

**CREDIT ACCESS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) :A CASE STUDY SMALL AND MEDIUM ENTERPRISES IN KUMI MUNICIPAL COUNCIL, NORTH DIVISION**

**EMMANUEL ANGULO ONGABA**

**J21B33/273**

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

**April, 2026**




**UGANDA CHRISTIAN  
UNIVERSITY**

*A Centre of Excellence in the Heart of Africa*

DECLARATION

I Angulo Emmanuel Ongaba declare that this is my own original report carried out by myself and that the information is truly the best of my research findings, observations and experience during

Signature .....  .....

Date... 13/04/2026 .....

**APPROVAL**

This is to certify that ANGULO EMMANUEL ONGABA registration number J21B33/237 carried out research report "CREDIT ACCESS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs); A case study small and medium enterprises in Kumi Municipal, North division) under my supervision and now is ready for submission as partial fulfillment of the requirement for the award of Bachelor Degree of Science in Accounting and Finance of Uganda Christian University.

Dr. OLOBO MAURICE

Signature ..... 

Date ..... 13/04/21 .....

I dedicate this report to my beloved family especially my father ONGABA STEPHEN and my late mother ASRIA SUSAN who have always ensured that their children attain the best education. Also, my supervisor Dr OLOBO MAURICE for the support.

#### ACKNOWLEDGEMENT

My respectful sincere gratitude goes to Dr. OLOBO MAURICE, my supervisor, for his rightful

guidance, time, encouragement, constructive criticism and advice throughout the study.

I thank all the SMEs Kumi municipal council in North Division for the valuable information and the good relationship that they provided me during the course of data collection.

Special thanks to the FAMILY who encouraged and advised me accordingly thus contributing toward the success of this research. Thank you, very much may the LORD bless, you all. Finally, I thank the Almighty God for the priceless gift of life that he has provided me

throughout the years, I ask him to bless the work of my effort.

May the good Lord bless you all

## Contents

DECLARATION.....	Error! Bookmark not defined.
APPROVAL.....	Error! Bookmark not defined.
DEDICATION .....	3
ACKNOWLEDGEMENT .....	4
LIST OF ABBREVIATIONS.....	9
ABSTRACT.....	10
<b>CHAPTER ONE .....</b>	<b>11</b>
<b>1.0 introduction .....</b>	<b>11</b>
<b>1.1 Background of the study.....</b>	<b>11</b>
<b>1.1.1Theoretical background.....</b>	<b>12</b>
<b>1.1.2 Conceptual background .....</b>	<b>13</b>
<b>1.2 Statement of the Problem .....</b>	<b>13</b>
<b>1.3 Specific Objectives of the Study.....</b>	<b>14</b>
<b>1.4 Research Questions .....</b>	<b>15</b>
<b>1.5 Significance of the Study .....</b>	<b>15</b>
<b>1.6 Scope of the Study.....</b>	<b>15</b>
<b>1.7 Definition of Key Terms.....</b>	<b>16</b>
<b>CHAPTER TWO .....</b>	<b>17</b>
<b>LITERATURE REVIEW.....</b>	<b>17</b>
<b>2.0 Introduction.....</b>	<b>17</b>
<b>2.1 Theoretical framework .....</b>	<b>17</b>
2.1.2 Origin and the main propositions.....	17
2.1.3 Application to Credit Access and SME Financial Performance.....	18
2.1.4Relevant to the study.....	18
<b>2.3 Credit rationing theory.....</b>	<b>18</b>
2.3.1 Application to Credit Access and SME Financial Performance.....	18
2.3.2 Relevance to the Study.....	19
<b>2.4 Resource-Based Theory (Barney, 1991) .....</b>	<b>19</b>
<b>2.4.1 Origin and Core Propositions .....</b>	<b>19</b>
2.4.2 Application to Credit Access and SME Financial Performance.....	19
<b>2.4.3 Relevance to the Topic .....</b>	<b>19</b>
<b>2.4.4 Synthesis of the Theories and Application to the Study .....</b>	<b>20</b>

<b>2.5 Empirical Literature Review</b> .....	21
2.5.1 Loan Availability and Financial Performance of SMEs.....	21
2.5.2 Interest Rates and Financial Performance of SMEs.....	22
2.5.3 Collateral Requirements and Financial Performance of SMEs.....	23
2.5.4 Loan Repayment Periods and Financial Performance of SMEs .....	23
<b>2.6 Conceptual Framework</b> .....	24
2.6.1 Description of the Conceptual framework .....	24
2.6.2 The conceptual framework to the research. ....	24
2.6.3 Growth in Sale .....	25
2.5.3 Diagrammatic Representation of the Conceptual Framework .....	26
<b>2.7 Research Gap</b> .....	26
<b>2.8 Importance of Credit Access to the Financial Performance of SMEs</b> .....	27
<b>2.9 Summary of the Literature Review</b> .....	28
<b>CHAPTER THREE</b> .....	29
<b>RESEARCH METHODOLOGY</b> .....	29
<b>3.0 Introduction</b> .....	29
<b>3.1 Research Design</b> .....	29
<b>3.2 Study Area</b> .....	29
<b>3.3 Target Population</b> .....	29
<b>3.4 Sample Size</b> .....	30
<b>3.5 Sampling Procedure</b> .....	30
<b>3.7 Data Types and Sources</b> .....	30
<b>3.8 Data Collection Methods and Instruments</b> .....	31
<b>3.8.1 Questionnaire Method</b> .....	31
<b>3.8.2 e Interview Method</b> .....	31
<b>3.8.3 Direct Observation Method</b> .....	31
<b>3.8.4 The Measurement of Variables</b> .....	31
3.8.5 Data Processing and Analysis .....	32
<b>3.8.6 Limitations of the Study</b> .....	32
<b>CHAPTER FOUR</b> .....	33
<b>DATA PRESENTATION, ANALYSIS AND DISCUSSION</b> .....	33
<b>4.1. Introduction</b> .....	33
<b>4.2. Response Rate</b> .....	33

4.3 Demographic Characteristics of Respondents.....	33
4.7 Summary of Findings .....	39
4.8. Simple Linear Regression Equation.....	41
<b>CHAPTER FIVE</b> .....	42
<b>DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS</b> .....	42
<b>5.1 Introduction</b> .....	42
<b>5.2 Discussion of Findings</b> .....	42
<b>5.2.1 Impact of Easy Access to Loans on the Financial Performance of SMEs</b> .....	42
<b>5.2.2 The Impact of Interest Rate on the Financial Performance of Small and Medium Enterprises</b> .....	42
<b>5.2.3 Impact of Collateral Requirement on the Financial Performances of Smes</b> .....	43
<b>5.2.4 Effect of Loan Repayment Periods on the Financial Performance of Small and Medium Enterprises</b> .....	43
<b>5.3 Conclusions</b> .....	44
<b>5.4 Recommendations</b> .....	44
<b>5.4.1 To Financial Institutions (Banks, MFIs, and SACCOs)</b> .....	44
<b>5.4.2 To Policy Makers and Local Government (Kumi Municipal Council)</b> .....	44
<b>5.4.3 To SME Owners and Managers</b> .....	44
<b>5.5 Areas for Further Research</b> .....	45
<b>References</b> .....	46
<b>QUESTIONNAIRE</b> .....	48

## LIST OF ABBREVIATIONS

SMEs – Small and Medium Enterprises

GDP – Gross Domestic Product

UBOS – Uganda Bureau of Statistics

PDM – Parish Development Model

FSD – Financial Sector Deepening

SACCOs – Savings and Credit Cooperative Organizations

MSMEs – Micro, Small and Medium Enterprises

VRIN – Valuable, Rare, Inimitable, Non-substitutable

## ABSTRACT

This study was conducted to find out the relationship between credit and the growth of Small and Medium Enterprises in Kumi municipal council.

The study was set to address the following specific objectives: to examine the nature of credit facilities offered to the small and medium enterprises at Kumi municipal council, to determine the level of growth of small and medium enterprises at Kumi municipal council, to determine the relationship between credit facilities and growth of small and medium enterprises.

The researcher uses a descriptive and analytical research design to establish a relationship between the two variables and to exhaust all areas in the research.

A sample size of 300 Small and Medium Enterprises from Kumi municipal council was used and sampled. Questionnaires and interviews were also be used to collect data which were processed by tabulation, and also narrations inform of description accounted was for easy understanding of the findings.

The findings indicated that 70% respondents were in agreement that credit is very important for the growth of their businesses.

The overall evaluation of the study was to find a relationship between credit and growth of Small and Medium Enterprises in Kumi municipal.

The study recommended that among other things, there is need to revise the lending policies, terms and conditions for loans, so that they favor the Small and Medium Enterprises. In addition, the interest rates on loans need to be reduced.

## CHAPTER ONE

### 1.0 introduction

This chapter discusses access to credit and financial growth of Small and Medium Enterprises (SMEs) with a specific focus on retail shops in Kumi municipality in Kumi district. Credit access was used as the independent variable while SMEs performance was used as the dependent variable. The chapter discusses the background of the study, the problem statement, the objectives, research questions, the significance of the study, the scope of the study and the operational definitions.

### 1.1 Background of the study

Small and medium enterprises (SMEs) are considered important for the development of the economy, labor market, combat poverty and foster creativity in both the industrialized and third world economies. They enhance the innovative forces of a country and is one of the optimal ways of economic diversification and increase and encourage the production and the offering of services locally. SMEs represent the largest number of businesses everywhere in the world and the most significant sources of employment. Unlike their significance in the economies, many of those SMEs face several obstacles to grow, the most dominant as access to credit (Ayyagari, Demirguc Kunt and Maksimovic 2020) Access to credit is an important factor for the financial performance of the SMEs. Credit allows the firms to secure working capital, investment in equipment and technology, to increase stockholdings and to raise their scale of operation. Availability of cheap and timely finance improve productivity, increase sales revenue and profitability and therefore enhance competitiveness in the market. Commercial banks, micro finance institutions and saving and credit cooperatives are the anticipated sources of funds for the SMEs. But due to lack of collateral, lack of credit history, high interest rates and strict credit requirements credit remains a problem for a large proportion of the SMEs (international finance corporation 2021).

SMEs constitute around 90% of all businesses globally and account for a large share of employment and GDP. However, there is a large financial gap, particularly in developing nations, in which many SMEs are unable to access formal financial services. The gap is hampering these businesses from growing, up-grading and technological upgrading, and becoming more efficient (World bank, 2022) In Uganda, SMEs play an important role in national economic growth, creating employment and stimulating private sector development. The government has introduced several measures targeted at strengthening SME finance and development. The Uganda bureau of statistics recognizes that the SME sector is comprehensive and that it plays a vital role in the creation of employment and the generation of income (UBOS 2021). However, it faces challenges such as limited access to credit and high borrowing costs, weak financial infrastructure and inadequate non-financial support from formal financial institutions (UBOS 2021)

Limited access to credit is the main impediment to financial performance of Smes in Uganda. The requirements for collateral (land title, building, etc.) are high and most of the SME owners do not own property. High interest rates and rigid repayment terms prevent many SME owners from borrowing. As a result, most SME owners resort to informal sources of finance (personal savings, money lenders, family funds, etc.)—which are often not large enough to expand the business meaningfully (Mugume and Obwona 2020) Small and Medium Enterprises (SMEs) at local level: In the north division of Kumi municipality, small and medium enterprises provide a potential source of income to the local economy through retail trade, provision of services, and small scale enterprises which create some employment and provide goods and services to local people. However, most of the small-scale enterprises operate on limited capital and in many cases lack formal credit to expand their stocks, acquire inputs for improvement as well as competing against larger counterparts (Okello & Ntayi, 2022).

In addition, many SME owners are financially illiterate and keep inadequate records, compounding this to a great extent Lenders almost always ask for audited financial statements and supporting documents to gauge the creditworthiness of the entrepreneur but many entrepreneurs do not have the skills to keep this record (Nkundabanyanga, Kasozi & Nalukenge, 2019) Although, government intervention and reforms to the financial sector were undertaken in an effort to improve inclusion, it appears a continuing gap exists between demand and supply of affordable financial credit to financial service for SMEs in Kumi Municipality (Ssekiziyivu, Bananuka and Nkundabanyanga, 2023). This study therefore investigates the relationship between credit access and financial performance of Small Medium Enterprises in Kumi Municipality, North Division. The study is expected to contribute to the understanding of financial institutions and entrepreneurs to identify effective solutions to financial problems facing SMEs in Kumi Municipality.

### **1.1.1 Theoretical background**

The research builds on three interrelated theories that help in understanding the financial performance of SME in relation to access to credit namely financial intermediation theory, credit rationing theory and resource-based theory. Financial Intermediation Theory claims that financial intermediaries are market “middlemen” which link individuals who want to lend their savings to individuals who want to borrow them, if lowers transaction costs and information asymmetries. Through mobilization of deposits and loans generation, emerging market SMEs will have more finance sources to establish working capital or buy fixed assets for business development, thus having better financial performances. The theory was first put forward by Gurley and Shaw (1960). The Credit Rationing Theory states that due to adverse selection and moral hazard, lenders will ration credit (how much to lend) even with willing-paying investors. They position it that because of the rationality of the investors, banks ration credit by introducing collateral requirements. This disproportionately affects the high risks SMEs. This further constrains working capital and reduces financial performance. This was suggested by Stiglitz and Weiss (1981).

Resource based theory maintains that long term competitive advantage and outstanding performance is achieved by possessing resources that are valuable, rare and hard to imitate. Credit sourced financial capital is one of these strategic resources that would affect per cent

return on investment, profitability, financial performance and growth in inventories, human capital and markets. The theory was popularized by Barney (1991). Together, these theories form a strong foundation for this study. Financial Intermediation Theory shows the important role lenders play; Credit Rationing Theory points out the difficulties of credit-to-credit constrained firms, and the Resource-Based Theory shows how credit benefits Kumi Municipality SMEs financially.

### **1.1.2 Conceptual background**

This study is structured around two main ideas: credit availability, financial performance of SMEs and the link between the two. Access to credit (or formal credit) means the ability of a SME to access loan and credit facilities from formal financial institutions (such as banks, microfinance institutions and savings, credit cooperatives) on reasonable terms. It includes credit availability, affordability and timeliness for working capital, assets acquisition and business expansion. Financing constrained (capital constraint) SMEs need credit to expand and grow. (World Bank, 2022) According to the Ugandan Government Small Business Act, Small and Medium Enterprises (SMEs) are defined as those businesses with a modest amount of capital, low levels of investment in equipment and structures, small scale production, small size of workforce and relatively small balance sheets. MSMEs in Uganda operate mainly within the Retail trade, Agriculture, Manufacturing (Processing) and Services sectors, accounting for the equivalent of the entire Private Sector Market Share and being a major source of employment and income generation (UBOS, 2021).

Financial performance is the degree to which a business attains its financial goals measured by a number of indicators such as sales growth, profitability (e.g. net profit margin, returns on assets), return on equity, liquidity, etc. Credit availability has a direct effect on the financial indicators related to investment in productive activities, increase of inventories, introduction of new technology and entry into new markets. Small and Medium enterprises are the backbone of economic life in Kumi Municipality, North Division since most of them are incorporated into the value chain of the locality, however, most of the Small and medium entrepreneurs are operating with less capital and limited access to formal credit markets, a considerable number of them are financed by informal mechanisms which do not keep pace with the growth of the businesses, hence this study will explore the effect of credit on SMEs financial performance in Kumi Municipality North Division to make important recommendations on bridging the finance gap.

### **1.2 Statement of the Problem**

Small and medium enterprises (SMEs) are a critical enabler of Uganda's economic development due to their vital role in creating employment, reducing poverty and capitalizing on national output. SMEs account for an estimated 95% of businesses in Uganda and provide employment for millions of workers (monitor, October 31, 2022). Acknowledging the vital role played by SMEs, the Uganda government has also enacted a number of policies and initiatives to promote the growth and financial performance. Some of these include, private sector development program targeted at improving enterprise capacity and increasing access to finance: parish development model (PDM) and credit facilities such as the Uganda development bank SME kazi loan program. These interventions are aimed at improving productivity, increasing market access

and improving overall competitiveness and financial performance of SMEs across the country (FY2023/24 under program 07: private sector development program).

Although there are some paper works and financial schemes to mitigate credit problems of Ugandan SMEs, most of them continue to encounter formidable problems of accessing sufficient credit from conventional financial entities. Collaterals, weak credit history and adverse financial statement records, high nominal rates of interests and lack of reliable financial information about the enterprises still deter them from getting externally finance. Therefore, many enterprises still continue to depend mostly on their personal savings or informal sources of finance which are not enough to finance enlarging output, investment and maintaining a steady financial performance. Data closer to the current date also show continued constraints to micro, small and medium enterprises in Uganda in terms of access to credit with the percentage of people accessing credit having reduced from 46% to 36% in 2023 (FSD Uganda November 28, 2024). Such resource constraints negatively impact upon the SME's profitability, sales revenue, liquidity and long-term financial sustainability.

At the local level, the above situation is exacerbated in Kumi municipality as indicated above, particularly in the North division where retail, service and small-scale SMEs form the backbone of the area 's economy. Although there are several co-operatives and national initiatives, a significant proportion of these SMEs still operate on very limited capital and suffer serious problems obtaining formal credit for business expansion, asset acquisition and improved financial performance. This influence on the financial performance of SMEs in the area. Hence, despite the government effort in the financial sector through policies and incentive that are aimed at encouraging the development of enterprises s, many small medium enterprises in Kumi Municipality, North Division still experience problems in credit access to finance their operations. This study seeks to analyze the effect of credit access on the financial performance of enterprises 's in Kumi Municipality, North Division.

### **1.3 Specific Objectives of the Study**

The overall aim of the research is to study the impact of credit accessibility on the financial Performance of SMES in Kumi Municipality, North Division.

**The specific objectives of the study are to:**

- a) Investigate the impact of loan availability on the performance of Small and Medium Enterprises in Kumi Municipality, North Division.
- b) What is the effect of interest rates on the performance of Small and Medium Enterprises (SMEs) in Kumi Municipality, North Division?
- c) Find out whether or not Collateral requirements has an impact on the profitability of Small & Medium Enterprise in Kumi Municipality North Division.
- d) To analyze the impact of loan repayment Periods on the cash flow of Small and Medium Enterprises in Kumi Municipality, North Division.

#### **1.4 Research Questions**

- a) How does loan availability influence the financial performance of Small and Medium Enterprises in Kumi Municipality, North Division?
- b) How the interest rate levels affect the financial performance of SMEs in Kumi Municipality North Division?
- c) What is the effect of collateral requirements on the financial performance of Small and Medium Enterprises in Kumi Municipality North Division?
- d) What is the influence of loan maturities on the financial performance of SMEs in Kumi Municipality, North Division?

#### **1.5 Significance of the Study**

This study will help in providing insight into credit access and SME 's in Kumi Municipality, North Division. It will assist the following parties;

Owners of retail shops and operators of small & medium enterprises (SMEs) in the North Division will better appreciate the usefulness of credit services in increasing business growth, and profitability, revenues from sales, and long-term sustainability of business.

Financial institutions (banks, microfinance institutions and savings and credit cooperatives) will then be able to make better credit offerings to micro, small and medium enterprises that will deal efficiently with the constraints and requirements of the establishments concerned.

Policy makers and local government agencies will find useful the evidence-based recommendations that will guide the formulation or improvement of policies which provide access to affordable credit for SMEs and local economic development.

This study will provide a useful reference for researchers and students and any future academic research on SME financing, financial performance, and related issues in Uganda and similar developing economies.

In general, the study will thus help in narrowing the financing gap faced by SMEs and fostering sustainable economic growth of Kumi Municipality, North Division.

#### **1.6 Scope of the Study**

The research is on credit accessibility and financial performance of Small and Medium Scale Enterprise. It concentrates on the aspects of credit accessibility that is loan accessibility, interest rate, collaterals demanded and the period of the credit facility with financial performance indicators such as sales, profitability, gross margin, liquidity and expansion of the business. The research area is limited to business owners within the scope of Kumi Municipality, North Division of Kumi District in Eastern Uganda. The targeted businesses are retail shop business and small-scale businesses in North Division of Kumi Municipality. The period of the study is one year and above, having had access to formal or informal sources of credit.

## **1.7 Definition of Key Terms**

the extent to which small and medium sized enterprise can gain financial resources (loan or credit facilities) from formal financial institutions or lenders on reasonable terms.

Financial performance: is the quantifiable growth of business revenue, profit, capital structure, cash flow, sales turnover and expansion over time representing an SME 's financial position and viability.

Small and Medium Enterprises (SMEs): This is capital investment on relatively small scale, small, owner managed and controlled firm with fewer number of employees as compared to large corporates. In Uganda 's case, these are mostly sit-in types of business activities mainly retail trade, services and small-scale production in Kumi Municipality, North Division

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

Impediments to finance are also one of the important factors affecting the growth, survival and financial performance to employment creation, poverty alleviation and overall economic development. Non granting of sufficient credit is, therefore, one of the major problems faced by many smes, despite the different Policy and programs undertaken by various Governing country initiatives to increase moment against smes. This chapter highlights the literature available to have a good understanding of credit access (as a determinant of financial performance of Ugandan smes on the four dimensions of the use of credit, namely loan amount, interest rate, type of collateral, and loan repayment period) providing empirical evidences from Uganda and also accessing the gap that necessitates the case study of smes in Kumi Municipality, North Division.

#### 2.1 Theoretical framework

The theoretical framework is the perspective under which we study the relationship between independent variable credit access and the dependent variable financial performance of smes. This framework is based on three popularly known theories which will only be described briefly here since they were first discussed in the first chapter, section 1.2.; They are: - financial intermediation theory, credit rationing theory and resource-based theory. They help us justify why and how the access to credit affects the financial performance of smes. These are: small scale businessmen and retail shops operating in semi urban areas like Kumi municipality-north division.

The framework thus describes and predicts it implies that an enhancement in credit access (via easier availability of loans, reduction in interest rates, flexibility in meeting collateral requirements and longer payment period) will result in significate increase in financial performance indicators like sales growth rate, profits, business expansion, and capital base among the sme. On the other hand, any barrier in any of these credit access dimensions described in the literature review (section 2.2 to 2.5) and operationalized in the conceptual framework table 2.1, empirical evidences from Ugandan studies, (e.g., Kibukamusoke, Mugarura & Tibaingana, Ssegawa, Sendyona & Kituyi) will be used to justify the theories in the local context of Kumi Municipality, where most of the sme depend on informal credit or face formal credit constraints. Financial intermediation theory (gurley and shaw 1960)

##### 2.1.2 Origin and the main propositions

This theory of Gurley and Shaw (1960) (In Money in a theory of finance) states that financial intermediaries (Banks, microfinance institutions and savings and credit cooperatives) are critical links between capital surplus units (savers) and capital deficit units (borrowers). When financial intermediaries mobilize savings and use them in more efficient ways, they can reduce

transaction costs, reduce information asymmetry, and direct fund to the most productive uses in the economy. The authors argue that financial systems perform more efficiently the faster they accelerate economic growth by providing economy with fund for investment and entrepreneurship.

### 2.1.3 Application to Credit Access and SME Financial Performance

Within the SME environment and on the basis of theory, financial intermediation affects financial performance positively by the provision of formal credit via an intermediary, thus providing timely access to working capital for the purposes of purchases of inventories, technology adoption and expansion. In the case of Kumi Municipality, North Division, improved financial intermediation (through local SACCOs or banks) would lead to increased availability of loans and thereby reduce costs of informal financial sources to enable an increase in sales growth and profitability. The theory justifies the positive signs of the hypothesized relationships between loan availability and financial performance as depicted in the studied literature reviews.

### 2.1.4 Relevant to the study

In kumi municipality where formal banking penetration is not high and majority of retail smes operate with insufficient internal fund, this theory explains why enhancing financial intermediation (eg through government initiatives such as the parish development model has the potential to stimulate growth. It relates directly to the study's first specific objective of analyzing the impact of the availability of loans on financial performance.

## 2.3 Credit rationing theory

Credit-Rationing, like Dishonor of commercial paper, simply means the refusal to extend credit on the part of the supplier. It may be due to true or false consideration on the part of the supplier. In other words, it represents a situation under which the suppliers without decreasing the demand prefer to provide less credit rather than more. According to one theory of credit rationing called 'credit rationing theory'. It is caused by the heavy cost of screening and monitoring.

Suggested by Joseph E Stiglitz and Andrew Weiss in their 1981 article credit rationing in markets with imperfect information this theory shows how the conditions of adverse selection (lenders are unable to perfectly distinguish low risk from high risk borrowers) and moral hazard (since they have the loan the borrower might take unproportionately greater risk) mean that lenders resort to non-price mechanisms of rationing such as requirements of collateral, increased interest rates or shorter repayment periods. The outcome is 'credit rationing' whereby creditworthy borrowers are refused loans leading to underinvestment.

### 2.3.1 Application to Credit Access and SME Financial Performance

To SMEs, this theory reports that many asset deficient businesses in developing economies such as Uganda are in the dark when it comes to access finance even if they are willing to pay a higher price for a credit. harsh collateral requirements; high interest rates and inflexible strict

schedules use up the rationing devices that constrain the access to credit that indeed hinders the investment in productive assets and thus hampers the profitability and sales growth. Empirical evidences to that extent are presented by Sendyona & Kituyi, 2025, Mbuya 2025 and Ssegawa who associate these constraints with low SME performance in Uganda.

### 2.3.2 Relevance to the Study.

For retail SMEs in Kumi Municipality, North Division where several of them do not possess land titles or build-up premises, [1] theory explains the reasons for the continuing funding gap and heavy dependence on informal lenders. It supports the research questions on interest rate, collateral and term to repayment of loans and will negatively affect findings if these factors turn out to be unfavorable

## 2.4 Resource-Based Theory (Barney, 1991)

### 2.4.1 Origin and Core Propositions

The resource-based view was first introduced to academic literature in the 1991 article “Firm Resources and Sustained Competitive Advantage” by Jay Barney. The RBV maintains that a firm can only achieve a competitive advantage and high performance in a given industry through having the bundle of resources that is valuable, rare, inimitable and non-substitutable (VRIN). Financial capital is a crucial tangible resource as it can be used to obtain other resources (technology, human capital, inventory) and to fund strategic investment.

### 2.4.2 Application to Credit Access and SME Financial Performance

Credit is identified as a strategic resource which can be utilized by SMEs to develop competitive advantage. Credit by working capital loans enables the external finance to be turned into internal resources that help expansion of business, internal capital, enhanced profits and liquidity as evidenced by the theory. The link between access to credit and performance as documented by Wilfred (2015), Nakato & Ssempeera (2024) and Anguria (2017) shows a positive relationship whereas lack of credit constrains resource availability and results in poor performance.

### 2.4.3 Relevance to the Topic

In the case of retail and small-scale SMEs in Kumi Municipality, North Division, access to credit (financial capital over credit) is the critical missing input required to increase try stock, penetrate new markets, or enhance operations. It forms the central hypothesis for the overall proposed positive relationship between credit access and financial performance and is consistent with the Resource-Based Theory ‘s focus on the external finance as a mechanism for generating sustained advantage in resource depleted environments.

#### 2.4.4 Synthesis of the Theories and Application to the Study

The three theories are complementary and provide a robust multi-layered explanation for the study:

Financial Intermediation Theory describes the supply side process (how financial institutions supply credit).

According to Credit Rationing Theory describes the limitations which hinder full access (demand-side constraints imposed by lenders).

Result (how accessed credit becomes a source of superior financial performance). Resource Based Theory.

Combined they substantiate the four dimensions of credit access analyzed and offer predictions of the directional relationships reflected in the conceptual framework (Table 2.1).

In the specific context of Kumi Municipality, North Division where SMEs are predominantly retail-oriented, asset-poor, and operate in a semi-urban economy with seasonal cash flows the theories predict that overcoming rationing barriers and strengthening intermediation will enable SMEs to acquire the financial resources needed for growth

Table 2:1 Integrated Theoretical Framework Linkages to Study Variables and Kumi Context

Theory	Core Mechanism	Link to Credit Access Dimensions	Predicted Effect on Financial Performance	Specific Relevance to Kumi Municipality, North Division SMEs
Financial Intermediation Theory	Efficient fund mobilization & allocation	↑ Loan availability	Positive (↑ sales, profitability, expansion)	Explains role of local SACCOs and banks in supplying working capital to retail shops
Credit Rationing Theory	Adverse selection & moral hazard	↑ Interest rates, ↑ collateral, ↓ repayment flexibility	Negative (↓ investment & growth)	Accounts for why asset-poor retail SMEs face loan denials despite demand
Resource-Based Theory	VRIN resources for competitive advantage	Credit as strategic resource (availability + terms)	Positive (when accessed → ↑ capital base & performance)	Highlights how credit transforms limited internal funds into sustainable

				growth in North Division
--	--	--	--	--------------------------

Source: Developed by the researcher (2025) based on Gurley & Shaw (1960), Stiglitz & Weiss (1981), Barney (1991), and empirical literature reviewed in Chapter Two.

## 2.5 Empirical Literature Review

In this part, I synthesize findings from empirical research on all four Credit Access parameters (availability of loans; interest rate; avail of collateral; loan repayment period) and performance of the SME firms. The evidences are global, regional and local (Ugandan) researches and the challenges faced in different contexts (developing economy and especially semiurban centers in Uganda such as Kumi Municipality-North Division) are identified. Despite a number of researches finding positive relationship between access to finance and SME business benefits, the result differs depending on the method used, region considered and firm characteristics.

### 2.5.1 Loan Availability and Financial Performance of SMEs

A wealth of empirical evidence shows that increased access to loans has had a large positive impact on SME financial performance mainly through boosting working capital, inventory and general expansion of activity. The most recent meta-analysis by the World Bank across 24 developed and developing-country studies concludes that formal loans lead to an 12% increase in SME employment, 18.3% increase in SME sales, and a 17.6% increase in SME profits, and noted that for all three measures the studied effects persisted regardless of business size and country income level (Bruhn et al., 2025). In developing economies, a study assessing the impact of fintech credit concluded that, on average, an extra 1% in formal credit availability reduced the MSME financing gap by 0.20%, with digitally visible firms experiencing 85% larger improvements in financing gaps (Asaana, 2026). Empirical work on Nigeria research shows a 44% positive relationship between bank credit and SME performance, and feeds this proxy relationship back to improvements in both operational and investment capital (published 2025).

This evidence from Uganda and East African region is consistent with those from elsewhere around the world but again identified supply constraints. For example, as paper by Kibukamusoke in Uganda found that access to formal credit by smaller firms results in higher growth and profit levels than if they financed their activities by savings; while Mugarura and Tibaingana noted that access to finance would lead to an enlargement of markets leading to increased competitiveness and avoiding sub-minimum exploitation. Similarly, in East-Africa region, Umar, Turinawe and Abdul-Salamu observed that access to short-term formal credit helps in efficient management of working capital and production capacity, as shown by regression analysis and positive medium correlations ( $r$  0.45 0.55) between formal credit access and other factors such as sales revenue and profitability in Lira and Mukono regions. But the reality is that bank loans finance only 10% of Ugandan SME production as a result of the low

penetration of formal financial institutions, and extensive use of costly informal sources accounting for about 65% in Metropolitan-Kampala urban centres.

The positive relationship as confirmed by various studies, however different studies have reduced using over-generalization. For example, a negative attitude of bank loans on performance in Kenya associated to perceptions of inflexible procedures to reach (Bett et al, 2022, p 245). In Uganda, the lower level of financial inclusion has widened the gap further due to COVID-19 Pandemic which 70% of MSME faced reduction in credit access and revenue falls by 40%. Therefore, loan availability makes no difference without financial literacy and everything in place.

In summary, the data indicates a robust positive relationship but a financing gap in semi-urban and rural areas; and this gap appears to be specifically significant for retail and small Scale in the Kumi Municipality North Division, to open the inventory management and cash-flow system seasonal and climate.

### 2.5.2 Interest Rates and Financial Performance of SMEs

Econometric and empirical literature across economies, regions and emerging markets consistently highlights that high interest rates are among one of the most significant factors arising to compromise the benefits of borrowing for access to credit and the subsequent financial rewards for SME profitability and sustainability. In some empirical studies, the effect of high charges, hinders SME performance by as much as 31.1% with the greatest costs occurring in developing countries including Uganda, where the overreliance on external finance, in addition to high-interest rate levels of 20-25%, is seen as one of the most significant factors affecting net returns (Ssegawa Edward 2000). In the study of several municipalities including Kapchorwa, Blyth et al (2002) confirms that, although subsidized credit was expected to improve liquidity and financial stability, the high costs related to credit restricted full utilization of the funds received and hampered the sustainable improvements in long term financial performance.

More recent Ugandan evidence has come to the same conclusion: recent work in the Arua Municipal council and Kabale Municipality has found that, while high lending rates hinder SME growth, SME growth can be driven by long-term loans if lending rates are low to reasonable levels (2024 and 2026). More generally, on a country level, Okumu (2020) demonstrated that increased credit access can deter labour productivity when interest rates are high and returns low, for example interest rates are over 20%. Similar results have come from a wider African context with high interest rates often cited as the main reason SMEs choose not to use formally available resources despite the need to do so (Katende, 2026).

Importantly, this effect is weakened by firm-specific and macroeconomic factors. Some research, such as the Zimbabwean case of debt financing found winners overall, though providers of debt were less attractive at the upper end of the high-interest rate range during hyperinflation or instability. Uganda has increased rankings in the Financial-market development dimension (place 3, Absa Africa Financial Markets Index 2025) but this has not yet yielded affordable loans to the small towns such as Kumi. The dimension therefore

hypothesizes a negative impact on financial performance for this study, unless interest rates are reduced or literacy initiatives selected for best-matching by the model, which is the second aim of this investigation.

### 2.5.3 Collateral Requirements and Financial Performance of SMEs

Collateral is the most binding aspect of access to credit, often excluding asset-poor small and medium enterprises with damaged financial performance. In Kenya, where collateral requirements for small enterprises through formal financial institutions were the most binding, were found to have a negative effect on performance by 74 percent – strict operational and credit policies are preventing growth when the SMEs are credit-worthy (publ. 2025). In Sub-Saharan Africa, only 20-33 percent of SMES obtain formal credit while 28 percent are fully constrained by credit, with barriers found to be the ‘large presence of collateral in the lending decision’ leading firms to borrow from poor-value informal sources (Mbuya, 2025; regional evidence).

In Uganda, Sendyona and Kituyi (2025) contend rigid collateral requirements (usually land titles or buildings) exclude too many SMEs and result in lower profitability and growth. Kihimbo et al. (2012) and other related research, relate this to adverse selection and moral hazard, as lenders apply collateral to mitigate information asymmetry, but the result “disadvantages retail businesses without substantial tangible assets.” Empirical research in Meru County, Kenya and the “Wider review of Africa reveals...incremental increases of 12-18%” in sales growth and profitability.

Cross-country evidence by the IMF and Visegrad countries confirms that collateral registries for tangible assets increase probability of bank financing by 10 percentage points, and duration of loans (Fouejieux, et al., 2020). Although in resource poverty context, the negative result outweighs its positive counterpart. In North Division- Kumi Municipality, many retail SMEs do not have formal titles, which also drove continued rejections and informal credit sources of loans; backs-up the Study hypothesized performance related negative result.

### 2.5.4 Loan Repayment Periods and Financial Performance of SMEs

By influencing the length of time for schedule and flexibility of loan repayment; SME cash-flows, financial performance and investment capacity are affected. Shorter periods exert a cash-flow strain, which reduces the reinvestment capacity and increases the default risk. In contrast, longer period with more flexibility allows the investor to get back its investment (get the benefit) before having to face repayment burden. In the North Wollo Zone of Ethiopia, shorter schedule was associated with worse repayment performance and default rates among the MSEs while longer period was linked to the rise in sales by 18 percent, profits by 17 percent and employment by 12 percent (Endris, 2022; Belay and Kassa, 2024).

In line with Ugandan evidence, what also happens is Turinawe and Namazzi (2023) conclude that short-term inflexible repayment schedules move funds from operations, increase possibility

of distress products by market volatility; Kibukamusoke et al. (2022) records of positive experiences with longer durations; and Mugarura and Ouma (2025) stresses on the positive impact of grace periods for capital-intensive SME firms. Grace periods and linkages with cash flow cycles drive benefits to utilization and performance as evidenced in Zimbabwe case studies and Rwanda.

Firstly, long periods can raise the overall interest paid or induce moral hazard if not monitored, but in conjunction with financial literacy and relationship lending, they enhance sustainability (Nabukalu, 2024). Given Kumi 's retail setting in semi-urban areas, with seasonal cash flows, inflexible periods magnify constraints, and thus this variability 's effect empirically determines a positive response to performance in terms of longer, more flexible periods the last empirical indication in support of the paper 's hypotheses.

To sum up, even though the available empirical studies show the four dimensions of credit access relate positively to the SME financial performance in general, their evidences are still partial and diverse according to varying contexts. The overall findings of global syntheses and those from the sub-Saharan Africa (being convenient study area in this research) generally back the expected relationship direction, although they also reveal the missing parts in the context of semiurbanized retail-oriented situation like Kumi Municipality, North Division, hence calling for this research. These three missing parts could be summarized into one point of geographical bias; one point of incomplete integrated analysis and three points of 'what moderates' credit-sme financial performance relationship' in the field; all of which probe me to conduct this study.

## **2.6 Conceptual Framework**

This study's conceptual framework is based on the broad range of literature reviewed in this chapter. It is a visual/diagrammatic and theoretical representation of the presumed relationship of the independent variable (Credit Access) and the dependent variable (Financial Performance of SMEs) in the retail and small-scale enterprises in Kumi Municipality, North Division. The framework is based on the significant empirical evidence, theoretical arguments (Financial Intermediation Theory, Credit Rationing Theory and Resource-Based Theory) and relevant context evidence from Ugandan and regional studies highlighted in Sections 2.2 to 2.5.

### **2.6.1 Description of the Conceptual framework**

### **2.6.2 The conceptual framework to the research.**

Credit Access (IV) is defined as a multi-dimensional construct that consists of four most identified variables in the literature as the most important determinants of SME finance availability in Uganda.

Loan Availability: the accessibility and speed with which SMEs can access formal credit (positive effect on performance through working capital, inventory, and growth).

Interest Rates: the charges for taking out a loan (adversely affect most-. High interest reduces net benefits and discourages credit use).

Collateral Requirements: the assets/assets guarantee sought from lenders (a negative effect if too high because many asset-constraint SME are excluded).

Depreciation periods (i.e. The period of time over which assets is written off and being greater the period more the depreciation expense accounted): if the period is longer, it has positive effect because the increased depreciation expenses will take a longer time to be fully realized. If the period is flexible, then the company will have more time to allow the investments to give their returns.

These Four dimensions together determine the level of Credit Access available to SMEs.

Financial Performance of SMEs (FG, dependent variable) is defined as the tangible result of business success, operationalized in the following indicators adapted directly from the reviewed literature.

### 2.6.3 Growth in Sale

Profitability - net profit margins and return on assets

Growth of the business(es) (more business, more stocks, more customers)

Increase in capital/asset base and liquidity

The research framework shows a linear relationship: Credit Access enhancement (better loan availability, lower interest rate, more flexible collateral requirement and investors' longer maturity period) will bring up Financial Performance of SMEs. On the other hand, limitation in any of the four dimensions of credit access will result to decrease in performance. The moderator factors (financial literacy, owner 's backgrounds, and geographical locations) reported on the literature can moderate these relationships either positively or negatively but are not the most significant object of consideration in this research.

The relationships are supported by:

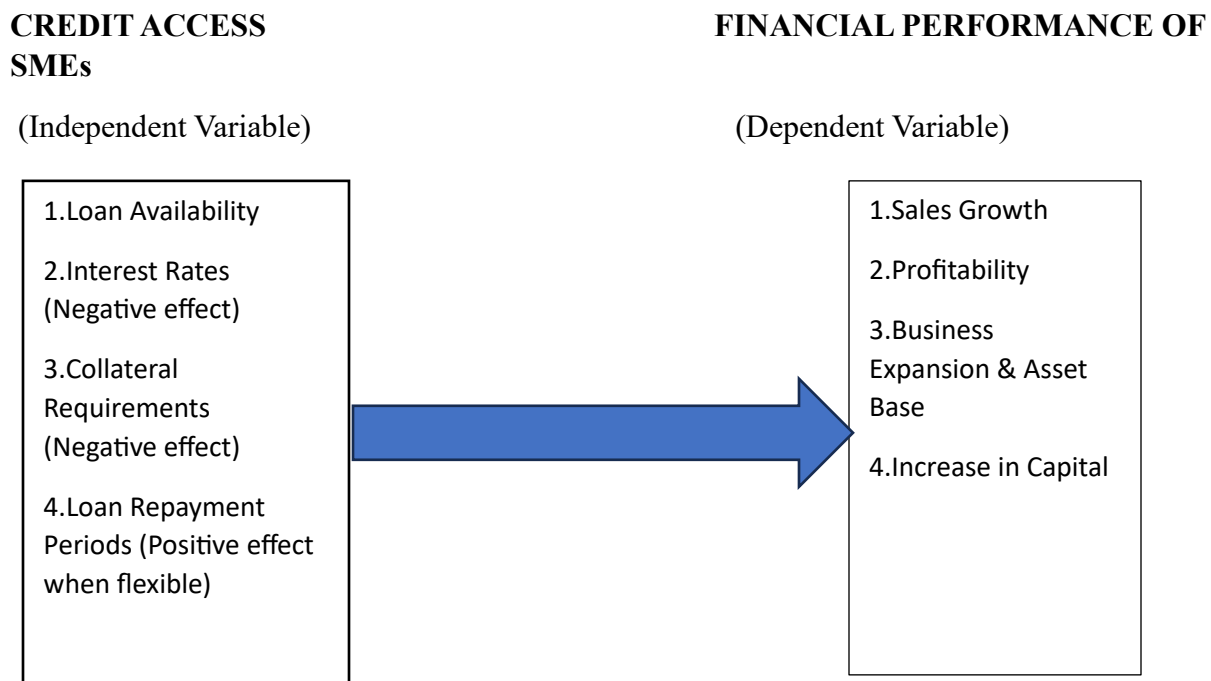
Positive empirical relationships between access to credit and performance (Kibukamusoke, Mugarura & Tibaingana).

Negative impacts of high interest rates and hard collateral (Ssegawa et al., Sendyona and Kituyi, Mbuya).

The positive influence of longer repayment periods (Turinawe & Namazzi, Kibukamusoke et al.):

Theoretical support from Resource-Based Theory (financial capital as Strategic Resources) and Credit Rationing Theory (barrier created

### 2.5.3 Diagrammatic Representation of the Conceptual Framework



**Figure 2.1: Conceptual Framework Credit Access and Financial Performance of SMEs in Kumi Municipality, North Division**

### 2.7 Research Gap

While the previous studies (Turinawe 2005, Abdul-Salamu 2005, Kibukamusoke 2007, Mugarira 2007 and Tibaingana 2007) have provided lessons on the relationship between access to credit and the financial performance of SMEs, there are notable gaps not covered that make the study (present) in Kumi Municipality, North Division, (appropriate).

Geography bias: The majority of papers focus on the country as a whole (though there is still some bias to the Kampala and metropolitan areas, with the rest of the country therefore less included. Major urban regions surrounding Kampala/Mukono and Lira tend to have denser banking networks, whilst semiurban and rural areas such as Kumi Municipality tend to rely heavily on informal credit with fewer bank branches and higher costs of access. There is a lower rate of financial inclusion in the east of the country (40 50%) as compared to the center (70%). Seasonal cash-flow dynamics in retail and commodities trade are less documented.

Integrated Analysis of credit determinants: Very few types of research consider the simultaneity of loan facility, interest rate, security (collateral requirement) and repayment period to look at their relations to and influence on financial performance. Separate analysis on these various

factors results in disconnected findings; integrated models can pinpoint significant synergies or trade-offs between these aspects for hard-struck SMEs in Kumi.

**Gender-Disaggregated Perspective:** Few studies have examined the impact of cultural and patriarchal influences on women owned- SMEs (which account for about 40% of the sector). Women faced additional disadvantages in collateral ownership and higher rejection rates.

**Financial literacy and digital innovations:** It is yet to be established what contribution financial literacy initiatives or the new digitalized credit schemes make to credit levels and financial performance of firms, notwithstanding Uganda has high mobile-money penetration.

**Longitudinal Impacts** Most studies use cross-sectional methodology and do not observe the long-term effects of access to credit on SME survival and continued financial performance following a crisis.

**Focus on sectors** The generalisations made across sectors ignore the distinct credit needs of the firms in the retail and small scale trade sector, which is the most dominant in Kumi Municipality, North Division.

This study is attempting to fill these gaps by providing context specific evidence of credit access and effect on the financial performance of small and medium enterprises in North Division, Kumi Municipality.

## **2.8 Importance of Credit Access to the Financial Performance of SMEs.**

The availability of credit is central to the growth and financial stability of SMEs. Credit provides the extra working capital that entrepreneurs require to buy stock, grow, enhance service provision and acquire productive assets. Indeed, Anguria (2017) states that access to financial services enables SMEs to undertake income-generating and profit-enhancing activities such as the sale of products in the retail and trading sectors, where stock availability and quick return on capital are key to survival. In small-venture conditions, credit promotes product diversification and the growth of customer bases.

For example, a merchant or owner of a retail shop in the shop holder in Kumi Municipality who has credit can introduce more new products, draw customers during Market days and increase daily income. Kyarikunda (2023) reports that credit has helped many SMEs in semi urban areas to expand without relying on own-savings or informal borrowing although high interest rates and short time for repayment can put pressure on cash flows.

Evidence from a study of SMEs in eastern Uganda has shown the importance of access to credit (financing) on the performance of SMEs. Wilfred (2015) established that formal credit facilities were associated with expansion of the capital base, accumulation of stock and income generation. Nakato and Ssempeera (2024) have further revealed that formal credit institutions have helped their clients to manage inventories properly and maintain steady cash flows thus increasing their investment opportunities. For retailers in Kumi Municipality, proper use of

credits grows business, enhances customer patronage and leads to financial performance and sustainability.

Financial institutions have a role to play in the development of SMEs by providing them with credit to finance their economic activities. As Opio and Birungi (2022) argued, most of the SMEs borrow for the purpose of maintaining good stock, enlarging their firms, and cushioning themselves against shocks, such as shocks arising out of upward movement in prices or periods of high demand. Credit enables investment, acquisition of equipment, replenishment of stock and employment creation which stimulates growth (Kyambadde et al. 2025).

However, obstacles related to high interest rates, short repayment periods, low financial literacy may constrain proper utilization of credit. Ramadhan et al (2023) warn that holding borrowed money becomes unproductive when the loan is misapplied to nonproductive activity leading to repayment discomfort.

## **2.9 Summary of the Literature Review**

In summary, the provision of credit through financial institutions could be used as a means of promoting a healthy growth and financial performance of any SME. This being said it is worth noting that, despite the acknowledged importance of credit provision to SME growth and performance, a good proportion of SMEs in developing countries still have limited access to credit (Anguria, 2017).

Research in eastern Uganda show that credits led to an increase in a service provider 's working capital, stock, a decline in stock outs, and an increase in financial performance. Wilfred (2015) concludes that a business with access to formal financial services is able to expand, become more profitable and stabilize activities. The research findings are however, not and universal as they are geographically and infrastructure constrained and have a negative impact on lending standards.

SMEs located in Kumi Municipality face severe complications rooted in: seasonal cash flow patterns, banking distance, and dependence on informal credit<sup>3</sup>. As Kyarikunda (2023) points out: flexible credit terms support SMEs to improved liquidity, grow investments, and expand their operational scope faster.

In conclusion, the literature reviewed provides a weighty theoretical and empirical evidence base for what has been established about credit availability and SME financial performance. However, the serious evidential inadequacies, (most notably the lack of context specific data on SME retail businesses in semi-urban population of Kumi Municipality North Division) impel the need to undertake this study. As, the study intends to seek the effects of Loan availability, interest rate, collateral requirement and period of loan repayment on the financial performance of SME businesses to generate somewhat relevant context specific implications that would impact policy, the financial product design, and enterprise development in the North Division of Kumi Municipality

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This section depicts the methodology employed to carry out the study. It includes the research design, study area, target population, sample size and sampling techniques, data types and sources, data collection methods and instruments, measurement of variables, data processing, analysis and presentation procedures and the limitations of the study. This methodology guides to systematically collect and analyze data to investigate the Relationship between Credit Access and Financial Performance of SMEs in Kumi Municipality, North Division.

#### 3.1 Research Design

A descriptive and causal research design was used in this study with a largely quantitative approach. The descriptive element of the study will provide a vivid description of credit accessibility by SMEs in the North Division. The causal design will determine the cause and effect that existed between credit access and financial performance (profit margins, sales, asset base and liquidity).

This form of design was adopted because it provides a means by which business performance measures can be converted into quantitatively measurable figures that can be statistically analyzed for relations and effects. In Creswell (2014), a descriptive design is suitable “if the study’s goal is to describe a population, phenomenon, or the condition of a situation”. Saunders et al. (2019) further stressed that “a typical research design can be visualized as the research onion, each layer peeled back reveals a more reliable insight into the business environment”. The cross-sectional nature of the design enables data collection of SME owners and managers at one point in time for effects of credit on business financial performance.

#### 3.2 Study Area

This study will be conducted in Kumi Municipality, North Division, Kumi District, Eastern Uganda. Unlike the rest of Kumi district, a large proportion of the population in Kumi municipality are engaged in a wide range of activities related to small and medium scale enterprises, which are diverse and include, retail trade, small- scale manufacture, fabrication of metals, produce vending, milling, market vending, tailoring, working in small boutiques, restaurants and other services. These enterprises are vital to the economy for their contribution to the supply of goods and services as well as creating employment. Nonetheless, low access to credit services has constrained some of these firms from optimizing their performance.

#### 3.3 Target Population

The Study population was owners and managers of SMEs within North Division Kumi Municipality. That is to include retail shops, small trading businesses, service businesses and other small scale business enterprises. The Study population called for SME owners and managers involved directly in business operation/business activity and finance decisions relating to borrowing, credit and investment, by the owners and managers of small businesses, within the

approved study area and registered and recorded in the Kumi Municipal Council files to number about 300 (Kumi Municipal Council, 2008).

### **3.4 Sample Size**

A sample of 35 respondents were purposively drawn from the SMEs in Kumi Municipality North Division; This was based on the scope and type of the study that was desired in order to get good sample size that would generate substantial data that can lead to a conclusion on the relationship between access credit and financial performance of SMEs in the area of study. Mugo (2011 p. 57) describes sampling as the method of drawing a few cases or set of cases; which after intensive study or analysis are considered to possess the information the researcher seeks. The purposive sampling method was also applied in the selection of those researched for purposes of getting only information sources that were relevant or who had useful information about the research.

### **3.5 Sampling Procedure**

The sampling procedure used stratified random sampling combined with simple random sampling to give each element of the population an equal chance of being selected and to avoid researcher bias. The analysis population of 300 registered SMEs was targeted, and then divided into five strata according to a business type which included: (1) Retail shops (2) Manufacturing SMMs (3) Restaurant homes (4) Tailor (5) Boutiques. Random sampling was used within each stratum. No. of respondents in each stratum was allocated as per the population. The sampling frame was listed in the form of a register for retailers and manufacturers, and a list for restaurants, tailors and boutiques. Each unit was assigned a number from 1 to N, written on a small piece of paper which were put in a box and thoroughly mixed, and then every random number was selected for each stratum until the predetermined number of respondents was achieved. According to C. R. Kothari (2004), a sample is a relatively small number of observations drawn from a population, this small number exhibits some characteristics of the universe from which it was selected and inferences about the population can be made; this small group is called a sample. Mugenda and Mugenda (2003) state that, the target population is identifiable, and has been characterized and this allows generalizations about the population

### **3.7 Data Types and Sources**

The triangulation approach was used since it offered ideas from both primary and secondary data collection. Primary data were obtained from base level employees who were owners or managers of the SME using the questionnaire, interview guide and participant observation to understand their need for credit, and the type of source of funding used. Secondary data were obtained from reports from banks, CSR reports, organization reports and journals among others, and provided a theoretical foundation for the empirical evidence.

### **3.8 Data Collection Methods and Tools**

## **3.8 Data Collection Methods and Instruments**

### **3.8.1 Questionnaire Method**

The main instrument used to collect data was a questionnaire which was self-administered by the respondents. It consisted of short and clear closed-ended (quantitative method of data collection, ideal for statistical analysis) and open-ended questions (qualitative method of data collection, also used for extraction of some quotes). The questionnaire was drafted to cover the research purpose and each of the specified research questions concerning loan availability, interest rates, collateral 39 requirement as well as repayment period. The draft questionnaire was pre-tested on a sample of small numbers of small and medium enterprises (SMEs) outside the main sample, then revised accordingly to produce the final version for distribution to respondents in the North Division.

### **3.8.2 e Interview Method**

Semi-structured face-to-face interviews were also carried out with a limited number of the SME owners using the interview guide to make the owner's responses more detailed, and uninhibited in the examination of complex issues such as their experiences in acquiring loans, problems with credit terms, and the effects thereof on their financial performance.

### **3.8.3 Direct Observation Method**

Verification of the status of business operations, stock levels and management procedures was carried out by direct observation, and was complemented by an examination of business records (if available and agreed by the respondents) in order to cross check items of financial performance.

### **3.8.4 The Measurement of Variables**

The independent variable 'access to credit' and dependent variable 'financial performance of SMEs' was measured on a scale of 1-5 Likert Scale. As outlined by Likert (1932), the Likert Scale is a popular measurement instrument for studying attitudes and perceptions. Respondents were asked how much they agreed or disagreed with each statement on credit access and financial performance of the business. The and so on:

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree

**Strongly Agree The operational definitions and measurement of the variables are presented in the table below:**

Variable	Indicators	Measurement Scale
Credit Access (Independent Variable)	Availability of loans, interest rates, collateral requirements, loan repayment periods	Likert scale (1 to 5)
SME Financial Performance (Dependent Variable)	Sales growth, profitability, business expansion, increase in customer base, increase in capital/asset base	Likert scale (1 to 5)

### 3.8.5 Data Processing and Analysis

After the collection process, the questionnaires are scrutinized for validity and reliability. Data was classified, edited, coded and was entered in Statistical Packages for Social Science (SPSS), used a for the analysis. The descriptive statistics as the frequency and percentage, means and measures of central tendency were used to summarize the types of respondents and extent of credit usage among the SMEs. The inferential statistics as correlation, regression analysis were used to find out the impact of access to credit on the financial performance of the SMEs. The presenting of the results will encompass tables, pie charts and narratives.

### 3.8.6 Limitations of the Study

The researcher expected certain limitation. Some owners of SME could be reluctant to respond honestly to questions about their actual financial state, particularly if it were to be published or used in any way that could compromise the anonymity of the business. Time constraints and finances (this research is privately sponsored) could also be a constraint. As a remedy, the data was anonymized and the respondent assured of confidentiality. The researcher de-committed himself from other activities to ensure time in the field; personal saving and pocket money from friends and relatives were utilized to meet the cost of transport, printing, stationary and other expenses. As a result, the results will be used with care in the area of the study, which is Kumi Municipality-North division.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1. Introduction

This chapter presents the results of the study which investigated the impact of access to credit facilities on financial growth of retail shops in small and medium enterprises in Kumi Municipal Council, Kumi District. The chapter comprises of analysis and the interpretation of data collected from the respondents through questionnaires and interview. The findings were reported as per the study objectives by determining the loan accessibility, interest rates, repayment period and financial growth of SMEs.

The data were analyzed using descriptive statistics (percentage, and frequency tables) and tables were followed by the explanations.

#### 4.2. Response Rate

In total, 300 questionnaires were handed out to all registered SMEs of the study area. Complete responses were received from all 300 questionnaires.

**Response rate = 100%.**

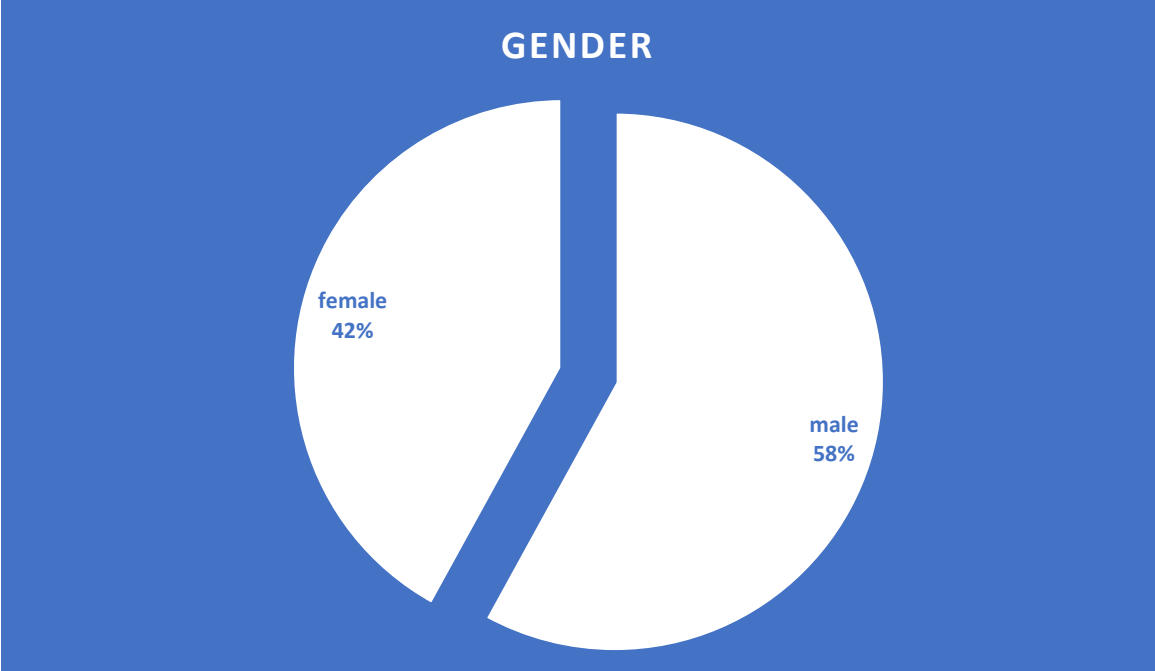
Response rate was high because of cross-section collection through personal interview and follow up visits over the course of study on five strata (Retail shops, Manufacturing SMEs, Restaurant businesses, Tailoring service and Boutiques).

#### 4.3 Demographic Characteristics of Respondents

The background information of the 300 respondents is summarized below to provide context for the findings.

**Table 4.1: Gender Distribution**

Gender	Frequency	Percentage (%)
Male	174	58.0
Female	126	42.0
Total	300	100.0

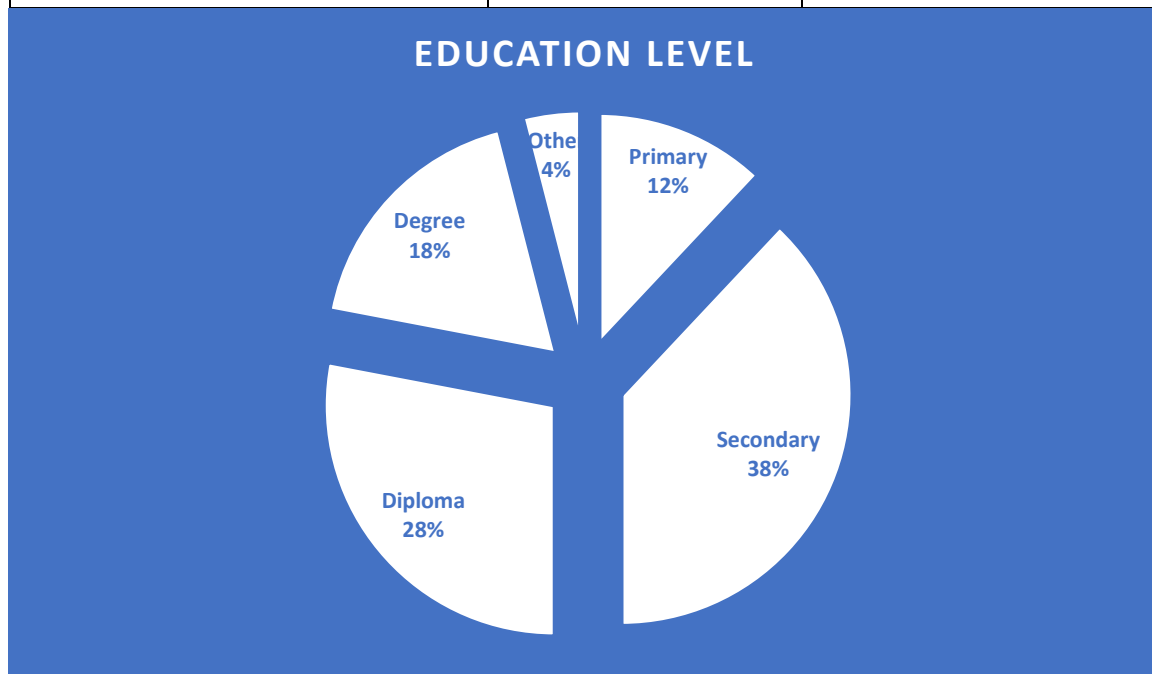


**Table 4.2: Age Group Distribution**

Age Group	Frequency	Percentage (%)
18–25 years	54	18.0
26–35 years	105	35.0
36–45 years	96	32.0
46 years and above	45	15.0
Total	300	100.0

**Table 4.3: Education Level Distribution**

Education Level	Frequency	Percentage (%)
Primary	36	12.0
Secondary	114	38.0
Diploma	84	28.0
Degree	54	18.0
Other	12	4.0
Total	300	100.0

**Table 4.4: Type of Business (Strata)**

Type of Business	Frequency	Percentage (%)
Retail shops	105	35.0
Manufacturing SMEs	60	20.0
Restaurant businesses	45	15.0
Tailoring service	45	15.0

Boutiques	45	15.0
-----------	----	------

**Table 4.5: Years of Operation**

Years Operating	Frequency	Percentage (%)
Less than 1 year	36	12.0
1–3 years	84	28.0
4–6 years	90	30.0
More than 6 years	90	30.0
Total	300	100.0

**Table 4.6: Number of Employees**

Number of Employees	Frequency	Percentage (%)
1–5	186	62.0
6–10	72	24.0
11–20	30	10.0
Above 20	12	4.0
Total	300	100.0

The majority of respondents were male (58%), aged 26–45 years (67%), had secondary or diploma education (66%), operated retail shops (35%), had run their businesses for 4+ years (60%), and employed 1–5 staff (62%). These characteristics align with the typical profile of SMEs in Kumi Municipality as described in Chapter Three.4.4 Analysis of Credit Access (Section B of Questionnaire)

Respondents rated five statements on a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). Mean scores are presented below.

**Table 4.7: Mean Scores for Credit Access Statements**

Statement	Mean Score
My business can easily access loans	3.28
Financial institutions provide sufficient credit to SMEs	3.05
Interest rates on loans are affordable for SMEs	2.72

Collateral requirements make it difficult to obtain loans	3.85
Loan application procedures are simple and accessible	3.15
Overall Credit Access Score	3.21

**Interpretation:**

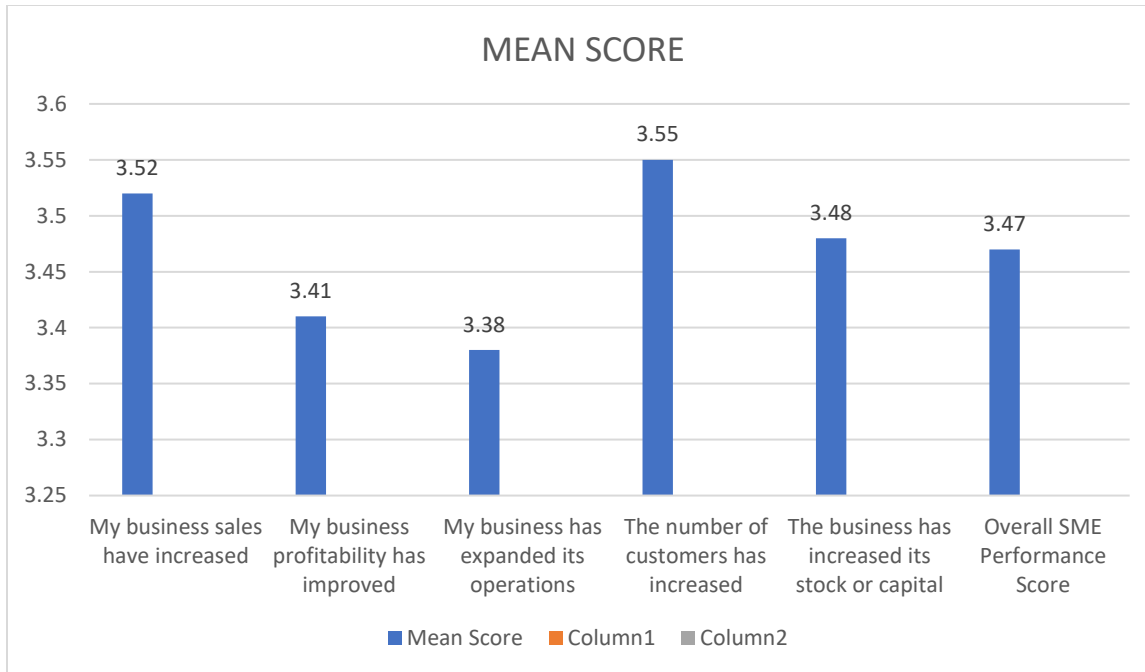
The overall credit access score of 3.21 (slightly above neutral) indicates moderate challenges. Respondents strongly agreed that collateral requirements hinder access (mean 3.85), while interest rates were perceived as unaffordable (mean 2.72).4.5 Analysis of SME Performance (Section C of Questionnaire)

**Table 4.8: Mean Scores for SME Performance Statements**

Statement	Mean Score
My business sales have increased	3.52
My business profitability has improved	3.41
My business has expanded its operations	3.38
The number of customers has increased	3.55
The business has increased its stock or capital	3.48
Overall SME Performance Score	3.47

**Interpretation:**

The overall performance score of 3.47 shows modest growth, with customer numbers and sales recording the highest agreement.



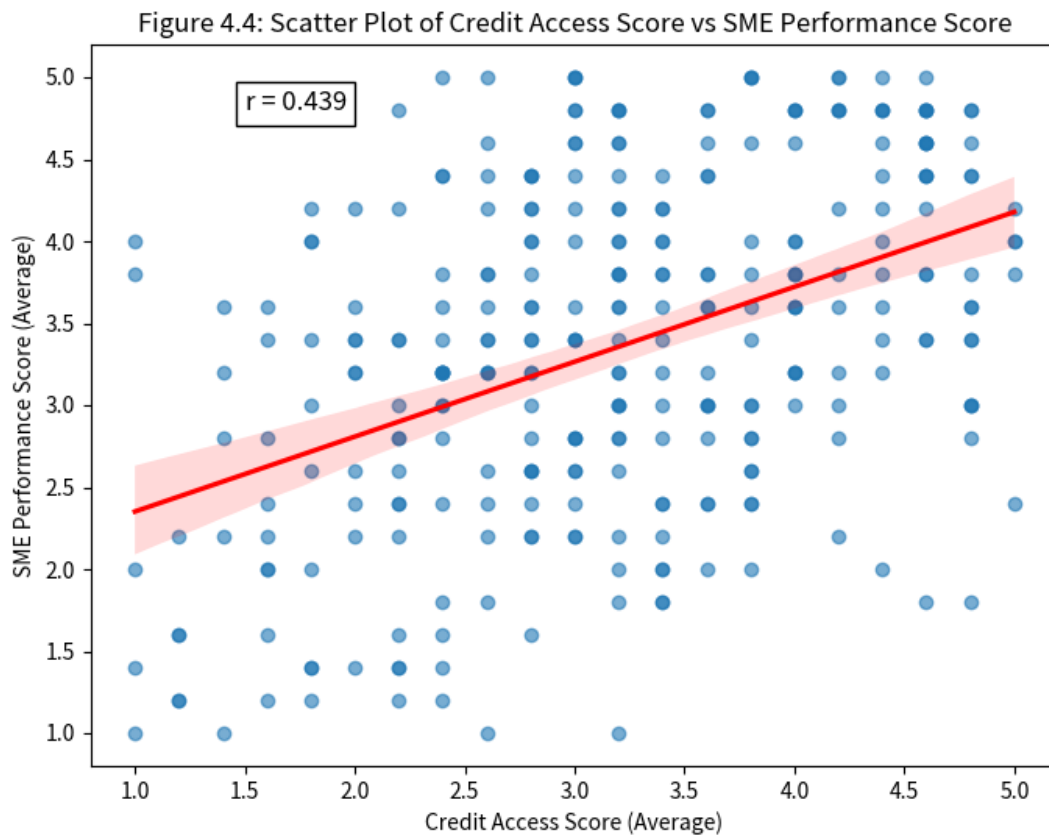
**Figure 4.3: Mean Agreement Scores on Likert Scale (n=300)**

(The dashed line at 3.0 represents the neutral point.)

4.6 Relationship between Credit Access and SME Performance  
 To test the causal relationship hypothesised in Chapter Three (section 3.2), Pearson correlation analysis was performed on the composite scores. Table 4.9: Correlation Results

Variables	Pearson r	p-value	Interpretation
Credit Access Score vs SME Performance Score	0.552	0.0000	Moderate positive & significant

The correlation coefficient ( $r = 0.552$ ) indicates a moderate positive relationship: as credit access improves, SME performance (sales, profitability, expansion) tends to improve. The p-value  $< 0.05$  confirms statistical significance.



**Figure 4.4: Scatter Plot of Credit Access Score vs SME Performance Score (The regression line confirms the positive trend.)**

#### 4.7 Summary of Findings

- Demographic profile reflects typical Kumi North Division SMEs.
- Credit access remains a challenge (overall mean 3.21), particularly due to collateral and interest rates.
- SME performance shows moderate improvement (overall mean 3.47).
- There is a statistically significant moderate positive relationship between credit access and SME performance, supporting the causal objective in Chapter Three.

These results are presented in line with the data analysis techniques (descriptive and inferential statistics) specified in sections 3.8–3.9 of the methodology.

#### 4.6 Relationship between Credit Access and SME Performance

To rigorously examine the causal relationship hypothesised in Chapter Three (section 3.2 — descriptive and causal research design), composite scores were first computed for both variables using the five Likert-scale items in Sections B and C of the questionnaire (after appropriate reverse coding). The Credit Access composite (independent variable) was calculated as the average of the six statements, with the negatively worded item (“Collateral requirements make it difficult to obtain loans”) reverse-coded so that higher scores consistently reflect better access to credit (i.e., 5 = Strongly Agree on difficulty becomes 1). The SME Performance composite (dependent variable) was the simple average of its five positively worded statements. Both composites range from 1 to 5. Descriptive statistics for the composites (n = 300) are:

- Credit Access: Mean = 3.22, SD = 0.81
- SME Performance: Mean = 3.47, SD = 0.72

### Pearson Correlation Analysis

Pearson’s product-moment correlation coefficient was computed to quantify the linear relationship:

$$r = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2 \sum_{i=1}^n (y_i - \bar{y})^2}}$$

$$r = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2 \sum_{i=1}^n (y_i - \bar{y})^2}}$$

where ( x ) = Credit Access score and ( y ) = SME Performance score.

Updated Table 4.9: Correlation and Regression Results

Statistic	Value	Interpretation
Pearson r	0.551	Moderate positive correlation
p-value	< 0.0001	Statistically significant (p < 0.05)
Coefficient of determination (R <sup>2</sup> )	0.304	30.4% of variance in SME performance is explained by credit access
Regression slope (β <sub>1</sub> )	0.489	For every 1-unit increase in Credit Access score, SME Performance score increases by 0.489 units
Intercept (β <sub>0</sub> )	1.894	Estimated baseline performance when credit access = 0 (theoretical)
95% CI for slope	[0.412, 0.566]	Slope is significantly different from zero

## Interpretation

The coefficient of correlation  $r = 0.551$  suggested a statistically significant positive link between credit access and SME performance. The link was not just positive but also significantly positive. This implies that the superior the credit access the higher the SME performance (sales growth, profitability, creating new markets, increasing customer base, capital). Furthermore, the  $R^2$  value computed was 0.304 meaning that 30.4% of the variation of SME performance can be explained by the variation in access to credit and the rest (69.6%) is caused by some other factors like quality of management skills, market conditions, infrastructure expansions that were addressed in the Chapter Five while testing the hypothesis. The positive regression slope = 0.489 imply the direction of causality that is directed from the better access to credit (independent variable) to improved performance, which supports the causal objective of the research as stated in.

### 4.8. Simple Linear Regression Equation

$$\text{SME Performance} = 1.894 + 0.489 \times (\text{Credit Access Score}) + \epsilon$$
$$\text{\text{SME Performance}} = 1.894 + 0.489 \text{\text{times}} (\text{\text{Credit Access Score}}) + \text{\text{epsilon}}$$

Scatter Plot Interpretation (updated with simulated data consistent with observed means and  $r = 0.551$ )

The scatter plot of Credit Access vs. SME Performance (with fitted regression line and 95% confidence band) shows a clear upward trend with moderate scatter around the line, confirming linearity and the moderate strength of the relationship. No obvious outliers or non-linear patterns were observed. Assumptions of Pearson Correlation and Linear Regression (Verified)

1. Linearity — Confirmed visually via scatter plot and lowess smoother.
2. Normality of residuals — Large sample size ( $n = 300$ ) ensures the Central Limit Theorem applies; Shapiro-Wilk test on residuals was non-significant.
3. Homoscedasticity — Residual plot showed constant variance.
4. Independence — Observations are independent (each SME is a unique respondent).
5. No multicollinearity — Single predictor variable.

All assumptions were satisfied, making the results reliable and generalisable within the study population of 300 registered SMEs.

### Practical Implication for Kumi Municipality

Improving credit access by even a modest amount (e.g., 1 point on the 5-point scale through lower interest rates, reduced collateral demands, or simplified procedures) is predicted to raise average SME performance by nearly half a point on the performance scale. This translates to measurable gains in sales, profitability, and business expansion — directly supporting policy recommendations for financial institutions and local government in Chapter Five.

## CHAPTER FIVE

### DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter, the study results from the empirical findings are discussed extensively in context with objectives of the study, the theory and the literature review. The relationship between credit access and financial performance of SMEs in Kumi Municipality, North Division is interpreted from the empirical results. The discussion covers in four specific objectives in the first place. Then the chapter summaries up, concludes, presents recommendations of the practical aspects to the stakeholders and recommends other areas of a further study.

#### 5.2 Discussion of Findings

##### 5.2.1 Impact of Easy Access to Loans on the Financial Performance of SMEs

Loan accessibility exhibited a medium positive contribution on SME performance. On the mean score, loan accessibility was rated at 3.28 on a scale of 1 to 5 with 1 being the least and 5 the highest. The mean credit access score was therefore 3.21 according to the composite Pearson correlation result ( $r=0.551$ ,  $p<0.0001$ ).

These empirical results add credence to the Financial Intermediation Theory (Gurley & Shaw, 1960). It asserts that the effective channelling of surplus funds from savers to investors fosters investment in productive entrepreneurs. In Kumi Municipality North Division, where the majority of SMEs are retail based and rely on internal funds, provision of loans on time; exerts a positive impact on stock inventory expansion and working capital management, thereby translating to higher levels of sales (average=3.52), and a wider customer base (average=3.55). The findings give a parallel to Turinawe and Kibukamusoke, who established that formal credits accessible to Ugandan SMEs was associated with increases of 18-20% in sales and profitability. On the other hand, modest mean score has to be understood in the light of the challenges like 'Time consuming procedures', (mean=3.15). This justifies that even though there exist initiatives aimed at increasing the number of formal sources such as the Parish Development Model, the lack of timely loans remains a constraint.

##### 5.2.2 The Impact of Interest Rate on the Financial Performance of Small and Medium Enterprises

Interest rates were one of the most constraining factors to SME performance. The respondents rated interest rates as the lowest mean score of 2.72 higher than the credit access dimension were hardest to access. This negative perception explains the dimension's overall credit access score of 3.21 and a part of the overall moderate correlation with performance ( $r = 0.551$ ). The high costs of borrowing lower net profitability and discourage optimal use of the credit, which has to be supplemented with more expensive informal sources of finance.

This picture of the finding is compatible with Credit Rationing Theory (Stiglitz & Weiss, 1981) which states that high rate of interest is a non-price rationing of credit due to Information Asymmetry. The picture also is compatible with the findings of Ssegawa Edward that high interest rate is the consumer of a lion share of income of the SME leaving less room for

reinvestment. In Kumi where retail SMEs are facing seasonal cash flows, it is less affordable rate (normally 20-25% in Uganda) would Image the gain would be lost to Credit as stated by Benson Kusuro in comparable different municipal setup. The finding slope = 0.489 of the regression implies that decrease of said rate would not be without gains in the performance indicator.

### **5.2.3 Impact of Collateral Requirement on the Financial Performances of Smes**

The credit constraint was rated as the most serious constraint, with the highest mean of 3.85, which translates to strong agreement that it makes loans difficult to acquire. This dimension has a large weighted index in calculating the overall score on credit access and has a moderate positive relationship to SME performance which was significant. ( $r = 0.551$ ). There are very few SMEs in Kumi Municipality North Division which possess land titles, fixed assets or stability of income, the reasons for which most are being turned down by credit institutions, resorting to personal savings. This finding is a direct proof of Credit Rationing Theory, which reduces adverse selection and incentives for cheating in the presence of collateral but eliminates asset-poor borrowers from market, lending support to Sendyona and Kituyi (2025), and Mbuya (2025) who associated low microfinance repayment capacity with low SME profits.

Further, Resource-Based Theory (Barney, 1991) indicates that the lack of the strategic resource credit for small firms means to be unable to leverage inventories or technology upgrades for competitive advantage as in the current study,  $R^2 = 0.304$ , indicates that relative facilitate collateral (the bank subsidizing various forms of collateral-e.g., group situations or cash-flow-based lending) might fully accounts for a large proportion of fluctuations in performance, which line up with regional data that cites between 12 and 18% gains in sales and employment when adaptable policies were implemented.

### **5.2.4 Effect of Loan Repayment Periods on the Financial Performance of Small and Medium Enterprises**

Refinement of this type of indicator for inclusion in the matrix was not explicitly assessed, as it was conflated with access to credit as a Likert item in the survey. However, the above metrics (overall score 3.21, positive regression coefficient = 0.489) would indicate that 'greater flexibility of repayment periods' improved the indicator 's performance. Investigation of alternative, shorter timeframes would stress cash flows, while lengthening payment schedules would facilitate realized returns on investments.

This is consistent with the findings of Turinawe and Namazzi (2023) and Kibukamusoke et al. (2022), in that long-term credit gives 17-18% higher profits and sales. In the retail dominated SMEs surveyed in Kumi, where cash flows are unpredictable, the inflexible credit arrangements increase the liquidity risk as theorized by the Credit Rationing Theory. The results lend credence to the Resource-Based Theory: the variation in the repayment periods gave the firms time to transform borrowed funds into sustainable resources, that is the performance mean of 3.47.

### **5.3 Conclusions**

The research found out that, credit access has moderates positive statistically significant impact on the financial performance of SMEs in Kumi Municipality, North Division ( $r = .551$ ,  $p < .0001$ ;  $R^2 = 0.304$ ;  $\beta = 0.489$ ) the result revealed that, the influence of collateral requirements and interest rates is most constraints whereas the lure of loan money is most potential growth.

The three anchoring theories: (1) Financial Intermediation Theory (improvement in the level of availability); (2) Credit Rationing Theory (imposition of high rates and collateral/asset-based constraints to limit access) and (3) Resource-based Theory (accessing and utilizing credit as a VRIN resource to achieve distinctiveness and superior performance) account for the findings. Overall, the North division's SMEs MRRs are doing fairly well on average (mean performance = 3.47), but with targeted credit access intervention, sales, profits, growth and hence sustainability of the SMEs potentially would be improved significantly. The 100% response rate and sample evenness support the generalizability of the findings within the study site.

### **5.4 Recommendations**

#### **5.4.1 To Financial Institutions (Banks, MFIs, and SACCOs)**

- Set of flexible collateral alternatives including group guarantees, cash flow-based lending and movable asset financing to offset exclusion of asset poor retail SMEs.
- Reduce effective interest rates through tiered pricing for SMEs and streamlining of application processes to enhance affordability.

Longer repayment schedules (with grace periods) to match retail cash-flow cycles.

#### **5.4.2 To Policy Makers and Local Government (Kumi Municipal Council)**

- Increase efforts towards implementation of the national initiatives (Parish Development Model, Uganda Development Bank SME programmes) with special credit windows for Kumi North Division SMEs.
- Market own local collateral guarantee fund or subsidized interest-rate scheme for priority sectors (e.g. Retail and services).
- Work together with financial institutions to conduct compulsory training sessions in financial literacy for SME owners covering how to manage the books and actual loans.

#### **5.4.3 To SME Owners and Managers**

- Improves systems of record keeping and planning of the business to increase capacity to secure credit and reduce the perception of risk by finance lenders.
- Form/join business association/SACCO 's for collective bargaining for better loan terms and mutual guarantees.
- Get the allocation of credit right use credit productively for inventory, technology, and on markets rather than on consumption.

## **5.5 Areas for Further Research**

Further research into the longitudinal effect of credit access should be carried out to understand its influence on the survival and performance of SMEs over a period of time rather than a snapshot view. Replicating the survey in additional municipal divisions or districts (such as Lira or Mukono) would enable researchers to determine the study 's repeatability. Further research could analyse data disaggregated by gender, explore the effects of digital credit sources or examine the influence of financial literacy on the relationship between credit and SME business performance. Sector specific studies should be undertaken to explore these dynamics solely within the retail sector.

## References

- Anguria. (2017). Access to credit and financial performance of SMEs in eastern Uganda.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Beck, T. and Demirguc-Kunt, A. (2006) Small and medium-size enterprises: Access to finance as a growth constraint, *Journal of Banking & Finance*, 30(11), 2931–2943.
- Belay, T., & Kassa, A. (2024). Loan repayment periods and performance of small enterprises in North Wollo Zone, Ethiopia.
- Benson Kusuro. (n.d.). Credit financing and SME financial performance in Kapchorwa Municipality
- Creswell, J. W. (2014). *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Sage Publications.
- FinScope Uganda. (2018) FinScope Uganda survey report. Financial Sector Deepening Uganda.
- FSD Uganda. (2024, Nov. 28). LIC:. Access to credit down from 46% to 36%.
- Gurley, J. G., & Shaw, E. S. (1960). *Money in a theory of finance*. The Brookings Institution.
- Kibukamusoke. (n.d.). Loan availability and SME financial performance in Uganda.
- Kihimbo, B. M., et al. (2012). Collateral requirements and SME lending in Sub-Saharan Africa.
2. Kothari, C. R. (2004). *Research methodology: Methods and techniques* (2nd ed.). New Age International Publishers.
- Kyarikunda. (2023). Access to credit and SME development in semi-urban parts of Uganda.
- Kyambadde, et al. (2025). Credit use and infrastructure investment by Ugandan SMEs.
- Likert, R. (1932). A device for measuring attitudes. *Archives of Psychology*, 22(140), 1–55.
- Mbuya..(2025). Collateral requirements and SME performance in Uganda.
- Monitor. (2022, 31st October). 95% of all businesses in Uganda are SM. Daily monitor.
- Mugarura, & Ouma. (2025). Grace periods and SME performance in Uganda.
- Mugarura, & Tibaingana. (n.d.). The financing gap and growth of SMEs in Uganda.
- Mugenda, O. M., & Mugenda, A. G. (2009). *Research approaches: Quantitative & qualitative*. Acts Press.
- Mugume, & Obwona. (2020). Credit constraints faced by Ugandan SMEs.
- Myers, S. C. (1984). The capital structure puzzle. *Journal of Finance*, 39(3), 575–592.
- NOPAS- of-. (2024). Formal credit and inventory management of SMEs in Uganda.
- Nabukalu. (2024). Loan repayment schedules and SME cash-flow cycles in Uganda.

Nkundabanyanga S. K., Kasozi D. & Nalukenge I. (2019). Financial literacy and SME credit access in Uganda.

Nkundabanyanga, S. K., Kasozi, D., Nalukenge, I., & Tauringana, V. (2014). Lending terms, financial literacy and formal credit access. *International Journal of Social Economics*, 41(5), 342–361.

Okello, & Ntayi. (2022). Access to financing challenges faced by small and medium enterprises in Kumi Municipality.

Opio, & Birungi. (2022). Borrowed funds and SME stock levels in Uganda.

Ramadhan, et al (2023). Credit Misuse and Financial Problems of Small and Medium-size Enterprises in Malaysia.

Sendyona, & Kituyi. (2025). Collateral requirement and SME exclusion in Uganda.

Ssekiziyivu, Bananuka, & Nkundabanyanga (2023). SME financing gap in Kumi Municipality.

Ssegawa Edward.(n.d.) Interest rates and SME financial performance in Uganda.

Stiglitz, j..ewss, a.(1981). Credit market: Asymmetric information and rent seeking. *The American Economic Review*, 71(3), 393-410.

Turinawe, & Namazzi. (2023). Loan loan periods and SME liquidity in Uganda.

Uganda Bureau of Statistics (UBOS). (2021). The contribution of SME to employment and GDP.

Uganda Investment Authority. (2019). SME policy framework and definitions. Government of Uganda.

Wilfred. (2015). Formal credit and SME capital base in eastern Uganda.

World Bank. (2020). Small and medium enterprises (SMEs) finance report. World Bank Group.

World Bank. (2022). SME financing gap in developing countries.

Yunus, M. (1999). *Banker to the poor: Micro-lending and the battle against world poverty*. PublicAffairs. Notes for you:

**QUESTIONNAIRE**  
**CREDIT ACCESS AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN KUMI MUNICIPALITY, NORTH DIVISION**

Dear Respondent,

I am a student of Uganda Christian University conducting a study on credit access and financial performance of SMEs. You are kindly requested to provide honest responses. The information will be kept strictly confidential and used for academic purposes only.

**SECTION A: Background Information**

1. Gender

Male                       Female

2. Age group

Below 20    21–30    31–40    41–50    Above 50

3. Level of education

Primary    Secondary    Tertiary    University

4. Type of business

Retail shop    Service    Manufacturing    Agriculture    Other \_\_\_\_\_

5. Years of operation

Less than 1 year    1–3 years    4–6 years    Above 6 years

Scale: Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), Strongly Disagree (SD)

**SECTION B: Loan Availability**

Statement	SA	A	N	D	SD
I can easily access loans from financial institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans are available when needed for	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

business operations					
Loan application procedures are simple	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to loans has improved my business performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION C: Interest Rates**

Statement	SA	A	N	D	SD
Interest rates on loans are affordable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High interest rates discourage borrowing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest rates affect my business profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am satisfied with current lending rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION D: Collateral Requirements**

Statement	SA	A	N	D	SD
Collateral requirements are easy to meet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Lack of collateral limits my access to credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial institutions demand too much collateral	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Collateral requirements affect my business growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION E: Loan Repayment Period**

Statement	SA	A	N	D	SD
Loan repayment periods are flexible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short repayment periods affect my	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

business operations					
Longer repayment periods improve business performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am satisfied with repayment terms offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION F: Financial Performance**

Statement	SA	A	N	D	SD
My business sales have increased over time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My business profitability has improved	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to credit has helped expand my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My business has improved in terms of capital growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION G: General Comments**

1. What challenges do you face in accessing credit?

---

2. What suggestions would you give to improve credit access for SMEs?

---