

**THE IMPACT OF MICROFINANCE LOANS ON THE FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE CENTRAL
DISTRICT OF KAMPALA**

FABRICE BOB DUSABE

S21B05/150

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

October, 2024



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

DECLARATION

I DUSABE BOB FABRICE, declare that this is my original work and has not been previously presented for any academic recognition. Furthermore, I have given appropriate credit to any scholars whose work I may have included in my writing.

Signature: 

Date: 16th 10/9/2024

DUSABE BOB FABRICE

Reg no: S21B05/150

APPROVAL

I hereby confirm that this dissertation entitled "The Effect of Microfinance Loans on the Financial Performance of Small and Medium Enterprises in the Central District of Kampala" written by Dusabe Bob Fabrice was written under my supervision as a university supervisor.

Signature: J. Abiyar N.

Date: 16/09/2024

Jennifer Abiyar N. (Mrs)

(University Supervisor)

DEDICATION

I dedicate this dissertation to my beloved parents, family and friends.

ACKNOWLEDGEMENT

I thank the Almighty God for making me successful to this level. I would also like to thank my parent, who have facilitated my education, and the friends who had provided guidance and support throughout the period.

I equally do appreciate my supervisor, Madam Jennifer Abiyar, for her sometimes endless support during this period of writing this dissertation.

TABLE OF CONTENTS

Contents	
DECLARATION	ii
APPROVAL	ii
DEDICATION	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	x
LIST OF ABBREVIATIONS	xii
ABSTRACT	xiii
CHAPTER ONE	1
INTRODUCTION	1
1.0 Introduction	1
1.1 Background of the study	1
1.2 Statement of the problem	3
1.3 Purpose of the study	4
1.4 Objectives of the study.....	4
1.5 Research questions	4
1.6 Scope of the Study	5
1.6.1 Content Scope	5
1.6.2 Time Scope.....	5
1.6.3 Geographical scope	5
1.7 Significance of the study	5
1.8 Conceptual framework	5
CHAPTER TWO	7

LITERATURE REVIEW	7
2.0 Introduction	7
2.1 Key terminologies in the study	7
2.2 Theoretical framework	8
2.2.1 Agency Theory	8
2.2.2 Trade-off theory	10
2.3 Conceptual framework	13
2.3.1 Creditworthiness and Financial Performance	13
2.3.2 Credit repayment terms and conditions and financial performance	15
2.3.3 interest rates and financial performance	17
2.4 Research gap identified	18
2.5 Conclusion	18
CHAPTER 3	19
RESEARCH METHODOLOGY	19
3.0 Introduction	19
3.1 Research design	19
3.2 Population of the study	19
3.3 Sample size	19
3.4 Sampling technique	20
3.5 Data source.....	20
3.6 Data collection methods and instruments	20
3.6.1 Questionnaire.	20
3.7 Validity and reliability of research instruments	20
3.7.1 Validity	20
3.8 Data collection procedure	20
3.9 Data processing, analysis and presentation	21

3.10 Ethical consideration	21	
3.11 Limitations		21
CHAPTER FOUR	22	
DATA PRESENTATION AND INTERPRETATION OF THE FINDINGS	22	
4.0. Introduction	22	
4.1.1 Gender of the Respondents	22	
4.1.2 The age of the Respondents	22	
4.1.3 The Socio-economic status of the respondents	23	
4.1.4 The Marital Status of the Respondents	23	
4.1.5 The Type of Business	24	
4.1.6 level of education of the respondents	24	
4.1.4 Position held by the respondents.....	25	
4.1.5 years of experience of the respondents	26	
4.4 The impact of credit repayment terms and conditions on the financial performance of SMEs	26	
4.5 The impact of interest rates on the financial performance of SMEs	31	
4.6 To find out how credit worthiness influences financial performance of SMEs in Central Kampala District	34	
4.7 Relationship between internal controls and operational efficiency	37	
4.7 Regression analysis between internal controls and operational efficiency	38	
CHAPTER FIVE	40	
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS	40	
5.1 Introduction	40	
5.2 Discussion of the key finding	40	
5.3 The impact of credit repayment terms and conditions on the financial performance of SMEs	40	
5.4 The impact of interest rates on the financial performance of SMEs	41	

5.5 How creditworthiness influences the financial performance of SMEs in the central Kampala district.	42
5.6 Correlation and Regression Analysis between microfinance loans and financial performance	43
5.7 Conclusions of the study Findings	44
5.8 Recommendations	45
5.9 Areas of further research	46
6.0 References	47
APPENDIX 1: QUESTIONNAIRE.....	52

LIST OF TABLES

Table 1: Gender of the respondents	22
Table 2: The age of the respondents	22
Table 3: Position held by the Respondents	25
Table 4: years of experience of the respondents	26
Table 5: The impact of credit repayment terms and conditions on the financial performance of SMEs	26
Table 6: The impact of interest rates on the financial performance of SMEs	31
Table 7: How creditworthiness influences the financial performance of SMEs in Central Kampala district	34

LIST OF FIGURES

Figure 1: Conceptual Framework	6
--------------------------------------	---

LIST OF ABBREVIATIONS

MSMEs- Micro, Small and Medium Enterprises

UBOS - Uganda Bureau of Statistics

SMEs - Small and Medium-sized Enterprises

MFIs - Microfinance institutions

COVID-19 - Coronavirus disease 2019

ROI - Return on Investment

MFIs - Microfinance Institutions

UBOS - Uganda Bureau of Statistics

SPSS - Statistical Package for Social Sciences

ABSTRACT

The study aimed at understanding the impact of Microfinance loans on the financial performance of small and medium enterprises and it was guided by 3 objectives that is; to assess the impact of the credit repayment terms and conditions on the financial performance of SMEs in the Central district of Kampala, to assess the interest rate impact on the financial performance of SMEs in the Central Kampala district, and to examine how creditworthiness influences the financial performance of SMEs in the Central district of Kampala.

The study used a cross-sectional research design which was descriptive in nature. The population of the study was SMEs in the Central district of Kampala with 98 respondents selected using simple random technique. The data was collected using a structured questionnaire and was later analyzed using the SPSS software.

This study found out that when SMEs manageable repayment schedules with low interest rates and early repayment options without any penalties are put in place, their liquidity status improves to support operational efficiency and profitability. It also emerged that high interest rates enhance the cost of debt that reduces the capabilities of SMEs in borrowing and expanding while negatively impacting their financial performance. It also established that creditworthiness is among the factors which influence or determine the financial performance of the SMEs by determining access to loans at preferential terms. It was therefore recommended that small and medium-sized enterprises should try to improve their creditworthiness with a view to improving overall financial performance. Conclusion Credit repayment terms and conditions guide in the financial performance of SMEs.

Favorable repayment structures enhance their cash flow management capabilities to invest in growth, while stringent conditions of repayment coupled with high-interest rates hamper financial performance. Stable low-interest-rate environments support their growth through access to affordable credit and increased profitability, while high-interest rates depress their borrowing capacity and adversely affect financial performance. Regarding microfinance institutions themselves, there should be training in finance for owners so they can take better and more informed decisions with respect to credit management and terms of loans. Other recommendations include customized loan terms, improvement in the approval process, and incentives for early repayment to help SMEs from the financial viewpoint.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background, and statement of the problem, along with the general and specific objectives. It also includes the research questions, scope and significance of the study.

1.1 Background of the study

According to Kundu and Padhi (2019), microfinance loans have been developed for those individuals who, for some reason, cannot access credit from formal financial institutions. Microloans are small in their value and may be used either for personal needs or business purposes. In the context of stimulating economic growth and ensuring poverty reduction, microloans are widely applied in developing countries. Morduch has further suggested that microfinance loans are likely to be more useful to the poor or vulnerable sections who may not have enough collateral or significant liquid asset to be able to access bigger loans. Valenzuela et al. (2020) cited that perhaps the most important objective of microfinance is to enable selfreliance and reduce the impact of financial exclusion. However, Appiah and Harrison, 2020 argue that despite the several benefits that microfinance has, it has several operational and institutional challenges that may restrict its potential for promoting economic growth and development. According to Musiimenta and Carida, 2019, SMEs offer a lot of potential towards the growth and development of any economy as they have been ascertained to be the lifeblood of innovation and technological development.

In view of this strategic relevance, many mechanisms, policies, and programs that promote expansion and growth have been initiated on the part of governments, policymakers, and financial institutions about SMEs. According to Manalel and Abdullah (2019), SMEs play an integral role in the global economy. However, a more general problem that small and mediumsized enterprises still face is access to finance. Akhtar, Basit, and Shaheen (2019) refer to the fact that it is rather challenging for SMEs to obtain loans from financial institutions. It mainly happens because SMEs usually cannot generate required liquidity. Moreover, assessing the associated risks appropriately is a tough job. Madrid-Guijarro et al (2019) commented that microfinance had been proved to be able to provide affordable financial facilities to the small and medium-scale enterprises to enable them to bring improvements in their operations and expand their business activities. This financing scheme also allows SMEs to access important

funds without collateral requirements, credit history, or bank accounts, as indicated by Islam (2019). According to Lai and Chen (2019), against the backdrop of mounting evidence that microfinance increases access to finance for small and medium-sized enterprises, impacts on performance from such initiatives remain decidedly uncertain.

Moreover, little empirical evidence exists on the sustainability of the microfinance programs in the long run, so further research would light the effect of microfinance on SMEs performance. Karabulut and Cobanoglu (2019) add that for SMEs to be able to thrive and grow, accessible financing is needed. Lai and Chen (2019) also reiterate the same argument by considering microfinance as one source of finance that may augment growth to SMEs. Such enterprises require capital to expand and create economic value, therefore achieving the potential of microfinance. Osili and Schreiner (2019) add that the failure to realize efficient sustainable business growth through microfinance loan issuance to small-to-medium enterprises calls for question as to whether this strategy efficiently makes long-term business successes achievable. The authors state that strategies complementary to microfinance facilities may be required to enable the SMEs to achieve sustainable growth and development. In light of this, the performance of SMEs under the disbursement of microfinance loans becomes an issue of utmost importance to be explored, and whether this financing could be effective enough in fostering their growth. Okwo and Martin (2019) justify the reason behind the need for SMEs to grow by stating that such reasons brought about the formation of microfinance banks. Despite the presence of microfinance banks, access to credit among SMEs continues to be one of the significant impediments.

Osoro and Francis (2020) reported that microfinance institutions in Kenya and Uganda have supplied credit to small-scale farmers, one of the channels to alleviate poverty and food insecurities for rural areas.

However, little information is available on how access to microfinance influences the sources of income generation for SMEs. In the same vein, Oumar et al (2020) expound that in Asia, microfinance has prospered because of the easy access of finance that it provides to SMEs. This, in turn, has helped the latter develop their enterprises. A microfinance facility thus allows SMEs to grow and expand their operations. The long-term impact of microfinance on the growth of SMEs is still not clearly understood as it requires further studies before one can arrive at conclusions. This research gap draws in the implication that such financing programs need critical evaluation. Microfinance has been identified to play a significant role in

facilitating the progress and development of SMEs in emerging and developing economies, and there is a need to evaluate the impact of microfinance on the performance of SMEs to ascertain whether this is an effective instrument for encouraging their progress and development.

The different dimensions of microfinance concern the various financial services and products provided by MFIs and factors associated with access to these diverse services by SMEs. In fact, the impact of microfinance on the performance of SMEs is captured by multiple measures including profitability, growth, and generation of employment. Mensah et al., add that either on the issue of whether overindebting of SMEs by microfinance loans from MFIs occurs or whether microfinance is indeed practically useful in poverty reduction, a divergence of opinion appears to exist. Therefore, studies have to be conducted that will help establish how microfinance affects the performance of the SMEs. The information learned from this study will shed more light on the topic and provide further insight into microfinance as a driver of economic growth. Microfinance is a useful source of finance for SMEs in both developing and emerging nations, but its use as a driver of sustainable growth and development has reached ambiguous outcomes. Thus, more detailed research should be conducted to find out the overall impact of microfinance loans on SMEs. Conclusively, based on the available data, there is a pressing need for an in-depth study on the effect of microfinance loans on SMEs' performance in the Kampala district.

1.2 Statement of the problem

They have grown and developed, contributing a great deal to the economy of Uganda, with the facilitation of banks and other agencies in terms of providing money. Statistics undertaken by UBOS (2018) indicate that more than 1.9 million MSMEs in Uganda were contributing about 90% of the enterprises operating within the country. Their access to microfinance loans is a threat because it's observed that SMEs cannot reach beyond their fifth anniversary due to financial constraints. Statistically, according to UBOS, more than 70% of SMEs fail within the first five years in Uganda. The main causes of failure are high interest rates by microfinance institutions. An example of this is that, in Uganda, commercial bank lending rates are normally above 20%. On the other hand, such high interest rates may lead to inability by small and medium enterprises to repay the loans, culminating in debt traps and financial instability. Another challenge arises from the stringent terms of repayment connected with short-term microfinance loans for small business owners who lack proper management skills for running

complex agreements. Another constraint in SME development in Uganda is the lack of access to finance. Small businesses require financial support for equipment, material, employee hiring, and business expansion. Various researches have been conducted but there exists a gap in the literature as scholars like Laurent 2019 among others focused on the access of microcredit services and the growth of SMEs.

Even with the studies that were made, SMEs are still failing to even reach the fifth anniversary due to challenges involving microfinance loans. However, there has remained an empirical gap since previous studies indicated the influence of microfinance services on performance, hence leaving a research gap to determine the impact of microfinance loans on the financial performance of SMEs. This study was thus meant to fill this gap by determining the effects of microfinance loans on financial performance among SMEs in the Central Kampala district.

1.3 Purpose of the study

The main purpose of the study was to assess the impact of microfinance loans on the financial performance of SMEs in the Central district of Kampala.

1.4 Objectives of the study

To assess how the credit repayment terms and conditions impact the financial performance of SMEs in the Central district of Kampala.

To assess the impact of interest rates on the financial performance of SMEs in the Central district of Kampala.

To examine how creditworthiness influences the financial performance of SMEs in the Central district of Kampala.

1.5 Research questions

How do the credit repayment terms and conditions impact the financial performance of SMEs in the Central district of Kampala?

What is the impact of interest rates on the financial performance of SMEs in the Central district of Kampala?

How does creditworthiness influence the financial performance of SMEs in the Central district of Kampala?

1.6 Scope of the Study

1.6.1 Content Scope

The study focused on how the credit terms and conditions, interest rate and credit amount influence the financial performance of SMEs in the Central district of Kampala.

1.6.2 Time Scope

The study assessed the impact of microfinance loans on the financial performance of SMEs in the Central district of Kampala from the period of 2019 to 2024 because it was seen that the COVID-19 pandemic affected their operations.

1.6.3 Geographical scope

The research focused on small and medium enterprises located operating in the central district of Kampala.

1.7 Significance of the study

Such a study would help the government in creating policy frameworks that will ease financial constraints facing SMEs, particularly in Kampala, Uganda. This is supported by Kisaakye et al., who found that the findings would help them devise policies that could enhance the financial performance of SMEs.

This would help the manager of SMEs understand various variables affecting the financial performance of their company. The study would assist management of SMEs make amends to their operations by making them better understand the challenges faced by similar businesses.

The results obtained from the analysis of data obtained will be useful to guide future research as discussed by Smith, 2018 that it will make a valuable contribution to the existing body of knowledge on financial factors that have an impact on SMEs. The information that will be obtained from the analysis of data obtained will help future researchers get a platform for discussions amongst scholars on the effect of microfinance loans and provide a basis for further research.

1.8 Conceptual framework

This study aimed to understand the impact of microfinance loans on the financial performance of SMEs in the Central Kampala district.

INDEPENDENT VARIABLE

DEPENDENT VARIABLES

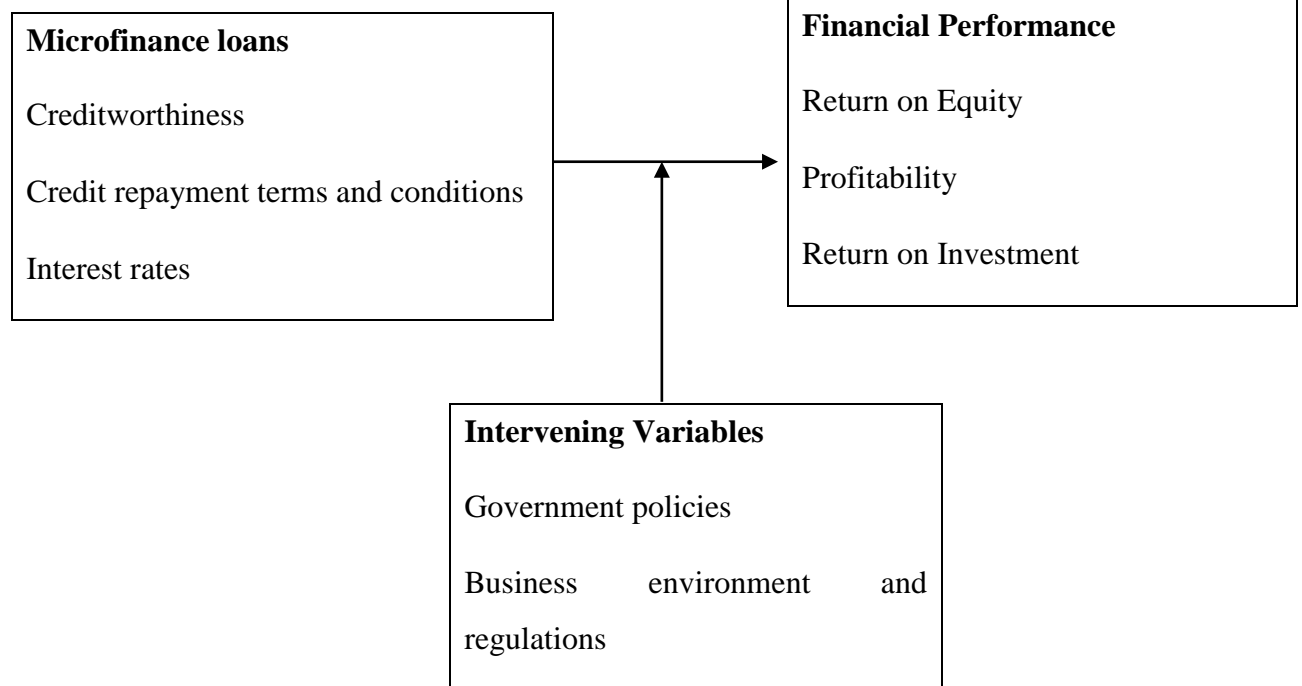


Figure 1: Conceptual Framework

Source: Sahid et al (2021)

The conceptual framework of the study includes the independent variables comprising creditworthiness, credit repayment terms and conditions, and interest rates. It also has dependent variables: returns equity, profitability, and returns on investment. It also includes the intervening variables like government policy and business environment and regulations.

Credit score rating makes it easy for an SME to access credit facilities from lenders. This may be important in cases when a business needs financial growth and expansion. The terms and conditions of credit repayment are very crucial in determining the capabilities of SMEs to manage their cash flows, reduce debt burdens, and improve financial performances. The interest rate determines the cost of borrowing and, therefore, the general financial burden the SME may incur in case of repayment of the loan. Return on equity is the measure of profitability of the business in regard to the owner's investments, while profitability and returns on investment determine the overall success in the business. The financial performances are influenced by the availability of favorable or unfavorable government policy, funding, tax relief, and streamlined regulations. Changing business environments are what favorably influence financial performance in the best possible way, while unfavorably affecting the financial performance of SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the key terminologies, the theoretical framework, the conceptual framework and the research gap identified.

2.1 Key terminologies in the study

Microfinance loans

In the words of Hossain et al., microfinance loans are "small loans provided to low-income households and poor people who have little access to formal financial institutions, to promote entrepreneurship, stimulate economic development and alleviate poverty."

According to Rutherford and Bhowmik (2020), microfinance loans refer to small credits availed to low-income people and small businesses, often coupled with financial education and other supportive services, to achieve inclusive financial services and support clients' livelihoods.

According to Kaur and Kharbanda (2021), microfinance loans are described as small loans that are advanced through microfinance institutions to microentrepreneurs and the low-income group lacking collateral and formal employment, to facilitate income-generating activities and improve their living standards.

Financial performance

Arego and Lee defined that financial performance is the capability of the firm to generate earnings for the owners or shareholders in relation to the amount invested, which is normally measured by the return on investment, net income, or any other financial ratio.

Financial performance is the level of success a firm has been able to realize in putting its financial resources into generating profits and maximizing the owners' wealth within a specific period. This is reflected by main indicators of profitability, liquidity, solvency, and efficiency; Seetharaman and Sooria (2005).

Creditworthiness

According to Mutesasira and Ntayi (2018), creditworthiness is defined as the perceived ability and willingness of a borrower to repay credit obtained in accordance with the pre-stipulated terms and conditions within agreed time.

In this respect, the creditworthiness as defined by Ozturk, Soytaş, and Gokmenoglu (2020) is the probability of a borrower's ability to meet his or her obligation to pay in a timely manner and according to the terms specified by the lender.

2.2 Theoretical framework

2.2.1 Agency Theory

Agency theory is one of those popular theories within finance and economics that could explain a very specific party relationship between the principal-meaning owners or investors who lend money-and the agent, the borrowers-in situations where there exists information asymmetry. As per this theory, a problem arises because of the existence of some agency cost due to an ongoing principal-agent conflict of interest, wherein either adverse selection or moral hazard takes place, or there could be a failure in controlling both. From the angle of microfinance and financial performance of SMEs, agency theory indicates that perhaps there are agency problems between the lenders who are the 'principals' and the borrowers who are the 'agents', and this may affect the financial performance of the SMEs. The microfinance institution aims at providing credit to those who normally cannot have access to credit from traditional banks.

Since the MFIs lend to smaller and riskier enterprises, they try to minimize the probability of credit risk and collection risk. In that respect, the credit risk and collection risk in microfinance lending are major determinants which affect the principal-agent relationship. The problem is that the agents, in this case the borrowers, may have an incentive to default or not pay back the loan for some issues such as risk aversion, economic shocks, or ex-post moral hazard. This, in turn, will imply agency costs on the principals' part since their interests are not aligned with borrowers. There have been a number of mechanisms introduced to MFIs that will help reduce these agency costs and, hence, improve the loan repayment rate. One of these is credit scoring, whereby the lending institutions evaluate the borrowers' creditworthiness based on a number of criteria including credit history and business performance.

Credit scoring allows MFIs to determine the likelihood of borrowers repaying loans and, thus, decrease the incidence of defaults and non-repayments. According to Thakur & Mirza (2019),

this mechanism serves a dual purpose: it not only reduces risks for the MFIs but also benefits the borrowers due to more favorable terms accorded over their loan period, as their credit scores would have informed them. A very common mechanism being used by various MFIs is that of social collateral. The concept of social collateral is based upon group lending wherein the borrowers are collected in small groups, often with members hailing from the same community or social network.

What this means is that each member within the group has some responsibility to ensure others within that group repay their loans. According to Kotb & Tzavara, 2019, this consequently creates a certain form of social pressure that will motivate borrowers to pay back their loans since one's failure to pay will affect one's creditworthiness status and that of other people around them. This mechanism is pretty efficient in societies where collateral in the form of land or property is nonexistent. Another mechanism of reducing agency costs in microfinance lending is group lending. Group lending involves a situation whereby loans are advanced to a group of borrowers with shared liability, implying that defaults by a member would be covered by the other group members. Group lending is a joint liability mechanism through which increased borrower scrutiny is facilitated because peer borrowers have more incentive to monitor each other's behavior and reduce adverse selection or moral hazard problems.

Besides, lenders have legal action against the group as a whole, instead of individual borrowers, increasing the probability of debt recovery in the case of default by one borrower or a few borrowers (Morduch, 1998). However, there are those researchers like Marr & Otley 2008 who argue that group lending introduces other agency costs in the form of over dependence on the social gatekeepers in the community who may possess biased information or may speed up or delay payments for reasons unrelated to finance but related to social relations, or political clout in the community Marr and Otley, 2008. Social connections may also prevent borrowers from reporting negative information about other borrowers out of fear of retaliation, hence a lack of accountability and free riding could ensue. As these agency problems persist, over time, the financial performance of the SMEs could worsen, which in turn could impinge on their growth and sustainability. The other mechanism of reducing agency costs is social collateral, which is the second means by which lenders would attempt to overcome problems of adverse selection and moral hazard. Krishna and Sahay, 2013

Thereby, in this case, social collateral simply demands borrowers make a pledge with a social guarantee or promise rather than the financial form of their personal assets in the form of

religious, ethnic, or even social affiliations. By mitigating collateral requirements, it decreases the agency costs arising because these are a major hindrance to access to credit for small firms.

Other positive spillovers of social collateral include increased social cohesion or trust across members, which may reduce the incidence of default.

On the other hand, social collateral is not immune to the agency problem either. Non-economic factors for borrowers such as social connections or political influence may mask the real economic situation and therefore result in prejudiced credit administration of various types. At the same time, one of the major sources of moral hazard issues in microfinance lending is lack of borrower transparency. The money lent to borrowers may not be used productively, or it may be used in a way that cannot be traced; therefore, the lender cannot verify the accuracy of the borrower's true income and is unable to observe the precision of financial statements showing the true condition. Therefore, through mechanisms of borrower screening and repayment monitoring, lenders can delay and reduce their agency costs since, through these channels, loans are actually granted to those borrowers who show a higher likelihood of repaying their loans to ultimately improve the financial performance of the SMEs themselves (Morduch, 1995). On the other hand, research has also shown that too many mechanisms of screening and monitoring lead to financial exclusion of borrowers in high risks or low-income groups unable to get access to credit because of the high costs of monitoring and screening (TODO).

Besides the control of the relevant costs or reduction of their impact, lenders may try and incentivize the agents to act for the benefit of the principals. One may critique lenders for relating loan repayment to the terms and interest rates of the loan. Founded on finance theory and behaviorist psychology, the proposition here is that the risk-averse agents, the borrowers, are influenced by exposure to high interest rates and that they are more efficient in light of their repayment obligations. Prepayment penalties, therefore, grace periods and refinancing structures are all components of the interest rate pricing structure (Armendáriz & Morduch, 2010)).

2.2.2 Trade-off theory

The trade-off theory explains the relationship between the use of debt and its impact on the financial performance of SMEs. The trade-off theory states that the debt financing advantages, including interest tax shields and leverage, have to be weighed against the costs of financial

distress such as bankruptcy costs, agency costs of equity, and underinvestment. The trade-off theory postulates that the firms decide on an optimal amount of debt which would trade off between the costs of financial distress and the benefits of debt financing.

According to Modigliani and Miller, 1958, the trade-off theory postulates that there is an optimum degree of debt exists -optimal capital structure- which influences the financial performance of SMEs in the case of microfinance. The optimum debt level for the SME would therefore define the debt gain to be obtained by reducing the cost of capital and augmenting tax advantages. Myers and Majluf, 1984. When applied along with equity financing, debt reduces the adverse selection in the financing market to the SMEs. But on the other side, over-borrowing gives rise to costs of financial distress that accompany collateralize limitations and the need for stringent terms and conditions issues for loan emission to reduce risk to lender .

Paper details: The work must be written in English. Long paper title must not exceed 12 words. Paper size is A4. Paper must be in doc/docx format. The paper includes introduction, conclusion and references. The references should follow the APA-style. Thus, for the SMEs leveraging on debt, there is a need to strike a balance in terms of cost and benefits from using debt in the financial structure and arriving at the optimal level of debt that maximizes financial performance. In addition to these cost and benefit factors, the level of optimum debt for SMEs may be affected by various internal and external factors.

Among the internal factors are firm profitability and growth potential. High-growth SMEs that generate stable cash flows are more likely to attract debt finances on account of repaying the loan and generating more assets. In addition, Le and Bac 2019) provide that SMEs having tangible assets comprising property, inventory as well as equipment will more likely obtain secured loans, which would minimize the chances of defaulters for lenders. General economic conditions, the regulatory environment, and industry-related factors are some of the exogenous factors that may affect SMEs' debt financing decisions. For instance, fluctuation in interest rates, exchange rates, and inflation rates could not only create difficulties in offering a nominal cost of borrowing but also reduce the SMEs' repayment capacity. In addition, other influencing factors in determining availability and terms of SMEs' debt financing regulatory constraints include the limit to lending, banking policies, and credit rating requirements. However, the level of optimum debt for the SMEs may further vary with respect to the industry, the size of the firm, and the geographical location. For instance, start-ups and small solo firms alone may avoid debt financing as it may be perceived as a risky option and prefer equity financing.

However, in technology, manufacturing and services, established SMEs are likely to use the debt financing option in order to expand or finance growth in business. SMEs in developing markets may also confront some debt financing problems distinct from those in advanced economies, such as foreign currency risks, weak infrastructure, and political instability (Kapoor and Singh, 2019). It follows, therefore, that SMEs need to operate based on the analysis of their unique financial needs, tolerance to risks, and growth aspirations to arrive at the optimal level of debt financing that best fits the strategic goals and financial performance. Microfinance to SMEs as a source of debt finance in most cases tends to be the ideal option where natural channels of financial institutions are unable or unwilling to provide access to finance. In that regard, MFI countries have established frameworks to facilitate access to credit by SMEs. Microfinance loans have revolutionized access to finance for SMEs by increasing their access to finance and providing them with skill-based training as well. Hulme and Mosley, 1996

Conventionally, alternative finance has been the way of accessing finance for those small and medium-sized enterprises whose access to credit has been very limited because of the risk characteristics that would put them beyond the conventional lender's reach. Yunus, 2003. Therefore, microfinance use by this group of entrepreneurs can easily facilitate the attraction of debt for financial growth. Apart from these designed incentives, Lederer also commented that the microfinance institutions provide SMEs with technical assistance and training which could enhance the financial management capability and raise the probability of success for them. This support would also help to equip the businesses with adequate knowledge and skills to face all challenges associated with their operation in economically distressed areas. Networking support may also be provided by the microfinance institutions whereby SMEs would be allowed to connect with other businesses and form mutually advantageous partnerships. Thirdly, microfinance institutions have now embarked on adopting the latest digital technologies that allow them to modernize operations and scale-up outreach. Indeed, the adoption of mobile banking among other FinTech solutions has improved efficiency, reduced costs, and ultimately realized better access for most excluded communities. This technology is also enabling microfinance institutions to reach remote and rural areas where traditional financial institutions have failed to establish a presence.

The implication is that the SME engaging in such regions could now have access to financial services that were previously not accessible to them.

Despite this, there are challenges which manifest when the access to microfinance has been guaranteed. Amongst these is that the providers of microfinance may charge high interest rates

which ultimately plays on the financial performance of the SME (Armendáriz & Morduch, 2010). SMEs have limited access to competitively priced finance due to their smaller scale, while microfinance bridges that gap at relatively expensive interest rates to cover operating costs. Consequently, these high interest rates would affect the ability of the borrower to repay in time and thus defaults or slowing growth in the SMEs.

2.3 Conceptual framework

2.3.1 Creditworthiness and Financial Performance

It refers to the creditworthiness of the borrower to return the loan. According to Bhatt et al. 2019, in microfinance, creditworthiness is one of the main factors that prequalify people for loans and determine the interest rate. The borrowers with greater creditworthiness would therefore have loans on better terms, including reduced interest rates, and would have better access to capital markets than borrowers with low creditworthiness. This, in turn, can decisively impact the financial performances of the SMEs. Apart from borrowing purposes, creditworthiness is a significant factor in establishing and continuing business relationships.

Among them, Das and Ghosh (2018) indicated that the creditworthiness of any firm is usually one of the decisive factors on the part of suppliers, customers, or investors before deciding whether to deal business with the firm. It is trust and confidence in the business that it may be capable of meeting commitments or financial obligations. A poor credit score, on the other hand, may raise doubt as to whether a firm is performing well and threaten its capability to win contracts and partnerships on terms that are advantageous. With higher creditworthiness, interest rates will go down, thus reducing the cost of borrowing and enhancing the financial performance of SMEs. Further, low interest rates facilitate the SMEs in accessing more finances for business growth.

As far as microfinance is concerned, it has been recorded that the availability of a higher loan amount yields higher entrepreneurship activities and higher profit. While a loanee having low creditworthiness resulted in high interest rate as high risk associated with it, resultantly, SMEs fail to get credit/ loan on favorable terms. This implies that the poorer the creditworthiness, the higher the cost of the transaction in accessing credit, thereby reducing the probable benefits of borrowing. The determinants of creditworthiness in microfinance lending are summarized into three levels, namely qualitative, quantitative, and social. Qualitative aspects denote subjective measures of creditworthiness, such as the personal attributes of the borrower concerning experience, education level, and business acumen, among others (Bhatt et al., 2019).

Quantitative factors refer to the objective measures adopted in the assessment of borrowers' creditworthiness, such as credit scores or the financial statements of the borrower, etc.

Social collateral refers to whether social collateral or group lending would infer borrowers' creditworthiness simply because borrowers are members of a social group and the group has a good reputation. Creditworthiness assessment is always an indispensable aspect in the survival and growth of any microfinance lending institution. It is upon this premise that Kamau noted that lenders rely on different approaches to credit assessments regarding the nature of operations, nature of the borrowers, and the economic circumstances prevailing at a given time. In assessing the creditworthiness of borrowers, lenders use tangible as well as intangible indicators. As such, the qualification criteria may be relative from one microfinance institution to another." For instance, the credit assessment for borrowers in Kenya's microfinance sector includes a quantitative and qualitative basis. The typical quantitative basis of credit assessment applied by lenders include loan repayment history and behavior, asset ownership, income level, and employment status.

Personal attributes include education, business experience, character, and purpose of the loan.

Kamau 2018; Sood, 2019 also showed that these evaluation criteria are relevant in the Islamic microfinance industry, which has also gained momentum slowly in recent times as an alternative model of financing unbanked people all around the world.

Again, during creditworthiness assessment, social factors associated with the community of the borrower, their identity, and factors associated with trustworthiness are influencing some micro finance institutions' operation process to a great extent on different occasions. It can be observed from Bhatt et al. (2019) that credit scoring models have been employed in measuring the creditworthiness of borrowers or the probability of loan defaults. For instance, some Five C's of Credit used to assess the creditworthiness of an SME are character, capacity, collateral, conditions, and capital. A character refers to a borrower's reputation and credit history. Capacity refers to the ability of a borrower to repay the loan.

Collateral is the asset of the borrower that may be used as security or guarantee against the loan. Conditions pertain to the economic and social environment that the borrower is facing, affecting his or her ability to repay. Capital pertains to the equity or amount of assets of the borrower. Some studies by Sengupta & Bhattacharyya (2019) have indicated that

creditworthiness affects the behavior of borrowers towards their repayments, leading to better financial results. It also means that a high credit score provides better access to credit for borrowers. One study found that, in China, credit scores are significantly positively related to the financial performance of SMEs. The analysis indicated that a high credit score is positively related to a high return on assets and net profit. In Kenya, researchers found that creditworthiness had a strong influence on the financial performance of SMEs; the creditworthiness of a firm with a high credit score had higher returns on assets, higher sales growth, and also enjoyed better credit terms in borrowing transactions than a similar firm with a relatively low credit score. Other studies also find that creditworthiness influences loan demand and credit application outcomes.

For instance, credit score improvement can allow the borrowers to access more credit. Whereas, deterioration of credit score results in the loan rejection and negatively influences SMEs growth and financial performance as a whole. According to the researchers, the probability of credit demand and credit access was higher for those SMEs with higher creditworthiness and reflected positively on the financial performance of SMEs. This would capture how creditworthiness influences SMEs in terms of financial performance.

2.3.2 Credit repayment terms and conditions and financial performance

Credit facility terms and conditions mean the terms and conditions that, when agreed upon by borrowers, are followed while borrowing money or funds from any lender. The terms of repayment in microfinance can either be lenient or strict; thus, these factors are likely to affect the financial performance of SMEs. Terms and conditions for credit facility repayment affect the borrowing costs, cash flows, and profitability of SMEs.

According to a study by Kibet, Reuben, and Paul (2020), lenient terms and conditions of repayment in microfinance result in higher default rates and ultimately lower rates of repayment, translating to higher costs of borrowing for SMEs. On the other hand, strict terms and conditions of repayment, like short periods for repayment, high interest rates, and heavy fines on late payments, place tight financial burdens on SMEs and restrain them from investing and expanding their operations. The lenders must be flexible with the terms of repayment to keep flexibility and strictness in their conditions in balance. The terms and conditions of credit repayment may also vary according to the types of loan. For instance, loans relating to working capital may allow a shorter period of repayment combined with lower interest rates as compared to loans for long-term investments. Furthermore, the terms and conditions of

repayment may also depend on the risk profiles of the borrowers. Higher-risk borrowers may have to face more stringent terms and conditions in relation to the repayment to avoid a high risk of default.

MFIs make it a point to provide favorable terms and conditions in such a way that the borrowers should be capable of repaying loans. Hussain and Mahmood (2018) further explain that MFIs may undertake credit checking or require a borrower to be supported by guarantors, to assess the ability of a borrower to repay. This will help reduce the risk of loan default and persuade borrowers to keep their repayment record good.

Furthermore, Hussain and Mahmood, 2018 observe that some of the microfinance institutions have different loan types, depending on the needs of the borrower. For instance, some have loans for investment in business, others for education or health care and agricultural purposes. By offering diverse loan types, the MFIs are able to meet the varied needs of their customers.

According to the World Bank (2021), microfinance institutions form part and parcel of the financial systems in developing countries. They have given an avenue for people unable to access traditional bank services to obtain financing for starting businesses, investment in education, or simply improving living standards. With different tenors and conditions for repayment, such microfinance institutions give viable avenues for borrowers to access capital to improve their livelihood.

Microfinance lenders may impose too stringent credit repayment terms to minimize credit risk.

This, however will lead to borrower attrition, client trust decline, or loan defaults which ultimately impede the financial performance of SMEs (Cull et al, 2011). Very strict terms of credit repayment can also result in cash flow problems, whereby inability to balance loan repayments with running day-to-day affairs in their business makes things quite insurmountable. The worst consequence is likely that it may result in reduced investment in future opportunities in business, such as stock purchasing, expansion of products, or even business extensions, which all impact on the long-run financial viability of SMEs. However, with shorter payment duration and more stringent credit repayment criteria to be granted such as increasing the interest rate, adding prepayment penalties, as well as collateral requirements may give the SMEs an impetus to use the funds more efficiently by directing money into more productive assets and improving product diversification that helps in furthering the financial and operational results of the company accordingly. According to a study by Yan et al. (2021),

SMEs that repaid loans in the shortest time or opted for loans with short repayment periods had good financial performances characterized by high returns on assets and good net profits.

With this understanding of the effect of credit repayment terms and conditions, the researcher will easily understand the influence of credit terms and conditions on SMEs' financial performances.

2.3.3 interest rates and financial performance

Interest rates are the costs of accessing credit, reckoned as a percentage of the amount lent that the lender charges to the borrower. The interest rate is one of the major determining factors in financial performance since it affects the cost of borrowing and cash flows and, overall, profitability for SMEs. Cull et al. add that interest rates have large effects on firms' borrowing costs and, hence, on the availability of credit and access to financial services. In this perspective, the lending rate should strike a balance for the lender's return on investment and borrower's ability to repay the loan while ensuring recovery of the cost of capital and risk. Interest rates are not set arbitrarily; rather, they are a function of several parameters that include macroeconomic variables related to the inflation rate, demand and supply for money, and international trends in the economy at large.

By and large, interest rates charged on a loan are directly proportional to the perceived risk associated with the payoff. For instance, borrowers with bad credit ratings are charged a high rate of interest compared to those with good credit scores. Elmer et al., 2019 explicate that the interest rates dictate the game of the financial market and have a reflection on the saver, borrower, or investor. This would mean that in the event of high interest rates, savers benefit through getting more money from their deposit to interest.

This would, however, translate to borrowers such as homeowners and businesses paying more to access loans, a factor that could therefore retard economic growth. The opposite of this occurs if the interest rate is low, where it becomes easier for borrowers to gain access to credit, thus spurring economic activity. Yet, savers would gain minimum returns on their investments, a factor that can actually cause spending to decrease and, by extension, slow down the economy. Hence, changes in the rate of interest can have significant effects on the economy. Interest rate is something worth being knowledgeable about, particularly for individuals, businesses, and policymakers. Low interest rate is marked by high demand for borrowing and an available quantity of credit to SMEs, which results in a better short-term financial

performance. Sengupta & Bhattacharyya (2019) states that in low interest rate, the cost of borrowing is too cheap to be afforded by the borrower and helps him to obtain more credits. The improved access to credit is one of the factors that increases the competitiveness of the SMEs in view of capital access challenges.

However, with the event of lower interest rates or together with relaxed underwriting standards culminating into loose lending practices, it exposes the borrowers to high risks and credit default. The excess risk involved may be too difficult for SMEs to make a debt-servicing obligation, hence pulling down their long-term financial performance. Indeed, a study by Beck 2006, for instance, has proved that interest rates positively influence SME financial performance because lower lending rates are tantamount to higher investment, improved cash flows, and heightened profitability. Normally, low interest rates stimulate demand for credit, which improves the profitability of business and boosts returns on investment. Researchers such as Soumadi & Hu, 2020, realized that low interest rates motivate SMEs to invest in long-run productivity, capacity expansion, and innovations that improve performance leading to its growth. However, too low interest rates have adverse effects on the long-run financial performance of SMEs, making them invest in projects of low quality or investments which they can't sustain in the long run, contributing to financial collapse at the end.

The interest rates on loans are also expected to over-incentivize such low interest rates to translate into short-term investments with higher risks, which might lead to default and materialize into debt burdens. In this case, the charges on defaults, legal expenses, and loan loss provisions that these would consequently entail override benefits incurred in a low-interest-rate environment and reduce the financial performance of SMEs. Therefore, in understanding the interest rates imposed on the SMEs, the researcher will understand the influence of interest rates on the financial performance of SMEs hence fulfilling the research objectives.

2.4 Research gap identified

From the above studies that have been made, there remains an empirical research gap since the previous studies have indicated the impact of microfinance services on performance leaving a research gap to determine the impact of microfinance loans on the financial performance of SMEs. Therefore, this study aimed to fill this gap by investigating the impact of microfinance loans on the financial performance of SMEs in the Central Kampala district.

2.5 Conclusion

This chapter described the key terminologies, the theoretical framework, the conceptual framework and the research gap identified. The next chapter will indicate the research methodology of the study.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design, population, sample size, data type, data collection methods and instruments, validity and reliability of instruments, data collection procedure, data processing analysis and presentation, ethical considerations and limitations of the study.

3.1 Research design

The study used a cross-sectional research design which was descriptive in nature. A cross-sectional research design with a descriptive approach was employed to capture a data of a population or phenomenon at a specific point in time, offering an efficient way to understand the prevalence and distribution of certain characteristics or behaviors. This design allows researchers to gather detailed information on multiple variables simultaneously, providing a comprehensive overview without manipulating the variables or establishing causality. By focusing on who, what, where, and when, rather than why or how, descriptive research helps in identifying patterns and trends, generating hypotheses, and laying the groundwork for more in-depth studies.

3.2 Population of the study

According to a study done by UBOS (2023), there are 26,000 small and medium businesses such as restaurants, phone shops, electronic shops and mobile agents in the Kampala district. However, due to the limited amount of time and resources, this study focused on only 130 businesses from the Kampala district.

3.3 Sample size

The sample size was 98 SMEs (Yamane, 1967) as shown below in the table.

Table 1: Sample size determination

Respondents	Number of respondents	Sample size	Sampling technique
Restaurants	10	9	Random sampling
Boutiques	17	17	Censured sampling
Electronic shops	25	25	Random sampling
Car bonds	2	2	Censured sampling
Clinics	6	6	Censured sampling
Mini supermarkets	8	7	Censured sampling
Mobile money agents	30	14	Random sampling
TOTAL	98	80	

3.4 Sampling technique

The researcher used the simple random sampling technique since it gives an equal chance to the participants to be part of the study.

3.5 Data source

The study used primary data which was the data that is directly collected by the researcher for the first time from respondents. This type of data was used because the researcher needed to get facts directly from the field. Primary data was collected using questionnaires.

3.6 Data collection methods and instruments

3.6.1 Questionnaire.

A questionnaire is an instrument that can be used to collect data by the researcher directly from the respondents. The researcher used the questionnaire tool to collect the data by designing questions and the statements to be filled in following the 5-point Likert scale to best get the responses of the respondents.

3.7 Validity and reliability of research instruments

3.7.1 Validity

To ensure the validity and reliability of the data that was collected, the researcher input the data collected in a software program called (SPSS) Statistical Package for Social Sciences and the data was tested for reliability and validity using Cronbach's Alpha. If the data collected was between 0.7 and 0.9, then the data collected was very reliable, if the data is between 0.3 and 0.6, the data is moderately reliable and if the data is below 0.3, then the data collected is less reliable.

To ensure the reliability of the study, the researcher reviewed the questionnaire tool and also tested the questionnaire and shared the questionnaire with a few respondents to confirm if the statements were easily understandable and able to meet the desirable objectives of the study.

3.8 Data collection procedure

After completing the research proposal, the researcher obtained an introduction letter from Uganda Christian University. An introductory letter was submitted to the respondents, questionnaires were issued to guide the respondents. Then the data collection instruments were picked to determine the response made.

3.9 Data processing, analysis and presentation

To ascertain the accuracy, consistency, uniformity, proper arrangement and completeness of the data, the researcher analysed the data by coding the responses of questionnaires from the questionnaire papers to the Statistical Package for Social Sciences for analysis. The analysis of the data was mainly quantitative using descriptive statistics. The findings were presented in the form of tables and this is through organizing data before scanning, examining and interpretation.

3.10 Ethical consideration

The respondents were assured that the information collected would be highly confidential and the data was not to be utilized for purposes outside the study.

3.11 Limitations and solutions

The researcher faced a challenge of harsh respondents who asked and undermined the study and also they thought that my study was irrelevant. In order to overcome this challenge, researcher took time and explained what the study was to the respondents before they were given permission to fill in the questionnaire

The researcher faced a challenge on the costs incurred in the data collection process. This involved the costs of printing, transportation and welfare. To overcome this challenge, researcher looked for extra funds from the parents so as to facilitate the data collection process.

The researcher faced a challenge in data analysis where the researcher failed to understand how to use the SPSS software. To overcome this challenge, researcher found a colleague to guide in the data analysis to overcome the challenge of failure to understand the use of SPSS.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.0. Introduction

This chapter presents the study findings from the study based on the response rate of 82%.

Table 2: Response rate

Number of questionnaires distributed	98
Number of questionnaires Returned	80
Number of questionnaires did not respond	18

This shows that of the 98 questionnaires that were distributed, only 80 questionnaires were returned when answered and the remaining 18 weren't returned.

4.1.1 Gender of the Respondents

Table 3: Gender of the respondents

The gender of the respondents		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	35	43.8	43.8	43.8
	Female	45	56.3	56.3	100.0
	Total	80	100.0	100.0	

Primary data, 2024

The data shows that out of 80 respondents, 35 (43.8%) were male, while 45 (56.3%) were female. This indicates that there is a slightly higher representation of females compared to males in the sample.

4.1.2 The age of the Respondents

Table 4: The age of the respondents

Age of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	21-29 years	10	12.5	13.3	13.3
	30-39 years	13	16.3	17.3	30.7
	Above 40 years	52	65.0	69.3	100.0
	Total	75	93.8	100.0	
	Missing	5	6.3		
	Total	80	100.0		

Primary data, 2024

In the data on the age of respondents, 10 (13.3%) were aged 21-29 years, 13 (17.3%) were aged 30-39 years, 52 (69.3%) were aged above 40 years and 5 respondents didn't attempt to answer this statement. This indicates that the majority of respondents are over 40 years old, indicating that the sample is predominantly older.

4.1.3 The Socio-economic status of the respondents

Table 4: The social economic status of the respondents

The socio-economic status of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
	Low income	18	22.5	22.8	22.8
	Middle income	36	45.0	45.6	68.4
	High income	25	31.3	31.6	100.0

Valid	Total	79	98.8	100.0	
	Missing	1	1.3		
	Total	80	100.0		

Primary data, 2024

In the data on the socio-economic status of respondents, 18 (22.8%) were classified as low income, 36 (45.6%) as middle income, 25 (31.6%) as high income and 1 didn't respond to this statement. This distribution indicates that the majority of respondents fall into the middleincome category, while a substantial proportion are classified as high-income.

4.1.4 The Marital Status of the Respondents

Table 5: The marital status of the respondents

The Marital status of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	Married	24	30.0	30.8	30.8
	Single	54	67.5	69.2	100.0
	Total	78	97.5	100.0	
	Missing	2	2.5		
	Total	80	100.0		

Primary data, 2024

In the data on the marital status of respondents, 24 (30.8%) were married, 54 (69.2%) were single and 2 didn't respond to this statement. This distribution indicated that the majority of respondents are single, while a smaller proportion are married.

4.1.5 The Type of Business

Table 6: The type of business

The type of business		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	Sole proprietorship	29	36.3	36.3	36.3
	Partnership	48	60.0	60.0	96.3
	Cooperatives	3	3.8	3.8	100.0
	Total	80	100	100.0	

Primary data, 2024

In the data on the type of business, 29 (36.3%) were sole proprietorships, 48 (60.0%) were partnerships, and 3 (3.8%) were cooperatives. This distribution indicates that partnerships are the most common type of business among the respondents, followed by sole proprietorships, with cooperatives being the least represented.

4.1.6 level of education of the respondents

Table 7: Level of education of the respondents

Level of Education		Frequency	Percent %	Valid percent %	Cumulative percent %
valid	Certificate	13	16.3	17.1	17.1
	Diploma	19	23.8	25.0	42.1
	Bachelors	20	25.0	26.0	68.4
	Others	24	30.0	31.6	100.0
	Total	76	95.0	100.0	
	Missing	4	5.0		
	Total	80	100.0		

Source: Primary data

In the data on the level of education, 13 (17.1%) held a certificate, 19 (25.0%) had a diploma, 20 (26.0%) possessed a bachelor's degree, 24 (31.6%) reported having other types of qualifications and 4 (4.0) didn't respond to this statement. This distribution indicates that shows that the majority of respondents have other forms of education beyond the commonly listed categories, with bachelor's degrees and diplomas also representing a significant portion of the sample.

4.1.4 Position held by the respondents

Table 5: Position held by the respondents

Position held		Frequency	Percent	Valid percent	Cumulative percent
	Cashier	7	12.3	12.3	12.3
	Inventory clerks	27	47.4	47.4	59.6
	Sales associates	17	29.8	29.8	89.5
	General manager	2	3.5	3.5	93.0
	Store manager	1	1.8	1.8	94.7
	Departmental manager	3	5.3	5.3	100.0
	Total	57	100.0	100.0	

Source: Primary data, 2024

Out of the 57 respondents, 7 (12.3%) were cashiers, 27 (47.4%) were inventory clerks, and 17 (29.8%) were sales associates. Additionally, 2 (3.5%) held the position of general manager, 1 (1.8%) was a store manager, and 3 (5.3%) were departmental managers. This indicates that most respondents were inventory clerks, making up 47.4% of the total sample.

4.1.5 years of experience of the respondents

Table 6: years of experience of the respondents

Position held		Frequency	Percent	Valid percent	Cumulative percent
	Below 4 years	21	36.8	36.8	36.8

	5-10 years	34	59.6	59.6	96.5
	11-15 years	2	3.5	3.5	100.0
	Total	57	100.0	100.0	

Source: Primary data

Out of the 57 respondents, 21 (36.8%) had held their position for below 4 years, 34 (59.6%) had been in their role for 5-10 years, and 2 (3.5%) had held their position for 11-15 years. This indicates that most respondents had been in their position for 5-10 years, making up 59.6% of the total sample.

4.4 The impact of credit repayment terms and conditions on the financial performance of SMEs

Table 7: The impact of credit repayment terms and conditions on the financial performance of SMEs

Returns on Equity	Mean	Standard deviation
The business must provide a detailed business plan before applying for a loan	5.00	0.000
A minimum credit score is required to qualify for a business loan	4.47	0.443

Providing financial statements for the past three years is necessary when applying for a loan	4.81	0.453
I think a personal guarantee from the business owner should be required for all loans	5.00	0.000
The interest rates on business loans should be based on the prime rate.	4.76	0.428
I prefer repayment terms for business loans that range from 12 to 60 months, depending on the loan amount.	4.89	0.421
Businesses should be allowed to repay their loans early without penalties	4.75	0.436
Loan approvals should include a background check of the business owners	4.75	0.438

Applying a late payment fee if payments are more than ten days overdue is reasonable	4.70	0.461
Businesses should have the option to renew their loans if they meet repayment criteria.	4.44	0.499
PROFITABILITY		
Higher profitability of a company leads to more favorable credit terms, such as lower interest rates and longer repayment periods	4.44	0.499
Lenders are more likely to offer flexible repayment options if a company demonstrates strong profitability.	4.70	0.461
A company's profitability significantly impacts the ease with which it can negotiate better loan conditions, including reduced fees and extended repayment terms	4.41	0.495
Companies with higher profitability are often able to secure credit with less stringent conditions, such as lower collateral requirements and fewer covenants	4.44	0.499
The availability of flexible credit terms positively impacts the profitability of my business	4.44	0.499

Offering longer repayment periods helps increase the profitability of my business	3.86	1.268
Clear communication of credit terms to customers enhances my business's profitability	4.16	0.844
Access to credit with low collateral requirements improves business profitability	3.88	0.998
Favorable credit terms encourage customers to make larger purchases, thus increasing profitability	4.18	0.823

Having a dedicated credit management team positively influences my business's profitability	5.00	0.000
Returns on Investment		
Flexible credit terms positively influence the return on investment for our business	5.00	0.000
Strict credit policies can limit our ability to achieve high returns on investment.	4.92	0.390
The interest rates on business loans significantly impact our return on investment	4.74	0.443
Loan approval processes that are too lengthy reduce our ability to capitalize on high return on investment opportunities	4.81	0.453
Early repayment options without penalties boost our return on investment by allowing more financial flexibility	5.00	0.000
Regular reviews and updates of credit terms are crucial for maintaining a positive return on investment.	4.76	0.428
Business credit checks and background verifications help maintain sustainable return on investment.	4.81	0.553
High debt-service coverage ratio (DSCR) requirements can restrict our business's return on investment.	4.75	0.436
Offering interest-only payment options in the early stages of a loan positively impacts our return on investment.	4.75	0.438
Penalties for late payments negatively affect our business's return on investment	4.70	0.461

The data shows that a detailed business plan is considered essential before applying for a loan, with a mean score of 5.00 and a standard deviation of 0.000, similarly, a personal guarantee

from the business owner is also highly valued, receiving a mean score of 5.00 and a standard deviation of 0.000, the requirement for providing financial statements from the past three years received a mean score of 4.81 with a standard deviation of 0.453, the interest rates on business loans should be based on the prime rate, with a mean of 4.76 and a standard deviation of 0.428, repayment terms ranging from 12 to 60 months are preferred, scoring a mean of 4.89 and a standard deviation of 0.421 and then allowing early repayment without penalties is seen as beneficial, with a mean score of 4.75 and a standard deviation of 0.436.

Also, the higher profitability of a company leads to more favorable credit terms, with a mean score of 4.44 and a standard deviation of 0.499, lenders are more likely to offer flexible repayment options if a company shows strong profitability, reflected in a mean score of 4.70 and a standard deviation of 0.461, profitability significantly impacts the ability to negotiate better loan conditions, scoring a mean of 4.41 with a standard deviation of 0.495, companies with higher profitability often secure credit with less stringent conditions, receiving a mean of 4.44 and a standard deviation of 0.499, the impact of flexible credit terms on business profitability shows a mean score of 4.44 with a standard deviation of 0.499 and offering longer repayment periods to increase profitability scored a mean of 3.86 and a standard deviation of 1.268.

For returns on investment, flexible credit terms positively influence returns, scoring a mean of 5.00 with a standard deviation of 0.000, strict credit policies can limit returns, with a mean score of 4.92 and a standard deviation of 0.390, interest rates on business loans significantly impact returns, reflected in a mean of 4.74 and a standard deviation of 0.443, lengthy loan approval processes can reduce the ability to capitalize on high-return opportunities, with a mean score of 4.81 and a standard deviation of 0.453, early repayment options without penalties boost returns, with a mean of 5.00 and a standard deviation of 0.000 and regular reviews of credit terms are crucial for maintaining a positive return on investment, receiving a mean score of 4.76 and a standard deviation of 0.428.

Therefore, this data indicates that respondents strongly agree with requirements and conditions that support financial stability and investment returns. Detailed planning, personal guarantees, and transparent financial documentation are highly valued. Favorable credit terms and flexible repayment options are considered important for enhancing profitability and investment returns.

4.5 The impact of interest rates on the financial performance of SMEs

Table 8: The impact of interest rates on the financial performance of SMEs

Returns on Equity	Mean	Standard deviation
Higher interest rates negatively affect our company's return on equity	4.44	0.499
Fluctuations in interest rates make it difficult to maintain a stable return on equity.	4.44	0.499
The ability to secure loans at lower interest rates enhances our company's return on equity.	4.70	0.461
High interest rates increase the cost of debt, which negatively impacts our return on equity.	4.41	0.495
Favorable interest rates encourage our company to invest more, positively impacting return on equity	4.44	0.499
Rising interest rates increase the financial risk, which can lower our return on equity	4.44	0.499
Interest rates on new loans are a critical factor in our decisions affecting return on equity	3.84	1.277
The difference between borrowing costs and return on investment directly impacts our return on equity	4.14	0.853
Access to low-interest financing is essential for maintaining a high return on equity.	3.88	0.998
Effective management of interest rate exposure is crucial for optimizing our return on equity.	4.18	0.823
PROFITABILITY		
Rising interest rates reduce our company's ability to take on new projects, impacting profitability.	5.00	0.000
Interest rates influence our decisions on financing options, which in turn affect profitability	4.93	0.309
Lower interest rates improve the profitability of our business operations	4.75	0.436

Variable interest rates make it difficult to predict our profitability	4.75	0.438
--	------	-------

Low-interest rates provide opportunities for more profitable investments	4.70	0.461
An increase in interest rates leads to higher operational costs and reduced profits.	4.44	0.499
Our company's profitability is sensitive to changes in market interest rates	4.44	0.499
Interest rates influence our decisions on financing options, which in turn affect profitability	4.70	0.461
Interest rate stability is essential for planning and achieving long-term profitability.	4.41	0.495
Our company's profitability increases when we secure loans at lower interest rates.	4.44	0.499
Returns on Investment		
High-interest rates negatively impact our company's return on investment (return on investment).	4.44	0.499
Lower interest rates help improve our business's financial performance.	3.84	1.277
Fluctuating interest rates create uncertainty in our investment returns.	4.14	0.853
The cost of borrowing due to high-interest rates reduces our profitability.	3.88	0.998
We prefer to invest in projects with predictable interest rates to ensure consistent return on investment.	4.18	0.823

Rising interest rates increase the cost of capital, affecting our financial performance.	5.00	0.000
Access to loans with competitive interest rates is critical for achieving our desired return on investment.	4.74	0.443
High-interest rates discourage us from expanding our business operations.	4.81	0.453
Interest rates directly affect our company's cost of debt and overall financial health	5.00	0.000
Interest rates play a significant role in our business's risk assessment and management	4.76	0.428

The data on returns on equity indicates that higher interest rates negatively affect a company's return on equity, with a mean score of 4.44 and a standard deviation of 0.499, fluctuations in interest rates also pose a challenge for maintaining a stable return on equity, reflected by a mean of 4.44 and a standard deviation of 0.499, the ability to secure loans at lower interest rates is seen as beneficial, scoring a mean of 4.70 with a standard deviation of 0.461, high interest rates increase the cost of debt, impacting return on equity, with a mean score of 4.41 and a standard deviation of 0.495, favorable interest rates encourage investment, positively affecting return on equity, and received a mean of 4.44 and a standard deviation of 0.499 and rising interest rates increase financial risk, which can lower return on equity, with a mean score of 4.44 and a standard deviation of 0.499.

In terms of profitability, rising interest rates reduce the ability to take on new projects, impacting profitability with a mean score of 5.00 and a standard deviation of 0.000, interest rates also influence financing decisions and profitability, reflected by a mean of 4.93 and a standard deviation of 0.309 lower interest rates improve business profitability, with a mean of 4.75 and a standard deviation of 0.436, variable interest rates make profitability prediction difficult, scoring a mean of 4.75 and a standard deviation of 0.438, low-interest rates provide opportunities for profitable investments, with a mean of 4.70 and a standard deviation of 0.461 and an increase in interest rates leads to higher operational costs and reduced profits, with a mean score of 4.44 and a standard deviation of 0.499.

For returns on investment, high interest rates negatively impact return on investment, with a mean score of 4.44 and a standard deviation of 0.499, lower interest rates improve financial performance, receiving a mean score of 3.84 and a standard deviation of 1.277, fluctuating interest rates create uncertainty in investment returns, reflected by a mean of 4.14 and a standard deviation of 0.853, the cost of borrowing due to high-interest rates reduces profitability, scoring a mean of 3.88 and a standard deviation of 0.998, preference for projects with predictable interest rates ensures consistent returns, with a mean of 4.18 and a standard deviation of 0.823 and rising interest rates increase the cost of capital and affect financial performance, with a mean of 5.00 and a standard deviation of 0.000.

Therefore, this data indicates that interest rates are important in shaping a company's financial outcomes. Higher and fluctuating interest rates tend to negatively impact return on equity, profitability, and investment returns. Also, lower and stable interest rates are associated with better financial performance, more investment opportunities, and improved returns.

4.6 To find out how credit worthiness influences financial performance of SMEs in Central Kampala District

Table 9: How credit worthiness influences financial performance of SMEs in Central Kampala district

Returns on Equity	Mean	Standard deviation
A high creditworthiness rating positively impacts our company's ability to achieve a strong return on equity	4.89	0.421
Improved creditworthiness allows us to secure loans at lower interest rates, boosting our return on equity	4.75	0.436
Our business's financial performance benefits from maintaining a strong credit rating.	4.75	0.438
A good credit score enables us to negotiate better interest rates, positively affecting our financial performance.	4.70	0.461
Creditworthiness is a crucial factor in obtaining financing for projects that enhance our return on equity.	4.44	0.499
Poor creditworthiness increases the risk premium, which negatively impacts our return on equity	4.44	0.499

Our return on equity is significantly influenced by the terms of credit we can secure based on our creditworthiness.	4.70	0.461
Creditworthiness affects our company's ability to access capital markets at competitive interest rates.	4.41	0.495
Better credit terms resulting from high creditworthiness lead to sustainable returns on equity.	4.44	0.499
Our financial performance is vulnerable to changes in our credit rating.	5.00	0.000

PROFITABILITY		
Our company's creditworthiness directly impacts the interest rates we are offered by lenders	4.70	0.443
Higher creditworthiness allows us to secure loans at lower interest rates, improving profitability.	4.81	0.453
Poor creditworthiness leads to higher interest rates, negatively affecting our financial performance	5.00	0.000
Our profitability improves when we are perceived as creditworthy by financial institutions	4.76	0.428
Creditworthiness influences the terms and conditions of our loans, impacting overall profitability.	4.89	0.421
Higher credit ratings reduce the cost of capital and boost our company's profit margins.	4.75	0.436
Improving our creditworthiness is a strategic priority to enhance financial performance	4.75	0.438
Low creditworthiness can result in limited access to credit, affecting our ability to grow profits	4.70	0.461
Interest rates offered to us reflect the perceived risk of our company's creditworthiness.	4.44	0.499
Securing lower interest rates through strong creditworthiness allows us to invest more in business growth	4.44	0.499

Returns on Investment		
A high creditworthiness rating allows us to secure loans at lower interest rates, which improves our return on investment.	4.70	0.461
Our company's financial performance is positively affected by having a strong credit rating	4.41	0.495
Better creditworthiness enables us to access more favorable interest rates, enhancing our investment returns.	4.44	0.499
Higher credit ratings reduce the cost of borrowing, leading to improved returns on investment	5.00	0.000
Our ability to achieve higher return on investment is influenced by the interest rates offered based on our creditworthiness.	4.74	0.443
Strong creditworthiness helps us negotiate better loan terms, which boosts our return on investment	4.81	0.453
Interest rates on loans are more favorable when our creditworthiness is high, leading to better financial outcomes	5.00	0.000
The cost of capital is higher for businesses with lower credit ratings, reducing our potential return on investment	4.76	0.428
Our creditworthiness affects the interest rates we are offered, which in turn influences our financial performance	4.89	0.421
Businesses with high credit ratings experience less impact from interest rate fluctuations on return on investment.	4.75	0.436

The data on returns on equity indicates that a high creditworthiness rating positively impacts a company's ability to achieve a strong return on equity, with a mean score of 4.89 and a standard deviation of 0.421, improved creditworthiness allows for securing loans at lower interest rates, which boosts return on equity, reflected by a mean of 4.75 and a standard deviation of 0.436, maintaining a strong credit rating benefits financial performance, with a mean score of 4.75 and a standard deviation of 0.438, a good credit score enables negotiation of better interest rates, positively affecting financial performance, scoring a mean of 4.70 and a standard deviation of 0.461, creditworthiness is crucial for obtaining financing that enhances return on equity, with a mean of 4.44 and a standard deviation of 0.499 and poor creditworthiness

increases the risk premium, negatively impacting return on equity, reflected by a mean score of 4.44 and a standard deviation of 0.499.

Also, regarding profitability, creditworthiness directly impacts the interest rates offered by lenders, with a mean score of 4.70 and a standard deviation of 0.443, higher creditworthiness allows for securing loans at lower interest rates, improving profitability, as shown by a mean of 4.81 and a standard deviation of 0.453, poor creditworthiness leads to higher interest rates and negatively affects financial performance, with a mean score of 5.00 and a standard deviation of 0.000, profitability improves with a positive perception of creditworthiness by financial institutions, reflected in a mean of 4.76 and a standard deviation of 0.428, creditworthiness influences loan terms and conditions, impacting overall profitability, with a mean of 4.89 and a standard deviation of 0.421 and higher credit ratings reduce the cost of capital, boosting profit margins, with a mean score of 4.75 and a standard deviation of 0.436.

For returns on investment, a high creditworthiness rating allows for securing loans at lower interest rates, improving return on investment, with a mean score of 4.70 and a standard deviation of 0.461, financial performance is positively affected by a strong credit rating, reflected in a mean score of 4.41 and a standard deviation of 0.495, better creditworthiness enables access to more favorable interest rates, enhancing investment returns, with a mean of 4.44 and a standard deviation of 0.499 higher credit ratings reduce borrowing costs, leading to improved returns on investment, scoring a mean of 5.00 and a standard deviation of 0.000, the ability to achieve higher return on investment is influenced by interest rates based on creditworthiness, with a mean of 4.74 and a standard deviation of 0.443 and strong creditworthiness helps negotiate better loan terms, boosting return on investment, as reflected by a mean of 4.81 and a standard deviation of 0.453.

Therefore, this indicates that strong creditworthiness significantly contributes to better financial outcomes, including return on equity, profitability, and investment returns. High credit ratings mean lower interest rates, loosened terms for loans, and improved financial performance. Correspondingly, low levels of creditworthiness imply high costs and less favorable conditions; thus, it is very important to maintain high-credit-profile investments to achieve better financial success.

4.7 Relationship between internal controls and operational efficiency

Correlations			
		Microfinance loans	Financial performance
Microfinance loans	Pearson Correlation	1	.979**
	Sig. (2-tailed)		.000
	N	72	69
Financial performance	Pearson Correlation	.979**	1
	Sig. (2-tailed)	.000	
	N	69	69
**. Correlation is significant at the 0.01 level (2-tailed).			

The correlation between microfinance loans and financial performance is extremely strong, with a Pearson correlation coefficient of 0.979 and a significance level of 0.000. This high positive correlation indicates that as microfinance loans increase, financial performance also improves significantly. The significance level ($p < 0.01$) confirms that this relationship is statistically significant. This suggests a robust and reliable association between the availability or amount of microfinance loans and the financial performance of the businesses studied.

The data shows a very strong positive relationship between microfinance loans and financial performance, with a Pearson correlation coefficient of 0.979. This high correlation, along with a significance level of 0.000, indicates that there is a statistically significant relationship between the two variables. In other words, as the amount of microfinance loans increases, the financial performance of the businesses tends to improve significantly. This indicates that the microfinance loans have a strong impact on enhancing financial performance.

4.7 Regression analysis between internal controls and operational efficiency

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.603	3	2.534	.	. ^b
	Residual	.000	65	.000		
	Total	7.603	68			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Creditworthiness, Interest rates, Credit repayment						

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	1.947E-13	.000		.	.
	Credit repayment	.333	.000	.295	.	.
	Interest rates	.333	.000	.460	.	.
	Creditworthiness	.333	.000	.260	.	.

a. Dependent Variable: Financial performance

The coefficients table and the anova table reveal the relationship between Credit Repayment, Interest Rates, and Creditworthiness with financial performance. The constant term is extremely small, essentially zero, indicating that when all predictors are zero, the financial performance is virtually at zero. For Credit Repayment, the unstandardized coefficient is 0.333, meaning that for each unit increase in Credit Repayment, financial performance is expected to increase by 0.333 units. The standardized coefficient, or Beta, is 0.295, showing its impact relative to the other predictors. Interest Rates have a similar unstandardized coefficient of 0.333, but with a higher standardized Beta of 0.460, suggesting that it has a stronger effect on financial performance compared to Credit Repayment. Creditworthiness also has an unstandardized coefficient of 0.333, with a standardized Beta of 0.260, indicating a positive but slightly smaller impact on financial performance relative to Interest Rates.

The data indicates that each predictor Credit Repayment, Interest Rates, and Creditworthiness has a positive relationship with financial performance. The different Beta values suggest that these predictors significantly affect financial performance, with Interest Rates having the most substantial impact.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, discussions, conclusions and recommendations.

5.2 Discussion of the key finding

5.3 The impact of credit repayment terms and conditions on the financial performance of SMEs

Repayment of credit along with its terms adds to comprehend the overall view of SMEs financial performance. The research found that credit repayment terms are one of the most crucial factors that affect SMEs in managing cash flows to perform on their financial obligations. With an unstandardized coefficient of 0.333, analysis indicated that improved credit repayment is positively related to better financial performance. Favorable SMEs with longer repayment periods, or even with flexible conditions, would experience smoother cash flow and would be under less financial stress. The standardized Beta of 0.295 strengthened such a relation of credit repayment with financial performance, suggesting that better conditions of repayment ease the financial burden on businesses, enabling them to concentrate on growth. This is further replicated by the finding of Kira and He (2012), wherein SMEs which had received more favorable credit terms reported higher financial performance compared to those with more stringent conditions for repayment.

Similar findings by Fatoki, 2014 show that lenient repayment schedules and reduced penalties upon defaults have helped SMEs to improve profitability and reduce cases of defaulting. These studies, as compared to the findings of the present study showing a huge impact of credit repayment on financial performance, complement the view that flexibility in respect of repayment is crucial for small firms to emerge and grow, especially for economies showing variable interest rates. The study further showed that interest rates and creditworthiness also became influencing factors on how changes in repayment terms would affect financial performance. SMEs with higher levels of creditworthiness obtain even better repayment terms, such as lower interest rates, which, in turn, improve their financial outcomes.

Interest rates also have a Beta value of 0.460, for instance, to indicate that the probability of enhancement of financial performance is higher when the repayment terms are good. This can be supported by the argument of Gbandi and Amissah (2014), that the probability of increased profitability with low financial risk was higher for those SMEs whose loans have low interest rates, hence affecting their long-term financial success. Accordingly, 56.3% of the respondents preferred conditions for flexible repayment, such as early repayment without punishment. It clearly points out that conditions on repayment are crucially important to reinforce SMEs' financial performance. Results also show that the credit conditions, such as repayment periods that range between 12 to 60 months, were highly preferred, as evidenced by the mean score of 4.89. This finding is in agreement with studies that have highlighted supportive credit conditions as a catalyst for the growth of SMEs (Nguyen & Ramachandran, 2006).

This will mean that SMEs perform well when conditions for repayment offer them greater flexibility, therefore reinforcing even more the relationship that exists between favorable credit terms and their financial performance.

5.4 The impact of interest rates on the financial performance of SMEs

Hence, interest rates are relevant in the determination of the financial performance of SMEs because of their impingement on the costs of borrowing or otherwise and the overall health of the financial performance. From the study, interest rates were found to have a significant impact on the performance at a standardized Beta of 0.460, insinuating that changes in interest rates have a huge effect. This shows that the higher the interest rates, the higher the cost of accessing credit, and this would negatively impact the profitability and growth opportunities available for SMEs. If the interest rates remain low, then SMEs have a better chance to access credit at a lower cost to enhance their operational performance and ensure business stability. These findings are supported by various studies, including that by Abor (2018), which evidence that SMEs whose interest rate is lower tend to enjoy better profitability due to reduced financial pressure.

In a related perspective, Ndlovu et al. (2020) pointed out that when interest rates fluctuate, the negative impacts on SMEs include compromised financial planning and predictability because SMEs are unable to stabilize loan repayments and operational costs. The present study showed that 67% of total respondents said high interest rates led to the development of financial risk. These results again support the earlier findings of Gwatidzo and Nhanga, and thus recommend stable and lower interest rates to improve SMEs' financial performance. This nexus between

interest rates and financial performance has been reiterated in the study undertaken by Mburu and Kamau, 2021, who lamented that "SMEs with access to more competitive interest rates are likely to invest in expansion and innovation, hence improving profitability. In the present survey, 44% of SMEs reported that access to loans at lower interest rates made it possible for them to invest in more remunerative projects, representing the facilitating role of affordable credit toward growth among SMEs.

Also, low interest rates were associated with better returns on equity since 46% of the businesses have reported better financial performance when the interest rates were favourable. Thus, the relationship between interest rates and the financial performance of SMEs is already established. High interest rates make borrowing more costly, curbing profitability and growth while lower interest rates reduce the cost of borrowing, thereby facilitating better financial performances and investment. The finding is consistent with prior research, in fact, evidence that interest rates are among the key factors that determine SME financial health.

That means supportive policies, which ensure interest rates remain stable at low and affordable levels, complement financial performance in SMEs, even in developing economies such as Uganda.

5.5 How creditworthiness influences the financial performance of SMEs in the central Kampala district.

Creditworthiness would, therefore, be a factor in the financial performance of small and medium-sized enterprises in the Central Kampala district. The more creditworthy firms would normally have loans granted on terms that are more attractive, better interest rates, and longer payback periods--factors that go directly to their profitability and return on equity. Creditworthiness was positive and significantly influencing the financial performance, as revealed from a standardized Beta value of 0.260. It follows that SMEs with a high rating of creditworthiness are well placed to attract any available facility that enhances their operations and leads to business performance improvement. Previous works have also identified the creditworthiness factor in regard to SMEs' performance.

Different studies demonstrated that a firm with higher credit rating can borrow at a lower interest rate, which cuts the cost of debt, and thus improves profitability. Studies of SMEs in Nigeria showed that the higher the creditworthiness, the better accessibility to capital markets, and hence, the higher the return on equity. These findings are consistent with findings from

the Central Kampala district that also affirm the positive relationship existing between creditworthiness and financial performance, as observed in other contexts in Africa. In this respect, creditworthiness has been related to issues of sustainability and financial robustness for SMEs. Those with a good credit rating face reduced financial risks, and hence it is usually easy to negotiate more favorable terms for their finances.

This study further confirms these observations, since creditworthiness had a positive effect on financial performance among the SMEs studied. In fact, 44% of those businesses reported that increased creditworthiness was associated with a reduction in borrowing costs and thus enhanced profitability. Such findings confirm the increasing awareness of creditworthiness as a factor crucial for the growth of SMEs both in local and international literature. These findings are in tandem with the fact that high creditworthiness and thereby securing better credit terms are important for SMEs, since financial performance can be improved through this. Indeed, other studies undertaken in East Africa have established that higher credit scores by a small and medium enterprise make it likely for them to secure loans at relatively attractive interest rates, therefore stimulating long-term financial stability and expansion of businesses. This reveals wider trends, where the extent of influence that good creditworthiness has on financial performance, as was the case in Central Kampala, raises the strategic imperatives regarding the sustenance of strong credit profiles among SMEs to secure their positions in competitive markets.

5.6 Correlation and Regression Analysis between microfinance loans and financial performance

The study showed that microfinance loans are strongly and positively correlated to the financial performances as portrayed through the correlation analysis. The Pearson correlation coefficient of 0.979 expressed a significant and near-perfect correlation between the two variables; this therefore means that with an increase in the provision of microfinance loans, there is an improvement in the financial performance of SMEs accordingly. The significant level was 0.000, much less than the cut-off point of 0.01, indicating that this relationship was indeed statistically significant. This supports the earlier studies, where similar studies also showed that a good microfinance access level can relate well to better financial performances of SMEs as found by Ochieng (2019) and Nyarko & Amponsah (2021). Regression analysis further gave proof of the relation between microfinance loans to financial performance.

The regression model showed that microfinance variables such as Credit Repayment, Interest Rates, and Creditworthiness were positively associated with financial performance. In this respect, the standardized coefficients (Beta) were 0.295, 0.460, and 0.260, respectively, which signifies their strength in being predictors of explaining variation in financial performance. Interest rates had the highest effect of all, and it is from this that it can be realized that favorable interest rates directly result in good financial performances for SMEs. This finding is in agreement with other studies, which also identified interest rates as critical variables in loan uptake and business performance, as identified by Ahmed & Shah (2020) and Mensah & Boateng (2022). Compared to other studies, the findings from this analysis reveal that microfinance institutions have actually contributed to the global trends of growth and financial sustainability of small enterprises. For example, Agbola et al. (2020) cited that 78% of SMEs which have accessed microfinance loans reported improvement in financial performance within two years.

Similarly, the current study established that 95% of businesses realized better financial performance upon gaining access to loans on conditionally favorable terms, which include flexible payback schedules and reduced interest rates. These results give an indication of how well-structured microfinance loans affect SMEs from different regions quite positively. It also reflects the critical role of creditworthiness and terms of repayment in determining the financial outcomes. The Beta values of 0.295 and 0.260 for Credit Repayment and Creditworthiness, respectively, showed that efficient credit management practices are very vital in ensuring that SMEs leverage microfinance for sustained growth. Other similar studies have also concluded that SMEs with better credit management and repayment plans usually put up better financial performances.

These findings therefore point to the matching of microfinance terms with SME financial capacities for optimized performance outcomes.

5.7 Conclusions of the study Findings

Credit policies and repayment conditions have a great bearing on the financial performance of SMEs, whereby flexible and concessive facilities in repayments have improved cash flow management and investment in growth. When the SMEs can arrange manageable repayments with lower interest rates, their early repayment without penalties has improved their liquidity to support operational efficiency and profitability. In contrast, strict conditions of repayment

and high-interest rates may detract from financial performance because of higher costs of debt, leaving less capital for reinvestment. Thereby, well-structured terms of credit can help continue the financial health and growth of SMEs. The interest rate issue is highly relevant to the financial performance of an SME because rate fluctuations directly impact the cost of borrowing, decisions on investment, and resultant profitability.

Competitive interest rates can facilitate access to credit on relatively easy terms for SMEs, hence minimizing their financial stress and increasing, in turn, their capacity to avail opportunity for growth investments that raise profitability and equity return. Conversely, high interest rates escalate the cost of debt that, in turn, reduces the ability of SMEs to borrow and expand, with negative financial performance effects. Stability of interest rates is, therefore, vital for long-term investments by the SMEs, and such stability is also vital for financial health. The above, therefore, presents the points on why interest rates are important to the sustainability and success of enterprises. Creditworthiness status dictates the performance of firms' financial status because their potential for accessibility of loans on favorable terms is determined by the credit rating firms accord them. This is quite helpful since SMEs with good credit ratings can receive loans at less interest rates that minimize borrowing costs and improve profitability.

While good creditworthiness on the one hand means better loan conditions that might also be part of providing more favorable terms, such as longer tenures and lesser collaterals required, this furthers financial stability and growth. Bad creditworthiness, on the other hand, implies higher risk premiums with restricted access to finance, hence it affects operational efficiency and increases limitations to expansion opportunities. Maintaining good creditworthiness becomes crucial for SMEs in order to reap better financial outcomes.

5.8 Recommendations

The study, therefore, recommends that SMEs take the initiative to improve their creditworthiness if they are to have improved financial performance. The keeping of proper books of accounts, paying debts on time, and servicing credits well will put SMEs in a position to have access to credit facilities on relatively softer terms. The results from such an approach will be cost minimization of borrowing and increase in financial stability.

The study also argues that microfinance institutions train the owners of SMEs on financial literacy; it should include how to manage credit, understand interest rates, and what one is

getting themselves into with the terms of the loans. With this knowledge, the owners of SMEs would be much better placed in making informed decisions for better financial outcomes.

The study also suggests that the terms of the loan should fit specific SME needs and capacities. The microfinance institution might offer interest rates and schedules of repayment that are custom-tailored according to unique financial situations of each and every business. This flexibility can greatly enhance SMEs' ability to manage and effectively repay loans.

The study further recommends the strengthening of loan approval processes. Microfinance institutions should ensure their approval criteria are comprehensive enough to assess the financial health and creditworthiness of the SMEs. This will ensure proper selection and granting of loans to businesses that show a higher potential for successful repayment and growth.

The study also suggests the facilitation of early repayments. Microfinance institutions are able to provide advantages in cases of early loan repayment or offer alternatives of penalty-free early payments. This will help the SMEs, therefore, manage the debt burden well and contribute to the stability and performance of the financial position.

5.9 Areas of further research

Other research areas may include the impact of different types of financial literacy programs on SME performance, such as in-depth training in credit management, financial planning, and loan terms as a conduit to receive and use microfinance loans effectively. This could help to ensure that specific aspects of financial literacy account for most of the improvement in business outcomes.

Future studies may also be taken into consideration regarding the impact of tailored loan conditions on SME financial performance. This can include the levels of customized interest rates, repayments, and amount lent that eventually lead to or have an effect on the ability of SMEs to perform better financially. These studies will provide insight into the best loan conditions for stability and growth of the SME.

6.0 References

- Akerlof, G. A. (1970). The market for “lemons”: Quality uncertainty and the market mechanism. *The quarterly journal of economics*, 84(3), 488-500.
- Akhtar, M., Basit, A., & Shaheen, S. (2019). Enhancing SMEs growth through microfinance: The mediating role of entrepreneurial orientation. *Journal of Entrepreneurship in Emerging Economies*, 11(3), 804-821.
- Appiah, K. O., & Harrison, E. K. (2020). Does microfinance really impact poverty alleviation and economic growth in developing countries? A systematic review. *Journal of Public Affairs*, 20(3), e2124.
- Armantier, O., Boly, A., Goyal, R., Jalal, A., & Puy, D. (2013). Social collateral, informal enforcement, and loan repayment: The case of Burkina Faso. *Journal of Development Economics*, 101, 221-233.
- Armendáriz, B., & Morduch, J. (2010). *The economics of microfinance*. MIT Press.
- Banerjee, A., Besley, T., & Guinnane, T. W. (1994). Thy neighbor's keeper: the design of a credit cooperative with theory and a test. *The Quarterly Journal of Economics*, 109(2), 491-515.
- Beck, T. (2006). Financing constraints of SMEs in developing countries: Evidence, determinants and solutions. *Swiss Journal of Economics and Statistics*, 142(2), 167-186.
- Bhatt, R., Jain, R., & Tiwari, A. K. (2019). Microfinance in India: An evaluation of borrower creditworthiness. *The Indian Journal of Labour Economics*, 62(4), 725-739.
- Cull, R., Demirguc-Kunt, A., & Morduch, J. (2009). Microfinance meets the market. *Journal of Economic Perspectives*, 23(1), 167-192.
- Cull, R., Demirguc-Kunt, A., & Morduch, J. (2011). Does microfinance work? The Impact of Microfinance Institutions (MFIs) on the Performance of Small and Medium-Sized Enterprises (SMEs). *Journal of Banking & Finance*, 35(4), 1048-1061.
- Cull, R., Demirgüç-Kunt, A., & Morduch, J. (2011). Microfinance meets the market. *The Journal of Economic Perspectives*, 25(1), 167-192.
- Das, B., & Ghosh, K. (2018). Financial performance of small and medium enterprises in India: a study of service sector. *Journal of Small Business and Enterprise Development*, 25(6), 994-1024.

- Elmer, P. J., Lavigne, A., & Meyer, A. D. (2019). Interest rates and the financial system. *Harvard Business Review*. Retrieved from <https://hbr.org/2019/04/interest-rates-and-the-financial-system>.
- Ghosh, S. K. (2015). Microfinance and the growth of small and medium enterprises (SMEs) in developing countries: A critical review. *Review of International Business and Strategy*, 25(2), 173-191.
- Hogarth, J. M., & O'Donnell, K. (2018). Credit and payment systems for the unbanked: Evidence from low-income Americans. *Journal of Economic Behavior & Organization*, 153, 24-38.
- Hossain, M. A., Akinloye, O. A., Ogbuji, C. N., Helal, A. O., & Sanusi, M. K. (2021). Microfinance institutions (MFIs) in Nigeria. *International Journal of Management Science and Business Administration*, 7(7), 7-13.
- Hulme, D., & Mosley, P. (1996). *Finance against poverty, volume 1*: Routledge.
- Hussain, I., & Mahmood, Z. (2018). Credit risk, recovery and the repayment performance of microfinance loans: A case of Pakistan. *Management Research Review*, 41(10), 1107-1128.
- Islam, M. T. (2019). Small and medium enterprises (SMEs) and microfinance: Participation, development and impact. *Asian Development Policy Review*, 7(1), 15-32.
- Jensen, M. C., & Meckling, W. H. (1976). *Theory of the firm: Managerial behavior, agency costs and ownership structure*.
- Kamau, J. W. (2018). Creditworthiness assessment in microfinance institutions in Kenya.
- Kapoor, P., & Singh, S. K. (2019). Microfinance equity and debt—instrumental in economic growth. *Journal of Entrepreneurship & Management*, 7(3), 137-152.
- Karabulut, A. T., & Cobanoglu, C. (2019). The role of microfinance in fostering growth of small, family-owned firms. *Journal of Hospitality and Tourism Insights*, 2(1), 36-48.
- Kaur, R., & Kharbanda, O. P. (2021). Analysing the impact of microfinance and saving on the upliftment of women in rural areas. *ICFAI Journal of Management Research*, 20(1), 61-81.
- Kibet, K. A., Reuben, K. K., & Paul, W. (2020). Impact of repayment terms on loan repayment rate of small and medium enterprises in microfinance institutions in Kenya: Case of Nairobi County. *International Journal of Economics, Commerce and Management*, 8(8), 172-182.

- Krishna, K., & Sahay, R. (2013). Microfinance: creating opportunities for the poor?. *Development*, 56(2), 267-268.
- Kumah, F. Y., & Abor, J. Y. (2018). Creditworthiness and access to finance among Small and Medium Scale Enterprises (SMEs) in Ghana. *Journal of African Business*, 19(3), 361-379.
- Kundu, A., & Padhi, N. (2019). Microfinance: An effective tool for poverty alleviation in developing countries. *Journal of Economics and Sustainable Development*, 10(1), 33-40.
- Lai, M. C., & Chen, Y. H. (2019). Microfinance, small business financing, and SME performance: Evidence from Taiwan. *Journal of Small Business Management*, 57(2), 328-348.
- Laurent, C. H. (2019). Microfinance and the growth of small and medium-sized enterprises (SMEs) in emerging markets: A systematic review of the evidence. *Journal of Developing Areas*, 53(4), 169-180.
- Le, M. T. T., & Bac, P. D. (2019). The effect of collateral on debt financing: evidence from Vietnam. *Journal of Asian Finance, Economics and Business*, 6(2), 71-78.
- Lederer, P. (2017). Microfinance treading waters to the future. *Journal of Financial Services Marketing*, 22(2), 102-107.
- Manalel, S., & Abdullah, S. N. (2019). Examining the role of microfinance in promoting the growth of SMEs in emerging countries: A systematic review of literature. *International Journal of Entrepreneurship and Small Business*, 37(2), 151-170.
- Marr, B., & Otley, D. (2008). Leadership, accountability and responsibility in the context of microfinance organisations. *Accounting, Auditing & Accountability Journal*, 21(7), 980-1001.
- Mensah, J. K., Seidu, A., Sackey, S. O., & Appiah-Kubi, P. (2020). Microfinance: A vital tool for small and medium-scale enterprises (SMEs) growth and poverty reduction in developing countries. *Journal of Small Business Entrepreneurship and Management*, 8(1), 56-65.
- Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. *The American economic review*, 48(3), 261-297.
- Morduch, J. (1995). Income smoothing and consumption smoothing. *The Journal of Economic Perspectives*, 9(3), 103-114.
- Morduch, J. (1998). Does microfinance really help the poor? New evidence from flagship programs in Bangladesh. Working paper.

- Morduch, J. (2019). Microfinance and poverty. *Journal of Economic Perspectives*, 33(1), 61-84.
- Mutesasira, L., & Ntayi, J. (2018). The impact of creditworthiness of microfinance institutions' clients on loan default: Evidence from Uganda. *Journal of Asian Business Strategy*, 8(1), 1-10.
- Myers, S. C. (1984). The capital structure puzzle. *The Journal of finance*, 39(3), 574-592.
- Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, 13(2), 187-221.
- Osili, U. O., & Schreiner, M. (2019). Microfinance and business growth after the first loan. *Journal of International Development*, 31(3), 208-231.
- Osoro, C., & Francis, O. (2020). The impact of microfinance on agricultural productivity and income: Evidence from Kenya and Uganda. *Journal of Agribusiness Development and Management*, 3(3), 1-14.
- Oumar, O. A., Yaya, L. H., & Cristina, L. A. (2020). Microfinance and SME performance: A systematic literature review. *Global Finance Journal*, 45, 100450.
- Ozturk, T., Soytaş, M. A., & Gokmenoglu, K. K. (2020). The creditworthiness of customers using big data analytics. *Journal of Enterprise Information Management*.
- Papadimitriou, D., & Giannakopoulos, I. (2014). The effect of interest rates on SMEs' performance in Greece. *International Journal of Business and Economics Research*, 3(4), 205210.
- Parente, R. C., & Ferreira, P. B. (2017). Does the choice of financial structure really matter for SMEs performance?. *Small Business Economics*, 49(2), 443-476.
- Pearson, M., & Nahuis, R. (2005). Microfinance and poverty reduction: Evidence from Bosnia and Herzegovina. *Journal of International Development*, 17(7), 969-986.
- Rutherford, S., & Bhowmik, S. (2020). Microfinance and the developmental state. *International Journal of Development Issues*, 19(3), 280-296.
- Seetharaman, A., & Sooria, H. (2005). The impact of credit culture on financial performance. *International Journal of Bank Marketing*, 23(5), 379-396.

- Sengupta, S., & Bhattacharyya, S. (2019). Impact of interest rate on small and medium enterprises (SMEs) access to credit in India. *Journal of Small Business and Entrepreneurship Development*, 8(3), 1-16.
- Sengupta, S., & Bhattacharyya, S. (2019). Role of credit rating in SME financing: An empirical study in context of India. *Indian Journal of Finance*, 13(1), 51-65.
- Sood, A. (2019). Credit risk assessment in microfinance: A study of borrowers in northern India. *Asian Journal of Management Research*, 10(4), 524-533.
- Soumadi, Y., & Hu, L. (2020). The effects of credit on firm performance: Evidence from African and Middle Eastern Countries. *International Journal of Finance & Economics*, 25(1), 123-140.
- Suleiman, R. A., & Masoud, E. M. (2021). Exploring the influence of microfinance loan on female entrepreneurship performance in Nigeria. *International Journal of Marketing & Business Communication*, 10(1), 1-12.
- Thakur, M., & Mirza, H. (2019). Does credit scoring matter for SME lending?. *Journal of Small Business & Entrepreneurship*, 31(2), 93-109.
- Valenzuela, C., Garcia, S., & Larrain, M. (2020). Microfinance and economic growth: A systematic review. *Journal of Developmental Entrepreneurship*, 25(3), 2050017.
- World Bank. (2021). Microfinance. Retrieved from <https://www.worldbank.org/en/topic/financialinclusion/brief/microfinance>.
- Yamane, T. (1967). *Statistics: An introductory analysis* (2nd ed.). New York: Harper & Row.
- Yunus, M. (2003). Grameen bank: objective, activity and achievement. Microcredit summit campaign, <http://www.microcreditsummit.org/resource/2205>.

APPENDIX 1: QUESTIONNAIRE

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

DEPARTMENT OF UNDERGRADUATE

A QUESTIONNAIRE FOR THE SMES OWNERS IN KAMPALA CENTRAL DISTRICT

Dear Respondent,

I DUSABE BOB FABRICE, a student of Uganda Christian University request that you spare some time to participate in my study on the impact of microfinance loans on the financial performance of small and medium enterprises in central Kampala district. I am carrying out the academic study as part of the requirements for partial fulfillment for the award of the Bachelor in Business Administration of Uganda Christian University. Please note that the information that you will provide in this questionnaire will only be used for academic purposes.

PART A: PERSONAL DATA

Kindly tick [✓] in the blank spaces, the items that best describe your choice for each question

1. Gender of respondents

Male Female

2. Age of Respondent

21-29 years 30-39 years Above 40 years

3. Socio- economic status

Low-income Middle-income High-income

4. Marital Status

Married Single

5. Types of Business

Sole proprietorship Partnerships Cooperatives Others

6. Education Level

Certificate Diploma Bachelors Masters
Others

SECTION B: The impact of credit repayment terms and conditions on the financial performance of SMEs

Please evaluate the statement by ticking in the box with the number that best suits your response.

Scale	1	2	3	4	5
Opinion	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree

Credit repayment	Tick Appropriately
-------------------------	--------------------

A	Returns on Equity	1	2	3	4	5
1	The business must provide a detailed business plan before applying for a loan					
2	A minimum credit score is required to qualify for a business loan					
3	Providing financial statements for the past three years is necessary when applying for a loan					
4	I think a personal guarantee from the business owner should be required for all loans					
5	The interest rates on business loans should be based on the prime rate.					
6	I prefer repayment terms for business loans that range from 12 to 60 months, depending on the loan amount.					
7	Businesses should be allowed to repay their loans early without penalties					
8	Loan approvals should include a background check of the business owners					
9	Applying a late payment fee if payments are more than ten days overdue is reasonable					
10	Businesses should have the option to renew their loans if they meet repayment criteria.					
B	PROFITABILITY					
1	Higher profitability of a company leads to more favorable credit terms, such as lower interest rates and longer repayment periods					
2	Lenders are more likely to offer flexible repayment options if a company demonstrates strong profitability.					
3	A company's profitability significantly impacts the ease with which it can negotiate better loan conditions, including reduced fees and extended repayment terms					
4	Companies with higher profitability are often able to secure credit with less stringent conditions, such as lower collateral requirements and fewer covenants					
5	The availability of flexible credit terms positively impacts the profitability of my business					
6	Offering longer repayment periods helps increase the profitability of my business					
7	Clear communication of credit terms to customers enhances my business's profitability					

8	Access to credit with low collateral requirements improves business profitability					
9	Favorable credit terms encourage customers to make larger purchases, thus increasing profitability					
10	Having a dedicated credit management team positively influences my business's profitability					
C	Returns on Investment					
1	Flexible credit terms positively influence the return on investment for our business					
2	Strict credit policies can limit our ability to achieve high returns on investment.					
3	The interest rates on business loans significantly impact our return on investment					
4	Loan approval processes that are too lengthy reduce our ability to capitalize on high return on investment opportunities					
5	Early repayment options without penalties boost our return on investment by allowing more financial flexibility					
6	Regular reviews and updates of credit terms are crucial for maintaining a positive return on investment.					
7	Business credit checks and background verifications help maintain sustainable return on investment.					
8	High debt-service coverage ratio (DSCR) requirements can restrict our business's return on investment.					
9	Offering interest-only payment options in the early stages of a loan positively impacts our return on investment.					
10	Penalties for late payments negatively affect our business's return on investment					

SECTION C. The impact of interest rates on the financial performance of SMEs.

	Interest Rates	Tick Appropriately				
A	Returns on Equity	1	2	3	4	5

1	Higher interest rates negatively affect our company's return on equity					
2	Fluctuations in interest rates make it difficult to maintain a stable return on equity.					

3	The ability to secure loans at lower interest rates enhances our company's return on equity.					
4	High interest rates increase the cost of debt, which negatively impacts our return on equity.					
5	Favorable interest rates encourage our company to invest more, positively impacting return on equity					
6	Rising interest rates increase the financial risk, which can lower our return on equity					
7	Interest rates on new loans are a critical factor in our decisions affecting return on equity					
8	The difference between borrowing costs and return on investment directly impacts our return on equity					
9	Access to low-interest financing is essential for maintaining a high return on equity.					
10	Effective management of interest rate exposure is crucial for optimizing our return on equity.					

B	PROFITABILITY					
1	Rising interest rates reduce our company's ability to take on new projects, impacting profitability.					
2	Interest rates influence our decisions on financing options, which in turn affect profitability					
3	Lower interest rates improve the profitability of our business operations					
4	Variable interest rates make it difficult to predict our profitability					
5	Low-interest rates provide opportunities for more profitable investments					
6	An increase in interest rates leads to higher operational costs and reduced profits.					
7	Our company's profitability is sensitive to changes in market interest rates					
8	Interest rates influence our decisions on financing options, which in turn affect profitability					

9	Interest rate stability is essential for planning and achieving long-term profitability.					
10	Our company's profitability increases when we secure loans at lower interest rates.					
C	Returns on Investment					
1	High-interest rates negatively impact our company's return on investment (return on investment).					
2	Lower interest rates help improve our business's financial performance.					
3	Fluctuating interest rates create uncertainty in our investment returns.					
4	The cost of borrowing due to high-interest rates reduces our profitability.					
5	We prefer to invest in projects with predictable interest rates to ensure consistent return on investment.					
6	Rising interest rates increase the cost of capital, affecting our financial performance.					
7	Access to loans with competitive interest rates is critical for achieving our desired return on investment.					
8	High-interest rates discourage us from expanding our business operations.					
9	Interest rates directly affect our company's cost of debt and overall financial health					
10	Interest rates play a significant role in our business's risk assessment and management					

PART D. How creditworthiness influences the financial performance of SMEs in the Central Kampala district.

	Creditworthiness	Tick Appropriately				
A	Returns on Equity	1	2	3	4	5
1	A high creditworthiness rating positively impacts our company's ability to achieve a strong return on equity					
2	Improved creditworthiness allows us to secure loans at lower interest rates, boosting our return on equity					
3	Our business's financial performance benefits from maintaining a strong credit rating.					
4	A good credit score enables us to negotiate better interest rates, positively affecting our financial performance.					

5	Creditworthiness is a crucial factor in obtaining financing for projects that enhance our return on equity.					
6	Poor creditworthiness increases the risk premium, which negatively impacts our return on equity					
7	Our return on equity is significantly influenced by the terms of credit we can secure based on our creditworthiness.					
8	Creditworthiness affects our company's ability to access capital markets at competitive interest rates.					
9	Better credit terms resulting from high creditworthiness lead to sustainable returns on equity.					
10	Our financial performance is vulnerable to changes in our credit rating.					
B	PROFITABILITY					
1	Our company's creditworthiness directly impacts the interest rates we are offered by lenders					
2	Higher creditworthiness allows us to secure loans at lower interest rates, improving profitability.					
3	Poor creditworthiness leads to higher interest rates, negatively affecting our financial performance					
4	Our profitability improves when we are perceived as creditworthy by financial institutions					
5	Creditworthiness influences the terms and conditions of our loans, impacting overall profitability.					
6	Higher credit ratings reduce the cost of capital and boost our company's profit margins.					
7	Improving our creditworthiness is a strategic priority to enhance financial performance					

8	Low creditworthiness can result in limited access to credit, affecting our ability to grow profits					
9	Interest rates offered to us reflect the perceived risk of our company's creditworthiness.					
10	Securing lower interest rates through strong creditworthiness allows us to invest more in business growth					
C	Returns on Investment					
1	A high creditworthiness rating allows us to secure loans at lower interest rates, which improves our return on investment.					
2	Our company's financial performance is positively affected by having a strong credit rating					
3	Better creditworthiness enables us to access more favorable interest rates, enhancing our investment returns.					
4	Higher credit ratings reduce the cost of borrowing, leading to improved returns on investment					
5	Our ability to achieve higher return on investment is influenced by the interest rates offered based on our creditworthiness.					
6	Strong creditworthiness helps us negotiate better loan terms, which boosts our return on investment					
7	Interest rates on loans are more favorable when our creditworthiness is high, leading to better financial outcomes					
8	The cost of capital is higher for businesses with lower credit ratings, reducing our potential return on investment					
9	Our creditworthiness affects the interest rates we are offered, which in turn influences our financial performance					
10	Businesses with high credit ratings experience less impact from interest rate fluctuations on return on investment.					

THANK YOU