construction of material structures. Projects related to food production, rural and urban development, and population, health and nutrition were designed to reach the poor directly. Bank operations also expanded to identify and encourage policies, strategies, and institutions that helped countries succeed. The Bank initiated sectoral and structural adjustment loans deemed necessary for the success of its projects. In the 1980s, the Bank continued to enlarge its focus on issues of social development. Issues of social life, including education, communications, cultural heritage, and good governance came to the fore.

Findings of the study indicated that funding increases the SBE's credit score. The study findings were in line with Frank and Goyal (2005) where in his discussion of financial theories underscored the fact that financial managers have a tendency to utilize retained earnings compared to external funding. Trade credit financing constitute to be an important source of financing for established SBEs in developing economies. Additionally, Wang (2013) argues that SBEs depend on trade credit financing as a source of financing to a level that Micro-financing which was formerly a popular source of funding lost prominence among its customers.

5.2 Conclusion

The main objective of this study is to examine the relationship between business financing variables such as commercial loan financing, retained earnings financing , and trade credit financing and firm performance among Small business enterprise in Adjumani district.

Commercial loan financing has a positive effect on financial performance and this effect is statistically significant in predicting financial performance of SBEs. SBEs that use commercial loan financing will expand their business operations and experience significant increase in their profitability. The effect is moderate as these gains are dependent on the tradeoff between high returns and costs including financing costs. Retained earnings financing has a positive and significant effect on financial performance of SBEs in Adjumani district. Application of trade credit financing by SBEs increases their business activities resulting in high level of profitability which lead to a significant improvement in financial performance. SBEs would continually turn to retained earnings financing to hedge them against the rising cost of financing and improve their profitability in order to realize growth and sound financial performance.

Trade credit financing has a positive and significant effect on financial performance of SBEs. It therefore follows that trade credit is a significant predictor of financial performance. SBEs that use trade credit in financing their operations are likely to see their output and revenues increase thus increasing their level of profitability. The combined effect of sources of business financing variables and financial performance was positive and statistically significant. SBEs that utilize sources of business funding channels such as commercial loan financing, retained earnings financing and trade credit would definitely perform well. They are critical in determining financial performance SBEs hence enabling them move to the next growth level.

5.3 Recommendations

On the basis of the foregoing conclusions, the study presents the following recommendations to the SBEs business community, policy makers, lenders and scholars for review and consideration. Investors and managers of SBEs should consider sources of business financing as important determinants of financial performance. SBEs should come together to form larger groups in order to access bigger commercial loans from banks, microfinance institutions and other lenders which are cheaper to source as they carry lower transaction costs and such costs are shared by SBEs in the group reducing its impact on individual SME's financial performance. Government agencies engaged in availing funds to SBEs should avail such funds at the lowest possible rate or otherwise provide them at zero interest rate for the SBEs to realize sustained and robust financial performance. The Ugandan Government funding programmes for SBEs should be tailored to meet individual SBE borrower's needs besides the current group affiliation focus in order to improve the reachability and accessibility of the funds to many needy business operators. The Kenyan and County Governments should step in to act as guarantors of commercial loans obtained by SBEs from lenders as this will ensure that the SBEs experience sound and sustainable financial performance.

The Ugandan Government through the Bank of Uganda should make it mandatory for banks and lenders to revise their lending rates annually in tandem with BoU revisions and set a ceiling within which these rates should lie to make commercial loans cheaper to SBEs borrowers. The Government of Uganda (GOU) should encourage financial institutions to share the financing risks between themselves and the Government in order to make commercial loan financing have a greater significant contribution to financial performance of SBEs. SBEs should honor their trade credit terms at their last date of terms so that they benefit from relevant discounts and negotiate for longer discount periods in order to realize significantly higher levels of financial performance.

5.4 Limitations to the study

Inadequate resources to facilitate the research coverage as it required by the researcher to go in the field to carry out the study.

Finally the un-predictable climate and events, political instability, inflation generated unhealthy influence on the efficiency and effectiveness of the researcher.

The researcher was faced with a problem of uncooperative respondents. Some of the respondents were not willing to give out data concerning bank loans and financial performance of their businesses.

5.5 Areas of further study

Further research should be carried out on the following;

- The role of interest rates on the development of small business enterprise.
- The effect of information technology on the performance of small business enterprise.
- The role of financial and non financial Institutions in the development of small business enterprise.

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APPENDICES

Appendix I: Questionnaire for the respondents

Dear respondents,

I am an undergraduate of Kampala International University conducting a research study titled "bank loans and financial performance of small business enterprises" Case study of Adjumani District Uganda". You have been chosen to participate in this research by providing your views. Information provided will be treated confidentially and so you do not need to write any of your identity on the questionnaire. The information will be used only for academic purposes. Follow the instructions while filling in this questionnaire.

SECTION A: BACKGROUND INFORMATION

1) Gender

(a) Male ☐ (b) Female ☐

2) Please indicate your age bracket

(a) 15-25 years ☐

(b) 26-35 years ☐

(c) 36-45 years ☐

d) 46+ ☐

Others specify..........................

3) Please indicate your highest academic qualification

(a) Primary level ☐ (b) Secondary level ☐

(c) Diploma level ☐ d) Bachelor level ☐

e) Masters and Professional level ☐

5) For how long have you been or dealt with financial institutions?

1-6 Months ☐ 6-12 Months ☐ 1-3 Years ☐ 4-10 Years ☐

Above 10 Years ☐

6) What business do you engage in? Specify

Dry cleaners ☐ Restaurant ☐ Boutiques ☐ Tailors ☐

Boda-boda ☐ Others specify ....

BANKLOAN AND FINANCIAL PERFORMANCE OF SMALL BUSINESS ENTERPRISES

SECTION B: Commercial Loan Financing

For section B, C and D; On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given. *Where: (SA) = strongly agree, (A) = agree, (NS) = not sure (D) = disagree (SD) = strongly disagree*

Scale	1	2	3	4	5
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree

	Commercial loan financing	**1**	**2**	**3**	**4**	**5**
1	Easy access to funds depending on SBE's ability					
2	Flexible repayment period allowing SBE enough time to repay					
3	The funds are less risky to use iv. The funds have less restrictions in their usage and application					
4	Acquired assets pays off funding cost leaving the SBE with the asset value					
5	The funds are self-sustaining in the long-run vii. The SBE retains its decision making powers after using fund					
6	The SBE is able to engage in risky ventures with high returns					
7	Usage of the funds increases investment prospects of SBE					
8	The funds adapts more easily to SBE's financial needs					
	Others specify					

SECTION C: Retained Earnings

	Retained Earnings	**1**	**2**	**3**	**4**	**5**
1	The funds are attractive as project launch does not need approval of outsiders					
2	The usage of funds avoids possibility of a change in control					
3	Flexible they can be committed to diverse functions					
4	Use of these funds increases chances of SME success					
5	Use of these funds avoids undervaluation of SBEs					
6	Application of this funding reduces agency costs					
7	Chances of receivership, liquidation and bankruptcy reduces					
8	Application of these funds reduces tax burden to an SBEs					
9	The usage of funds does not involve payment of cash					
10	The funds boost SME's credit rating: attracting more funding					
	Others specify					

SECTION D: Trade Credit Financing

	Trade Credit Financing	1	2	3	4	5
1	Usage of this funding line reduces transaction costs for SBEs					
2	The funding increases the SBE's credit score					
3	The funding are interest free hence cheap to SBEs					
4	Discounts are offered reducing the cost of borrowing					
5	The funding is flexible the credit terms can be renewed					
6	The SBE is able to finance more projects increasing returns					
7	Use of these funding result in high quality products					
8	The SBE has time to plan for repayment/expenditure hence maintaining continuous production schedule					
9	Available funds can be committed to the most urgent need					
10	This funding reduces an SBE's financial distress					
	Others specify					

THANKS FOR YOUR COOPERATION

APENDIX II: BUDGET

No	Item	Total Budget (Ugshs)
1	Travel expenses	100,000
2	Collection of data	100,000
3	Stationery	50,000
5	Data access	100,000
6	Automobile expenses	10,000
7	Utilities	20,000
8	Internet and phone charges for research	50,000
9	Direct labour/ research assistants	50,000
10	Miscellaneous expenses	50,000
	Total	**530,000**

Appendix III: TIMEFRAMEWORK

ACTIVITY (IES)	MONTHS				
	F	M	A	M	J
TOPIC SELECTION AND APPROVAL					
WRITING CHAPTER I					
WRITING A PROPOSAL					
DRAFTING RESEARCH TOOLS					
DATE COLLECTION					
REPORT WRITING					
SUBMISSION					

FFICE OF THE TOWN CLERK
DJUMANI DISTRICT
256 4143 501765
256 4144 784516

THE REPUBLIC OF UGANDA

ADJUMANI DISTRICT LOCAL GOVERNMENT
P. O BOX 2, ADJUMAN DISTRICT

THE REPUBLIC OF UGANDA

Date: 27th May 2019

TC/021/RSC/ADLG

Mr. Vundru Dominic
C/o Kampala International University
College of Economics and Management
Department of Finance and accounting

Dear Sir,

Re: Permission to carry out research in Adjumani District

The above subject refers. Your request to conduct a research study on the topic entitled "bank loans and financial performance of small business enterprises in Adjumani District, Uganda" under registration number 1163-05014-05420 has been granted.

We request that the information that our community will avail to you in the study will be used strictly for academic purposes and maximum confidentiality should be ensured.

Wish you the best in your study.

Yours Sincerely,

OFFICE OF THE TOWN CLERK
ADJUMANI DISTRICT LOCAL GOV'T
P.O BOX 2 ADJUMAN DISTRICT

Mr. Lagu Samuel
District Town Clerk
Adjumani District