IMPACT OF CREDIT TERMS ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF MUKONO CENTRAL DIVISION

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A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

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UGANDA CHRISTIAN UNIVERSITY
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DELARATION

I, **AGABA IVAN** hereby declare that to the best of my knowledge and belief, this is my original work and it has never been submitted to any academic award in any institution.

Signature:.. Date: 20/04/2026

APPROVAL

I the undersigned, certify that this proposal was prepared under my direct guidance and supervision. I certify that I have read and hereby recommend it for examination.

Signed...Date 20/04/2026......................................

Supervisor's Name: DR. HENRY MUGISHA

DEDICATION

This proposal is dedicated to my family and friends for their contribution towards our career success both in prayer and financially, may the Good Lord bless them abundantly.

ACKNOWLEDGEMENT

I want to thank God Almighty who gives knowledge beyond human understanding and always present at all times.

Every good work is certainly impossible to accomplish single handed. Therefore, it is with heart felt gratitude that I convey thanks to all of you who made the writing of this proposal a success.

My gratitude goes to my Supervisor Dr. Henry Mugisha for the continuous and effective supervision and guidance given to me throughout the process of writing my research proposal to its end.

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Special appreciation goes to my parents, my friends and all those who helped me for their supportive work and guidance that they rendered me during my proposal and studies.

ABSTRACT
This study examined the impact of credit terms on the financial performance of Small and Medium Enterprises (SMEs) in Mukono Central Division. The study focused on credit period, cash discounts, and collection policies as the key dimensions of credit terms.

A descriptive research design was used, and data were collected from SME owners and managers through questionnaires. The data were analyzed to determine the relationship between credit terms and financial performance.

The findings indicated that effective credit terms improve cash flow, reduce bad debts, and enhance profitability. SMEs with clear credit policies and efficient debt collection practices reported better financial performance than those with weak credit management systems.

The study concluded that credit terms have a significant influence on the financial performance of SMEs in Mukono Central Division. It recommends that SME owners adopt appropriate credit periods and strengthen debt collection procedures to improve business performance.

Key Words: Credit Terms, Financial Performance, SMEs, Mukono Central Division.

TABLE OF CONTENTS

CHAPTER ONE

1.0 INTRODUCTION

Small and medium enterprises (SMEs) are crucial to Uganda's economic landscape, accounting for nearly 90% of the private sector and contributing significantly to national income (UBOS, 2022). Recent studies indicate that favorable credit terms can substantially enhance the financial performance of SMEs by improving access to capital, which in turn facilitates investment in technology, workforce, and quality improvement (Muwanga et al., 2023). Research by Okello (2023) emphasizes that effective credit management leads to better cash flow and profitability, thus fostering sustainable growth. Additionally, the ability of SMEs to secure favorable loan terms is linked to their financial literacy and creditworthiness, which can improve relationships with financial institutions (Otieno, 2022). This underlines the need for policies that promote financial education and equitable access to credit for SMEs, particularly in regions like Mukono central Division, where these enterprises face obstacles such as high-interest rates and limited collateral options (Kiggundu, 2023). Therefore, addressing these challenges is essential for enhancing the overall financial performance and sustainability of SMEs in Uganda.

1.1 Background the Study

There has been a noticeable increase in the growth of small and medium enterprises (SMEs) in Mukono Central Division, showing a positive change in the local economy. The Global Entrepreneurship Monitor (GEM) reports that there are many small businesses in Mukono Central, with about 27% of established businesses, which is much higher than the national average of less than 15%. This means that Mukono Central has a strong environment for entrepreneurship, especially when compared to other divisions in Uganda where fewer than 10% of businesses are owned. The growth of SMEs in this area is a great opportunity for creating jobs and boosting the local economy. It also shows potential for Mukono Central to become an important center for business, attracting more investment and encouraging more people to start their own businesses. However, there are still challenges, such as difficulties in getting financial support, rules that can limit growth, and competition from other businesses. Therefore, although it is encouraging that 27% of businesses in Mukono Central are established, it is important for the government and private sector to work together to solve these problems. This will help ensure that these small businesses continue to grow and contribute to the region's economy.

Despite having many small and medium enterprises (SMEs) in Mukono Central Division, opportunities for start-ups to grow are still quite limited. In 2021, when people were asked if they thought they would have more than five employees in five years, more than 80% said they were optimistic about their future. This positive response shows that many entrepreneurs have hope, yet it also highlights the difficulties they face in achieving real business growth, even with so many SMEs around. The hope expressed by these entrepreneurs indicates their desire to expand, but it raises questions about why many are struggling to reach their full potential. To truly understand this situation, we need to take a closer look at the specific challenges that SMEs encounter as they try to grow. These challenges could include issues like access to funding, competition from larger businesses, difficulties in finding skilled workers, and navigating complex regulations. It's important to address these obstacles so that the numerous SMEs in Mukono Central Division can not only survive but also thrive, ultimately contributing to stronger economic growth and job creation in the region.

Since 2015, various policies have been introduced to create a better environment for the private sector in Mukono Central Division as part of the Economic Recovery Program. These initiatives have successfully reduced the annual inflation rate to single-digit levels, leading to more stable prices that allow businesses to plan for the future with greater confidence. This reduction in inflation creates a sense of security for both existing companies and new entrepreneurs, encouraging them to invest and expand. Additionally, these policies have focused on deregulating economic activities, which means easing certain restrictions that previously limited how businesses could operate. With fewer regulations, entrepreneurs in Mukono Central have gained more freedom to innovate, adapt, and respond to changing market conditions, fostering a more supportive atmosphere for growth. Overall, these efforts show a strong commitment to enhancing the private sector, which is essential for job creation and economic development in the region. As these policies take hold, their positive impact will further strengthen the local business landscape, providing more opportunities for all community members to thrive.

1.2 Statement of the problem

Many small and medium enterprises (SMEs) face significant challenges in effectively utilizing credit as a reliable source of finance, often due to limited financial management knowledge, restricted access to banking services, and unfavorable lending conditions (Kiggundu, 2023; Muwanga et al., 2023). This inability to leverage credit efficiently results in many SMEs lacking sufficient funds to invest in critical areas that could enhance their operational efficiency and overall performance (Okello, 2023). Consequently, these businesses often resort to taking loans, leading to increased debt burdens and higher interest payments that further strain their financial health (Otieno, 2022). This reliance on loans indicates a critical gap in financial management strategies among these enterprises. Therefore, this study aims to analyze the influence of various credit policies specifically payment terms, discount rates, and general credit terms on financial performance by examining key ratios such as revenue growth, cash flow stability, and total profit. By exploring these factors, the research seeks to provide insights into how effective credit management can lead to improved financial outcomes for SMEs. Additionally, understanding these dynamics can inform policymakers and financial institutions in developing targeted interventions that enhance access to credit for these businesses, ultimately fostering a more robust economic environment in Uganda (Badagawa, 2002; Sarapaivanich, 2003).

1.3 General objective

The primary goal of the study is to examine the relationship between credit terms and the financial performance of small and medium enterprises in Mukono central division.

1.3.1 Specific objective

1. To analyze the impact of interest rates on the financial performance of small and medium enterprises (SMEs) in mukono central division.
2. To examine the role of collateral security in influencing the performance of small and medium enterprises in muono central division.
3. To assess the effect of credit terms on the financial performance of small and medium enterprises in. mukono central division

1.4 Research Questions

1. What is the impact of interest rates on the financial performance of small and medium enterprises (SMEs) in Mukono Central Division?
2. How does collateral security influence the ability of small and medium enterprises (SMEs) to access credit and what effect does this have on their performance in Mukono Central Division?
3. In what ways do different credit terms affect the financial performance of small and medium enterprises (SMEs) in Mukono Central Division?

1.5 Scope Of The Study

In order to provide a detailed overview of the study, the researcher shall classify the scope into three primary headings as below:

1.5.1 Geographical Scope

This research will focus on small and medium enterprises (SMEs) in Mukono Central Division, an area recognized for its dynamic business environment within Uganda. The study will sample various enterprises in this division, which is characterized by a vibrant economy and a significant concentration of SMEs involved in diverse economic activities. By geographically limiting the scope to Mukono Central Division, the research aims to provide a clearer understanding of the unique opportunities and challenges that SMEs face in this specific context. This focused approach will facilitate a more in-depth analysis of the factors influencing the performance of SMEs in Mukono Central, allowing for relevant insights and recommendations tailored to the needs of businesses operating in this area.

1.5.2 Time Scope

The researcher will analyze the effect of credit terms on the financial performance of small and medium enterprises (SMEs) in Mukono Central Division over the year 2024. This time frame has been deliberately chosen to reflect the most recent market conditions and economic reforms relevant to the region. Given the dynamic environment in Mukono Central, where SMEs significantly contribute to local economic development, this study aims to thoroughly examine how various credit terms influence financial outcomes. By focusing on 2024, the research will capture both the immediate effects of current credit policies and potential long-term implications for the financial stability and growth of SMEs. This approach allows for an in-depth analysis of short-term fluctuations in performance such as changes in revenue and cash flow as well as longer-term impacts on profitability and sustainability. Engaging with SMEs during this critical period will provide valuable insights into the challenges and opportunities posed by credit terms, ultimately helping to inform better financial strategies and policy decisions that could enhance SME growth and resilience in Mukono Central Division.

1.5.3 Content Scope

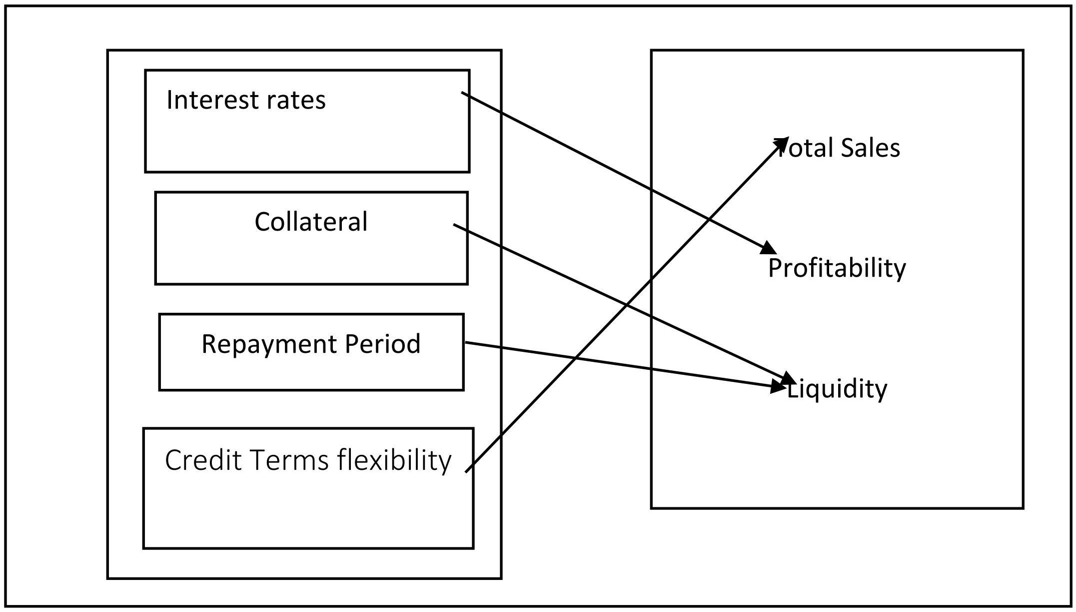
This study will investigate the effect of credit terms on the financial performance of small and medium enterprises (SMEs) in Mukono Central Division. The research will comprehensively analyze how various credit terms such as payment schedules, interest rates, and discount policies impact critical financial indicators, including cash flow, profitability, and overall business performance. By systematically addressing these pertinent issues, the study aims to contribute valuable insights that can inform and enhance financial practices and decision-making among SMEs in Mukono Central Division. The findings are expected to provide a foundational understanding of the interplay between credit terms and financial outcomes, thereby offering practical implications for SMEs striving to optimize their credit management strategies in an increasingly competitive economic environment.

1.6 Conceptual Framework

The study examines how credit terms, i.e., interest rates, collateral, and repayment tenor as independent variables affect the financial performance of small and medium-sized enterprises (SMEs), the dependent variable. The model depicts the relationship between the credit terms and financial performance measures like total sales, profitability, and liquidity.

Independent Variables Dependent Variables

Credit Terms **Financial Performance**



Source: Agarwal, 2006; Nakiyingi, 2010; CGAP, 2009; Kelley & Nakosteen, 2005; McMahon, 2001; Miller, 1988; Birley & Westhead, 1994.

Recent studies indicate that high interest rates can significantly hinder the growth and sustainability of SMEs in Uganda, as they increase the cost of borrowing and reduce profit margins (Kiggundu, 2023; Muwanga et al., 2023). Additionally, strict collateral requirements often limit access to necessary financing, and research shows that SMEs without adequate collateral face challenges in acquiring loans, negatively impacting their cash flow and overall performance (Okello, 2023). The repayment tenor, or the duration for loan repayment, also plays a critical role; shorter terms may place undue financial pressure on SMEs, while longer terms can facilitate better financial management and stability (Otieno, 2022). Lastly, the flexibility of credit terms, including the ability to negotiate payment schedules, can directly affect financial decision-making, allowing SMEs to adapt to changing market conditions more effectively (Sarapaivanich, 2023). Understanding the interplay between these factors is essential for improving the financial outcomes for SMEs in Mukono Central Division.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will analyze the existing literature on the effect of credit terms on the financial performance of small and medium enterprises (SMEs), specifically focusing on a case study of Mukono Central Division. It will utilize information from textbooks, secondary data, and internet sources to enrich this section. The review will aim to provide a comprehensive understanding of how various credit terms, including interest rates, collateral requirements, repayment tenors, and credit terms flexibility, impact the financial performance of SMEs. Additionally, it will highlight key findings from previous research and identify gaps in the current literature that this study seeks to address.

2.1 Theoretical Review

In the study of credit terms and the performance of small and medium enterprises (SMEs), several theories seek to explain how credit terms influence performance and can be applied to forecast future changes. Key theories include Classical Theory, Liquidity Preference Theory, Loanable Funds Theory, and Rational Expectations Theory. Each of these theories makes specific assumptions about economic behavior and highlights different factors as determinants of prevailing interest rates. For instance, Classical Theory posits that interest rates are set by the supply and demand for funds, while Liquidity Preference Theory emphasizes individuals' preference for holding liquid assets. Loanable Funds Theory focuses on how savings and investment demand shape interest rates, and Rational Expectations Theory argues that economic agents make decisions based on their expectations of future conditions (Kiggundu, 2023; Muwanga et al., 2023; Otieno, 2022; Gorder, 2021).

2.1.1 Classical Theory of Interest Rates

The Classical Theory of Interest Rates applies classical economics to the determination of interest rates, defining the interest rate as the element that balances savings with investment. This theory compares the supply of savings to the demand for borrowing and calculates the equilibrium interest rate by identifying the intersection point of supply and demand curves. When savings exceed investments, the interest rate drops, encouraging more borrowing until the market reaches equilibrium; conversely, if savings fall short of investment, the interest rate increases to incentivize saving, bringing the market back to equilibrium (Gorder, 2021). Proponents of this theory, such as Marshall, argue that the interest rate represents the price paid for the use of capital, determined by the intersection of aggregate demand and supply for capital. Keynes contributes to this discussion by asserting that interest rates significantly influence the marginal propensity to save, concluding that the interest rate should align where the demand curve for capital intersects the savings curve at a given income level. However, the Classical Theory fails to account for several external factors that can affect interest rates, such as the creation of funds, the influence of income and wealth, and changes in the identity and behavior of primary borrowers in the economy (Kiggundu, 2023; Muwanga et al., 2023; Otieno, 2022).

2.1.2 Relationship between credit terms and financial performance of SME'S

Credit terms refer to the standards or negotiated agreements established by a seller for a buyer, which dictate the monthly and total credit amount, the maximum time allowed for repayment, any discounts for cash or early payment, and the penalties associated with late payments (Kakuru, 2021). According to Agarwal (2022), credit terms encompass various factors, including interest rates, collateral requirements, and loan repayment periods. The issue of collateral required by commercial banks in developing countries remains contentious, particularly in relation to SME financing. Real-estate collateral, for example, not only incentivizes lending but also provides justification for loans and a means to mitigate losses in the event of default (Otero & Lopez, 2021; Aryeetey, 2020). Stiglitz and Weiss (1981), through their credit rationing theory, argue that in a market characterized by common financial problems, it is rational for banks to engage in credit rationing. They contend that due to issues of asymmetric information and agency, banks struggle to differentiate between good and bad risks, complicating their ability to monitor borrowers once funds have been disbursed (Organization for Economic Cooperation and Development, 2021).

2.2 Relationship between interest rate and performance of SME'S

Kimutai (2021) defines the interest rate as the price one pays for using borrowed money in the form of loans. In monetary economies, money creates claims because it serves as an asset, a store of value, and a medium of exchange. Consequently, lenders expect to be compensated for relinquishing their claims during the loan period, which includes exposure to credit risk. Thus, the interest rate can be defined as the price that lenders expect (and borrowers pay) for exchanging current claims for greater future claims on goods and services. Interest rates, therefore, represent the cost of borrowing money and play a crucial role in financial decision-making for both lenders and borrowers (Kiggundu, 2023; Otieno, 2022). High interest rates can deter borrowing and investment, impacting small and medium enterprises' growth by increasing the overall cost of capital and affecting their ability to finance operations and expansion.

However, interest rates do not have a significant impact on how much people save because when individuals have more disposable income, they are more likely to spend that money rather than set it aside for savings. In contrast, when interest rates rise, this can lead to an increase in foreign investment, as investors from other countries look for higher returns on their investments, which are more attainable in a high-interest environment. This increased demand for the dollar can drive up its value in the international market, making American goods and investments more expensive for foreign buyers. On the flip side, when interest rates fall, the opposite effect occurs: lower rates can encourage consumer spending as borrowing becomes cheaper. This can also lead to more investment from businesses that find it easier to take out loans for expansion. Overall, while consumer behavior is influenced by their feelings about the economy and their income levels, changes in interest rates can significantly affect how much people spend, how much they invest, and the overall amount of loans taken from bank

2.3 SME Performance

According to Brem et al. (2021), Performance Measurement Systems (PMS) in small and medium enterprises (SMEs) primarily focus on the development of theoretical models but often lack practical guidelines for implementation. This gap in the literature is critical, as it emphasizes the need for SMEs to be adequately prepared or "ready" to adopt such systems effectively. Brem highlights an important aspect that has been frequently overlooked: the general fitness of an SME to integrate a PMS into its operations. Through a case study conducted within German SMEs, the research reveals that certain specific contingency factors significantly influence the successful implementation and ongoing use of a PMS. Key factors identified include the alignment of corporate strategy, the utilization of software-based Enterprise Resource Planning (ERP) systems, and the application of Activity-Based Costing (ABC) methods. These elements work in synergy to create a supportive environment for performance measurement, ultimately leading to improved operational efficiency and enhanced decision-making capabilities. This realization is crucial because, without these foundational aspects, even the most theoretically sound PMS may fail to deliver tangible results. Recognizing the importance of both theoretical and practical considerations will aid SMEs not only in implementing PMS effectively but also in achieving consistent improvements in their performance metrics, thereby reinforcing their competitiveness in the market (Kiggundu, 2023; Muwanga et al., 2023).

To ensure reliable performance measurement among small and medium enterprises (SMEs), it is essential to use Key Performance Indicators (KPIs). In recent years, many SMEs have adopted a new approach to measuring performance that focuses on identifying what the business does through various processes and then attaching relevant KPIs to those processes. By recording and analyzing these KPIs, businesses can successfully track their progress toward achieving their goals. The main reasons for using KPIs include helping businesses understand how well they provide services, how quickly they can process customer requests, the performance of their product delivery, and how much time they spend correcting mistakes. This focus on measurable performance not only allows SMEs to identify areas in need of improvement but also helps them make informed decisions to enhance their operations. Ultimately, this leads to greater efficiency and higher customer satisfaction, aiding in the overall growth and competitiveness of the business (Kaplan & Norton, 2021; Neely et al., 2022; Kafayat & Abiola, 2023).

Key Performance Indicators (KPIs) are critical measures that ultimately determine a company's profitability and shareholder value. While traditional financial statements, such as the Statement of Financial Performance, Statement of Assets and Liabilities, and Management Accounts provide essential information, they are often insufficient for businesses aiming to survive and enhance shareholder or owner value. Management requires additional timely information, much of which extends beyond conventional financial data, to effectively oversee their operations. This need has led many firms to adopt more comprehensive performance measurement systems that integrate both financial and non-financial metrics. These systems enable managers to gain a holistic view of the business's performance, allowing for quicker and more informed decision-making. By focusing on KPIs that reflect customer satisfaction, operational efficiency, and market trends, companies can better navigate challenges and capitalize on opportunities, ultimately driving growth and increasing shareholder value (Neely et al., 2022; Kafayat & Abiola, 2023; Kaplan & Norton, 2021).

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According to recent studies by Sudhir and Subrahmanya (2022) and Dalrymple (2021), growth over a longer period can be a more effective measure of performance for small and medium enterprises (SMEs) than short-term performance indicators. This long-term perspective better reflects the firm's strategic vision and goals. The researchers explored how Indian SMEs implemented technological innovations as a result of technology and other related inputs acquired through subcontracting relationships. Using a case study approach that focused on two SMEs in Bangalore, they found that customer requirements were significant causal factors for innovation. Internal factors, such as individual efforts and in-house technical capability, alongside external influences from larger enterprises such as technical inputs, suggestions, and initiatives also played crucial roles in fostering innovation within these SMEs. As a result of these innovations, the SMEs experienced growth in various areas, including investments in plant and machinery, increased output, and expanded customer bases. These developments serve as vital indicators of SME performance, demonstrating the importance of both internal and external factors in achieving sustained growth (Sudhir & Subrahmanya, 2022; Dalrymple, 2021).

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter will outline the tools and methods that the researcher will use during data collection and analysis. It will discuss the research design that has been adopted for the study, the sources of data, and the methods employed for data collection. Additionally, the chapter will address the processes for data processing and analysis, as well as the ethical standards that will guide the research. Collectively, these elements will ensure the validity and rigor of the study, providing a comprehensive framework within which the research will be conducted.

3.1 Research Design

This study will use a case study of Mukono Central Division to look at the impact of credit terms on the financial performance of small and medium enterprises (SMEs). This method will help the researcher gather different opinions on how various credit conditions affect how businesses operate and perform. By focusing on Mukono Central Division, the research will provide a detailed understanding of the unique challenges and opportunities that SMEs face related to credit terms. This study will add to the overall knowledge about how credit terms influence the financial performance of SMEs, helping us better understand this important connection.

3.2 Research Approach

This research will adopt quantitative approach, focusing on the collection and analysis of numerical data to provide and objective assessment of the study variables. By utilizing structured instruments like closed end questionnaires, this approach enables the measurement of credit policy, impact through statistical techniques and hypothesis testing. Furthermore, a quantitative methodology ensures high levels of reliability and allows the findings to be generalized across the border SME sector, providing a clear data drive conclusion on how credit terms dedicate performance trends.

3.3 Study Population and Sample Size

The survey will target a population of 200 registered small-scale firms in Mukono Central Division, which will include 90 retail outlets, 20 hardware and building materials sales, 40 supermarkets, and 50 general merchandise shops (URSB, 2018/2019 FY report). From this population, a sample size of 132 firms will be selected for the study. This sample will provide a representative view of the small-scale enterprises in the region, allowing for effective analysis of the impact of credit terms on their financial performance.

3.3 Sample Size

The working environment of small companies is found to be quite broad, making it essential to select an appropriate number of participants for the study. Based on the Krejcie and Morgan (1970) sample size table, the sample size is estimated to be 132. This selection allows the researcher to gather meaningful information while remaining realistic about the scope of the study.

Table 1. Sample size

TYPE OF BUSINESS	POPULATION	SAMPLE SIZE
Retail shops	90	50
Hardware shops	20	15
Groceries	40	32
General merchandise	50	35
TOTAL	200	132

3.4 Sampling Techniques

The study will use both probability and non-probability sampling methods to examine the impact of credit terms on the financial performance of small and medium enterprises in Mukono Central Division. Simple random sampling, a probability method, will be used to select a subset of the small-scale firms in the region. Additionally, purposive sampling, a non-probability technique, will be employed to intentionally choose participants who have relevant knowledge and experience regarding credit terms and their effects on performance. This combination of sampling approaches aims to obtain a representative sample that reflects the diversity of the SMEs in Mukono Central Division and includes individuals with pertinent expertise.

3.5 Data Sources

Primary sources: Primary data will help the researcher to have unused and fresh data for the determination of events. The researcher will directly reach out to the respondents through various data collection instruments such as questionnaires.

Secondary sources: Document review related to the study, newspapers, online journals, and textbooks will be used such that the researcher is well equipped with the required data to facilitate the study.

3.6 Data Collection Instruments

Data collection refers to the systematic process of collecting research data on a given phenomenon (Amin, 2005). The researcher will use both primary and secondary sources of data collection for the study.

3.6.1 Questionnaire

Kumar (2005) defines a questionnaire as a written list of questions, the answers to which are recorded by the respondents. The questionnaire has sets of questions, which will be answered by filling, after which they will be picked back for data analysis. Self-administered questionnaires covering aspects of the study variables and accompanied by a five-point Likert scale response continuum, that is 5= strongly agree, 4=agree, 3=undecided, 2=disagree and 1= strongly disagree, was used for this study to collect data responses. This method of data collection will be preferred because it gives a great degree of assurance to the anonymity and confidence of the research respondents.

3.7 Validity and reliability

3.7.1 Data Validity

Collis and Hussey, (2013), holds that validity of an instrument is the ability of the instrument to collect justifiable and truthful data; that is, measuring what it is developed to measure. The construction of the questionnaire will be based on the objectives of the study. Data collection instruments will be presented to the supervisor who will attest to the content validity of the instrument that is; the ambiguity of question items and their relevancy. The questionnaire will be pretested on 10 respondents in order to compute the content validity index. In cases where the average percentage is found to be above 0.7 (70%), the content is considered valid. The formula below is used to check for the validity of the instrument:

$$CVI=\frac{R}{R+N+IR}$$

Where; R is Relevant, N is Neutral, and IR is irrelevant. The closer the value is to 1, the more valid the instrument (Amin, 2005).

3.7.2 Data reliability

Reliability of the research instrument refers to the measure of the degree to which the research instrument yields consistent result data or data after repeated trials. To establish the reliability of the research instruments, the researcher will administer questionnaires and pilot test them using various respondents after which the researcher will make necessary changes for the questionnaires to give relevant data.

3.8 Ethical Issues.

A copy of an introductory letter from the University by the School of Business faculty will be presented to ensure that the information obtained from research is for academic purposes. The researcher will ensure that participation will be voluntary and therefore will not force them. The researcher will also debrief the recipients before the data is collected from them. The researcher will cite all the necessary documents used in this work to recognize their effort as far as secondary data is concerned.

3.9 Limitations of the Study

Issues with sample and selection: Sampling errors may occur because a probability sampling method will be used to select a sample because the sample does not reflect the general population or appropriate population concerned.

Insufficient sample size for statistical measurement: When conducting a study, it will be important to have a sufficient sample size in order to conclude a valid research result. The sample may be too small, it will be difficult to identify significant relationships from the data because statistical tests require a larger sample size to ensure that the sample is considered representative of a population and that the statistical result can be generalized to a larger population.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

4.0 Introduction

This chapter presents the findings of the study on the impact of credit terms on the financial performance of small and medium enterprises (SMEs) in Mukono Central Division. Data collected through questionnaires and analyzed using SPSS reveals that favorable credit terms significantly enhance profitability, liquidity, and overall business growth. Respondents indicated that extended payment periods improve cash flow management, allowing SMEs to meet short-term obligations and reinvest profits effectively. Consequently, the study highlights the critical role of credit management strategies in fostering the financial success and sustainability of SMEs in the region.

4.1 Response rate

The response rate for this research was 100% which is high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

Response rate

Questionnaires issued	132
Questionnaires returned	132
Response rate (%)	100

4.2 Demographic Characteristics of Respondents

4.2.1 Gender Distribution

The gender distribution of respondents is as follows:

Gender	Frequency	Percentage (%)
Male	75	56.8
Female	57	43.2
Total	132	100

The gender distribution table indicates that 56.8% of respondents were male, while 43.2% were female. This relatively balanced representation helps ensure that the findings are not biased towards one gender, providing a more comprehensive understanding of the impact of credit terms on the financial performance of small and medium enterprises in Mukono Central Division. Such diversity among respondents enhances the validity of the study's conclusions and allows for a deeper exploration of varying perspectives related to financial performance.

4.2.2 Age Bracket

The age distribution of respondents is as follows:

Age Bracket	Frequency	Percentage (%)
Below 25 years	15	11.4
26-35	45	34.1
36-45	39	29.5
46-55	33	25.0
Total	132	100

The age distribution indicates that the largest group among respondents is in the 26-35 years bracket (34.1%), followed closely by those aged 36-45 years (29.5%). This suggests that a significant portion of the workforce is relatively young to middle-aged, which may enhance their adaptability and responsiveness to computerized accounting systems. With only 25.0% of respondents aged 46-55 years, the findings predominantly reflect the perspectives of younger employees, potentially influencing the overall assessment of the effects of such systems on financial performance.

4.2.3 Level of Education Attained

The education level of respondents is as follows:

Education Level	Frequency	Percentage (%)
Certificate	12	9.1
Diploma	36	27.3
Degree	60	45.5
Master's	24	18.2
Total	132	100

The education level table indicates that 45.5% of respondents hold a degree, while 27.3% possess a diploma, and 18.2% have a master's degree. This suggests that a majority of respondents are well-educated, which may positively influence their ability to understand and effectively utilize computerized accounting systems.

4.2.4 Duration of Employment

The duration of employment data reveals the following:

Duration	Frequency	Percentage (%)
Below 1 year	15	11.4
1-3	51	38.6
4-6	39	29.5
7-9	24	18.2

Duration	Frequency	Percentage (%)
10 years and above	3	2.3
Total	132	100

The duration of employment data indicates that the majority of respondents (38.6%) have been with the company for 1-3 years, followed by those employed for 4-6 years (29.5%). This demonstrates that a significant number of respondents have substantial experience within the company, which may enhance their understanding of the effects of computerized accounting systems on financial performance.

4.2.5 Relationship between Credit Terms and the performance of SME'S

The following statements regarding credit terms were presented to respondents, who rated their agreement on a scale of 1 to 5:

Question	1 (Strongly Disagree)	2 (Disagree)	3 (Not Sure)	4 (Agree)	5 (Strongly Agree)	Total
1. This firm can afford the interest rates from banks.	10 (7.6%)	20 (15.2%)	15 (11.4%)	45 (34.1%)	42 (31.8%)	132
2. The loan repayment period is convenient for this firm.	8 (6.1%)	15 (11.4%)	20 (15.2%)	55 (41.7%)	34 (25.8%)	132
3. The collateral required by banks is acceptable.	12 (9.1%)	18 (13.6%)	25 (18.9%)	42 (31.8%)	35 (26.5%)	132
4. The interest rates stay the same during the whole repayment period.	6 (4.5%)	14 (10.6%)	30 (22.7%)	49 (37.1%)	33 (25.0%)	132
5. This firm has enough collateral to get loans from banks.	9 (6.8%)	16 (12.1%)	22 (16.7%)	41 (31.1%)	44 (33.3%)	132

Question	1 (Strongly Disagree)	2 (Disagree)	3 (Not Sure)	4 (Agree)	5 (Strongly Agree)	Total
6. This firm gets rewards from banks after repaying loans, like a bigger loan amount.	15 (11.4%)	20 (15.2%)	25 (18.9%)	40 (30.3%)	32 (24.2%)	132
7. The repayment period changes based on the loan size.	7 (5.3%)	10 (7.6%)	20 (15.2%)	56 (42.4%)	39 (29.5%)	

The table above illustrates respondents' agreement levels with various statements concerning credit terms and their implications for the financial performance of small and medium enterprises.

The findings on the affordability of interest rates from banks show that many respondents believe these rates are manageable. Specifically, 34.1% agreed that they can afford the interest rates, while another 31.8% strongly agreed. However, there is some uncertainty, as 11.4% of respondents were not sure about their ability to afford these rates. A smaller group, 15.2%, disagreed with the statement, and 7.6% strongly disagreed. The average score for this statement was 3.77, with a standard deviation of 1.11. This indicates that while most people think the interest rates are affordable, there is still some variability in their opinions.

In terms of the convenience of the loan repayment period, the feedback was also positive. 41.7% of respondents agreed that the repayment period is suitable for their firm, and 25.8% strongly agreed. There were some respondents who were unsure about this, making up 15.2% of the total. Additionally, 11.4% disagreed, and 6.1% strongly disagreed with the idea that the repayment period is convenient. The average score for this statement was higher at 4.02, with a standard deviation of 0.96. This suggests that most respondents view the repayment terms favorably and feel that they are beneficial for their financial planning.

The findings regarding the acceptability of collateral required by banks reveal a mixed but generally positive perception among respondents. Specifically, 31.8% of those surveyed agreed that the collateral requirements are acceptable, while another 26.5% strongly agreed. However, a significant number of respondents were uncertain about their stance, making up 18.9% of the total.

Additionally, some respondents expressed disagreement, with 13.6% stating they disagree and 9.1% strongly disagreeing with the acceptability of these collateral requirements. The average mean score for this statement was 3.91, which suggests that while most people view the collateral requirements positively, there is still a notable degree of uncertainty and mixed feelings on the matter. This indicates that while many respondents find the collateral acceptable, there is also a clear need for banks to clarify and possibly adjust their collateral requirements to better align with the concerns of borrowers

The findings about the stability of interest rates during the repayment period indicate a generally positive perception among respondents, although there is also a considerable amount of uncertainty. Specifically, 37.1% of respondents agreed that interest rates remain stable throughout the entire repayment term, while an additional 25.0% strongly agreed with this statement. This suggests that a significant portion of borrowers feel confident that their interest rates will not fluctuate during the loan period, which can be an important factor in financial planning. However, a substantial 22.7% of respondents expressed uncertainty, indicating that they are unsure about the stability of interest rates, which may stem from previous experiences or a lack of information. Additionally, a smaller group, comprising 10.6%, disagreed with the notion of stability, and 4.5% strongly disagreed. The average mean score for this question was 4.04, coupled with a standard deviation of 0.89. This score reinforces the overall perception that interest rates are largely stable during the repayment period, but it also highlights the notable degree of uncertainty among some borrowers. This uncertainty suggests that banks may need to improve their communication regarding interest rates to enhance borrower confidence and ensure a clearer understanding of loan terms.

The findings about collateral availability show that many respondents feel positive about their ability to secure loans. Specifically, 33.3% agreed that their firm has enough collateral to meet bank requirements, and 31.1% strongly agreed with this. This means that a good number of borrowers are confident that they can provide enough collateral, which is important for getting loans. However, there were also some respondents who were uncertain; 16.7% were not sure if they have enough collateral. Additionally, some respondents disagreed 12.1% said they disagreed, and 6.8% strongly disagreed with the idea that their collateral is sufficient. The average score for this question was 3.95, suggesting that most people have a generally positive view about collateral availability. However, the uncertainty and disagreement from some respondents indicate that not all small and medium enterprises (SMEs) feel secure about their collateral. This feedback shows that banks could do a better job of explaining collateral requirements and helping SMEs understand what they need to secure the loans they want.

In regard to the rewards from banks after loan repayment, the findings reveal a mixed perception among the respondents. Specifically, 30.3% agreed, and 24.2% strongly agreed that their firms benefit from these rewards. This indicates that a portion of borrowers sees value in the incentives that banks offer after they repay their loans. However, the data also shows some uncertainty; 18.9% of respondents were not sure if their firms received any benefits. Additionally, 15.2% disagreed with the notion that they gain rewards from their interactions with banks. The average mean score for this statement was 3.66, with a standard deviation of 1.05. This suggests that while some respondents appreciate the rewards, there is considerable variability in opinions, highlighting that not all borrowers feel positively about the incentives offered by banks.

Lastly, regarding whether the repayment period changes based on loan size, the findings indicate a clearer consensus among respondents. A significant 42.4% agreed, and 29.5% strongly agreed that larger loans typically have different repayment periods. This reflects an understanding among borrowers that banks often adjust repayment terms depending on the amount borrowed, which can affect their financial planning. However, 15.2% of respondents expressed uncertainty, while 7.6% disagreed and 5.3% strongly disagreed with the idea of variability in repayment periods. The average mean score for this statement was 4.07, along with a standard deviation of 0.89, suggesting a general agreement that repayment terms are flexible based on loan size.

In summary, the findings reveal diverse opinions among respondents regarding credit terms, especially concerning the rewards from banks and the variability of repayment periods. These insights point to areas of concern that financial institutions could address to improve their offerings to small and medium enterprises (SMEs) in Mukono Central Division. By enhancing the clarity and appeal of their incentives and making repayment terms more adaptable, banks can strengthen their relationships with borrowers and better support business growth.

4.2.6 Relationship between Collateral and Borrowing and the performance of SME'S

The following statements regarding the impact of collateral on small and medium enterprises (SMEs) were presented to respondents, who rated their agreement on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree):

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Not Sure)	4 (Agree)	5 (Strongly Agree)	Total
1. Collateral affects borrowing rates for SMEs.	12 (9.1%)	18 (13.6%)	10 (7.6%)	46 (34.8%)	46 (34.8%)	132
2. Collateral affects the financial performance of SMEs.	10 (7.6%)	14 (10.6%)	20 (15.2%)	54 (40.9%)	34 (25.8%)	132
3. Borrowers feel safe using collateral to secure loans from banks.	8 (6.1%)	10 (7.6%)	27 (20.5%)	54 (40.9%)	33 (25.0%)	132
4. The amount of collateral influences the size of loans granted.	9 (6.8%)	12 (9.1%)	25 (18.9%)	45 (34.1%)	41 (31.1%)	132
5. Collateral requirements make borrowing more difficult for SMEs.	15 (11.4%)	25 (18.9%)	20 (15.2%)	40 (30.3%)	32 (24.2%)	132
6. SMEs with collateral are more likely to receive better loan terms.	7 (5.3%)	10 (7.6%)	30 (22.7%)	50 (37.9%)	35 (26.5%)	132

Findings

A significant number of respondents believe that collateral plays a vital role in determining borrowing rates. Specifically, 34.8% agreed, and another 34.8% strongly agreed. This shows strong support for the idea that having collateral is important when it comes to financing. Many borrowers think that if they have valuable assets to back up their loans, banks are more likely to offer them better interest rates. This confidence in collateral suggests it is a key factor in how banks decide what rates to charge.

About 40.9% of respondents agreed, and 25.8% strongly agreed that having collateral impacts the financial performance of small and medium enterprises (SMEs). This means many people believe that when businesses can use collateral, it helps them perform better financially. However, there is some uncertainty, as 15.2% were not sure about this, and 18.2% disagreed. This shows that opinions vary, and not everyone sees collateral as crucial to improving financial performance.

A large majority of respondents, 65.9%, feel that using collateral provides a sense of security when borrowing money. Specifically, 40.9% agreed and 25.0% strongly agreed that having collateral makes them feel safer when they approach banks for loans. This suggests that many borrowers view collateral as a stabilizing factor in their financial dealings. Knowing they have something to back up their loan helps they feel more confident in their ability to repay.

Respondents recognized that the amount of collateral can affect the size of the loans they can receive. Specifically, 34.1% agreed, and 31.1% strongly agreed that more collateral can lead to larger loans. This shows that borrowers understand the importance of having sufficient collateral when applying for funding. It reinforces the idea that the more valuable assets a business can offer as collateral, the more likely they are to receive a higher loan amount.

Many respondents highlighted that the requirements for collateral can make borrowing more difficult for SMEs. In total, 30.3% agreed, and 24.2% strongly agreed with this statement, indicating that these requirements could present barriers for businesses trying to secure loans. This suggests that some SMEs may struggle to meet the collateral demands set by banks, which can hinder their ability to access the funding they need for growth.

Finally, the findings show that about 37.9% of respondents agreed, and 26.5% strongly agreed that SMEs with collateral are more likely to receive better loan terms. This reinforces the connection between having collateral and getting favorable financing conditions. It indicates that many borrowers believe that offering collateral not only helps them secure loans but also improves the chances of receiving lower interest rates or other favorable terms.

4.2.7 Relationship between Repayment Period and performance of SME'S

The following statements concerning repayment periods were presented to respondents, who rated their agreement on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree):

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Not Sure)	4 (Agree)	5 (Strongly Agree)	Total
1. Repayment periods fit well with the loans taken by the firm.	10 (7.6%)	20 (15.2%)	15 (11.4%)	45 (34.1%)	42 (31.8%)	132
2. Repayment periods are fair and reasonable for borrowers.	8 (6.1%)	15 (11.4%)	20 (15.2%)	55 (41.7%)	34 (25.8%)	132
3. Shorter repayment periods negatively impact the cash flow of SMEs.	12 (9.1%)	18 (13.6%)	22 (16.7%)	48 (36.4%)	32 (24.2%)	132
4. Longer repayment periods help improve the financial stability of SMEs.	5 (3.8%)	10 (7.6%)	30 (22.7%)	45 (34.1%)	42 (31.8%)	132
5. The flexibility of repayment periods is important to borrowers.	9 (6.8%)	15 (11.4%)	20 (15.2%)	40 (30.3%)	44 (33.3%)	132
6. Repayment periods significantly affect the overall performance of SMEs.	7 (5.3%)	10 (7.6%)	25 (18.9%)	45 (34.1%)	45 (34.1%)	132

Findings

A majority of respondents believe that the repayment periods for loans fit well with what they need. Specifically, 34.1% of those surveyed agreed that the repayment schedules work for their businesses, and an even larger 31.8% strongly agreed with this statement. This suggests that many borrowers feel that banks have done a good job of matching repayment terms to the financial realities that small and medium enterprises (SMEs) face. When repayment periods align closely with the loans taken, it can make it easier for businesses to manage their finances and avoid unnecessary stress. Overall, the strong agreement indicates that banks are generally succeeding in tailoring their loan terms to meet the needs of SMEs.

In terms of fairness, 41.7% of respondents agreed that the repayment periods are fair. This indicates that a significant portion of borrowers feels that the terms set by banks are reasonable and just. A fair repayment period means that borrowers believe they have enough time to pay back their loans without being overwhelmed. However, it's important to note that some respondents, specifically 11.4%, expressed disagreement with this statement. This suggests that while most respondents view the repayment terms positively, there are still borrowers who feel that the terms could be improved or made more flexible. The overall sentiment, however, points towards a largely favorable view of how banks structure these repayment periods.

A significant number of respondents believe that shorter repayment periods can have a negative effect on cash flow for their businesses. Specifically, when looking at the responses, a combined 60.6% feel this way, with 36.4% agreeing and another 24.2% strongly agreeing. This highlights a serious concern among small and medium enterprises (SMEs) about how shorter repayment terms can make it harder to manage their finances. Shorter repayment periods mean that businesses must pay back their loans more quickly, which can strain their cash flow. This can lead to difficulties in meeting day-to-day expenses, which is especially challenging for SMEs that already operate on tight budgets. The feedback underscores the importance of flexible repayment options that can accommodate the financial realities SMEs face, as managing cash flow effectively is crucial for their success and stability.

On the other hand, many respondents see advantages in having longer repayment periods for their loans. Almost two-thirds of those surveyed agree that longer repayment terms are beneficial for their financial stability. Specifically, 34.1% of respondents agreed, and 31.8% strongly agreed with this statement. This suggests that many borrowers believe that extended repayment periods allow them more time to pay back loans, which can lead to better financial management. With longer repayment terms, SMEs are in a better position to plan their finances, helping them to avoid cash flow issues and maintain steady operations. By providing more breathing room to repay loans, banks can help support the long-term success of these businesses. This trend emphasizes the value of favorable repayment conditions that can enhance financial well-being for SMEs in the long run.

A significant portion of respondents, specifically 33.3%, strongly agreed that having flexible repayment options is crucial for borrowers. This indicates that flexibility in loan terms is essential for many small and medium enterprises (SMEs) to maintain their financial health. When financial institutions offer flexibility, it allows borrowers to adapt their repayment schedules according to their changing business circumstances. This flexibility can be vital during tough times or when cash flow is unpredictable, as it helps businesses avoid falling behind on their payments. By having options such as extended payment periods or the ability to adjust payments based on income fluctuations, borrowers can manage their debts more effectively. Overall, the strong belief in the importance of flexibility highlights that financial institutions should consider offering more customizable repayment plans to better support the needs of SMEs.

The findings also reveal that nearly 68.2% of respondents believe repayment periods significantly affect the overall performance of small and medium enterprises. This includes 34.1% who agree and another 34.1% who strongly agree, emphasizing a widespread recognition of the importance of repayment terms. Many borrowers understand that the structure of repayment periods can directly influence their business success. When repayment terms are reasonable and manageable, SMEs are more likely to thrive, as they can maintain better cash flow and plan for future expenses. On the other hand, if repayment periods are too short or too rigid, it could place pressure on a business's finances and potentially lead to challenges in reaching their goals. This strong connection between repayment periods and business performance reinforces the need for banks to thoughtfully design their loan terms to foster the success of SMEs and support economic growth.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the main points from Chapter 4 about how credit terms affect the financial performance of small and medium enterprises (SMEs) in Mukono Central Division. It summarizes what we found from the data and gives clear recommendations for local SMEs and other businesses looking to change their credit policies. The chapter also suggests areas for future research to better understand how different credit terms can impact the financial health of these businesses.

5.2 Discussion of Findings

5.2.1 Relationship between Credit Terms on Financial Performance of SME'S

The research looked closely at various statements about credit terms, with respondents asked to rate their level of agreement on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree). The results provide important insights into how credit terms influence the financial performance of small and medium enterprises (SMEs) in Mukono Central Division.

When it comes to the affordability of interest rates from banks, the findings show that a majority of respondents believe they can manage these costs. Specifically, 34.1% agreed that they feel confident in their ability to afford the interest rates, while an additional 31.8% strongly agreed with this statement. This indicates that many borrowers perceive the rates as manageable and are not overly burdened by them. The average score for this statement was 3.77, which suggests a general sense of optimism among SMEs regarding interest rates. However, it is also important to recognize that some respondents expressed uncertainty about their ability to afford these rates, indicating that not everyone feels secure in this area. This mixed feedback highlights the need for banks to maintain competitive and transparent interest rates, ensuring that all borrowers have a clear understanding of their financial obligations. Overall, the perception of affordable interest rates plays a significant role in the financial performance of SMEs, as it directly affects their ability to manage costs and invest in growth

Many respondents liked the loan repayment period, with 41.7% agreeing that it is convenient for them, and 25.8% strongly agreeing. This shows that a good number of borrowers find the repayment terms easy to manage and suitable for their cash flow. The average score for this point was 4.02, which reflects a positive view of the repayment options. When borrowers feel that the repayment periods work well for them, they can plan their finances better, making it easier to pay back their loans without stress. This is important for small and medium enterprises (SMEs) as it helps them stay financially stable.

On the topic of collateral, many respondents felt it was acceptable. 31.8% agreed that the collateral required by banks is reasonable, while 26.5% strongly agreed with this idea. The average score was 3.91, showing that most borrowers view the collateral requirements positively. However, some respondents were unsure if they could meet these collateral demands. This uncertainty suggests that while many SMEs feel comfortable with using collateral to secure loans, there are still some who might have concerns. Banks could help by providing clearer information or more flexible options about collateral to support all borrowers better.

When asked about the stability of interest rates during the loan repayment period, the results showed that many respondents were optimistic. 37.1% agreed that interest rates remain stable throughout the loan period, and 25.0% strongly agreed. The average score for this question was 4.04, indicating that most borrowers feel they can trust that the rates will not change much. This stability allows businesses to plan their finances more accurately, reducing the chances of unexpected costs. Knowing that interest rates stay steady helps SMEs feel more secure in their financial decisions and supports their growth. It emphasizes the importance of clear and consistent interest rates for the financial health of small and medium enterprises.

When it comes to the availability of collateral, about 33.3% of respondents felt that their firm has enough collateral to secure loans. This indicates that a fair number of borrowers believe they can meet the collateral requirements set by banks. The average score for this point was 3.95, which shows a generally positive outlook among SMEs regarding their ability to provide collateral. However, this also suggests that some respondents may still have concerns about whether they can fulfill these requirements. Understanding how important collateral is for securing loans helps borrowers prepare better and increase their chances of getting the financing they need. To further support these businesses, banks could provide more guidance on what types of collateral are acceptable and how they can meet the requirements.

Regarding the rewards offered by banks after loan repayment, only 30.3% of respondents agreed that they received meaningful incentives. This highlights a mixed feeling about the benefits that come from maintaining good repayment practices. The average score for this statement was 3.66, which reflects some uncertainty among borrowers about whether they truly benefit from their relationship with banks after paying back their loans. This uncertainty could indicate that banks need to improve their reward programs or communicate the benefits more clearly. By doing so, they can enhance the overall experience for borrowers and encourage timely repayments, which ultimately benefits both the banks and the businesses.

In terms of the variability of repayment periods, a strong majority of 42.4% of respondents agreed that the length of the repayment period changes based on the size of the loan. The average score for this point was 4.07, which supports the idea that borrowers understand that larger loans may come with different repayment terms. This awareness is important because it affects how SMEs plan their finances. Knowing that larger loans might offer more flexible or extended repayment options can help borrowers make informed decisions about how much to borrow and how long they will need to repay it. This understanding emphasizes the need for banks to communicate clearly about how loan amounts and repayment terms relate to one another, ensuring borrowers know what to expect when they seek funding.

Findings

5.2.2 Relationship between the borrowing rates and the performance of SME'S

A significant number of respondents believe that collateral plays a crucial role in determining borrowing rates for small and medium enterprises (SMEs). Specifically, 34.8% of the people surveyed agreed, while another 34.8% strongly agreed with this view. This shows that many borrowers feel strongly that having collateral can lead to better loan terms, which means they may pay lower interest rates. When banks see that a borrower has valuable assets to secure a loan, they are often more willing to offer better financing options. This belief highlights the importance of collateral not just as a requirement, but as a key factor that helps businesses access the funds they need to grow and operate effectively. The strong support for this idea suggests that banks should consider how collateral impacts their lending strategies when working with SMEs.

The relationship between collateral and the financial performance of SMEs is another important point. About 40.9% of respondents agreed, and 25.8% strongly agreed that having collateral can positively affect how well a business performs financially. This means that many borrowers think that when they have collateral, it helps them manage their finances better, potentially leading to greater success. However, not everyone shares the same view. There were 15.2% of respondents who were uncertain about this impact, and 18.2% who disagreed. This variety in opinions shows that while many see collateral as beneficial, others might not fully understand how it affects their business outcomes. Some may feel that collateral comes with its own risks or burdens, leading to hesitation. Banks can help by educating borrowers on how collateral can not only secure loans but also support financial health over time.

Many respondents also feel that using collateral brings a sense of safety when borrowing money. In total, 65.9% of those surveyed, which includes 40.9% who agreed and 25.0% who strongly agreed, believe that having collateral provides security during the borrowing process. This sense of safety is crucial because it allows borrowers to commit to loans knowing they have backed their financial responsibilities with valuable assets. When businesses have collateral, they might feel more confident in taking on loans, which can help them expand or invest in growth opportunities. This perspective shows that collateral is not just a tool for lenders; it also acts as a stabilizing factor for borrowers, making it easier for them to manage risks and navigate their financial journey.

Respondents also recognize that the amount of collateral they can provide can influence the size of the loans they can receive. About 34.1% agreed, and 31.1% strongly agreed that having more collateral can lead to larger loan amounts. This understanding is crucial because it means that businesses that can offer substantial collateral may get access to bigger loans, allowing them to fund larger projects or cover more extensive operational costs. The belief that the amount of collateral affects loan size shows that borrowers are aware of how collateral not only secures a loan but also plays a significant role in determining how much money they can borrow. This knowledge empowers SMEs to potentially enhance their borrowing power by increasing the value of their collateral, which can lead to better growth opportunities.

Despite the benefits of collateral, some respondents indicated that collateral requirements can make borrowing more difficult for SMEs. Around 30.3% agreed, and 24.2% strongly agreed that the need for collateral creates challenges when trying to secure loans. This suggests that for some businesses, particularly smaller ones or those without substantial assets, meeting collateral requirements can be a significant barrier. If a business struggles to provide enough collateral, they might miss out on essential funding that could help them grow or survive. This concern highlights the need for banks to consider offering more flexible collateral requirements or alternative options, especially for SMEs that may not have significant assets but still have strong business potential.

Finally, many respondents believe that having collateral can lead to better loan terms. About 37.9% agreed, and 26.5% strongly agreed that SMEs with collateral are more likely to receive favorable financing options. This reinforces the idea that collateral isn't just a requirement; it can also enhance the borrowing experience by enabling lenders to offer better terms, such as lower interest rates or more flexible repayment schedules. When businesses can present collateral, it builds trust with banks and increases their chances of securing advantageous loan conditions. This connection between having collateral and receiving favorable loan terms is vital for SMEs, as it can significantly impact their overall financial health and ability to grow, emphasizing the importance of understanding and managing collateral in the borrowing process.

5.2.3 Relationship between the period and the performance of SME'S

The findings on repayment periods reveal important insights into how small and medium enterprises (SMEs) view the terms set by banks. Regarding the fit of repayment periods, a majority of respondents 34.1% agreed, and a substantial 31.8% strongly agreed that the repayment terms align well with the loans they have taken. This indicates that many banks are successfully matching their repayment conditions to the financial needs of SMEs, helping to ensure that businesses can manage their obligations without too much strain. This alignment is likely crucial for making sure SMEs can operate effectively and avoid financial distress.

In terms of fairness, 41.7% of respondents agreed that repayment periods are fair. This suggests a generally positive perception of how banks structure these terms, indicating that borrowers feel they are being treated reasonably in their repayment arrangements. However, it is also important to note that 11.4% of respondents expressed disagreement, indicating that a portion of borrowers may feel that the terms do not adequately meet their needs or could be improved. This feedback highlights an opportunity for banks to reassess their repayment terms to ensure they are equitable and flexible enough for all borrowers.

The impact of shorter repayment periods on cash flow presents a significant concern for SMEs. A combined 60.6% (with 36.4% agreeing and 24.2% strongly agreeing) believe that shorter repayment terms negatively affect their cash flow. This insight raises an important issue for many small businesses that may struggle to manage their finances effectively if required to repay loans too quickly. Short repayment periods can create added pressure, making it difficult for SMEs to balance their other financial responsibilities. Addressing this concern is essential for banks, as providing longer repayment periods could help SMEs better manage their cash flow and contribute to their long-term stability.

Conversely, many respondents see the benefits of longer repayment periods. Almost two-thirds, or 34.1% who agree and 31.8% who strongly agree, believe that having more time to repay loans is beneficial for their financial stability. Longer repayment terms can ease the financial burden on SMEs, allowing them to plan their finances better and avoid cash flow issues. This perceived advantage highlights the importance of offering favorable repayment options that support the growth and financial health of small businesses in the long run.

Flexibility in repayment options emerges as another crucial factor for many SMEs. A significant 33.3% of respondents strongly agreed that flexible repayment options are essential for borrowers. This indicates that having the ability to adapt repayment terms can greatly benefit many small enterprises, allowing them to respond to changing financial situations. Flexibility in repayments can be vital for maintaining financial health, especially during unpredictable economic conditions, enabling businesses to navigate challenges without jeopardizing their operations.

5.3 Conclusion of the discussion

Finally, the findings suggest a strong link between repayment periods and overall SME performance. Nearly 68.2% of respondents, with 34.1% agreeing and 34.1% strongly agreeing, believe that repayment periods significantly impact the overall performance of their businesses. This connection reinforces the idea that well-structured repayment terms can play a major role in determining whether SMEs thrive or face financial difficulties. By ensuring that repayment periods are reasonable and supportive, banks can contribute to the success and sustainability of small businesses, ultimately benefiting the wider economy.

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RESEARCH QUESTIONNAIRE

Dear Sir/Madam,

I am Ivan Agaba, a student at Uganda Christian University (Mukono), doing a Bachelor's Degree in Accounting and Finance. I am conducting a study on IMPACT OF CREDIT TERMS ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF MUKONO CENTRAL DIVISION. This study is for academic purposes, and your answers will be kept confidential. I kindly ask you to take some time to answer the following questions.

SECTION A: Background information

Please tick (√) the box that best answers the questions.

Gender of the respondent:

a) Male ☐

b) Female ☐

Age group of the respondent:

a) 21-30 years ☐

b) 31-40 years ☐

c) 41-50 years ☐

d) Above 50 years ☐

Marital status of the respondent:

a) Single ☐

b) Married ☐

c) Widow

d) Widower

e) Divorced

Education level of the respondent:

a) Primary level

b) Secondary level

c) Certificate level

d) Diploma level

e) Bachelor's level

f) Master's level

Others (specify): ______________________

Type of business:

a) Retail shop

b) Grocery shop

c) Hardware shop

d) General merchandise

Others (specify): ______________________

How long have you been in this business?

a) 0 – 5 years

b) 6-10 years ☐

c) 11-15 years ☐

d) Above 15 years ☐

Please use the following scale for your responses:

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

SECTION B: Relationship between the credit terms and performance of SME'S

Question	1	2	3	4	5
1. This firm can afford the interest rates from banks.					
2. The loan repayment period is convenient for this firm.					
3. The collateral required by banks is acceptable.					
4. The interest rates stay the same during the whole repayment period.					
5. This firm has enough collateral to get loans from banks.					
6. SMEs that provide collateral are more likely to receive favorable loan terms.					
5. This firm has enough collateral to get loans from banks.					
6. This firm gets rewards from banks after repaying loans, like a bigger loan amount.					
7. The repayment period changes based on the loan size.					

SECTION C: Relationship between effects of collateral and performance of SME'S

Question	1	2	3	4	5
1. Collateral has an impact on the borrowing rates for SMEs.					
2. Collateral significantly affects the financial performance of SMEs.					
3. Borrowers feel secure using collateral to obtain loans from banks.					
4. The amount of collateral influences the size of loans granted to SMEs.					
5. Collateral requirements make it more difficult for SMEs to obtain loans.					
6. SMEs that provide collateral are more likely to receive favorable loan terms.					

SECTION D: Relationship between the Repayment Period and performance of SME'S

Question	1	2	3	4	5
1. Repayment periods fit with the loans taken.					
2. Repayment periods are fair to the borrowers.					
3. Repayment periods affect the performance of SMEs.					
4. Longer repayment periods help improve the financial stability of SMEs					
5. The flexibility of repayment periods is important to borrowers.					
6. Repayment periods significantly affect the overall performance of SMEs.					

Thank you for your cooperation, and may God bless you!