THE EFFECTS OF LOAN CONDITIONS ON SMALL SCALE ENTERPRISES PERFORMANCE; A CASE STUDY OF IKI-IKI SACCO BUDAKA DISTRICT

BY

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BBA/32438/102/DU

RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

MAY 2013

DECLARATION

I, BALUKA SIZAN, declare that this Dissertation is my original work and has not been presented for a Degree or any other academic award in any university or institution of learning

Signature;..

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(STUDENT)

Date;.....30th/May/2013.....................................

APPROVAL

I confirm that the work reported in this dissertation has been conducted by the candidate under my supervision and is submitted to the college of economics and management sciences for examination with my approval

Sign;...

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Date;...30/5/2013.........................

DEDICATION

I dedicate this work with a sincere heart to my father Mr. Kabayi Milton and Mrs. Logose Lovisa ho worked hand in hand using their scarce resources towards my career development, brothers and sisters.

I also extend my sincere gratitude and special appreciation to my supervisor, Dr. Kinyatta Stanely who worked with tireless efforts and skilful guidance that he showed me through this exercise and the entire staff of Kampala International University especially in the college of Applied Economics and management science.

ACKNOWLEDGEMENTS

I would like to thank the almighty God for the Grace and effort he has given me to accomplish my research report successfully.

I also extend my gratitude and special appreciation to my Brother Mwayi Samuel Kabayi Who Helped me financially and morally upright to successfully achieve my degree.

Special and heartfelt thanks go out to Budaka District (My Sponsor) for the unconditional support and for providing the ground upon which this work took present shape. Thank you

My appreciation also goes to Mr. Kolomi Godfrey together with his team (bukoyo S.S.S) whose foresight led to the success of my education.

I am greatly indebted to my family, brothers, sisters and friends; Nakooma Stephen, Aneno Teddy, Rose Mary, Gimbo Esether, Peace, Metrine, Shammy, Wenene Suzan, Katalikoko Milly, Bambala Edilisa, Kizito Richard, A. Mose John and Isweezi Henery and Mr. Kasozi Fred without their guidance this work would not have been completed.

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ABSTRACT

Small scale enterprises are the catalyst for economic growth in most economies thus, the fundamental objective of this study as to find out what Small Scale Enterprises classify as disadvantages and advantages of accessing loans in IKI-IKI SACCO Budaka District., to find out how loans provided by financial institutions are utilized by the Small Scale Enterprises in IKI-IKI SACCO Budaka District., to investigate whether loans to Small Scale Enterprises actually lead to increase in stated performance or otherwise in IKI-IKI SACCO Budaka District, to investigate whether these scale enterprises manage to get the loans and why the go for these loans. So that the ability of Small scale Enterprises s to develop positively and drive economic growth in the IKI-IKI Budaka District will become real. Simple random sampling technique was employed in selecting the 157 respondents that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that the percentage distribution of the different types of Bank facility available or accessed by IKI IKI SACCO Budaka District with respect to the respondents. There was a clear indication that the distribution was not skewed to just one type of facility. A business can have more than one type of facility in the Bank depending on the purpose for which it's requested. According to how respondent utilized loan accessed from the Bank. Majority (51%) utilize the loan by sourcing raw materials, they buy raw materials to enable production. This enables them to buy as much as they require to start their business or to add up to existing stock levels. Also the percentage of respondents that indicated that the type of loan they took from the Bank either improved the over all firm performance per their own definition or not. 63.7% of total respondents indicated that the loan improved the overall performance of their firm.36.3% indicated that the loan did not improve the over all performance of their firm. It was also discovered that the importance of loan to respondents' firm performance. The respondents indicates that loan help business overall firm performance in diverse ways: this is because percentages are not highly skewed towards one importance of loan. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (38.2%) opted for increase in returns as their definition for importance of loan with respect to improvement in over all firm performance. The researcher also revealed that various disadvantages of loans and their percentages per classification by Respondents. High cost of capital (31.8%), with a frequency of 50 out of the 157 clients with loan. high cost of capital being high interest rate charges on loan granted by the Bank usually because of the small structure of SMEs in comparison to corporate clients, the uncertainty surrounding the SME is on the side, this discussed in chapter one and Literature review leads to a high interest rate charged.

It is recommended that Banks should review their interest rates downwards and also share best practices with their Small scale Enterprises customers especially on the efficient use of loans; this will boost their productivity and support Small scale Enterprises in IKI-IKI Budaka District.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

The chapter presented an insight back ground to the study, statement of the problem, purpose of the study. research objectives, research questions, the scope of the study, significance.

1.1 Background of the Study

In Uganda, available data from the Registrar General Department indicates that 90% of companies registered are micro, small and medium enterprises (Mensah, 2004). This target group has been identified as the catalyst for economic growth of the country as they are a major source of income and employment to man)' Ugandans. According to Mensah (2004) Small enterprises employ between 6 and 29 employees with fixed assets of $100 Thousand with Medium enterprises employing between 30 and 99 employees with fixed assets of up to $1 Million, Hallherg (2001) put forward that Small Scale Enterprises account for majority of firms in an economy and a significant share of employment. Like other countries of the world, Small Scale Enterprises in Ghana have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute immensely to economic growth. Small firms are the engines for economic development of several developed countries such as the US and Japan (Hallberg, 2001).

Developing countries such as Zimbabwe have also identified the potential of small firms to turn economies with negative growth into vibrant ones, For this reason, several governments in developing countries oiler funding to small firms either directly or by guaranteeing the payment of such loans as lack of funding is cited as one of the major challenges faced by small businesses. Obert and Olawale (2010) argues that due to limited resources by governments, not all small firms receive lending from the government; therefore, the other option would be to go for batik loans Obert and Olaw'ale (2010). Despite its increasing roles, access to credit by Small Scale Enterprises remains one major constraint to Ghanaian Small Scale Enterprises. According to Augusto et al (2008) most large companies usually start as small enterprises, so the ability of Small Scale Enterprises to develop and invest becomes crucial to any economy wishing to prosper. Although countries' definitions of lat constitutes an small scale enterprises for legal or statistical purposes are typically based on the number of employees, banks generally define Scale Enterprises in terms of average annual sale; an indicator that is more easily observable, a good proxy of an Small Scale Enterprises level of business activity, and, thus, more useful to banks' business and risk management purposes (Augusto et al 2008). Augusto et al (2008) further points out that the threshold of annual sales used by banks varies by country, according to the size of the economies and structure of their corporate sector. Augusto et al (2008) hints that in Argentina, a company is considered to be a Small Scale Enterprises when its average annual sales are approximately between 300,000 and 30 million US dollars. In Chile, the range goes from around 90.000 to 24 million US dollars. In Colombia. banks consider Small Scale Enterprises those firms with annual sales between 400,000 and 13 million US dollars (although for most domestic banks the range is between 100,000 and 5 million. In Serbia, Small Scale Enterprises are typically defined as having annual sales between 500,000 and 10 million Euros. A vast number of data on Small Scale Enterprises in Ghana also suggest Small Scale Enterprises are more financially constrained than large firms. For example using data from 10.000 firms in 80 countries. Beck et al (2006) showed that the probability that a firm rates financing as a major obstacle is 39% for small firms, 38% for medium-size firms, and 29% for large firms.

Mensah (2004) states that a major barrier to rapid development of the Small Scale Enterprises sector is a shortage of both debt and equity financing. However Mensah (2004) postulate that equity shortage occurs because Equity investors seek highest return consistent with the risk of the investment and since Small Scale Enterprises investments are difficult to evaluate, their investments take time to mature and among others major institutional investors such as insurance companies are not allowed to invest in private Small Scale Enterprises. Hence there are many who believe that the single most important factor constraining the growth of the Small Scale Enterprises sector is the lack of finance. There are many factors that can be adduced for this lack of finance according to Mensah (2004). For instance a relatively undeveloped financial sector with low levels of intermediation: Lack of institutional and legal structures that facilitate the management of Small Scale Enterprises lending risk; High cost of borrowing and rigidities interest rates. Thus Because of the persistent financing gap, many interventions have been launched by governments and development partners to stimulate the flow of financing to Small

Scale Enterprises over and above what is available from exiting private sector financial institutions. Karinunda and Barumwete (2006) put forward the fact that, there are several reasons why a small scale enterprise needs a loan such as the financing of new branches of new projects and more. Companies do not always have the capacity for financing their on business that is why they have sometimes to turn to other financers. However, when companies need new capital, they firstly resort to their internal generated funds. After these sources Small Scale Enterprises turn to equity financing by addressing closely related investors. These sources exhibit very low costs and may be for example equity capital from the owner, family or friends. Despite these, there are others types of financing that one can use: external equity financing and external debt financing. For Small Scale Enterprises, possibilities for using external equity finance are limited since the majority of these companies are privately managed. Companies can also use venture capitalist as alternative means of equity financing.

However, these possibilities are difficult for Small Scale Enterprises since most of them do not always meet the return expectations. They thereby become less attractive for this group of investors. Other alternatives to financing are private placements and corporate bonds. Unfortunately, these types of financing are too expensive for Small Scale Enterprises or have limited resources. Therefore bank loans seem to be an appropriate way to finance Small Scale Enterprises' capital requirements seem to be an appropriate way. As a result, Small Scale Enterprises prefer most frequently debt funding by bank loans. The bank financing is tremendously attractive and seems to be realistic and a more reliable source to Small Scale Enterprises. Mensah (2004) states that recently, as banks and other financial institutions have sought to broaden their loan portfolio. Small Scale Enterprises have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to Small Scale Enterprises groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for Small Scale Enterprises target groups taking the particular requirements and needs into consideration, an example is the development of customized financial products and appropriate credit management systems.

The ability to service debt becomes problematic when the macro-economic environment deteriorates; resulting in the insolvency of firms (Glen, 2004). Rwelamila et al. (2004) affirm that, during the early stages of starting a firm, many owners commit themselves to the use of debt, which might be one of the sources of finance available to them. The use of debt can be disastrous as high interest rates and unfavorable repayment schedules are often overlooked due to the pressure of financing the firm. Against this background, the study investigates whether Small Scale Enterprises in developing countries can use debt and still remain solvent in this era of high interest rates, Furthermore. Small Scale Enterprises often pay interest premiums and a host of non-interest fees such as application and other transaction fees when borrowing from commercial banks. The cause of this is that Small Scale Enterprises are considered a high credit risk compared to large firms. This high cost of funds because of increased risk increases the costs of debt for small firms.

1.2 Problem Statement

In reference from the above, Small Scale Enterprises serve as sources of livelihood to the poor create employment opportunities generate income and contribute to economic growth. There is also the potential of small firms to turn economies with negative growth into vibrant ones, not to mention the fact that most large companies usually start as small enterprises. so the ability of Small Scale Enterprises to develop and invest becomes crucial to any economy wishing to prosper. From the argument above the only easier finance options for Small Scale Enterprises are loans (Debt financing) assess from financial institutions, thus it's necessary to examine the impact of these loans on the performance of Small Scale Enterprises. Are they having negative or positive impact on their performance .this is worth investigating because majority of the businesses fall within the Small Scale Enterprises category especially in developing countries like Uganda.

1.3 The purpose of the Study

The purpose of the study was to examine effects of loan condition on small scale enterprises Performance; a Case study of IKI IKI SACCO Budaka District.

1.4 Research Objectives

1.4.1 General objective

The general objective of this work therefore was to investigate the effects of loan condition on Small Scale Enterprises Performance.

The specific objectives of the study were:

a) To find out what Small Scale Enterprises classify as disadvantages and advantages of accessing loans in IKI-IKI SACCO Budaka District.
b) To find out how loans provided by financial institutions are utilized by the Small Scale Enterprises Performance in IKI-IKI SACCO Budaka District.
c) To investigate whether loans to Small Scale Enterprises actually lead to increase in stated performance or otherwise in IKI-IKI SACCO Budaka District.
d) To investigate whether these scale enterprises manage to get the loans and why the go for these loans

1.5 Research Questions

The research will be guided by the following specific research questions

a) What IKI-IKI SACCO in Budaka District classify as disadvantages and advantages of accessing loans in.
b) How have loans provided by financial institutions utilized by IKI-IKI SACCO Budaka District.
c) Are the loans to IKI-IKI SACCO in Budaka District actually lead to increase in stated performance or otherwise
d) Has IKI-IKI SACCO in Budaka District managed to get the loans and why does it go for these loans

1.6 Scope of the study

Geographical scope

The proposed study was carried out among employees of IKI-IKI SACCO Budaka District located in Budaka along Parisa Mbale Road.

Content scope

In content, the study concentrated on how loan Conditions affect or improve Small scale enterprises Performance.

Time scope

This study was conducted in a period of four months, the time which included collecting, analyzing and interpretation of data from March 2013 to June 2013.

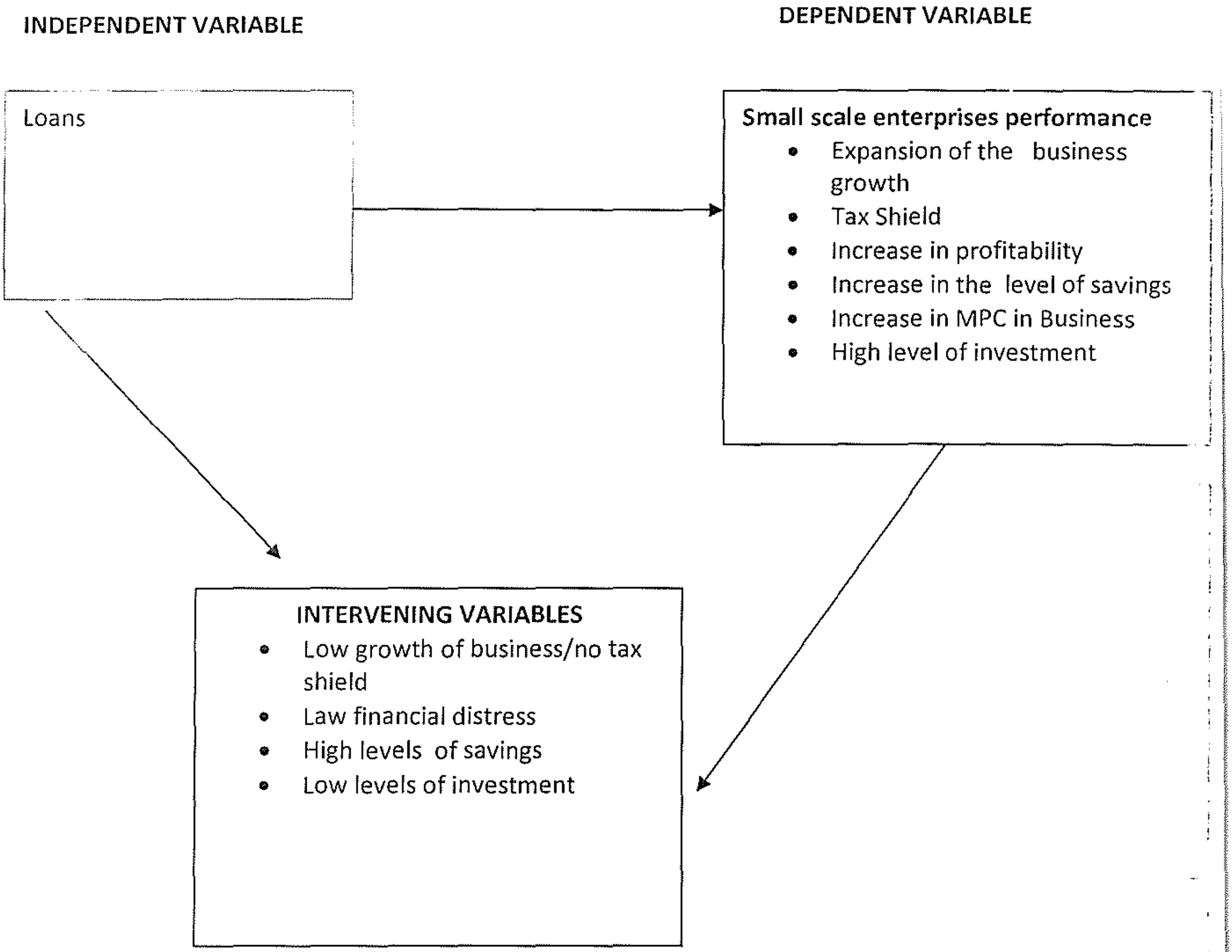
1.7 Significance of the Study

After carefully carrying out this study, the study was expected to serve the following purposes;

- The result of the study helped IKI-IKI SACCO to improve on its operation since it pointed out the weak areas in loan borrowing in the organization.
- The study helped the researcher to fulfill the requirement of the bachelor's degree program of Kampala International University.
- The findings also helped other scholars of research studying similar research problem.

1.8 Conceptual frame work

Figure 1: Conceptual frame work



From the conceptual framework High rates of loan borrowings leads to the following;
High levels of loan borrowing normally lead to increase in the profitability of the small scale businesses, if the business has the ability to repay back the loan borrowed in time as stated by the financial institution.

Amongst the variables is that high rate of loan borrowing also leads to the high rate of growth of small scale businesses
High rate of loan borrowing also leads to increase in financial distress in the small scale businesses
High increase in loan borrowing is normally encountered with high level of financial distress
High rate of loan borrowing also leads to reduction in the levels of savings and savings.
On the other hand, Low levels of borrowing leads to the following
Low growth of small scale businesses
Low rates of loan borrowing leads to low levels of savings and investments
Low levels of loan borrowing also lead to low financial distress

1.9 Limitations to the study

a) The researcher faced the problem of limited funds to facilitate the study for instance a lot of money will be needed for transport, stationary and to publish the final work.
b) The study group was highly cautious or reluctant to answer some questions and to disclose some of the company secrets.
c) The researcher encountered the problem of accessing company records for research purposes. Quality of findings was however not affected.

CHAPTER TWO
RELATED LITERATURE

2.1 Introduction

This chapter presented the theoretical framework, conceptual framework and review of related literature put up by different Authors on the variables.

2.2 The Definition of Small Scale Enterprises and its Growth.

By and large small and medium enterprises are becoming or are the back bone of most economies especially developing countries like Ghana, since the large corporate bodies mostly spring up from these small firms. Thus Cook and Nixson (2005) commented that in majority of cases, these small enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by Liedhoim et al. (1994) and Prasad et al. (2005).

Cook and Nixson (2005) put forward that, although a number of measures have been used to identify and describe small firms, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. Ryan (2007) has pointed out that the term may be used to cover a wide range of economic activities for an indicative number of employees; for example survival activities (<1 employees), 12 household activities), microenterprise sector (<5), small emergent enterprises (<25) and growth businesses (<100 employees). In the poorest countries, on average almost two thirds of workers are employed in enterprises with less than 5 employees while the majority work for enterprises with less than 100 employees Cull et al.(2004). Early literature, particularly Staley and Morse (1965), enhanced the conceptualization of the main characteristics of small enterprises and the pattern of growth of these enterprises. However, Anderson (1982) notes that there was lack of basic data on the management and characteristics of micro and small enterprises. Cook and Nixson (2005) supported that, the lack of data hampered any attempts to undertake serious empirical work on measuring the characteristics of small and medium enterprises and explaining the behavior of these enterprises. However, due to poor book-keeping by small enterprises in the 1980s, the data were often incomplete, unreliable and not repeated across samples. According to Levy (1993) while the baseline data could be used for measuring the characteristics of small enterprises, it was not adequate for testing theoretical propositions about the expected behavior of the small enterprises.

Gradual improvements were achieved over the years such that by the early 1990s, some basic databases were available for empirical studies aimed at identifying the constraints facing the growth and development of small enterprises in developing countries Levy (1993). Green et al. (2006) concluded that one of the main findings from these studies was that the growth and development of small enterprises in developing countries were mainly inhibited by access to finance, poor managerial skills, lack of training opportunities and high cost of inputs, Cook and Nixson (2005). Importantly, further studies especially those conduced in the late 1990s and thereafter suggest that finance is the most important constraint for the small enterprises sector Green et al.(2002). Fisher and Reuber (2000) enumerate a number of characteristics of small and medium enterprises in developing countries under the broad headings: labor characteristics, sectors of activity, gender of owner and efficiency. According to Abor and Quartey (2010) given that most small and medium enterprises are one-person businesses; the largest employment category is working proprietors. This group according to them makes up more than half the small and medium enterprises workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. Small and medium enterprises are more labor intensive than larger firms and therefore have lower capital costs associated with job creation according to (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). In terms of activity, they are mostly engaged in retailing, trading, or manufacturing Fisher and Reuber (2000). Abor and Quartey (2010) states that while it is a common perception that the majority of Small and medium enterprises will fall into the first category, the proportion of small and medium enterprises activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Abor and Quartey (2010) continue that retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. They states that the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

Abor and Quartey (2010) postulate that in Ghana, small and medium enterprises can be categorized into urban and rural enterprises; the former can be subdivided into "organized" and "unorganized" enterprises. Kayanula and Quartey (2000) states that The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers Whilst Kayanula and Quartey, (2000) builds on the fact that They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents. fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing. chemical-based products and mechanics Another perspective from (Aryeetey et al., 1994; Abor and Biekpe, 2006) argues that Majority of small and medium sized enterprises are female-owned businesses, which more often than not are home-based compared to those owned by males: they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned small and medium sized enterprises often have difficulty accessing finance.

Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Aryeetey et al., 1994; Abor and Biekpe, 2006). But Little et al. (1987) also comes in with a different view to state that Measures of enterprise efficiency (e.g. labor productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient. and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises. Acs et al.(1999) also argues that Small and medium sized enterprises are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them. D'Ambroise and Muldowney (1988), also point out that most writers use the term rather loosely. Researchers and other interested parties have used specific criteria to operationalise Small Scale Enterprises as a construct: value added, value of assets, annual sales and number of employees. D'Ambroise and Muldowney (1988), argue that annual sales and number of employees are most often used to delimit the category. For a growing number of researchers and reporting organizations the Small Scale Enterprises is generally considered to employ no more than 250 persons and to have annual sales of less than £5omillion.

According to Preston et al. (1986), the Small Scale Enterprises is one which is independently owned and operated and which is not dominated in its field of operation. Although the term small and medium sized enterprise (SME) is perceived by many authors as an ambiguous parameter which does not lend itself by definition, defining an Small Scale Enterprises is necessary to avoid misunderstanding of the term. A small firm is one that has only a small share of its market managed in a personalized way by its owner or part owner and not through the medium of an elaborate management structure. It is therefore, not sufficiently large to have access to the capital market for the public issue or placement of securities. Bannock (1981), notes that a branch of a large company cannot be regarded as a small firm because although it is small and may even he independent with regard to decision making, it will still have access to capital and technical assistance from We parent company. In a more recent thorough review of financial assistance available to Small Scale Enterprises. Curran (999) notes that wide variations are apparent where quantitative parameters are applied to determine eligibility of the small lo medium sized firms: for example turnover limits ranging from £50.000 to £50 million and the number of employees between 50 & 250. In contrast some scholars for example. Scott and Rosa (1996) suggest that employing additional qualitative criteria can enhance quantitative definition of small scale enterprises. For instance, Scott and Rosa (1996) provide the qualitative definition of an small scale enterprises by arguing that a small scale enterprises is one which has three characteristics. Abor and Quartey (2010) states that: first, management is independent: usually managers are also the owners. Second, Capital is supplied and an individual or small group holds ownership. Third, areas of operation are mainly local. Workers and owners are in one home community, but markets need to be located in the same community. Abor and Quartey (2010) indicate that; the best description of the key characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on small firms.

According to Abor and Quartey (2010), a small firm is an independent business, managed by its owner or part owners and having a small market share. The Bolton report also adopts a number of different statistical definitions. Abor and Quartey (2010) said that they recognize that size is relevant to the sector. A qualitative approach view would suggest that a small firm is one "that has a relatively small share of the competitive market; that is unable to influence prices or if it is a non-profit organization makes little significant impact in its area; which the management has close personal involvement in all aspects of decision-making Abor and Quartey (2010). In a commercial organization they are likely to be the owners or part- owners; is independent, with the owners/managers having effective control of the business or activities of the organization although they might be limited in their freedom of action by obligations to financial institutions or founders Abor and Quartey (2010).

2.3 Overcoming the Barriers to small scale enterprises Growth

A host of explanatory factors as indicated by Abor and Quartey (2010) for the growth of Small Scale Enterprises has been advanced, and a number of authors have made real attempts to conceptualize integrative models of final growth rather than simply itemizing factors or concentrating on one specific aspect of growth. Some of the writers: Davidson (1991) and Jennings and Beaver (1997) management perspective of' performance. However, with the exception of Davidson (1991), these authors do not conceptualize development of micro-businesses, which are typical entrepreneurial start-ups'. There is also a Lack of empirical evidence and only Gibh and Scott (1985) and Jennings and Beaver (1997) attempt to address the full range of factors influencing a firm's development. The remaining models, as pointed out by Perren (1999), concentrate on factors, which influence the entrepreneurial process and behaviors.

Authors also refrain from commenting on how the various factors actually interact to influence development of the firm. These integrative models also tend to impose rather simplistic stages on the process of development.

The point is also made by Perren (1999), who suggests that "development is often much more a process of slow incremental iterative adaptation to emerging situations, than it is a sequence of radical clear steps or decision points". Improving the competitiveness of Small Scale Enterprises also involves understanding the problems of such businesses and identifying potential solutions. Storey (1994) notes that new businesses encounter a number of barriers to success throughout the start up period and during their first year of operation. These barriers can be both "internal" including government control and lack of skilled labour.

Fielden et al. (2000) note that owner- managers often perceive barriers of growth as being external in origin issues related to "money management" are often mainly cited as the main difficulty for business start-up. Problems include a poor understanding of tax, national insurance and bookkeeping, as well as, difficulties in obtaining capital and the absence of a guaranteed income. Scott et al. (1996) point out that owners of the failed businesses often point to the shortage of the working capital as the prime cause of business failures.

Fielden et al. (2000), documented that lack of adequate start up funds has a "knock-on" effect restricting development and growth by reducing funds available for activities such as advertising, publicity, and acquiring suitable premises, issues of finance are followed by concerns related to the level of demand for products and services as well as nature of market place competition. Storey (1994) notes that key constraints on growth are related to a combination of internal factors as unwillingness to delegate or bring in external skills and external factors including finance, employment and competition.

2.4 Small Business and their Banks

Binks et al. (1996) argues that in 1988 the perception of small firms in England and their banks was virtually identical across banks. Firms feel most constrained by the level of bank charges are thus potential sources of employment and income in many developing countries. Furthermore Kayanula and Quartey (2000) in addition states that small and medium enterprises seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly ski[led technologies. They are able to withstand adverse economic conditions because of their flexible nature. These authors: (Anheier and Seibel, 1987; Liedhoirn and Mead, 1987; Schmitz. 1995) contributed that small and medium enterprises are more labour intensive than larger firms and therefore have lower capital costs associated with job creation.

They thus according to these writers perform useful roles in ensuring income stability, growth and employment. Further stated that since small and medium enterprises are labour intensive, they are more likely to, succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities, Due to their regional dispersion and their labour intensity. (Anheier and Seibel. 1987; Liedholm and Mead, 1987; Schmitz, 1995) argued that, small-scale production units can promote a more equitable distribution of income than large firms. Kayanula and Quartey (2000) added that small and medium enterprises also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth. Abor and Quartey (2010) expatiate on the fact that small and medium enterprises contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa.

Ahor and Quartey (2010) postulates that small and medium enterprises represent a vast portion of businesses, Economic perspective wise. Abor and Quartey (2010), argues that small and medium enterprises are not just suppliers, hut also consumei's and this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role according to Berry et al. (2002), both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment) thus demand is important to the income-generation potential of small and medium enterprises and their ability to stimulate the demand for both consumer and capital goods Abor and Quartey (2010).

2.6 General Constraints to Small Scale Enterprises Development

From various arguments so far it can be concluded that small and medium enterprises are very essential to economies especially developing economies, but in their developments they face a number of constraints despite their potential role to accelerate growth and job creation according to Abor and Quartey (2010). (Anheier and Seibel. 1987; Aryeetey et al, 1994) states that small and medium enterprises development is hampered by a number of factors, including finance, Jack of managerial skills, equipment and technology, regulatory issues, and access to international markets .hence the lack of managerial know-how places significant constraints on small and medium enterprises development. Even though according to them small and medium enterprises tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on small and medium enterprises according to Abor and Quartey (2010). The lack of support services or their relatively higher unit cost can hamper small and medium enterprises efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for small and medium enterprises according to Abor and Quartey (2010).

Moreover, per Kayanula and Quartey (2000) despite the numerous institutions providing training and advisory services, there is still a skills gap in the small and medium enterprises sector as a whole; this is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. Likewise according to Aryeetey et al (1994). In terms of technology, small and medium enterprises often have difficulties in gaining access to appropriate technologies and information on available techniques.

Aryeetey et al (1994); thus small and medium enterprises utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain. Regulatory constraints also pose serious challenges to small and medium enterprises development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level as postulated by Abor and Quartey (2010). The high start-up costs for firms according to Abor and Quartey (2010), including licensing and registration requirements, can impose excessive and unnecessary burdens on small and medium enterprises. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect small and medium enterprises operations. In the case of Ghana Abor and Quartey (2010) affirms that the cumbersome procedure for registering and commencing business are key issues often cited. For example according to Abor and Quartey (2010), World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana; It takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues. In the intervening time Kayanula and Quartey(2000) indicates that the absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits small and medium enterprises access to foreign technologies. Abor and Quartey (2010) then conclude that previously insulated from international competition, many small and medium enterprises are now faced with greater external competition and the need to expand market share.

However, Areetey et al (1994) states that their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede small and medium enterprises expansion into international markets. They also lack the necessary information about foreign markets. In competing for the corporate market, Abor and Quartey (2010) states that thermal financial institutions have structured their products to serve the needs of large corporate. A cursory analysis of survey and research results of small and medium enterprises in South Africa, for instance, reveals common reactions from small and medium enterprises owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint according to Ahor and Quartey (2010). This situation is not different in the case of Ghana as researched by (Sowa et al.. 1992; Aryeetey. 1998; Bigsten et al.. 2000. Ahor and Biekpe 2006. 2007; Quartey, 2002). Green et al (2002) adds that Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance.

(Sowa et aL. 1992; Aryeetey et al., 1994; Parker et al., 1995; Kayanula and Quartey. 2000) all voiced on Other constraints small and medium enterprises face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training.

Abor and Quartey (201 0 contributes to the fact that ;potential providers of finance, whether Ibrmal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere according to Abor and Quartey (2010). Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-tip and development as indicate by Green et al (2002).

2.7 Small Scale Enterprises and Access to Finance

According to Idowu (2010) claim that a major barrier to rapid development of the small and medium enterprises sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for small and medium enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries Idowu (2010).

Small business especially in Africa can rarely meet the conditions set by financial institutions, which see small and medium enterprises as a risk because of poor guarantees and lack of information about their ability to repay loans Idowu (2010). Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms ldovu (2010).According to Cork and

Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses arc mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses according to ldowu (2010).

As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among small and medium enterprises and due to inadequate financial facilities. However, Cressy and Olofsson (1997) sum up constraints facing small and medium enterprises into two; these include demand-based (small and medium enterprises) and supply-based (formal banks) financial constraints. The duo define a supply-side finance constraint according to Tdowu (2010) as a capital market imperfection that leads to a socially incorrect supply of funds to projects, or the incorrect interest rate charged on funds. They further define a demand-side financial constraint as a capital market imperfection in which performance of a firm is adversely affected by a factor internal to the firm. Thus for example according to Idowu (2010), if the firm's owners would like to grow the firm faster, but the only way they can do this is to relinquish equity, and they refuse to do so, it may be said that the firm's demand for funds is demand-constrained.

2.8 Implications of Financing Decisions for Firm Performance

Growth And Survival Franck and Huyghebaert (2008) examine whether having a lot of debt outstanding improves or hampers firm performance in the first few years after start-up. According to Modigliani and Miller (1958), financing decisions should not affect product market outcomes, as long as financial and product markets are perfect. So, Franck and Huyghebaert (2008) argue that leverage can affect firm performance only when some market imperfections pertain. When outside financiers according to Huyghebaert (2008), do not have the same information about firm quality as do firm insiders and when it is difficult for insiders to credibly transfer this information to outsiders, an important financial market imperfection arises. Regarding product market imperfections, firms may recognize the impact of their decisions and behavior on one another when the number of competitors in a market is limited as postulated by Huyghebaert (2008). Rival firms may then engage in predation to drive entrants out of their market, provided that the benefits of doing so outweigh the costs Huyghebaert and Van de Gucht (2004). Franck and Huyghebaert (2008) focus on the above two market imperfections and investigate how the incentives of an entrepreneur and her rival firms' implications of financing decisions for firm performance, growth and survival affect the relation between leverage and cost-entry performance in the context of business start-ups. Also, they examine how this relation changes over time, as the entrepreneurial venture grows older according to Huyghebaert (2008).

For this purpose, they focus on two complementary measures of firm performance: current profitability and growth in earnings over time Huyghebaert (2008). As a number of authors have already shown that profitability is an important determinant of firm growth, through the use of retained earnings Watson (2006). examining the link between leverage and internal cash generation in the context of business start-ups can make a further contribution to the literature. Other studies on small and medium enterprises have shown that small and medium-sized enterprises are financially constrained and face a financing gap.

Cash-flow investment sensitivities are typically large for small and medium enterprises and particularly for the smallest and unquoted among them. These studies thus stress once more the importance of internally generated earnings for firm growth and survival. From a stand-tip's perspective according to Fluyghebaert (2008) , firm survival is indeed a key consideration for entrepreneurs, as they usually hold a largely undiversified portfolio, have pledged personal assets to secure their firm's bank debt, and enjoy sizeable private benefits of control. Entrepreneurs may take into account that according to Huyghebaert (2008), given asymmetric information, weak firm performance in one year could reduce their firm's access to future financing from banks and could even lead to firm liquidation following default. The other debt again largely consists of trade credit. Survivors have significantly more fixed tangible assets, whereas their capital expenditures are significantly larger, too. Not surprisingly, surviving firms significantly out-perform failing firms, both in terms of profitability and in terms of growth in earnings over time according to 1-Iuyghebaert (2008).

2.9 Empirical Literature on the Effect of Debt usage on firm performance

Studies on the effect of debt on returns have generated mixed results ranging from those supporting a positive relationship hypothesis to those opposing it according to Obert and Olawele (2010). Empirical studies such as Ruland and Zhou (2005) and Robb and Robinson (2009) agree with Miller and Modigliani (1963) that the gains from leverage are significant, and that the use of debt increases the market value of a firm. Financial leverage has a positive effect on the firm's return on equity provided that the earning powers of the firm's assets (the ratio of earnings before interest and taxes to total assets) exceeds the average interest cost of debt to the firm. Abor (2005) conducted a study on the effect of debt on firms in Ghana which indicated a significantly positive association between total debt and total assets and return on equity. The results therefore portrayed a positive leverage, According to Berkivitch and Israel (1996), a firm's debt level and its value is positively related especially when shareholders have absolute control over the business of the firm and it is negatively related when debt holders have the power to influence the course of the business, According to Berkivitch and Israel (1996), the impact of debt on value of firms therefore, depends on the balance of power within a firm. If shareholders have more power, a positive leverage ill prevail and if debt holders have more power, a negative leverage would take place.

The use of high levels of debt in the capital structure Obert and Olawele (2010), leads to an increase or decrease in the return on shareholders' capital/return on owners' equity (ROE). ROE refers to the return/monetary gain by shareholders in return for the capital they would have offered to firms. Debt is always desirable if a firm achieves relatively high profits as it results in higher returns to shareholders (positive leverage). If a firm incurs a major drop in income, employing more debt in the capital structure will be detrimental as the firm won't be able to cover the cost of debt (negative leverage). Other studies such as Negash (2001) and Phillips and Sipahioglu (2004) conclude that the tax benefits of leverage are insignificant. Negash (2001), for instance finds that the use of debt has been found to have a negative impact on the profitability of the firms quoted on the Johannesburg Stock Exchange. Negash (2001) further argues that, although the potential gains from leverage over an infinite period of time are significant and comparable to what is reported in studies from developed countries, in line with the theory of Modigliani and Miller of 1963. The actual gains, however, are not as implied by the 1963 theory since the effective tax rate for most firms in South Africa is lower than the statutory rate. This is because non-debt tax minimization efforts such as depreciation and amortization (investment and not debt related tax shields) reduce the significance of interest deductions and the tax advantages of debt. Empirical studies on the static theory discussed above have focused mainly on large firms.

Coleman and Cohn (2001) argue that some of the most interesting questions in Small Scale Enterprises finance relate to the extent to which the theories of corporate finance fit the Small Scale Enterprises. These researchers question whether these theories, which were developed within the context of large and publicly owned firms, actually work when they are applied to small firms. Rajan and Zingales (1995) indicate that although the study of the capital structures of listed and large firms may be of the greatest importance to the financial community, the interests of academics are broader. Academics are interested in studying the whole universe of firms and not just large firms. Daniel et al. (2006) point out that in the case of small firms, the expected costs of bankruptcy is quite high and the expected costs of financial distress may outweigh any potential benefits from tax shield. Also, the advantage of the tax shield of debt is limited for small firms. Many small firms have limited revenues and the variability of their operating income can be quite volatile. Therefore, potential benefits of tax shields of interest payments remain doubtful. This is consistent with the results of a study by Sogorb (2002) which finds that the fiscal advantage of debt cannot be applied in the small scale enterprises context because small firms are less likely to be profitable and therefore may not be able to use debt in order to get tax shields. Moreover, the main advantage of debt, the tax shield, can be especially complex to assess in new Small Scale Enterprises where business income is taxed as personal income. Michaelas et al. (1999) in addition, reveal that the minimization of the cost of capital and maximization of profitability through the use of debt finance might not hold for small firms.

Small firms find it difficult to borrow from commercial banks for a variety of reasons such as risk. When they are able to borrow from banks, the costs of debt financing for small firms are usually higher than those of large enterprises due to their higher credit risk. The reliance on debt to finance investment purposes therefore negatively impacts on the profitability of small firms. In Zimbabwe, interest rates on lending are very high compared to the rates in developed countries.

According to Madera (2010) the huge appetite for funding and low liquidity levels since the introduction of the multiple currencies trading system has resulted in punitive lending rates on the market.

Companies' thirst for credit to better the decade-long recession points to a situation of a sustained high interest rate environment relative to those prevailing in the region. Prevailing lending rates range between London Interbank offered rate (Libor) plus 10 to 20% for 30 to 90-day paper according to Obert and Olawele (2010). Libor is the world's most widely used benchmark for short-term interest rates. It is the rate at which the world's most preferred borrowers are able to borrow money. It is also the rate upon which rates for less preferred borrowers are based. According to Obert and Olawele (2010), Rates are expected to continue oscillating within their current ranges, firming from current levels to ranges between Libor plus 10 to 25% for 30 to 90- day borrowings. Therefore, it is more difficult for enterprises, in Zimbabwe, to earn returns higher than the cost of debt compared to enterprises in developed countries. Consequently, it is hypothesized that there is a negative relationship between the use of debt and the profitability of small manufacturing firms in Zimbabwe according to Madera (2010).

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter composed of Research design, types and source of data, methods of data collection, data processing, presentation and analysis of the findings and limitations to the study.

3.1 Research Design

The research design was descriptive correlation in that it was interested in relating Loan conditions on Small scale enterprises Performance.

3.2 Research Population

The study focused on the manpower work force of IKI-IKI SACCO Budaka District in Budaka Sub County which was categorized under top management, sales management, cashiers/Accountants, production management, packaging department and employees which comprised a total population of over 259 employees.

3.3 Sample Size

From the total population of 259 employees of IKI-IKI SACCO Budaka District, the sample size was 157 employees. The sample size was determined using the Sloven's formula; which will state as follows:

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

Where **n** is the sample size, **N** stands for population and e^2 is 0.05 level of significance.

$$n = \frac{259}{1 + 259\,(0.05)^2}$$

$$n = \frac{259}{1 + 259\,(0.025)}$$

$$n = \frac{259}{1 + 0.6475}$$

$$n = \frac{259}{1.6475}$$

$$n = 157$$

The sample size was selected from the following categories. Table 1 shows the distribution of population and sample size.

Table 1: Category of respondents

Category	**Target population**	**Sample size**
Top managers	9	6
Sales management	30	19
employees	138	80
Packaging department	64	40
Production department	9	6
Cashiers/Accountants	9	6
Total	259	157

Source: *primary data*

3.4 Sampling Procedure

The study was conducted using stratified sampling to reduce costs and the time of doing research and to increase the degree of accuracy of the study. The researcher set a selection criterion, where respondents were selected basing on their position/kind of job they do. A list of respondents was obtained from among top management officials in their respective departments to act as the sample. Strata were made according to employee's level of operation in the company. There after a sample was obtained from each of the strata using convenient sampling.

3.5 Research Instruments

There was a sets of questionnaires directed towards employees in the company; Section one was respondent's profile. The questionnaires also consisted of the main title and the introductory letter, with a section of questions, to help classify respondents. All questionnaires were both open and close ended. Respondents were required to rate each item by writing the right answer in the space provided before question.

3.6 Validity and Reliability of the Instruments

To ensure the validity and reliability of the instruments, the researcher employed the expert judgment method. After constructing the questionnaire, the researcher contacted experts in the study area to go through it to ensure that it measured what it was designed to measure and necessary adjustments were made after consultation and this ensured that the instrument were clear, relevant, specific and logically arranged.

3.7 Data Gathering Procedures

Before data gathering

Upon accomplishment of and acceptance of the research proposal, the researcher obtained an introductory letter from the college of economics and management sciences of Kampala International University, seeking for permission from the management of IKI-IKI SACCO Budaka District to allow her access employees to participate in the study.

During data gathering

Due to the nature of work and busy schedule of some prospected respondents, the researcher through the company management scheduled an appointment for such respondents. The researcher was available to give necessary explanation on some questions where need was. Then the researcher carried out a pilot study before the actual research to check feasibility of the research instrument in order to make necessary improvement and adjustments in the tool and to avoid time wastage. The researcher also made use secondary data by reviewing available relevant texts books, journals articles, periodicals, manuals dissertation and publication.

After data gathering

After two weeks, primary data was collected through questionnaires which respondents returned back to the researcher for data analysis. Completed (Self Administered Questionnaires) were coded, edited, categorized and entered into a computer for statistical package for social scientists (SPSS) for data processing and analysis.

3.8 Data Analysis

Data on completed (SAQs) was edited, categorized and entered into a computer for the statistical package for social scientists (SPSS) which summarized them using frequency and percentage to analyze data on respondent's profile.

3.9 Ethical Considerations

To ensure that ethics was practiced in this study as well as utmost confidentiality for respondents and the data provided by them, the following were done: (a) all questionnaire were coded; (b) the respondents were requested to sign the informed consent; (c) authors quoted in the study were acknowledged within the text through citation and referencing; (d) findings were presented in a generalized manner.

CHAPTER FOUR
DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

4.0 Introduction.

This chapter analyses data collected from the field based on the research questions in chapter it deals with presentations, interpretations and analysis of objective by objective and according to the research methodology.

4.1 Profile of respondents

In this study, the researcher described respondents profile in terms of gender, age, marital status, level of education, kind of employment and working experience.

Table 2: Respondents Profile

Category of Respondents		**Frequency**	**Percent (%)**
Gender	Male	86	54.8
	Female	71	45.2
	Total	**157**	**100.0**
Age	20 – 39 years	84	53.5
	40 – 59 years	49	31.2
	60 years & above	24	15.3
	Total	**157**	**100.0**
Marital status	Single	36	22.9
	Married	115	73.2
	Divorced	4	2.5
	Widowed	2	1.3
	Total	**157**	**100.0**
Highest level of Education	Certificate	71	45.2
	Diploma	32	20.4

	Degree	42	26.8
	Postgraduate	12	7.6
	Total	**157**	**100.0**
Working experience	Below 3 years	73	46.5
	3 – 7 years	21	13.4
	8 years and above	63	40.1
	Total	**157**	**100.0**

***Source**: primary data*

The results in table 2 show that male were the majority respondents as represented by 86 (or 54.8%) and female were the minority 71 (or 45.2%). The findings revealed that there is relative gender balance in the Company.

In regard to respondents' age, 84 (or 53.5%) respondents were in the age bracket of 20-39 years, 49 (or 31.2%) in the age bracket of 40-49 years, 24 (or15.3%) in the age bracket of 60 years and above. The study indicates therefore that majority of the sub-county employees are still in the youthful stage and still have innovative ideas.

In line with marital status, 115 (or 73.2%) respondents were married, 36 (or 22.9%) were single, 4 (or 2.5%) were divorced and 2 (or 1.3%) were widowed. Therefore it's right to deduce that the majority of the respondents were married.

Concerning the level of education, respondents with degree were the majority that is 71 (or 45.2%), followed by certificate holders 42 (or 26.8%), 32 (or 20.4%) were diploma holders. and 12 (or 7.6%) were master' holders. These results indicate that the education level of the majority of respondents was high as revealed by respondents mostly being degree holders.

Lastly in regard to working experience, 73 (or 46.5) respondents had served for a period of 3 years and below, 63 (or 40.1%) had served for a period of 8 years and above, 21 (or 13.4%) had worked for a period of 3-7years. This indicates that all respondents had knowledge and experience about the study since the majority served the organization for relatively a long period of time.

4.2 Research Findings and Analysis

Table 3: Access to Financial Institution Facility.

Do you have a facility with a financial institution?	**Frequency**	**Percentage**
Yes	**100**	**63.7**
No	**57**	**36.3**
Total	**157**	**100**

Source: Primary source 2013

From the results presented in Table 3, and on per pie chart below it indicates that 63.7% of respondents said that the organization had Bank loans and 36.3% do not know. It could be inferred from the responses of the 63.7% respondents that the organization had loans with the bank, argument in the literature review and introduction supports that most start-up firms fall on financial institutions for finance.

The low risk of Bank loans according to some respondents increase their request for Bank finance. Because according to them, in the event of their inability to meet dead lines for loan repayment or irregular cash flows, most financial institutions mostly do not opt for the extreme option of confiscation of the firms' property but instead they come to an agreement with their business clients and re-structure loans to suit the cash flows of the business.

Figure 2: **Access to Financial Institution Facility in Percentages.**

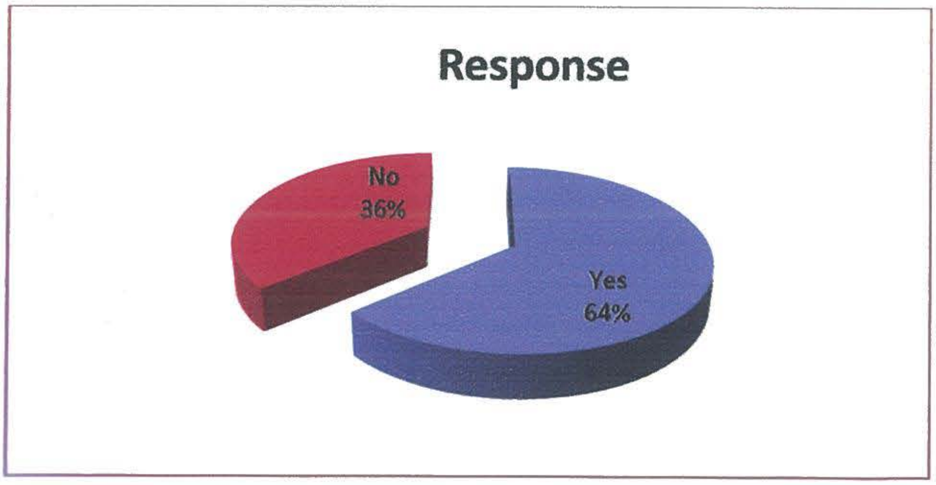


Table 4: Types of Bank facilities and their patronage

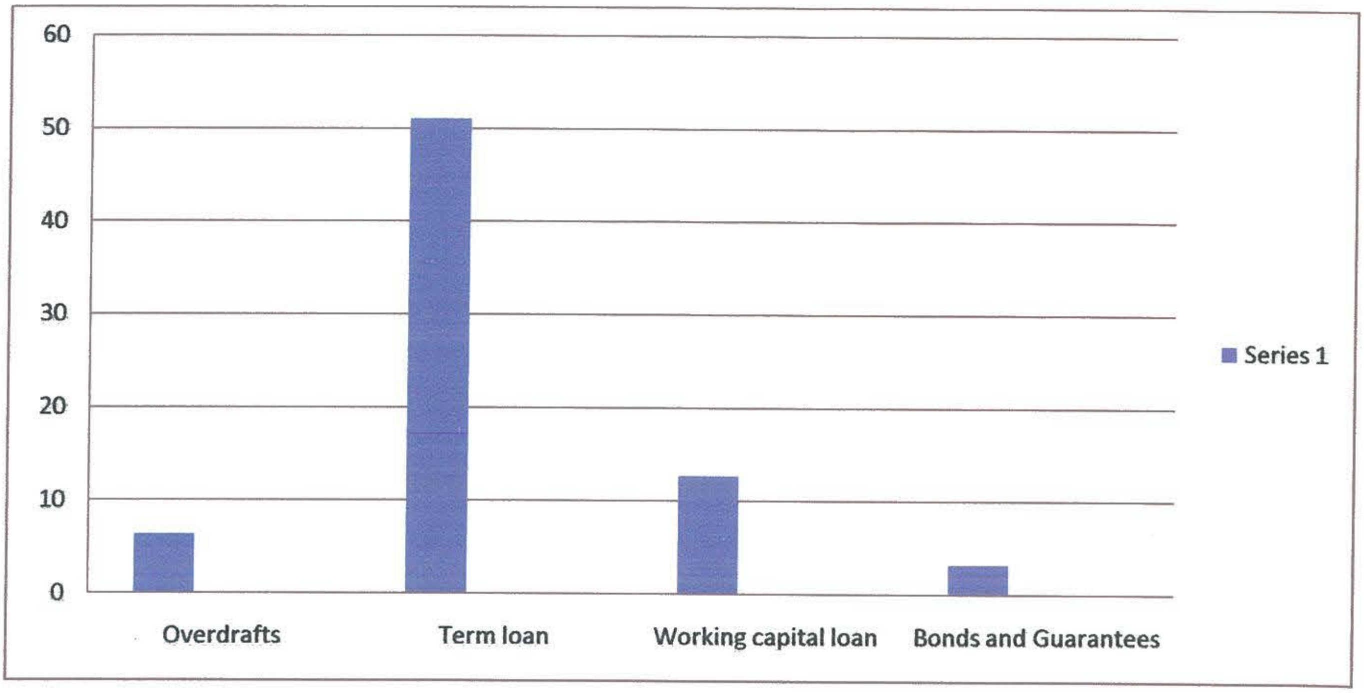
Types of Beneficial Bank facilities	**Frequency**	**Percentage**
Overdrafts	**10**	**6.4**
Term loan	**80**	**51**
Working capital loan	**20**	**12.7**
Bonds and Guarantees	**5**	**3.2**
Local purchase order	**5**	**3.2**
Certificate Discounting	**30**	**19**
Import clearing facility	**7**	**4.5**
Total	**157**	**100**

Source: Primary source 2013

Table 4 above gives the percentage distribution of the different types of Bank facility available or accessed by IKI IKI SACCO Budaka District with respect to the respondents. There was a clear indication that the distribution was not skewed to just one type of facility. A business can have more than one type of facility in the Bank depending on the purpose for which it's requested. Term loan leading with 51% was a type of Bank loan used mainly to finance capital expenditure. It was short term (within a year), medium term (up to 3 years) and long term (above 3 years). Term loans were supported by the borrowers' future cash flow generation capability and were repayable in equal installments basis. Thus per interview conducted with respondents, it favors them since they were given enough period to begin repayment, which was usually negotiable and it's tied to their cash flows, making it flexible. Next was the certificate discounting with a percentage of 19% it is a type of in which the Bank discounts Certificates raised by reputable contractors in anticipation of expected payments. Thus the Bank finance a project in anticipation of being paid in the near future by the customer of the business customers. Per face-to face interview with these respondents which fall within this category, certificate discounting enables quick access to loan since most of them were contracts awarded by Ugandan Government and telecommunication companies amongst others. Example, contractors with no personal means of financing such projects fall on Banks for such finance. Working capital loan had 12.7%. Is a type of loan that is used to finance a one-off working capital item and payable over a very short term period, on structured repayment basis or one-off payment. According to respondents in this category; this facility favors them in times of emergency. But Banks do normally grant this type of facility to businesses with good cash flows. Nonetheless overdraft followed with 6.4%, a type of loan that attracts daily interest (restricted to the amount utilized). and it has a short term period of one year (renewable). Respondent in this category expressed their interest in overdraft because of the daily calculation of interest .thus when unable to use the full loan; they are not charged the remaining interest. Unlike term loans where deferred interest is added to principal and amortized over the required loan period. But per face-to -face interview with some Relationship Managers, the Bank find it difficult to fully manage overdrafts because of irregular cash flows thus they seldom approve such loans.

According to respondent with 4.5% in import clearing facility, as the name suggests , is a type of loan that help firms who are into importing to clear their goods on time and then repay the Bank later as and when they sell the goods. Applying for this type of loan is quite cumbersome, since documents to help customers to pay for import duties and related charges to clear goods for business activity; are sometimes unavailable and Banks insist on them before approval of loan. 3.2% of respondents that have bonds and guarantees, which are off-balance sheet facilities extended to customers to enable them secure contracts or enjoy services in the normal course of their business. This is not usually common with respect to SMEs here in Budaka. Last and least percentage is the local purchase order which is 3.2% .in simple terms this type of loan assists businesses that have a sort of pro-forma invoice to produce items for another company and after get paid .the bank then comes in to finance based on the reputation in most cases of the company buying from the bank's business client. Consequently, such a facility may attract other forms of collateral security instead of the relative goods. This according to respondents is not attractive enough to patronize thus they only take this facility because it suits their immediate need and its convenient.

Figure 3: is a pictorial representation of Table 2 showing the percentage distribution of facilities that respondent consider as beneficial to their Business.



4.3.4 How does your firm utilize these loans?

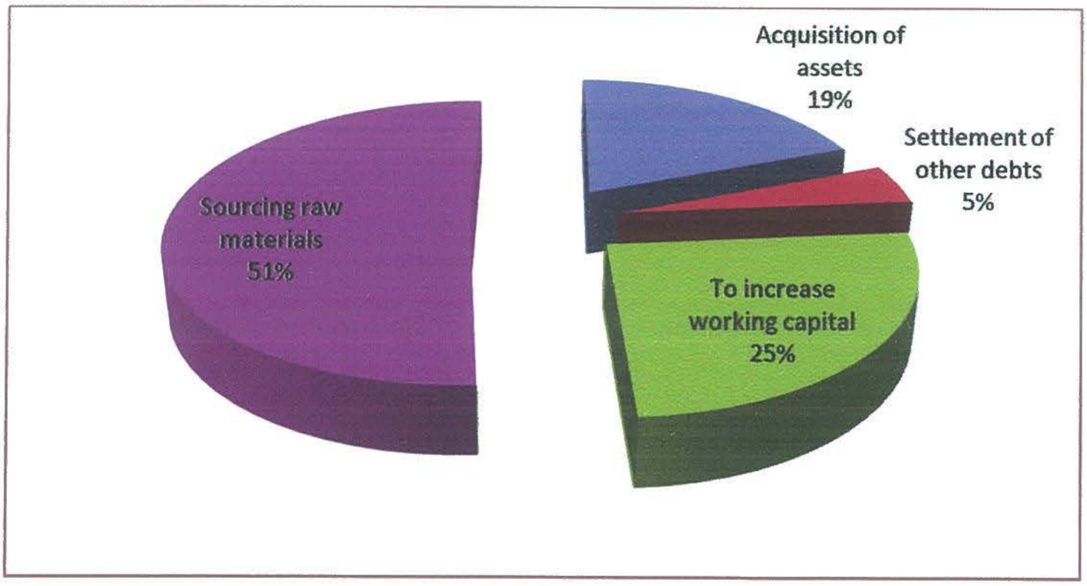
Table 5: Loan Utilization by SMEs

How does your firm utilize these loans?	**Frequency**	**Percentage**
Acquisition of assets	**30**	**19.1**
Settlement of other debts	7	**4.5**
To increase working capital	**40**	**25.5**
Sourcing raw materials	**80**	**51**
Total	**157**	**100**

Source: Primary source 2013

Table 5 above indicates how respondent utilized loan accessed from the Bank. Majority (51%) utilize the loan by sourcing raw materials, they buy raw materials to enable production. This enables them to buy as much as they require to start their business or to add up to existing stock levels. Respondents with 25.5% invest the loan in their business with the rational of increasing working capital. Mostly in the workflow process in the absence of an item or a service insufficient funds to help execute the production at hand. Respondents who utilize loan in the acquisition of assets form 19.1% of total respondents. Most of these loans taken from Banks for asset finance have higher interest rates because of the long term nature of repayment. For example Stanbic Bank finances assets for up to a period of seven years. Thus the high interest rates and the cumbersomeness in procedures deters SMEs from applying for such loans.4% of respondent which chose the utilization of loan for settlement of other debts per face-to-face interview stated that the reduction of interest rates of some financial institution force them to change Banks that have better offers than their present banks which they have existing loans thus they use the newly acquired Bank loans to pay off this kind of debts. They also take these loans to pay off their creditors. This percentage is on the reduced side (4.5%) because most SMEs prefer to invest loans taken in viable ventures that will enable them meet deadlines for repayment.

Figure 4: Below indicates the various uses of loans by respondents by pictorial representation.



Source: Primary data 2013

4.3.5 Importance of Loan in the Overall Improvement of Performance of a Firm.

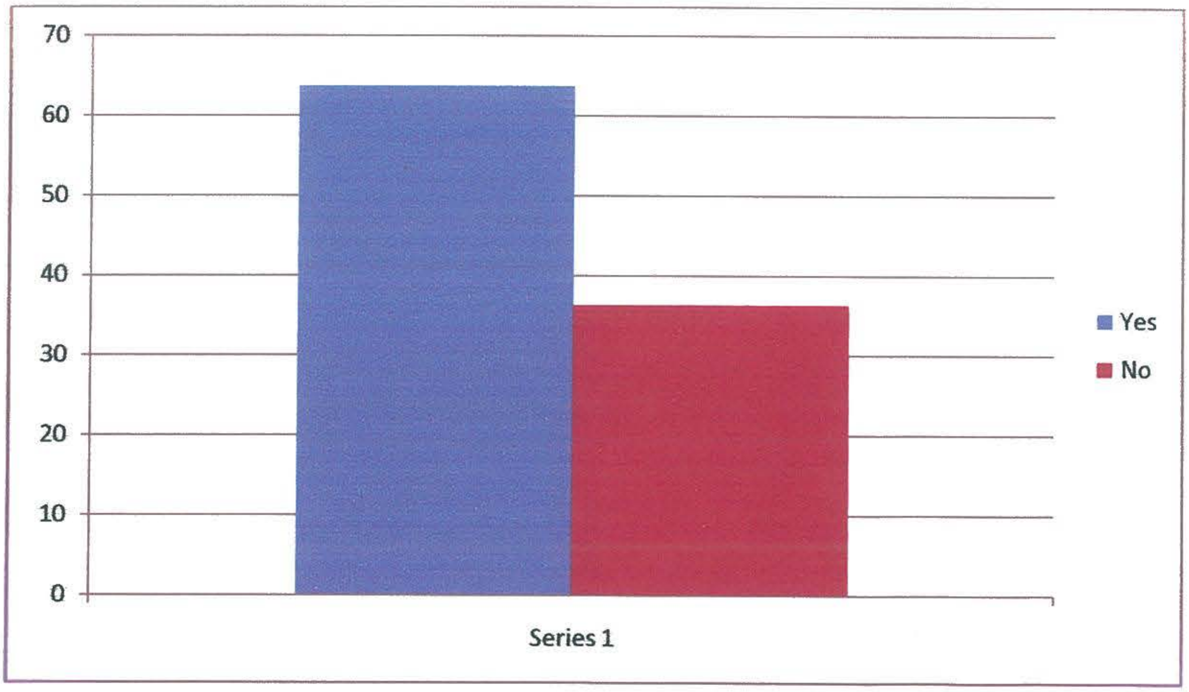
Table 6: The Effect of Loans on SMEs Performance.

LOAN IMPROVEMENT?	Frequency	Percentage
Yes	100	63.7
No	57	36.3
TOTAL	**157**	**100**

Source: Primary source 2013

Table 6 above indicates the percentage of respondents that indicated that the type of loan they took from the Bank either improved the over all firm performance per their own definition or not. 63.7% of total respondents indicated that the loan improved the overall performance of their firm.36.3% indicated that the loan did not improve the over all performance of their firm.

Figure 5: **Impact of Loan on Firm's Performance.**



4.3.6 How Did the Loan Help the Business With Respect To Overall Firm Performance?

Table 7: Contribution of loan to Firm Performance

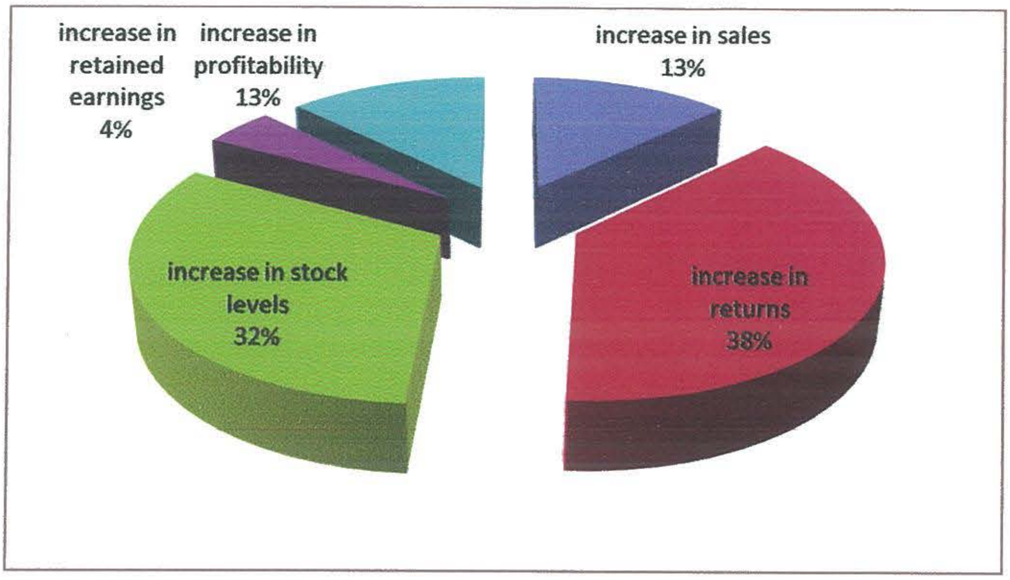
How did the loan help the business with respect to overall firm performance	Frequency	Percentage
Increase in sales	**20**	**12.7**
Increase in returns	**60**	**38.2**
Increase in stock levels	**50**	**31.8**
Increase in retained earnings	7	**4.5**
Increase in profitability	**20**	**12.7**
Total	**157**	**100**

Source: Primary source 2013

Table 7 above indicates importance of loan to respondents' firm performance. The table indicates that loan help business overall firm performance in diverse ways: this is because percentages are not highly skewed towards one importance of loan. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (38.2%) opted for increase in returns as their definition for importance of loan with respect to improvement in over all firm performance.

Thus the lower percentage falls in the region of increase in retained earnings (4.5%). This according to respondents is because of pressures to repay loan which limits expansion thus the business inability to retain excess funds. Increase in stock levels, that is inventory (31.8%) also on the high side implied that loan taken are use to purchase materials for production, thus businesses are able to up their stock to meet increasing Demand. Definitely ,with an increase in stock levels of (31.8%) of sample, its not surprising that increase in sales is 12.7%,because an increase in stock levels will all things being equal increase sales. Also 12.7% of respondents agreed that the loans increase their profitability. A better representation of table 5 above is in figure 6. below.

Figure 6-: Importance of Loan to a Firm's Overall Performance



4.3.7 What Negative Impact Did The Loan Have On The Overall Firm Performance?

Table 8: Negative Impact of Loan on Firms' Performance

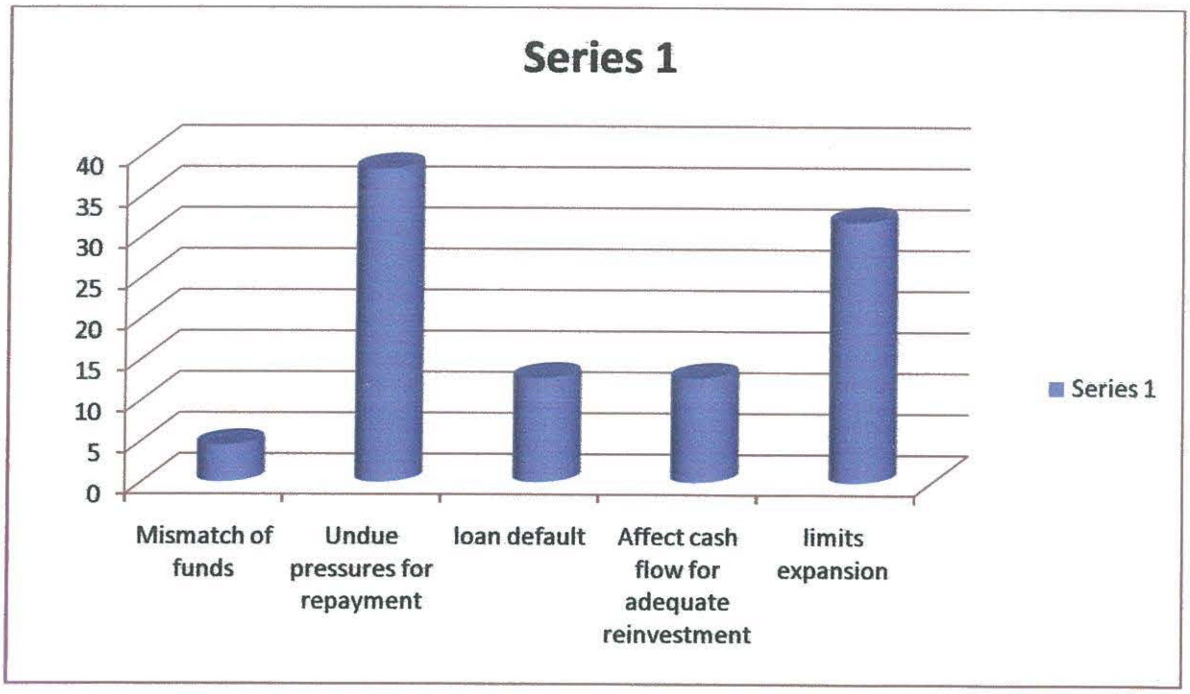
Negative impact	**Frequency**	**Percentage**
Mismatch of funds	7	**4.5**
Undue pressures for repayment	**60**	**38.2**
Loan default	**20**	**12.7**
Affect cash flows for adequate reinvestment	**20**	**12.7**
Limits expansion	**50**	**31.8**
Total	**157**	**100**

Table 8 explains what respondents classify as negative impact of loans accessed from the Bank. The analysis indicates that 38.2% of respondent chose pressures for repayment as a negative impact of loan taken. Pressures in the form of conscious efforts to make sure that by the date of repayment, funds should be available, thus all efforts put in place to make this happen .also pressures in the form of the Bank's credit official chasing them to make payment into account when they have defaulted up to some period.31.8% chose limit in expansion; this explains the situation whereby all returns received from projects undertaken are channeled into loan repayment.

12.7% -inadequate reinvestment, thus when all excess funds are channeled into loan repayments, it stifles re-investment into the business or investment into other ventures.12.7%- Loan default ,this occurs according to respondents, when for examples their debtors fail to meet dead lines in paying back for goods sold to them on credit.

Thus affecting the business ability to meet the loan repayment date and thus defaulting. Lastly 4.5% admitted mismatch of funds, diversion of usage of loan granted into other ventures which weren't the original purpose of the loan. The Figures shows representation of this in a pie chart.

Figure 7: Negative Impact of loan on SME Performance



4.3.8 Disadvantages of taking a Business Loan.

Table 9: Disadvantages of taking a Business Loan.

Disadvantages	**Frequency**	**Percentage**
High cost of capital	**50**	**31.8**
Risk of default	**10**	**6.4**
Risk of losing collateral	**15**	**9.6**
Prioritizing inflows to settle debt	**20**	**12.7**
Cumbersome procedures	**40**	**25.5**
Unrealistic Terms and Conditions	7	**4.5**
Reduction in loan amount	**15**	**9.6**
Total	**157**	**100**

Source: Primary source 2013

Table 9 above indicates various disadvantages of loans and their percentages per classification by Respondents. High cost of capital (**31.8%**), with a frequency of 50 out of the 157 clients with loan. high cost of capital being high interest rate charges on loan granted by the Bank usually because of the small structure of SMEs in comparison to corporate clients, the uncertainty surrounding the SME is on the side, this discussed in chapter one and Literature review leads to a high interest rate charged.

Cumbersome procedures (25.5%) same frequency of 40, it's disadvantage because according to respondents, they fall on the Banks in times of emergency and when frustrated with cumbersome procedures and bureaucracy ,they tend to lose contracts in some cases and this stifles their growth and prioritization of Inflows to settle loan repayments (12.7%), as the name explains indicates that all inflows have to be prioritized into settlement of the loan ,so till that is achieved all other issues are put on hold. Then we have reduction in loan amount 9.6% this according to respondents occur a lot, because they analyze their needs and then request for a specific loan amount from the Bank and then based on the judgment of the Bank, they reduce the loan amount ,which to them is based on unrealistic measures. Risk of losing collateral 9.6%, this as discussed in earlier analysis according to respondents occurs when the loan repayment is long overdue and they easily cannot help it. Risk of default 6.4% ,this is due to for instance debtors

CHAPTER FIVE
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0Introduction

This study undertakes to investigate the effects of loan conditions on small scale enterprises Performance; a case study of IKI-IKI SACCO Budaka district. This study looks at effect/impact with respect to sales, returns, stock levels, profit and retained earnings. These measurements of the impact are qualitative in nature with respect to the study .Responses from Questionnaires distributed, informal interviews with respondents and Relationship Managers and manuals characteristic to research were the only means of analysis. This chapter summarizes the findings, draws conclusions based on the findings and make some recommendations.

5.1Summary of Findings

The following research questions were formulated to guide the study: a) What are the disadvantages and advantages of taking a Bank Facility? b) How do SMEs utilize loans? c) Do SME loans affect performance? The results show that male were the majority respondents as represented by 86 (or 54.8%) and female were the minority 71 (or 45.2%). In regard to respondents' age, 84 (or 53.5%) respondents were in the age bracket of 20-39 years, In line with marital status, 115 (or 73.2%) respondents were married, 36 (or 22.9%) Concerning the level of education, respondents with degree were the majority that is 71 (or 45.2%), Lastly in regard to working experience, 73 (or 46.5) respondents had served for a period of 3 years and below,
From the results presented it indicates that 63.7% of respondents said that the organization had Bank loans and 36.3% do not know.

It was also revealed that the percentage distribution of the different types of Bank facility available or accessed by IKI IKI SACCO Budaka District with respect to the respondents. There was a clear indication that the distribution was not skewed to just one type of facility. A business can have more than one type of facility in the Bank depending on the purpose for which it's requested. Term loan leading with 51% was a type of Bank loan used mainly to finance capital expenditure.

According to how respondent utilized loan accessed from the Bank. Majority (51%) utilize the loan by sourcing raw materials, they buy raw materials to enable production. This enables them to buy as much as they require to start their business or to add up to existing stock levels.

Also the percentage of respondents that indicated that the type of loan they took from the Bank either improved the over all firm performance per their own definition or not. 63.7% of total respondents indicated that the loan improved the overall performance of their firm.36.3% indicated that the loan did not improve the over all performance of their firm.

It was also discovered that the importance of loan to respondents' firm performance. The respondents indicates that loan help business overall firm performance in diverse ways: this is because percentages are not highly skewed towards one importance of loan. Respondents chose more than one important reasons of loan to their firms. Percentage wise, most respondents (38.2%) opted for increase in returns as their definition for importance of loan with respect to improvement in over all firm performance.

The respondents also classify as negative impact of loans accessed from the Bank. The analysis indicates that 38.2% of respondent chose pressures for repayment as a negative impact of loan taken. Pressures in the form of conscious efforts to make sure that by the date of repayment, funds should be available, thus all efforts put in place to make this happen .also pressures in the form of the Bank's credit official chasing them to make payment into account when they have defaulted up to some period.31.8% chose limit in expansion; this explains the situation whereby all returns received from projects undertaken are channeled into loan repayment.

The researcher also revealed that various disadvantages of loans and their percentages per classification by Respondents. High cost of capital (31.8%), with a frequency of 50 out of the 157 clients with loan. high cost of capital being high interest rate charges on loan granted by the Bank usually because of the small structure of SMEs in comparison to corporate clients, the uncertainty surrounding the SME is on the side, this discussed in chapter one and Literature review leads to a high interest rate charged.

There were various advantages of loans and their percentages per classification by Respondents. Less Risky (38.2%), in terms of not losing collateral in the event of default, they only lose collateral in extreme cases. because most relationship managers agree with their Business clients and restructure the loan repayment to suit their current inflows. Obtaining of other financial advice (25.5%), mostly in interaction with their account managers according to respondents, they gain lots of financial advise .Best practices to use loan efficiently (19.1%), occurs when they access loan, their account managers advise them on how to use it efficiently. This type of advise is usually not for free in consultancy firms.

5.2 Conclusion

The researcher concluded that there is a major disadvantage of accessing a bank business loan because of the high cost of capital (usually high interest rate) charged mostly on SMEs. Most banks classify SMEs as high risk thus high tendency of default leading high interest rate charges. Also all respondents indicated that cumbersome loan application procedures are a major disadvantage of accessing bank loans. Something to take note of is the undue pressure of loan repayment that most respondents agreed to as a negative impact of Bank loans on their performance. It can also be concluded that one advantage of taking a bank loan is that its less risky, per face-to-face interview, some business customers explained that for some banks for example, in the event of default or not being able to repay loan on time, the bank next move is usually to restructure the loan repayment, be it date or monthly payments, to suit the current state of the business .making it more flexible and also less risky since their collateral or security that was given to the bank because of the loan application is not confiscated unlike other micro finance institutions. Additionally, the researcher also found out that financial management advice is obtained from business relationship managers in their day to day interactions with owner-managers of the SMEs and this helps in efficiently managing their businesses. The first chapter of the research stressed on the characteristics of SMEs and their importance to the economy of a country. Thus indicating that the survival of the SMEs should be of key concern to the country .Hence in their survival as Business entities, the means by which they use in thriving should be critically the best and thus examined to get the best out of it. Leading to debt financing which is a type of finance for Business. Finance sponsored by financial institution. Chapter Two touched on the review of conceptual as well as empirical literature to throw more light on the research.

The third chapter laid emphasis on the explanation of the methods and techniques adopted in the study. Since it would be too costly, time-consuming or even practically impossible to collect data from all SMEs, the sampling technique of data collection were used.

5.3 Recommendations

Gathering from the work done on this study four areas were identified by the researcher as being of paramount importance.

5.3.1 The loan Application procedures and Requirements.

The loan providers should not consider collaterals and securities as the main support for lending out funds to borrowers since realization of these assets are difficult in our part of the world. Much focus and emphasis should be placed on the projected cash flow and viability of the borrowers' businesses. These will promote the growth of businesses and also reduce the risk associated with default of repayments of loans. The loan providers should find ways of reducing the cumbersomeness of loan application procedures. Frontline staff members who respond to loan enquiries should be well trained to be competent enough to answer all issues one-off.so that SMEs are not frustrated to go and come back on several occasions.

5.3.2 Cash flow Irregularities and Loan Repayment.

The problem of cash flow irregularities with respect to small scale enterprises is of much concern since that is the main basis for granting of some business facilities in the Bank. This is what determines loan repayment structuring. SMEs should seek advice on how to manage their cash flows effectively since this will motivate Banks to give those loans easily without issues.

Small Scale Enterprises should have proper book keeping of their daily business activities so that they don't misuse funds meant for other purposes.

5.3.3 Best Practices To Use Loan Effectively.

It's recommended that Best practices should be shared with SMEs on how to efficiently manage disbursed loans. This will let them realize good returns on their investments. It will also benefit the bank in terms of loan recovery, since small scale enterprises will be able to repay their loans promptly.

5.3.4 High interest rate of SME loans.

Small scale enterprises are the engine of growth for developing economies like Uganda. Bank loans are usually one of the fastest means of acquiring credit for Small Scale Enterprises This credit is what helps them in boosting their business and in effect economy growing as a result. Thus the cost of such loans should be reviewed downwards to enable smooth repayment and increase in the demand for loans by SMEs to enable growth in their business which will in effect affect the economy as a whole positively.

5.4 Suggestions for further Research

Future research should mainly base on the current limitations since the present findings cannot be generalized based on the fact that a relatively small sample was used even though more than 30% of the sampled population was used. For this reason the following research questions are worthy of exploration:

- On what grounds can one argue that there is no need to investigate the impact of loan conditions on SMEs Performance based on bankers` opinions and experiences?
- Under which circumstances can data obtained mainly from owner-mangers of small and medium enterprises perspective on the impact of loan conditions on Small Scale Enterprises Performance be considered as valid and reliable?

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APPENDIX C: THE PROPOSED TIME FRAME

March 2012 –July 2013

ctivity	March	April			May		June	Jly
·eparation Visiting case study in preparation for the study Pilot study								
ıta collection Collection of data in ıe field								
ıta processing/ analysis Entry of data into computer Analysis of data Printing 1st draft Corrections and **ıanding over the Final ·port**								