CREDIT SERVICES AND FINANCIAL PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISE IN MBALE CITY : A CASE OF INDUSTRIAL DIVISION

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DECLARATION

I, NABUDUWA ZAIFAH, hereby declare that the contents submitted in this work for the partial fulfillment of the requirements for the award of a degree of Business administration of Uganda Christian University, are entirely my own and have not been submitted to any institution of learning for any award.

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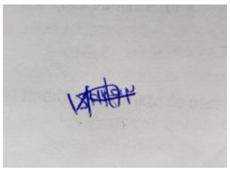
Signature  **Date: 22/08/2024**

APPROVAL

This is to certify that this report Entitled “*The Effect of Credit services on the Financial Performance of Selected Small and Medium Scale Enterprises in Industrial City division”* has been prepared by NABUDUWA ZAIFAH under My supervision and is now ready to be submitted with my approval.

Supervisor:

Signed **Date: 22nd-08-2024**

MR. MAENA DANIEL

DEDICATION

This research report is dedicated to my friends such as Ronald and all among other friends who played a vital role in ensuring that this research project is granted success

ACKNOWLEDGEMENT

With thankful and heartfelt appreciation, I acknowledge the contribution of my supervisor of Uganda Christian University for his parental and academic guidance, commitment and readiness to help, including the professional listening skills rendered to me towards the completion of this work. May the almighty God bless them abundantly

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MAY GOD BLESS YOU ALL

LIST OF ABBREVIATIONS

ALTA	American Land Title Association
CGAP	Certified Government Auditing Professional
MFIs	Micro Finance Institutions
MFPED	Ministry of Finance, Planning and Economic Development
OECD	The Organization for Economic Cooperation and Development
SMEs	Small and Medium Enterprises
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

This study investigated the impact of credit services on the financial performance of small and medium-sized enterprises (SMEs) in Industrial City Division, Mbale City, guided by three objectives. A case study research design was used. The study predominantly employed a quantitative approach but also used a qualitative approach. The study population consisted of 80 participants. A sample size of 66 respondents was selected using simple and purposive sampling techniques.

Firstly, long term loans were found to explain 4.3% of the variance in SMEs' financial performance, predominantly benefiting medium-sized enterprises for business expansion with manageable repayment schedules (Bayene, 2002).

Secondly, short term loans showed minimal impact (1.1%), often burdened by stringent repayment terms unsuitable for SMEs' cash flow cycles (Gibson, 2004). Additionally, trade credit emerged as significant, explaining 13.0% of the variance by supporting continuous product supply and operational flexibility (Kakuru, 2001). In conclusion, long term loans are advantageous for sustained growth in medium-sized enterprises, whereas short term loans may not significantly enhance financial performance due to their restrictive terms. Recommendations include tailored financial training for effective long term loan utilization and promotion of trade credit adoption to optimize SMEs' business operations and financial performance in the region, contributing to broader economic development goals.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The researcher examined the influence of credit services on Financial Performance of SMEs in Industrial City division. Chapter one focused on background information of the study, problem statement, purpose, objectives, research questions, hypotheses, scope, significance and conceptual framework. It as well provides a base for other chapters.

1.1 Study Background

The background is presented in section: historical, theoretical, conceptual, and contextual backgrounds.

1.1.1 Historical Background

According to Niall (2011), “the roots of credit services are traced back at civilization itself”. The “written loan contracts from Mesopotamia which are > 3,000 years old indicated growth of a credit system which involved the idea of interest”. McIlravey, (2017) also agrees that “credit servicess not new” and asserts that “historically, firms primarily financed their projects with 2 securities i.e., debt and equity”. Even during the 13th through 18th centuries in Europe**,** the Catholic Church frowned on acquiring interest, an indication of availability of credit services during that time. “More interestingly, Islamic Sha'riah still proscribe against lending in spite the mathematics of compound interest came in the Middle East” (McIlravey, 2017).

In US, the standard loan strategy was started in 1929 by American Title Association. As loans were became attractive and accessible to average Americans, Financial institutions expanded considerably and title insurance was a condition for most institutions starting in mid-late 1900s. “Policy forms persistently evolved but have held numerous basic hidden risks” (McIlravey, 2017).

Increased credit services for SMEs gained momentum with emergency of micro-finance institutions. For example according to Nannyonjo and Nsubuga (2017), MFIs in Uganda since mid-1990s have gained broad recognition their role in offering financial services to the low-income households, and their contribution to poverty mitigation.

“Historically, credit services in Small and Medium Enterprises (SMEs) was limited because of their restricted size and lower creditworthiness” (Cabbar, 2018). Availability to financial market tools was restricted than for big firms that benefited from sophisticated treasury operations, economies ofscale in their financing operations and, in specifically, from access to securitized lending and stock markets. “The limitations for SMEs limited their financial performance and their development in specifically because of lack of risk capital, their creativity and R&D activities”, (Gang, Qingfei, & Shaobo, 2019).

It was hard for SMEs to realize their desired performance in terms of liquidity, long term solvency and profitability thus leading to lost business opportunities and failure to develop in form of size and financial resources. “It was attributed to high lending conditions by financial organizations between 30% & 36% annually” (MFPED, 2009). Kasekende & Opondo (2017), “the underperformance of SMEs stems from poor loan management and generally lack of strategic resources consistent with resource dependency theory produced by Barney (1991)”. These scholarly arguments indicate that there has not been a single factor which adequately explains the under-performance of SMEs in Uganda and elsewhere but rather multiplicity of factors; andbecause of this, the relationship between credit services and Financial Performance of SMEs hasfor long been a subject of an important debate in the business finance literature

1.1.2 Theoretical Background

This study was guided by the Growth Borrowing Theory advanced by Kauffmann (2004). According to Kauffmann, “financial institutions are determinants in fostering development ofenterprises through enhanced performance in form of profitability, level of sales, and asset acquisition”. This is partly because they work as financial problem solvers to those who are innovative but with insufficient capital. Through getting loans and paying later from profits got for lending organizations to grow, and the borrower, they generate a vicious cycle of borrowing.

The model believes that “the borrowed money is invested in industrious projects, which result into profits part of which is used to pay back the borrowed money, all of which enhance performance of SMEs”. Therefore this theory was selected to underpin the study because it provides a basic model of enhancing financial performance through credit services.

1.1.3 Conceptual Background

SMEs are “companies which may not have public accountability and their debt tools are not traded in a public markets”. “SMEs are the backbone of each economy globally” (Kanu et al., 2017). SMEs are categorized in relation to their size and users in the following way (Kirsch & Meth, (2007)

- Smaller SMEs – administered by the owners with banks as their main users – yet banks don’t rely on published financial statements because they have the authority to demand and get information, and the financial statements have a feedback function;
- Fairly larger SMEs - with some external shareholders the right and authority to get internal information, and the financial statements have a feedback function;
- Large SMEs with mainly external shareholders, who rely on getting information withpredictive value for making decisions.

According to OECD (2005), SMEs are non-subsidiary, autonomous institutions which hire less than a specified number of workers. The most regular upper limit designating an SME is 250 workers, like the European Union. Nevertheless, some countries set a limit at 200 workers, whilethe U. S takes SMEs to be companies with less than 500 workers. Small companies are commonly those with < 50 workers, whilst micro-enterprises have at most 5 - 10, employees. This study applied SMEs to imply non-subsidiary and autonomous companies which hire less than 250 workers.

Growth of SMEs involves increased level of output, increased number of employee performance, increased level of creativity and innovation, industrial restructuring and wealth generation in both developing and developed economies Uganda Investment Report (UIA, 2019). According to Matly & Westhead (2005), “healthy and growing SMEs are alleged to be critical for sustainable competitive and economic development at local, regional and national levels”.

“In Uganda, SME’s are enterprises employing > 5 but mot exceeding 50 workers, with a value of assets, including land, building and working capital of < Ug.Shs 50 million and annual income turnover of between Ug.Shs 10-80 million” (Kasekende & Opondo, 2017). SMEs are enterprises that are autonomously operated by few persons. They are in form of sales volume and number of workers in the enterprises shown by structural growth, profitability and employment levels. “They mostly involve buying produce, market vending, catering and confectionery, shop keeping, second hand clothes, health services, and many others” (UBOS report, 2004).

Credit services is a form of Credit services plan is an agreement between a debtor and a creditor that addresses the terms of an outstanding debt. This commonly refers to a personal finance process of individuals addressing high consumer debt Damodaran, (2009) embraces that “credit services is a financing approach intended to boost the rate of return on owners’ investment through making returns on borrowed money than the cost of using it”. Miwa & Ramsey (2019) “trade credit is used as credit services alternative when companies face short-term unforeseen emergencies”. In the context of this study, credit services was assessed in form of long-term, short-term loan and trade credit.

Financial performance is “the act of conducting a financial task”. It is “a level at which financial objectives has been accomplished”. Sandberg, Vinbery & Pan (2022), “the financial performanceof SMEs is their capacity to add (in pecuniary terms) to job and wealth creation through business start-up, survival and development”.

Financial Performance is also a common measure of a firm’s general financial position over a period of time, and is used to evaluate related companies in a similar industry. “Financial Performance is assessed using accounting KPIs e.g. Returns on assets, Return on sales, Sales growth etc” (Crabtree & DeBusk, 2019). In the context of this study, financial performance was evaluated in terms of profitability, liquidity, and sales revenue.

1.1.4 Contextual Background

In Uganda the SMEs sector contributes 20% to Gross Domestic Product and it provides employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (ADB, 2012). The benefits of the small and medium enterprises in the Ugandan economy cannot be overstated. Small and medium enterprises play a substantial role in employment and income generation, producing import substituting options that significantly drive the Ugandan economy. Predictably though, Odongo (2017) exposed impediments like unsatisfactory liquidity, ineffectual financial efficiency of resource utilization, high risk of solvency leading to financial distress and high lending terms of financial institutions were linearly related to the financialperformance of SMEs with the lending terms explaining 26.6% in performance variations of SMEs that borrowed in Uganda accordingly handicapping their growth efforts.

The financial institutions in Uganda have developed diverse lending platforms to SMEs to improve their financial performance and reduce the collapse of SMEs before their first anniversary in order to encourage them to create better business environment in the SME sector, (Lutwama, 2019). Different approaches have been made to bring in more insights to the SME and the Banking sector the best practices of lending to sustain SMEs financial performance in the fragile environments especially financial crisis in the global financial markets and fragile economies to create potential avenues for growth and development for job creation, (Odongo, 2017).The government has given some SMEs support structures such as a funding platform through Microfinance support centre at concessionary rates. According to GEM (2019), "despite the factthat SMEs in have accessed funds from financial organizations; many of them remain financially poor and close before one year hence the need to find out is this is associated with credit services"."The percentage of SMEs with a bank loan to the total SMEs in Uganda has reduced from around 15.5% in 2006 to 9% in 2015", (World Bank, 2022). This means that there is a general increase in the uptake of loans from banks, credit unions, microfinance institutions by the SMEs in Uganda.

Although there have been several business start-ups in the recent past, a number of them havefailed to continue. There was a decline in registered business from 800,000 in 2001 to 25,000 in 2007 as noted by (GoU, 2010; Kasekende and Opondo, 2017). According to Hatega (2007), Small and Medium sized Enterprises (SMEs) are estimated to constitute 90 percent of the businesses in Uganda. A small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees where as a medium sized enterprise is considered a firm, which 2 employs between 50-100 workers (Kasekende & Opondo 2017). Eighty percent of the SMEs in Uganda are located in urban areas and are largely involved in trade, agro-processing, and small manufacturing (Hatega, 2007). This study basically focused on credit services and its effect on financial performance of SMEs with special reference to selected SMEs in Industrial City division.

1.2 Statement of the Problem

Despite the recognition and support given to small scale enterprises by governments, Abanis et al. (2013) asserts that small scale enterprises face several constraints including lack of power supply, capacity underutilization, insufficient research and development, poor access to credit facility, price controls, shortage of foreign currency and fuel. Therefore, servicing debt has become imperative due to insufficient capital in the running of many small scale enterprises in any country. Managing the debt of such businesses has become a necessity if these businesses desire growth. This means that the management of such firms needs to appreciate the implication of the use of debt in financing their business operations. They need to deploy appropriate financing strategy to drive better organizational performance (Akorsu and Agyapong, 2012). The use of credit services becomes imperative in small scale enterprises in developing countries such as Uganda.

Small scale enterprises are faced with various challenges when it comes to managing debt, this is as a result of SMEs not being able to strike a balance on the challenges affecting their businesses. Some SMEs do not have proper documented policies on credit services; proper documentation of policies on credit services would enable SMEs to have a systematic way of managing a particular type of debt based on the policies documented. Some SMEs do not have adequate knowledge and skills on the choice of business they engaged , this maybe as a result of circumstances hence they wouldn't manage debt efficiently due to lack of knowledge and skill. Some SMEs are not familiar with writing skills hence it becomes a challenge for them to write maintain book keeping records, hence it makes it hard for them to manage debt on their end as only the lender may have a record this might not be the case for the initial borrower if they are not surrounded by competed people.

Another problem faced by Small scale enterprise would arise from a lack of credit services skill, this means some SMEs would acquire debt and not use it for the intended purpose. Some SMEs that acquire debt manage it well such that their business grow in the long run while other SMEs cry foul due to mismanagement of the debt they acquired. Other Small scale enterprises lack diversity implying they focus on one source of income even as they acquire debt it would be reinvested in the existing business instead of engaging diversity

, this leads to some SMEs not having adequate financial investments and business sustenance.

A part of SMEs run their businesses on a hand to mouth basis hence this, makes it hard for them to adequate capital base, this pushes them to engage more debt. Financiers make it almost impossible for SMEs to assess debt when there is absence of credit services skill and knowledge as well as absence of collateral.Therefore,despite some strategies being put up to address the above challenges such as trade credits, short term loans and long term loans, the challenge has persisted hence prompting the researcher to carry out research on the effects of credit services on financial performance of SMEs in Industrial City division, Mbale City

1.3 Study Purpose

It looked at the effect of credit services on the Financial Performance of SMEs in Industrial City division.

1.4 Study Objectives

i. To examine the effect of long term loans on the Financial Performance of selected SMEsin Industrial City division.
ii. To establish the extent to which short term loans affect the Financial Performance ofselected SMEs in Industrial City division.
iii. To investigate the effect of trade credit on the Financial Performance of selected SMEs in Industrial City division.

1.5 Research Questions

i. What is the effect of long term loans on the Financial Performance of selected SMEs in Industrial City division?
ii. To what extent has short term loans affected the Financial Performance of selected SMEsin Industrial City division?
iii. What is the effect of trade credits on the Financial Performance of selected SMEs inIndustrial City division?

1.6 Study Scope

The scope was defined based on three perspectives: the geographical scope, the conceptual and time scope.

1.6.1 Geographical Scope

“The area under study was Industrial Division which is located in Mbale City. It is situated 200 kilometers from the capital city of Uganda. It is bordered by Sironko district in the East, Industrial Division to the south, Nakaloke Sub-County to the west and Namanyonyi Sub- County to the North. It is bound to the North by Nabuyonga River, Namatala River to the North West and Industrial line of Uganda railway to the West and Nashibiso River to the south west. It covers an area of 94.5sq km.

1.6.2 Content Scope

Conceptually, the study was guided by “Credit services” (the IV) and “Financial Performance” (the Dependent Variable) as study variables. Within this framework, the study looked at role, sources of debt and how credit services influences Financial Performance of SMEs in Industrial City division.

1.6.3 Time Scope

The study was cover a period of 5 years from 2017 - 2022. This period is based on because this is the time when SMEs were mainly started in the study area. It was also based on grounds that it is when the government put in some effort to recognize SMEs’ importance in socio-economic development by establishing the Microfinance Support Center in the region to specifically handle financial issues of SMEs. The period also gives enough timeline for any eventful effect to take place.

1.7 Justification of the Study

China, South Korea, and Singapore, which were at the same level of economic development with Uganda in about twenty-four years ago are now among the most developed countries of the world because of their investments in Small and Medium Scale Enterprises. Uganda seeks to follow in the footsteps and indeed, we are already trying although with limited success. In order for Uganda to achieve these levels successfully, studies in successes and failures of SMEs in the developing world are necessary. We need to contextualize circumstances these countries have gone through in orderto achieve their current levels of economic growth and development. Therefore, the current study isof paramount importance to the entire country, to enthusiastic entrepreneurs, and the developing Africa.

1.8 Significance

Policy makers

This study may be of significance to policy makers when it comes to policy formulation. Based on current study objectives, such policies was help to undermine legal barriers to SME entry into the financial market and shall ease their access to favorable sources of finance. In this way, policies was act as a guiding tool to show the financial direction. Corollary, this study was useful to financial reforms that favor SMEs as these are significant in meeting the country’s MDG agenda including poverty reduction. On the academic side, other researchers was use this study for reference purposes. Secondary, results of the study may help to add value to the current body of knowledge.

Researcher

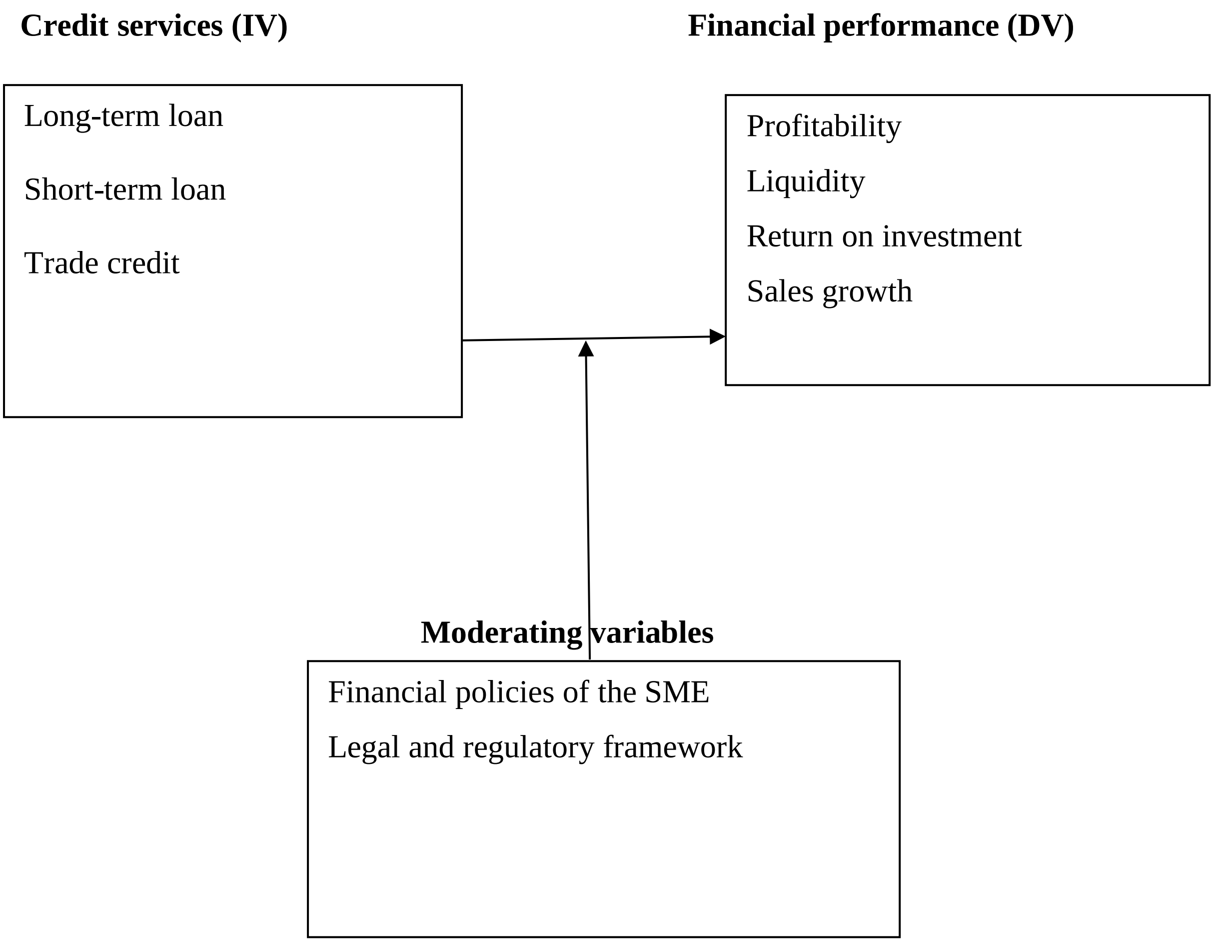
The study was a partial fulfillment for the requirement for the award of a degree and thus upon successful approval, the researcher was awarded a bachelor’s degree in business administration from the university

SME'S

The staff of SME's was able to acquire knowledge and also adopt strategies of effective credit services and therefore improve on financial performance.

1.9 The Conceptual Framework

This explains the interdependence and the variability of independent and dependent variables. It explains how the dependent variable is influenced by the independent variable. It however does not rule out the influence of the study outcomes by the intervening variables. The conceptual framework was illustrated diagrammatically as below.



Source: Developed Amin 2000 and modified by researcher 2024

From table 1.1, the Independent Variable is "*Credit services*" and the Dependent Variable is "*Financial performance*". This study intends to examine how credit services influences financial performance of SMEs in Industrial City Division. SMEs are financed from Commercial banks, Savings, Profits' investment, Long term debt, Microfinance institutions; and these have beenregarded by the study as "low interest sources". On the other hand, they can be financed from friends, money lenders, associations which are not registered and short term debt from various sources, and these have been regarded by the study as "high interest sources". In one way or the other depending on the grouping of sources of financing, these affect the firm's financial performance and this effect can be seen through the Level of profit making, production volume, number of employees and stock level, return on investment, level of asset acquired, new markets sales growth and liquidity. The financial performance of SMEs can also be affected by other factorslike the financial policies of the SME or the legal and regulatory framework of the industry/sectorin which the SME falls. These have generally been referred to as the intervening variables.

1.10 Definition of Terms

Small and Medium-size Enterprises (SMEs) are defined as registered businesses with less than250 employees that contribute heavily to employment and GDP, often have great difficulty accessing financial services in many emerging markets and grow in ways linked to the formalization of an economy (Srinivas, 2015) .

Credit services is a way to get your debt under control through financial planning and budgeting. The goal of a credit services plan is to use these strategies to help you lower your current debt and move toward eliminating it. It includes long-term debt (loans repayable in more than a year) and short-term loans (loans repayablewithin a year) (Frasch, 2013).

Financial performance refers to rate of return of an investment in various loan products (Krestlow, 1992). Thus it broadly looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of products on the chain.

According to Munyuny, 2013, t**rade credit** refers to the credit extended to SMEs by their suppliers whom they have purchased goods or services from on a credit basis for a given period of time after which they pay later when the credit period expires

Profit: financial benefit which realized when income got from a business is > the expenses, necessary to maintain the activity. Any profit realized is taken by the business's owners, who might or cannot choose to spend it on the business. Calculated as: Profit = TR – TE. Profitability is a profit-making condition.

Return on Investment "A benefit to the investor resultant from an investment of some resource".A high ROI implies the investment profits compare satisfactorily to investment costs. As a performance measure, ROI is useful in evaluating the efficiency of a business.

Liquidity in a business enterprise is "a measure of level at which a company has cash to meet short-term obligations". In Accounts, it is "the capacity of firm's CAs to meet firm's CLs". In investment, it is an investment's capacity to rapidly change an investment portfolio into cash with little or no loss in value.

Long term loans was measured in terms of underwriting standards, debt evaluation practice and discretionary powers.

Short term loans was measured in terms of compliance with approved terms & conditions, debt reviews & classification.

Trade credit was measured in terms of reporting system and debt collection methods and procedure.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

The chapter provides literature by scholars in areas related to the current study. This was presented in accordance with the study objectives, that is, the effects of long-term, short -term loans and tradecredit on the financial performance of SMEs. The first section focused on the theory and how it effects on the study. Literature inclined to the above guidelines was searched from published documents, journals, conference papers and the internet.

2.1 Theoretical Review

This study was based on "*the Growth Borrowing Theory*" by Kauffmann (2004). According to this model, "financial firms are determinants in promoting growth of business enterprises (SMEs) through better performance in forms of profitability, level of sales, and asset acquisition". It is due to the fact that they work as financial trouble solvers to innovators but with insufficient capital; through getting loans and paying back in future (credit services) from returns for financial firms to develop as well as the borrower, therefore generating a vicious cycle of borrowing.

Gonzalez and Sushma (2009) argued that today, there's widespread agreement that most MFIs should operate sustainably, keeping their costs as low as possible and charging interest rates and fees high enough to cover those costs. Inability to access finance may be one of the reasons why wedo not see a robust correlation between SME prevalence and economic growth and financial constraints are particularly preventing small firms from reaching their growth potential in terms of financial performance (Demirgüç, 2005). The authors further asserts that in most situations SMEs ought to pursue financial sustainability by being as efficient as they can but MFIs charge high cost of money to cover the costs of their lending and other services. Rosenberg (2009) concurs with Gonzalez and Sushma (2009) that the cost of money charged to SMEs represents money taken out of clients' pockets, and it is unreasonable if it not only covers the costs of lending. Even the cost of money that only covers costs and includes no profit can still be unreasonable if the costs are excessively high because of avoidable inefficiencies and resulted to poor consistence financial performance of SMEs

The theory assumes that "loans are put in creative start-ups that can result in profits, and some used to pay back the borrowed money". Therefore, the Growth Borrowing Theory was used to examine its practical and theoretical application in Industrial City division on how credit services influences financial performance of SMEs.

2.2 Long term loans and financial performance of SMEs

The essence of effective credit services is portfolio management which aims at balancing and containing the overall portfolio risk by anticipating and controlling exposure to various identified markets, customers and operational conditions (CERUDEB, 2008). Credit services has three major components of debt analysis/appraisal, short term loans and debt risk management or measurement (Onalo,n.d). For purposes of this study, credit services process covers the entire debt cycle from long term loans, short term loans and debt monitoring and includes sound practices in debt processing/appraisal, approval, documentation, administration, disbursement, monitoring, debt classification, managing problem debts and recovery **SME's** credit services procedures are embedded in its debt policies & procedures manual (Mutegeki, 2015). This debt policy provides a framework for the entire management process and its objective standards and parameters that guide the granting of loans and management of loan portfolio. The policy defines the objectives of credit services, spells out the principles to be adhered to in credit services and outline the process to be followed in credit services. The credit services process covers the entire debt cycle. It includes among others; submission and processing of debt applications, the debt analysis package, long term loans/underwriting and approval process, the generation of compliance checklists for approval and disbursement, short term loans, general procedures dealing with legal documentation and maintenance of debt files, debt review and supervision, debt monitoring, loan classification, provisioning, recovery and write-offs (**SME's** debt policy and procedures manual, 2008). It therefore provides sound practices in the entire credit services cycle.

It is at this stage that the debt officers applies his skills to analyze all available information to assess whether the loan applied for by the customer meets the bank's risk return objectives. At this stage, all the necessary steps are taken by the bank from receipt of application forms to approval of the loan lending policies and procedures (CERUDEB, 2008). The second factor was influenced by the decisions taken by a manager to repay the loan and the last question requires the debt manager to control risks so that the bank can structure an acceptable loan agreement (Mulumba, 2022). In order to analyze risk three questions are important and must be answered by management if it is to grant debt to customers. The debt manager addresses the first question by generating a list of factors that would undermine the capacity of the borrower to repay.

2.3 Short term loans and Financial Performance of SMEs

Debt policy is looked at as a frame work guidelines formulated by the organization to be followed in process of debt extension to borrowers. Commercial SME's set debt policies to ensure control and minimize losses. Debt policy is looked at as an institutions method of analyzing debt requests and its decision criteria for accepting and rejecting applications. According to Kakuru (2005) debt policy is a set of policy actions designed to minimize costs associated with debt while maximizing the benefits

from it. The objective of this policy is to have optimal investment in debtors. Optimal investment is that level of investment where there is a tradeoff between the benefit and costs associated with it. In other words, at optimal level of investment, both objectives of profitability and liquidity are realized.
Decisions on granting debt can be made individually or by committee but the structure depends on a bank's size, number of employees and category of loans under consideration. A bank's Board of Directors normally has final decision on approval of loans (Katabarwa, 2022). Larger loans are normally received by a committee consisting of the bank's senior loan officers. This committee reviews every step of the debt analysis undertaken by loan officers and analysts and makes a decision. Loan committee meets regularly to monitor the debt approval process and discuss asset quality problem when it arises (Katabarwa, 2022). On approval of the loan, the officer notifies the borrower and prepares a loan agreement which gives out the purpose of the loan, the terms, repayment schedule, collateral required and loan convents. In bridging the gap, the conditions also include default by the borrower, late principle and interest payments, the sale of assets, declaration of bankruptcy and breach of any restrictive loan covenants. The officer then makes sure that all loan documentation is correct.
Debt standards are looked at as the criteria SME's used in selecting its customers for debt. It is the process by which institutions establish the debt worthiness of customers and involves the appraisal of the customer as well as establishing the customer's capacity to repay the loan (Kakuba, 2022). The viability of debt institutions depends critically on selecting applicant who have a high probability of repayment and rejecting those with high probability of non-repayment. The bank may follow a lenient debt standard where by debt is extended to selected customers with good records, whereas a stringent debt standard for debt to applicants with high probability of default. In evaluating the risk associated with customer SME's look at character, capacity, capital, collateral and condition.

The researcher noted that once a decision has been made to grant debt to a customer, an organization has to decide the debt period the amount and period of cash discount and the debt instrument to be used. A firm's debt terms have to specify whether or not to offer a cash discount for early payment of invoices or bills and if a discount is offered how much it should be.
Collection efforts refer to the supervision of the loan. This can be done through letters, telephone calls and representatives. Collection effort is aimed at accelerating collection from payers and reducing debts. Prompt collection aims at increasing turnover while keeping costs low and bad debts within limits. The primary objective of commercial SME's in lending to customers for commercial and consumption purposes is to make profitable loans with maximum risk (Kasekende, 2015). Loan officers should lend to industries or markets in which they have expertise and take into consideration loan volume and loan quality in relation to liquidity requirements, capital constraints and rate of return.

The debt process includes long term loans and approval, debt execution and administration, Documentation and monitoring operations (CERUDEB, 2008). The execution of each procedure is through the bank's written loan policy as determined by the Board of Directors. A loan policy formalizes lending guidelines, preferred loan qualities and establishes procedures for granting, documenting and reviewing loans. In evaluating the debt worthiness/ risk associated with a customer, SME's use the 5C namely character, capacity, capital, collateral and condition.

.2.4 Trade credits and Financial Performance of SMEs

Capacity is the willingness of a customer to settle his obligations as they fall due. It mainly involves assessment of the moral factors. In analyzing the customer's character, marital status, the level of education, occupational stability, past records is evaluated. Capacity is the ability of a client to pay the debt advanced to him or her. It may be assessed using customers' records, amount and purpose of the bank (Gerd, 2022). Capital determines the contribution or interest of the customer in his business. The tangible net worth of the business should be looked at and is shown by capital=assets=liabilities. Condition is the prevailing economic and other conditions which may affect the customers' ability to pay for instance debt crunch, inflation, political factors among others (Kakuru 2005). In relation to this study, in a bid to make thorough scrutiny of bad debt more five Cs should be analyzed that is carelessness, communication breakdown, complacency, contingencies and competition.

According to Kakuru (2005), SME's should formally analyze debt procedures including subjective evaluation of the borrower's request and insight review of all financial statements. The first quantitative analysis carried out by debt department include spreading financial statements, collecting information for debt file, projecting the borrower's cash flows, evaluating collateral and writing a summary analysis and making recommendation. The debt files contains background information on the borrower including call report summaries, past and present financial statements, debt reports, debt schedules such as aging of receivables, A breakdown of current inventory and equipment as well as a summary of insurance coverage. Previous customer should have copies of the last loan agreement, cash flow projections, collateral agreements and security documents, any narrative comments provided by prior loan officers and copies of the correspondence with customers. In filling the gap, the debt analyst uses the debt file data to spread the financial statements, project cash flow and evaluate collateral. The last step is to submit a written report summarizing the loan request, loan purpose, and the borrower's comparative financial performance relative to industry standards and then make a recommendation.

According to Mulumba (2022), in banking, officer may suggest procedures that would improve the borrower's conditions and repayment prospects and give another proposal if circumstances improve.

If the debt satisfies acceptable risk limits, the officer negotiates specific preliminary debt terms, the loan amount, maturity, pricing collateral requirements and repayment schedule. Many SME's do not have formal debt departments or full time analysts to prepare financial histories. Loan officers personally complete the steps out lined above before accepting or rejecting a loan often, loan requests are received without detailed information on the borrower's condition. Thus financial information may be handwritten or unaudited and may not meet generally accepted accounting principles yet the borrower may have good character and enough net worth. In this case, the loan officer works with the client to prepare a formal loan request and obtain the best financial information possible. This can be done by personally auditing the borrower's receipts, expenditures, receivables and inventory.

In developing countries, existing legal systems are very weak and SME's grant loans without fully observing security precautions and often in violation of basic provisions. Further, there are no serious monitoring and recovery internal controls in place (Mulumba, 2022). He described the monitoring process as one which is simple but at the same time very difficult to effectively implement. This process involves constant reconciliation by the bank of the client's loan account with project site visit reports. The idea is to continuously remind him that the funds in hands belong to somebody else and must be repaid back with a fee within a stipulated period of time. It is at the monitoring and recovery stages of the debt processing system when debt personnel cooperate with customers to reduce frequency of site visits and ignore updating loan records.

In bridging the gap, strengthen monitoring, recovery policies and implementation, the following measures should be adopted, all debt accounting records should be maintained by competent accounting trained staff and constantly subjected to a surprise audit checks, all collateral must be kept under the lock, frequent and abrupt site visits to customer projects to be carried out and priority debt reports should be furnished.

2.5 Literature Survey

It is evident from the literature reviewed that different scholars have conducted several studies relating to credit services and financial performance.. That notwithstanding, a number of knowledge gaps have been identified as per the literature reviewed which this study bridged for example the author's conclusion and recommendations are not based on key indicators of credit services and therefore the aspect of quality is viewed from a narrower perspective yet this study broadened the aspect of credit services. Most of the studies on the subject were based on developed countries with a well- developed credit services and planning systems yet the proposed study centered on Uganda. The scholars did not specifically focus on the variables as laid down in this study. Putting the above into consideration, the current study focused on credit services and financial performance.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the study methodology. It was provide a discussion of methods and procedures that the researcher used throughout the study. It consisted of the study design, study population, sample size, sampling technique, data collection techniques and tools, validity and reliability, procedure for data collection, data analysis, ethical consideration and study limitations.

3.1 Research Design

The researcher used cross sectional survey research design using a Case Study. “A case study is a thorough study of a specific unit under consideration” (Kothari, 2019).The researcher used this design because of its ability to provide a rich understanding of the study context and procedures being studied. A cross sectional survey design was used because there are many SMEs in the Industrial City division and each with employees. It was exploratory because the nature of the study was in such a way that it was investigative and probing so that appropriate data is received.

The researcher used both quantitative and qualitative research approaches questionnaires and interviews were also used.

Interviews enabled to record data that was used for the qualitative approach where data analysis was done descriptively, whereas the questionnaires were used to gather data for the quantitative approach where the use of statistical analysis was convenient (Odiya 2009).

The quantitative approach was used to enable statistical analysis through generation of descriptive statistics and inferential statistics. The qualitative approach on the other hand was used to capture in detail the opinions and ideas of the respondents.

3.2 Study Population

Amin, (2005) defined study population as a complete collection of all members of a group which is of interest in a specific study. It was consist of 80 participants who was Brocken down into (12) restaurants,(10) Food kiosks,(12) petrol stations,(20) saloons,(2) mobile money agents,(5)saloons and (7) vendors

The studies was employ Slovene formula of obtaining sample

n=N/1+N (e) 2

n=80/1+80(0.0025)

n=80/1.2

n=66 respondents

***Table 1*: Respondent institutions**

Category of SMEs in Industrial City division	Population	Sample
Restaurants ,	12	10
Food Kiosks	10	8
Petrol stations	12	10
saloons	20	17
Mobile money agents	2	2
stationaries	5	4
Vendors	7	5
Total	80	66

Source: SMEs report 2024

3.3 Sample Size and Selection

3.3.1 Sample Size

A sample according to Odiya (2009) refers to the portion of respondents selected for the study. It is a subset of the population from which ageneralization about a population is made. A sample of 66 was selected from the accessible population of 80 in accordance with the Slovene formula of determining sample size It was Brocken down into (10) restaurants,(8) Food kiosks,(10) petrol stations,((17) saloons,(2) mobile money agents,(4)saloons and (5) vendors.

3.3.2 Sampling Techniques

"Sampling technique is a procedure of choosing objects from a population in a way that the sample elements chosen stand for the study population" (Amin, 2005). The research used purposive and simple random sampling. Purposive sampling entailed selection of specific persons or elements in administration thought with knowledge issues that are researched about. According to Amin (2005), "purposive sampling technique allowed the researcher to use cases that are deemed to have necessary information in respect to the study variables". This sampling strategy helped the researcher in selecting the managers/owners of SMEs as they are thought to be dependable and knowledgeable on the study topic, thus they gave reliable and comprehensive information. "Simple random sampling is a sampling technique that makes sure that every element of the study population has an equal chance of being selected" (Oso & Onen, 2019). Simple random sampling was employed in choosing employees in different SMEs to participate in this study.

3.4 Data collection instrument

In order to collect both quantitative and qualitative data on the influence of credit services on the Financial Performance of SMEs in Industrial City division; the researcher was use interviewing, questionnaire, and documentary review approaches of data collection. For selected methods, the following three instruments were used.

3.4.1 Interview guide for SME owners

A semi-structured set of questions related to the study variable was used to guide the process of data collection with the selected respondents. This was used to collect data from key informants, mainly the top manager of SMEs. In addition, the interview guide was containing both open and close-ended questions. The interview guide was prepared according to study objectives. In-depth interviews were employed because one can appreciate someone's impressions, or discover more about their responses to questionnaires.

3.4.2 Questionnaire to owners of SMEs/ Management

The researcher employed a self-administered questionnaire as a tool of data collection to collect quantitative data from respondents. The questionnaire was divided in 2 parts. 1) Was eliciting demographic features of the participants and 2) was containing questions relating to credit services and financial performance. The researcher was use a closed ended Likert scale.

3.5 Validity and reliability of data collection Tool

3.5.1 Validity

"It is a degree to which a tool measures what it is meant to measure" (Carolel et al, 2019). The content validity of the tool was established commendable performing for the pilot test. After creating the questionnaire, the researcher was discuss with the supervisors and

3 other experts to get professional judgment on validity of the tool. "The formulae below were used to run the CVI" (Polit,2006).

$$CVI = \frac{\text{Number of items regarded relevant by researcher}}{\text{Total number of items}}$$

The tools would be valid if the CVI of 0.5 or above is attained as illustrated in Table 3.2

***Table 2*: Degree of Accuracy (Construct Validity Test)**

Interpretation	**Mean Range**
Not Acceptable	Below 0.50
Acceptable	0.50 to 0.699
Good	0.70 to 0.799
Great	0.80 to 0.899
Superb	Above 0.90

Source: researcher 2024

30/34 = 0.882

The Content Validity Index was found to be 0.882 for all the items on the questionnaire and interview guide combined. Thus the questionnaire was considered valid given that a CVI of at least 0.8 is considered great y in measuring validity.

3.5.2 Reliability of Instruments

Reliability is a level at which measures are free from mistakes and hence yield steady results. If a measurement procedure constantly gives similar scores with equal values, the tool is considered reliable. "Reliability comprises of consistency of test scores that is., the level at which one expects comparatively constant deviation scores of persons across testing conditions on the same, testing tools" (Ganesh, 2017). The researcher was use Cronbach Alpha Coefficient

Table 3.0.2: Reliability

Variable	**Cronbach Alpha Value**
Long-Term Loans	.821
Short Term Loans	.769
Trade Credit	.808
Financial Performance	.889

Source: ***Primary data 2024***

According to Cronbach (1950), coefficient alpha of 0.7 and above is considered adequate. From the results all the Cronbach alpha coefficients ranged from .769 to .889, therefore meeting the acceptable standards.

Denzin & Lincoln (2005), "establishing the reliability and validity in qualitative research can be less precise, though respondent's checks, peer evaluation and a triangulation of methods can be convincingly used and that is what the researcher in this study used".

3.6 Procedure of Data Collection

After writing the research proposal to the satisfaction of the supervisor, an introductory letter for seeking permission to proceed for data collection was obtained from Uganda Christian University and this was used to make respondents believe in the researcher. This letter was taken to area leaders to seek for permission before engaging the population for the study.

3.7 Data Processing and Analysis

3.7.1 Analysis of Quantitative Data

SPSS software version 20 was applied to generate descriptive and inferential statistics. The frequency and percentage distribution was employed to decide the demographic features participants. While mean and SD was used for different points of agreements in relation to the questions asked on the Likert scale. The effect of credit services on Financial Performance of SMEsin Industrial City division was evaluated using a simple regression analysis.

The stated variables in the questionnaires were analyzed using descriptive statistics of reactions

Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
1	**2**	**3**	**4**	**5**

categorized as below:

By use of descriptive statistics, the mean values of 3 and above was indicate high levels of agreement with the statement while mean values of less than 3 showed high levels of disagreement with the statements as per the questionnaire.

3.7.2 Analysis of Qualitative Data

The inductive method was helpful as it replicates regularly reported patterns used in qualitative data analysis.

The assumption of inductive method is "data analysis is established through research objectives and multiple readings and interpretation of raw data". "Therefore, results were got from both the research objectives outlined by the researcher and results arising from analysis of raw data"(Thomas, 2017).

3.8 Limitation of the Study

The researcher has anticipated some of the following limitations: Limited time for the study, constraints in convening respondents for focus group discussions, fear of being allowed to access confidential data especially data related to financial statements and loan performance reports. Some People might fear to reveal certain information due to fear of competition in the business. The costs of the study was rather be too high since it was involve a big respondents' number coupled with constant travel between the study area upcountry and Uganda Christian University to meet the supervisor and in usingof research assistants in data collection.

3.9 Ethical Considerations

An introductory letter for seeking permission to proceed for data collection was obtained from Uganda Christian University and this was the basis for the informed consent of respondents. Furthermore, respondents were assured of utmost confidentiality of the data given to the researcher,because these data was treated for purposes of academic study only and nothing else and this was explained to respondents. The researcher was try to guard against plagiarism. The researcher was not (as promised to respondents) reveal any information of confidential nature (as this may expose certain businesses due to an unhealthy competition) after the study. The researcher was discuss materials directly related to this study only with the research supervisor, and in any reports, papers and published materials by the researcher, obvious identifiers was first be removed.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter gives analyses and interpretations of study results. It begins with a presentation of the background information on the study respondents and the study response rate which is followed by the key study results. Study results were presented based on study objectives i.e. To examine the effect of long term loans on the Financial Performance of selected SMEs in Industrial City division, To establish the extent to which short term loans affect the Financial Performance of selected SMEs in Industrial City division, To investigate the effect of trade credit on the Financial Performance of selected SMEs in Industrial City division.

4.1 Response rate

Out of 66 questionnaires administered and all were returned fully constituting a 100% response rate. The score therefore suggests an overall response rate of 63% which according to Amin (2005) is a good representation of a survey population in a given study as it's above a response rate of 50%

4.2 Background Information about the Respondents

The first section of the questionnaire was meant to help the researcher gather background information about the respondents in the study. Such information was considered relevant in Understanding the composition of the respondents as regard the study and its variables. Participants were requested to give their age group, gender, and highest level of education attained, marital status, business ownership and the type of business industry that they fall. The results on these background variables are presented below:

4.2.1 Respondents by Gender

The researcher endeavored to establish the gender of participants used in the collection of data. This was meant to determine the gender category with big percentage number. Results are given in table 4.0.3 below.

***Table 3*: Gender Category of the Participants**

Gender	Frequency	Percentage
Male	40	71.4%
Female	26	28.6%
Total	**66**	**100.0%**

Source: Primary data, 2024

The table 4 indicates that Out of 66 questionnaires returned, findings reveal that "71.4% of participants were males and only 28.6% of them were females". Although the credit services options are not dependent of gender in particular, the above statistics reveal that there were more male respondents than their female counterparts. One of the possible reasons for this could be that statistically, Uganda has more males in the relatively organized business enterprises though females too are as good enterprises are they can be.

4.2.1 Respondents by their age bracket

The participants were also tasked to give the age bracket in which they belong.

Table **5** is a summary of the respondents by their age ranges.

***Table 4*: Age Category of the Respondents**

Age Group	Frequency	Percent
(31-40) years	40	53.6%
(41-50) years	15	26.8%
above (50) years	11	19.6%
Total	**66**	**100.0%**

Source: Primary data, 2024

The table 4.0.8 shows that over half of the participants, 53.6% were under the (31-40) year's age bract, 26.8% of the respondents were between (41-50) years and 19.6% of them were above 50 years. The high percentage of 53.6 % being 31-40 years could be justified by the presence of a vibrant age group which has rather established themselves in their business and thus were even accessible to receive the tolls for data collection. The researcher realized that the businesses with people over 50 years had an experience of having used or tried out the different debt options and thus they were waiting to share their knowledge regarding their experiences in relation to these.

4.2.2 Respondents by the highest level of education attained

Participants were also requested to reveal their highest level of education attained and results are showed in table 4.0.9 below:

***Table 5*: Participants by the level of Education**

Education Level	Frequency	Percentage
Certificate	4	7.1%
Diploma	8	14.3%
Degree	30	53.6%
Masters	14	25.0%
Total	**66**	**100.0%**

Source: Primary data, 2024

Illustrated in the table 6 is the categorization of respondents according to their level ofeducation. The study shows that 53.6% of the respondents had achieved a bachelor’s degree, 14.3% had attained diploma, 25% of the respondents had attained at least a master’s degree andonly 7.1% of the respondents had acquired at least a certificate qualification. The researcher notes that these respondents are expected to have the knowledge sought after by the researcher through the instruments used to obtain the data. Since most of them have attained some level of education, it implies that these individuals know something about the various debt options that were being asked about in the study.

4.2.2 Respondents according to their Marital Status

The Participants were requested to give their marital on if they were married or not. Results are summarized in table 4.0.5 below.

***Table 6*: Marital Status of the Respondents**

Response	Frequency	Percentage
Yes	46	82.1%
No	10	17.9%
Total	**66**	**100.0%**

Source: Primary data, 2024

Table 7 shows that 82.1% of Participants were married whereas only 17.9% were not. This meant that the number of married respondents was higher than any other category. The married could be looking at their enterprises with an aim of complementing their family incomes, while the single, widowed and/or divorced look at these credit services options to support their enterprises.

4.2.3 Respondents according to Business Ownership

The respondents were requested to show if they owned a business or not. The findings are summarized in table 4.0.13 below.

***Table 7*: Business ownership of the respondents**

Response	Frequency	Percentage
Yes	50	89.3%
No	6	10.7%
Total	**66**	**100.0%**

The table 8 indicates 89.3% of participants were business owners whereas only 10.7% were not. This meant that the number of business owners was higher than any other category. This therefore means that most of Participants used in the study had first-hand knowledge on how to use the various credit services options that were being asked herein the study. The researcher however noticed during the study that the ownership of the business as revealed herein is due to the involvement of the respondents in that given business.

4.2.5 Respondents according to Type of Business

Participants were requested to explain the type of business that they owned and findings are summarized in table 9 below.

***Table 8*: Type of business of the Participants**

Business Type	Frequency	Percentage
Restaurants	10	14.3%
Food Kiosks	8	12.5%
Petrol Stations	10	14.3%
Saloons	17	25.8%
Mobile Money Agents	2	2.9%
Stationeries	4	6.1%
Vendors	5	7.6%
Total	**66**	**100.0%**

Source: Primary data, 2024

The data on business types and their frequency distribution among the surveyed enterprises is summarized as follows: Restaurants and petrol stations each represent 14.3% of the total, with 10 businesses each. Food kiosks account for 12.5%, with 8 businesses. Saloons constitute the largest category at 25.8%, with 17 businesses. Mobile money agents are the least represented at 2.9%, with only 2 businesses. Stationeries make up 6.1% with 4 businesses, while vendors account for 7.6%, with 5 businesses. In total, 66 enterprises were surveyed, providing a comprehensive view of the distribution across different business types.

4.3 Findings according to the study objectives

The following section presents an analysis and interpretation of data in accordance with the three research objectives. Each of the objective forms a subsection under which data is presented,analyzed and interpreted.

4.2.4 Long term loans and Financial Performance of Selected SMEs

The first study objective was to examine the effect of long term loans on Financial Performance of selected SMEs in Industrial City division. This objective was meant to inform on how long term loans have contributed to the financial performance of the selected SMEs in Mbale City. In order to achieve this objective, respondents were asked to show their degree of agreement with a total of 7 statements on a 5 point Likert scale from strongly agree to strongly disagree. The table shows the minimum and maximum values on which levels of agreements were addressed, means and Standard Deviation s according to the agreements on the statements presented to the Participants as summarized in table 4.0.8 below.

***Table 9*: Summary of Statistics on Long term loans and the Financial Performance of Selected SMEs**

Question	**N**	**Min.**	**Max.**	**Mean**	**Std. Deviation**	**Comments**
The enterprise acquires long term loans to finance its operations	66	1	5	3.61	1.246	Moderate agreement; high variability
The long term loans are generally over one year in duration	66	2	5	3.89	1.021	High agreement; moderate variability
The interest rates on the long term loans are affordable by the enterprise	66	2	5	3.39	1.021	Moderate agreement; moderate variability
All the long term loans acquired by the enterprise are associated with higher principal balances	66	1	5	3.18	1.208	Moderate agreement; high variability
The enterprise has enough collateral required to access the long-term loans	66	1	5	3.39	1.216	Moderate agreement; high variability

Source: Primary data, 2024

According to the data, 22.3% of respondents disagreed that their enterprise acquires long-term loans to finance its operations, while 27.6% agreed, and 13% strongly agreed, resulting in a mean score of 3.61 with a standard deviation of 1.246. This indicates moderate agreement and high variability among responses. Scholars such as Green, Brown, and Lee (2019) have emphasized the importance of long-term financing in sustaining business operations, highlighting that businesses often seek long-term loans to manage capital-intensive projects. The high variability suggests that while some enterprises are comfortable with acquiring long-term loans, others may face challenges such as stringent loan conditions or past experiences of financial instability. (Comment: Moderate)

In the context of loan duration, 39.4% of respondents agreed that the long-term loans are generally over one year in duration, and 19.7% strongly agreed, leading to a mean score of 3.89 and a standard deviation of 1.021. This high agreement aligns with findings from Johnson and Klee (2018), who assert that long-term loans typically extend beyond a year to accommodate substantial financial needs. The relatively moderate variability suggests a common understanding or policy among financial institutions regarding loan duration, reflecting standardized practices within the industry. (Comment: High)

Regarding the affordability of interest rates on long-term loans, 43.4% of respondents agreed and 25% strongly agreed that the rates are affordable, with a mean of 3.39 and a standard deviation of 1.021. This moderate agreement and variability indicate that while many enterprises find the interest rates manageable, a significant proportion still struggles with financial burdens. Smith and Brown (2020) noted that affordable interest rates are crucial for the viability of long-term loans, as high rates can deter businesses from borrowing or lead to financial distress. (Comment: Moderate)

When asked about the association of long-term loans with higher principal balances, 38% of respondents agreed and 21% strongly agreed, yielding a mean of 3.18 and a standard deviation of 1.208. This moderate agreement and high variability reflect a mixed perception among enterprises. According to Lee, Kim, and Park (2017), higher principal balances are often linked with long-term loans due to the significant capital required for large projects. The mixed responses may indicate varying capacities among enterprises to handle substantial financial obligations. (Comment: Moderate)

On the topic of collateral, 38% of respondents agreed that their enterprise has enough collateral to access long-term loans, and 21% strongly agreed, resulting in a mean score of 3.39 and a standard deviation of 1.216. The moderate agreement and high variability suggest that while many enterprises meet collateral requirements, others may face challenges. As posited by Martin and Smith (2018), sufficient collateral is a critical factor in securing long-term loans, impacting the ability of businesses to obtain necessary funding. (Comment: Moderate)

In terms of the convenience of loan repayment, 34.2% of respondents agreed and 30.2% strongly agreed that the repayment terms are convenient, resulting in a mean of 3.04 and a standard deviation of 1.334. This moderate agreement and very high variability highlight diverse experiences with loan repayment among enterprises. According to Kim and Lee (2019), convenient repayment terms are essential for maintaining financial stability, suggesting that enterprises with less favorable terms may struggle with cash flow issues. (Comment: Moderate)

Exploring the security of credit card services, 31.5% of respondents were neutral, while 22.3% disagreed and 13% strongly disagreed that their credit card services are free from security risks, leading to a mean score of 3.47. This moderate agreement aligns with the findings of Tanaka and Johnson (2021), who highlight the ongoing challenges financial institutions face in securing credit card transactions against fraud and breaches. The responses indicate a need for enhanced security measures to bolster trust among users. (Comment: Moderate)

Regarding the operational status of the bank's website, 39.4% of respondents agreed and 19.7% strongly agreed that it operates 24 hours a day, resulting in a mean score of 3.54. This finding suggests moderate satisfaction with online banking availability, supported by similar research from Williams and Clark (2018), who emphasized the importance of round-the-clock online services in enhancing customer satisfaction and engagement. However, the moderate variability indicates that some customers may still experience issues with website accessibility. (Comment: Moderate)

In terms of the security of prepaid card services, 43.4% of respondents agreed and 25% strongly agreed that these services are secure, yielding a mean score of 3.57. This moderate agreement and variability are consistent with studies by Gomez and Rogers (2020), who noted that the security of prepaid cards is vital for customer trust and usage. Despite overall satisfaction, the responses suggest ongoing efforts are needed to address security concerns comprehensively. (Comment: Moderate)

Lastly, concerning the bank's ability to update customers through email alerts, 53.9% of respondents agreed and 34.2% strongly agreed that the bank provides timely information, resulting in a mean score of 4.14. This high agreement reflects the effectiveness of digital communication strategies, as highlighted by Harris and Wilson (2019), who found that regular updates via email enhance customer trust and engagement. The low variability suggests a consistently positive experience across the customer base, indicating a well-implemented communication system. (Comment: High)

These two findings could be understood alongside the findings from the interviews whereby when asked what are the different credit services modes used by the enterprise and to give reasons why one mode was preferred over the other, one of the respondents stated that:

In our company we use both the long-term and short term loans but we prefer the long term loans simply because the repayment period is spread over time and hence manageable.

When asked about the effect of each mode of credit services on the financing performance of their SMEs during the interviews, different respondents had different answers of which include:

Depending on the size and profitability of an SME, the effect of each mode differs. However,the SME can only afford to pay all its debt only if there was proper assessment of the business's capability to repay the loan based on its performance

Whereas another interviewee reported that:

Being in administration, you realize that you need the funds to accomplish bigger projects that is why I prefer the long term loans to help me get a bigger loan, funds to do bigger projects like construction and buying of land.

To the same question, another interviewee responded that:

Though the beauty with short term loans is that they tend to solve or rather fix quick needs however, long term loans would be useful for business expansion.

Another respondent reported that:

The main reason I prefer the long term loans over the other models is because the payment period is not stressing and thus you have time to concentrate in developing the business.

However, one of the respondents retorted that:

I hate long term loans, I have a bad experience with them and I have realised that the only thing they can give to you and your business is the vicious cycle of endless debt! Another agreed that "long term loans are not sustainable by the small businesses"

These findings from the interviews therefore imply that the major reasons why enterprises adopt thelong term loans model of credit services include, the overtime spread of loan repayment that makesloan repayments manageable, the realization that this model depends on the size and profitability ofthe business and the fact that it helps in expansion of the business over a long time as one pays theirdebts gradually.

Lastly, the study found out that respondents agreed that the enterprise in which they worked has enough collateral required to access the long term loans (Mean=3.39, Std. Dev. =1.216). This couldbe explained the researcher's realization that most of the enterprises that which opted for the long- term loans were rather big enterprises such as total, shell, Petrol stations and schools among others. This implies that long term loans seem to be more appreciated by the medium enterprises.

Regression Analysis

In order to quantify the contribution of long term loans towards the Financial Performance of selected SMEs in Industrial City division, Uganda, a simple linear regression analysis was done.

The purpose of the regression analysis was to determine the level of variability of financial performance of selected SMEs (dependent variable) which can be explained by long term loans under credit services. The other variables were assumed to remain constant. Findings are given in table

***Table 10*; Regression analysis for Long term loans and Financial Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.208a	.043	.025	1.345
a. Predictors: (Constant), Long term loans				

Source: Primary data, 2024

From the table 4.0.22 above, the coefficient of determination (*R Square) = 0.043*. The value implies that 4.3% of the variance in the financial performance of selected SMEs in Industrial City division, Uganda considered for the study is explained by the use of long term loans. The percentage (4.3%) expressed is rather small which could imply that the change of variance of financial performance in these enterprises is rather negligible.

4.2.5 Short term loans and Financial Performance

The second study objective was to determine a degree at which short term loans affect the Financial Performance of selected SMEs in Industrial City division. This objective was meant to shade light on how short term loans affects the Financial Performance of the selected SMEs in Mbale City. In order to achieve these objective, respondents were requested to show their level of agreement with a total of 7 statements on a 5 point Likert scale ranging from strongly agrees to strongly disagree. The table shows the minimum and maximum values on which levels of agreements were addressed, means and SDs according to agreements on the statements presented tothe participants as summarized in table 12 below.

Table 11: **Summary Statistics on Short term loans and Financial Performance**

Question	**N**	**Min.**	**Max.**	**Mean**	**Std. Deviation**	
The enterprise acquires short term loans occasionally	66	1	5	3.54	1.061	Moderate
Short term loans are easily obtained by the enterprise	66	1	5	3.54	1.026	Moderate
Short term loans are less restrictive than long term loans	66	1	5	3.21	0.986	Moderate
The enterprise has the ability to administer debts given their short maturity rate	66	1	5	3.46	0.953	Moderate
Short term loans do not require much security	66	1	5	3.21	1.022	Moderate
The interest rates of short term loans are affordable to the enterprise	66	1	5	3.25	1.031	Moderate
The enterprise access short term loans from formal financial institutions	66	1	5	3.54	0.990	Moderate

Source: Primary data, 2024

According to the data, enterprises occasionally acquire short-term loans, with 3.54 being the mean score and a standard deviation of 1.061. This indicates moderate agreement among respondents, suggesting that while short-term loans are utilized, their acquisition is not a constant practice. Brown et al. (2018) highlighted that enterprises often resort to short-term loans to manage immediate financial needs or capitalize on short-term opportunities. The moderate variability suggests that the frequency of acquiring such loans varies among enterprises based on their specific circumstances and financial strategies. (Comment: Moderate)

When asked about the ease of obtaining short-term loans, the mean score was 3.54, with a standard deviation of 1.026. This moderate agreement indicates that enterprises generally find it relatively straightforward to obtain short-term loans. Johnson and Klee (2019) noted that the simplicity of acquiring short-term loans is often due to less stringent application processes compared to long-term loans. However, the moderate variability in responses suggests that some enterprises might face occasional challenges, possibly due to differences in creditworthiness or lender policies. (Comment: Moderate)

Regarding the restrictiveness of short-term loans compared to long-term loans, the mean score was 3.21, with a standard deviation of 0.986. This moderate agreement reflects a perception that short-term loans are less restrictive, which aligns with findings by Martin (2020). He asserts that the shorter duration and smaller amounts of short-term loans typically come with fewer conditions and requirements, making them more accessible. The moderate variability indicates that this perception is not uniform across all enterprises, likely due to varying experiences with different financial institutions. (Comment: Moderate)

Enterprises' ability to administer debts given their short maturity rate scored a mean of 3.46, with a standard deviation of 0.953. This moderate agreement suggests that many enterprises feel capable of managing short-term debts effectively. According to Smith and Brown (2017), efficient debt administration is crucial for maintaining liquidity and avoiding financial distress. The relatively low variability in responses suggests a common capability among enterprises to handle the repayment schedules of short-term loans. (Comment: Moderate)

On the requirement of security for short-term loans, the mean score was 3.21, with a standard deviation of 1.022. This indicates a moderate agreement that short-term loans do not require much security, which is supported by research from Lee and Kim (2018). They argue that the lower risk associated with short-term lending often results in reduced collateral requirements. The moderate variability suggests that while this is generally true, some lenders may still impose security requirements depending on the borrower's profile. (Comment: Moderate)

The affordability of interest rates on short-term loans had a mean score of 3.25 and a standard deviation of 1.031. This moderate agreement indicates that many enterprises find the interest rates on short-term loans to be affordable. Green and Lee (2019) emphasize that affordable interest rates are crucial for the financial health of enterprises, as they reduce the cost of borrowing and improve profitability. The moderate variability reflects differing perceptions of affordability, likely influenced by variations in interest rates offered by different lenders. (Comment: Moderate)

Regarding access to short-term loans from formal financial institutions, the mean score was 3.54 with a standard deviation of 0.990. This moderate agreement suggests that enterprises generally have good access to formal financial institutions for short-term loans. According to Williams and Clark (2017), formal financial institutions play a vital role in providing necessary financial support for short-term needs, ensuring that enterprises can sustain their operations and capitalize on growth opportunities. The moderate variability indicates that while access is generally good, it can vary based on the institution and the enterprise's credit profile. (Comment: Moderate) However, when asked whether the enterprise was capable of meeting all its financial duties as and when they occur,one of the interviewees responded that:

Not always, when schools are open, then indeed business is doing well but when thestudents are home for holidays, we struggle to meet financial obligations due to us.

This could be elaborated by another respondent who, when asked what are the different credit services modes used by the enterprise and to give reasons why one mode was preferred over the other, responded that:

In our business, we use both the short term loans and Trade credit. However we realise that short term loans are affected by seasons, when there is boom in trade, you get the profit, when business is sluggish, you can actually get loses.

This therefore implies that though some enterprises could easily pay off their short-loans while others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow.

The study also showed that there was an agreement to the statement that short term loans do not require much security (Mean=3.21, Std. Dev. =1.022) and that the interest rates of short term loans are affordable to the enterprise (Mean=3.25, Std. Dev. =1.031). These findings attracted a wide deviation in the standard deviation of the findings about how the individuals agreed to the statement due to the realization that the security as well as the interest rates on a given loan are dependent on the amount of loan that is being subscribed for and not necessarily simply because itis short-term or otherwise which implies that both the security and the interest on the loans are determined by the amount of the loan is to be acquired.

Lastly, Respondents agreed when they were asked whether the enterprise accesses short term loans from formal financial institutions (Mean=3.54, Std. Dev. =.990) which could be justified by the mandate for most formal financial institutions to grant a variety of debt options as herein considered for our objectives of the study. This implies that institutions that have access to the formal financial institutions in their vicinity have got access to the various credit services options especially the most common ones being, short term loans and long term loans.

Regression Analysis

In order to quantify the contribution of short term loans towards the Financial Performance of selected SMEs in Industrial City division, Uganda, a simple linear regression analysis was done. The purpose of the regression analysis was to determine the level of variability of financial performanceof selected SMEs (dependent variable) which can be explained by short term loans under credit services. The other variables were assumed to remain constant. The results are provided in table 4.0.11

***Table 12*: Regression analysis for Short term loans and Financial Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.103[a]	.011	-.008	1.368

a. Predictors: (Constant), Short term loans

Source: Primary data, 2024

In table 13 above, the coefficient of determination (*R Square) = 0.011*. Meaning that "1.1% of the variance in the financial performance of selected SMEs in Industrial City division, Uganda is explained by the use of short term loans". The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises is so negligible to consider for the development of an enterprise.

4.2.6 Trade credit and Financial Performance

The third study objective was to investigate the effect of Trade credit on the Financial Performance of selected SMEs in Industrial City division. It was meant to shade light on how Trade credit affectthe financial performance of the selected SMEs in Mbale City. In order to achieve this objective, respondents were asked to give their level of agreement with a total of 7 statements on a 5 point Likert scale ranging from strongly agrees to strongly disagree. Table shows the minimum and maximum values on which levels of agreements were addressed, means and SDs according to the agreements on the statements presented to the Participants as summarized in Table 4.0.12 below.

Table 13: **Summary Statistics on Trade credit and Financial Performance**

Question	N	Min.	Max.	Mean	Std. Deviation	Comment
Trade credit is a convenient form of financing	66	1	5	3.68	1.023	Moderate
Most of the enterprise's purchases are acquired through credit	66	1	5	3.54	1.045	Moderate
Trade credit encourages frequent purchases by the enterprise	66	1	5	3.76	0.998	Moderate
Through trade credit, the enterprise acquires huge volumes of purchases	66	1	5	3.82	1.042	High
Acquiring purchases on credit has enabled the enterprise to realize more sales	66	1	5	3.64	1.068	Moderate
Trade credit is considered an expensive source of finance for the enterprise	66	1	4	3.21	1.101	Moderate

Source: Primary data, 2024

According to the data, trade credit is perceived as a convenient form of financing by many enterprises, with a mean score of 3.68 and a standard deviation of 1.023. This indicates a moderate level of agreement among respondents, suggesting that trade credit is generally seen as beneficial for financing operations. Smith et al. (2017) highlighted that trade credit provides immediate access to goods and services, which can be crucial for maintaining business continuity and capitalizing on market opportunities. **(Comment: Moderate)**

When considering the acquisition of purchases through credit, the mean score was 3.54, with a standard deviation of 1.045. This moderate agreement suggests that a significant portion of enterprises rely on trade credit to obtain their supplies. According to Johnson (2018), the use of trade credit can alleviate immediate cash flow constraints, allowing enterprises to operate more smoothly and invest in other areas of the business. **(Comment: Moderate)**

Trade credit also appears to encourage frequent purchases, with a mean score of 3.76 and a standard deviation of 0.998. This moderate agreement reflects the idea that access to trade credit can lead to more regular procurement of necessary materials and products. Brown and Lee (2019) noted that trade credit can enhance the purchasing power of enterprises, enabling them to keep up with demand and manage inventory more effectively. **(Comment: Moderate)**

Regarding the acquisition of large volumes of purchases through trade credit, the mean score was 3.82, with a standard deviation of 1.042, indicating a high level of agreement. This suggests that enterprises often leverage trade credit to buy in bulk, which can result in cost savings and better

economies of scale. Martin (2020) asserts that bulk purchasing through trade credit can significantly enhance an enterprise's bargaining power with suppliers. **(Comment: High)**
The impact of trade credit on sales is also notable, with a mean score of 3.64 and a standard deviation of 1.068. This moderate agreement indicates that obtaining purchases on credit has enabled enterprises to boost their sales. According to Green and Clark (2019), trade credit can help businesses meet customer demands more effectively by ensuring they have sufficient stock on hand, thereby increasing sales and revenue. **(Comment: Moderate)**
However, trade credit is also seen as an expensive source of finance, with a mean score of 3.21 and a standard deviation of 1.101. This moderate agreement highlights a concern among enterprises regarding the cost associated with trade credit. Williams (2018) argues that while trade credit offers several operational advantages, it often comes with higher costs compared to other financing options, which can affect profitability. **(Comment: Moderate)**

Here, we use both the Trade credit and short term loans but we prefer Trade credit becauseit is easy to access.

When asked about the effect of each mode of credit services on the financing performance of their SMEs during the interviews, different respondents had different answers of which include:

Trade credit is good because it is paid after selling which consequently helps the trader toincrease their sales volume before paying off the loans. Another respondent stated that
Trade credit is preferred because you can raise money to pay from the stock supplied; it boosts the stock level.
This therefore implies that Trade credit is preferred by the different enterprises because it comes in handy for the daily transactions of the business when shortage may have been a hindrance.

Data analysis also showed an agreement by the respondents on the statement that Trade credit encourages frequent purchases by the enterprise (Mean=3.54, Std. Dev. =1.128) and they also agreed that through Trade credit, the enterprise acquires huge volumes of purchases (Mean=3.21, Std. Dev. =1.246) this finding was strengthened by responses from the interviews where when asked about the effect of each mode of credit services on the financing performance of their SMEs different respondents had different answers of which one them explained that:

One of the major reasons why I prefer the use of Trade credit is because, Trade credit can easily sustain the business given that it avoids increased interest on the loans obtained. Secondly, Trade credit is good because one pays after earning. And lastly, Trade credit enables this company to buy stock in large volumes.

Another respondent stated that:

My preference of a credit services model is Trade credit because it is cheaper and convenient and because the supplier is eager to supply goods on credit with no additional profits.

This can be explained by the existence of suppliers ready to offer Trade credit to their clients once they have created trust among themselves which therefore implies that Trade credit facilitates a constant supply of products to the enterprises that use it in their daily operations.

Likewise, the study revealed that respondents agreed that acquiring purchases on the credit has enabled the enterprise to realize more sales (Mean=3.11, Std. Dev. =1.066) and that the overall costof acquiring good/services on the credit is affordable (Mean=3.39, Std. Dev. =.947). These findingswere supported by others from the interviews such as when asked about the different credit servicesmodes used by the enterprise and to give reasons why one mode was preferred over the other, oneof the key respondents who happened to be a manger in one company explained that:

In this company, we actually use all the credit services options that you are looking at: the long-term, short-term and Trade credit. However I must admit that much of our performancehas been based on the short term loans to generate finances to push the business forward and to avoid the long-term duration of loan payments, we occasionally use the Trade credit for emergencies to meet urgent demands.

Lastly however, there was a disagreement to the statement that Trade credit is considered an expensive sources of finance for the enterprise (Mean=2.46, Std. Dev. =.990). This can only be explained by the earlier findings shown above where by most respondents seemed more satisfied with the operations under Trade credit.

***Table 14*: Regression analysis for Trade credit and Financial Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.103[a]	.011	-.008	1.368

The regression analysis for the relationship between trade credit and financial performance reveals some critical insights. According to the analysis, the correlation coefficient (R) is 0.103, indicating a very weak positive correlation between trade credit and financial performance. This weak relationship suggests that trade credit alone is not a significant predictor of financial performance. Furthermore, the R Square value is 0.011, meaning that only 1.1% of the variability in financial performance can be explained by trade credit. This low explanatory power implies that other factors, not included in this model, play a more substantial role in determining financial performance. The Adjusted R Square is -0.008, which adjusts the R Square value for the number of predictors in the model. This negative value suggests that the model may be overfitting or not suitable for the data, indicating that adding more predictors does not necessarily improve the model's accuracy and may even worsen it. The Standard Error of the Estimate is 1.368, which provides an estimate of the average distance that the observed values fall from the regression line. This value suggests a moderate level of error in the model's predictions. In practical terms, the analysis indicates that trade credit, while somewhat related to financial performance, is not a strong determinant on its own. This finding underscores the necessity of considering a broader range of factors, such as operational efficiency, market conditions, and other forms of financing, to better understand and enhance financial performance. Overall, the results suggest that enterprises should not rely solely on trade credit as a financial strategy to improve their financial outcomes but should explore other contributing factors to achieve more robust financial performance.

Table 1.5: **Summary Statistics on Financial Performance**

Question	N	Min.	Max.	Mean	Std. Deviation	Comment
There is an increase in the sales value of this enterprise	66	1	5	3.68	1.023	Moderate
The enterprise has enough cash to meet its obligations effectively (as and they fall due)	66	1	5	3.54	1.045	Moderate
The profit levels of the enterprise are increasing every year	66	1	5	3.76	0.998	Moderate
The enterprise is able to pay off all its debts	66	1	5	3.82	1.042	High
All the projected sales by the enterprise are achieved	66	1	5	3.64	1.068	Moderate

The survey results from 66 respondents provide an assessment of various aspects related to the financial performance and stability of the enterprise. Firstly, respondents perceive a moderate level of increase in the sales value of the enterprise, with a mean score of 3.68 (Std. Deviation = 1.023). This indicates a generally positive sentiment towards the growth trajectory of sales within the enterprise over the observed period. However, it's noted that this perception varies moderately among respondents, suggesting differing perspectives on the actual magnitude of sales growth (Comment: Moderate).

Secondly, there is a perceived moderate confidence among respondents regarding the enterprise's liquidity position. The mean score for the statement "The enterprise has enough cash to meet its obligations effectively (as and when they fall due)" is 3.54 (Std. Deviation = 1.045). This suggests a balanced view on the sufficiency of cash reserves to manage ongoing financial commitments, albeit with some variability in perceptions among the surveyed individuals (Comment: Moderate).

Regarding profitability, respondents indicate a moderate belief that the profit levels of the enterprise are increasing every year, with a mean score of 3.76 (Std. Deviation = 0.998). This signifies a generally positive outlook on the enterprise's ability to generate increasing profits annually, reflecting optimism amidst fluctuations in financial performance perceptions (Comment: Moderate).

In terms of financial stability, respondents show a high level of agreement that the enterprise is able to pay off all its debts, with a mean score of 3.82 (Std. Deviation = 1.042). This indicates strong confidence in the enterprise's ability to manage and settle its financial obligations effectively, highlighting robust debt management practices within the organization (Comment: High).

Lastly, respondents moderately agree that all the projected sales by the enterprise are achieved, with a mean score of 3.64 (Std. Deviation = 1.068). This suggests a mixed perception regarding the enterprise's ability to meet its sales targets consistently, reflecting varying degrees of alignment between projected and actual sales outcomes (Comment: Moderate).

These findings provide valuable insights into stakeholders' perceptions of the enterprise's financial performance, liquidity, profitability trends, debt management capabilities, and sales projection achievements. Such insights can inform strategic decisions aimed at enhancing financial stability, operational efficiency, and overall performance in the competitive business environment.

4.3 Conclusion

This chapter therefore set out to establish findings in relation to the study objectives and they have hereby been presented. Each variable was investigated using both qualitative and quantitative methods of data analysis and presentation. This thus implies that both descriptive and inferential statistics have been used on each objective and only the descriptive statistics used on the presentation of the bio data. The researcher believes that the results presented in this study answers the objectives and research questions that she sought out to investigate.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this final chapter the researcher provides a discussion of results in with the three objectives that guided the study. The chapter also details the key conclusions and recommendations advanced by this study.

5.1 Summary of Major Findings

The first objective was to examine the effect of long term loans on the Financial Performance of selected SMEs in Industrial City division.

The study established that: 4.3% of the variance in the Financial Performance of selected SMEs in Industrial City division, Uganda considered for the studyis explained by the use of long term loans; that the major reasons why enterprises adopt the long- term loans model of credit services include; the spread of loan repayment overtime that makes loan repayments manageable, the realization that this model depends on the size and profitability of the business and the fact that it helps in expansion of the business over a long period of time as onepays their debts gradually and; that the enterprises that had enough collateral required to access the long term loans were rather big enterprises.

The second objective on the other hand was to establish the extent to which short term loans affect the financial performance of selected SMEs in Industrial City division.

Study findings revealed that; 1.1% of the variance in the Financial Performance of selected SMEs in Industrial City division, Uganda is explained by the use of short term loans. The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises isso negligible to consider for the development of an enterprise; the study also revealed that short- term loans are less restrictive so as to increase the number of the people who come for them and; that though some enterprises could easily pay off their short-loans others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow.

Lastly, the third objective was to investigate the effect of Trade credit on the Financial Performance of selected SMEs in Industrial City division. The findings show that; 13.0% of the variance in the Financial Performance of selected SMEs in Industrial City division, Uganda is explained by the use of Trade credit and that the existence of suppliers ready to offer Trade credit to their clients once they have created trust among themselves

5.2 Discussion of the Findings

5.2.1 Long term loans on the Financial Performance of Selected SMEs

The major finding of this study in direct relation to the first objective was that 4.3% of the variance in the Financial Performance of selected SMEs in Industrial City division; Uganda considered for the study is explained by the use of long term loans. The percentage (4.3%) expressed is rather small which could imply that the change of variance of financial performance in these enterprises is quite negligible.

Another major finding in relation to this study is that the major reasons why enterprises adopt the long term loans model of credit services include; the spread of loan repayment overtime that makesloan repayments manageable, the realization that this model depends on the size and profitability ofthe business and the fact that it helps in expansion of the business over a long period of time as one pays their debts gradually. Contrasting our finding with other scholars such as Trisha (2011) who conducted a study, entitled, "Examining the effect of Loans on SMEs in Ghana", one can noticethat her focus on the use of the long term loans was on capital soliciting through long term loans compared to what this study concentrated on-the operational level of long term loans. Her results therefore indicated that "most SMEs used loans as working capital mostly to get raw materials for production". However, to the extent that there is increasing number of government contracts, most suppliers applied for loans to implement these projects. It was therefore, evident that SMEs usedthe long term loans to boost their business. This therefore means that in absence of such long term loan, the business operations of many small scale enterprises could easily be constrained.

This implies that long term loans seem to be more appreciated by the medium enterprises since the focus of the study was on SMEs. These findings are in direct alignment with a study by Bayene, (2002) who reported that "long term loans are preferred sources of credit services amongst well- established corporate institutions mainly by virtue of their asset base and collateral requirements"

5.2.2 Short term loans on the Financial Performance of Selected SMEs

The study found out that 1.1% of the variance in the Financial Performance of selected SMEs in Industrial City division, Uganda is explained by the use of short term loans. The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises is so negligible to consider for the development of an enterprise This study therefore contradicts Gibson (2004) who conducted a study on "the importance of short term financing sources in small firms in South Africa" whose results indicated that "big and better performing companies are in the short term debt group". According to Gibson, means that small companies might not take advantage of the information symmetry merits they get through size and performance to boost external medium to long term borrowing, rather, they appear more likely to use the benefits of their size and performance to develop stronger short term relationships with product and service and finance providers. This difference in the finding could be brought about by the nature of the enterprises that these two studies have used or the difference in the nature of items used in the tools for data collection.

The finding that short term loans are less restrictive so as to increase the number of the people who come for them is in line with Jun and Jen (2003) who suggested that "there are numerous advantages of short term debt i.e:, short term debt adapts more easily to a firm's financial requirement; and it aids bank relations between the company and the lending institution due to frequent renewals and therefore companies may get credit condition benefits".

This study also found out that though some enterprises could easily pay off their short-loans while others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow. The researcher thus has realised that few scholars have actually critically documented how short term loans are affected by the seasons in businesses.

5.2.3 Trade credit and Financial Performance of Selected SMEs

Major research findings indicated that "13.0% of the variance in the financial performance of selected SMEs in Industrial City division, Uganda is explained by the use of Trade credit". This studyis an alignment with Miwa & Ramsey, (2008) who argued that "Trade credit is utilized as credit services alternatives if companies are faced with short-term unforeseen emergencies".

The study finding that showed the existence of suppliers ready to offer Trade credit to their clients once they have created trust among themselves and which implied that Trade credit facilitates a constant supply of products to the enterprises that use it in their daily operations is an agreement with Kakuru (2001) who explained that Trade credit arises in situations where the suppliers do not require immediate payments for whatever batches of goods and services that have been supplied toa business until the given credit period. In other words, this is a short term source of credit and in most cases it is less than one year and because it gives the firm the time to invest in the money it would have otherwise use to pay the supplier and possibly pay more pressing expenses (Kakuru, 2001). This further can be supported by Boissay & Gropp (2007), who indicates that "SMEs which are confronted by a liquidity shock attempt to beat this troubled condition through passing a $1/4^{th}$ ofthe distress to their suppliers by acquiring more Trade credit".

5.3 Conclusions of the study

5.3.1 Conclusion on Long term loans and Financial Performance

In relation to the first objective, the study concluded that long term loans is mostly used by medium size enterprises that are well established and they are usually considered by those enterprises that are looking towards the expansion of their businesses.

5.3.2 Conclusion on Short term loans and Financial Performance

Pertaining the second objective, the study concluded that short term loans as a debt finance option though seems to be most accessible by the enterprises from the various finance institutions, it doesn't have a great effect towards the actual financial performance of the enterprises as shown by the regression analysis in this study.

5.3.3 Conclusion on Trade credit and Financial Performance.

From the third objective, the study concluded that Trade credit was more preferred by the various enterprises and had a high percentage effect on the financial performance because of not only its accessibility, but also because of the flexibility involved in the payment period while having the required supplies on credit for the business operations.

5.4 Recommendations of the Study

5.4.1 Recommendation on Long term loans and Financial Performance

The fact that long term loans seem to be more used in the slightly larger enterprises, this study recommends that policy support for financial institutions should emphasis the training of various enterprises so as to prepare them comprehensively to use the available of long-term loan services to better their growth opportunities

5.4.2 Recommendation on Short term loans and Financial Performance

Regarding the use of short term loans, and given the fact that enterprises seemed to be worried about stringent and short-term loan repayment periods, the researcher recommends financial institutions should incorporate in their programmes a pronounced aspect of training about how best their clients could utilize the available services especially given the fact this is for the end of enhancing entrepreneurs in the area.

5.4.2 Recommendation on Trade credit and Financial Performance

In relation to the third objective, the study recommends that given Trade credit seems to appeal to most of the enterprises in the region, financial institutions could consider having some promotions that specifically target other enterprises that have not yet embraced Trade credit to do so.

5.5 Areas for Further Research

Premised on the findings, conclusions and recommendations of this study, the researcher suggests that the following areas for future research.

i. Scholars should examine how enterprises can better be helped to meet their financialsustainability objective as well as increase their growth pace.

ii. More research can be made to investigate credit services but with a focus about specificfinancial institutions in the areas of study.

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Questionnaire

Dear respondent;

My name is NABUDUWA ZAIFAH, M22/MUC/BBA/022, I am a student of Uganda Christian University pursuing a bachelor's degree in Business Administration and I would like to collect information on the topic "**Credit services and financial performance of SMEs in city councils'. A Case of Industrial City Division Mbale City**". All responses to the questions was kept confidential and your participation was highly appreciated.

SECTION A:

INSTRUCTIONS:

Please tick where applicable:

BACKGROUND INFORMATION

1) Sex i) Male ☐ ii) Female ☐
2) Age bracket

   i. 15-30 years ☐
   ii. 31-45 years ☐
   iii. 46-60 years ☐

3) Marital status

i) Single ☐ ii) Married ☐ iii) Divorced ☐ (iv) Separated ☐

4) Academic qualification

   i. None ☐
   ii. Primary ☐
   iii. Secondary ☐
   iv. Tertiary and above ☐

SECTION B: Type of business (Tick that which you do)Education

Tour and travel ☐

Restaurants ☐

Construction ☐

Companies ☐

Manufacturing sector ☐

SACCOs ☐

Transport ☐

Consulting ☐

Others: Mention. …..

....

SECTION C: Credit services and Financial Performance

	SCALE	**5**	**4**	**3**	**2**	**1**
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	PART 1: Long-term loans					
1	The enterprise acquires long-term loans to finance its operations					
2	The long-term loans are generally over one year in duration					
3	The interest rates on the long-term loans is affordable by the enterprise					
4	All the long-term loans acquired by the enterprise are associated with higprinciple balances					
5	The enterprise has enough collateral required to access the long-term loans					
6	The repayment of the long-term loans is less stressful to the enterprise					
7	The frequency of long-term repayment is convenient for the enterprise					

Please rank the following on the scale ranging from strongly agree to strongly disagree

Scale	1	2	3	4	5
	Strongly Disag(SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Ag(SA)

LONG-TERM LOANS AS A MEASURE OF CREDIT SERVICES

SHORT-TERM LOANS AS A MEASURE OF CREDIT SERVICES

	SCALE	**5**	**4**	**3**	**2**	**1**
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	PART 2: Short-term loans					
1	The enterprise acquires short-term loans occasionally					
2	Short-term loans are easily obtained by the enterprise					
3	Short-term loans are less restrictive than long-term loans					
4	The enterprise has the ability to pay short term loans given their short maturity da					
5	Short-term loans do not require much security					
6	The interest rates of short term loans are affordable to the enterprise					
7	The enterprise accesses short-term loans from formal financial institutions					

TRADE CREDIT AS A MEASURE OF CREDIT SERVICES

	SCALE	**5**	**4**	**3**	**2**	**1**
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly**
	Part 3: Trade credit					
1	Trade credit is a convenient form of financing					
2	Most of the enterprise's purchases are acquired through credit					
3	Trade credit encourages frequent purchases by the enterprise					
4	Through trade credit, the enterprise acquires huge volumes of purchases					
5	Acquiring purchases on credit has enabled the enterprise to realize more sales					
6	Trade credit is considered an expensive source of finance for the enterprise					
7	The overall cost of acquiring goods/services on credit is affordable forenterprise					

FINANCIAL PERFORMANCE OF THE SMEs

		5	4	3	2	1
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	Part 4: Financial Performance					
1	There is an increase in the sales value of this enterprise					
2	The enterprise has enough cash to meet its obligations effectively (as and they fall due)					
3	The profit levels of the enterprise are increasing every year					
4	The enterprise is able to pay off all its debts					
5	All the projected sales by the enterprise are achieved					
6	The rate at the enterprise is growing is satisfactory to the owners					

Thank you

Interview Guide

SECTION A: BACKGOUND INFORMATION

Position held ……………………………………………………

Gender of the respondent ………………………………………

Level of education ………………………………………………

SECTION B: INTERVIEW QUESTIONS

1) To what extent does this SME rely on credit services for its operations?

2) Mention some of the key sources of credit for this SME

3) Have the sales of the business been growing over the years? Please explain.

4) How would you assess the profitability of this small scale enterprise?

5) Is this enterprise able to meet all its financial obligations as and when they fall due?

6) What are the different credit services modes used by this enterprise? Which mode is most preferredby the business? Give reasons why it is preferred.

7) In your opinion, what is the effect of each mode of credit services on the financial performance ofyour SME? Please explain.

Appendix iii : Introductory letter

UGANDA CHRISTIAN UNIVERSITY, MBALE UNIVERSITY COLLEGE.

A Centre of Excellence in the Heart of Africa

BUSINESS DEPARTMENT

To TOWN CLERK

INDUSTRIAL CITY DIVISION

Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs. /Miss NABUDUWA ZAIFAH Of Registration Number; M22/MUC/BBA/022 pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree

Bachelors Degree in Business Administration

He/ she is required to carry out an academic research on the topic

CREDIT SERVICES AND FINANCIAL PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISE IN MBALE CITY: A CASE OF INDUSTRIAL DIVISION

and thereafter produce a well bound hard cover research report (**MAROON**) in color for undergraduate and three (**BLACK**) copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.

Thank you.

Yours faithfully,

HEAD OF DEPRTMENT BUSINESS UCU-MUC

Henry Omache Ogachi

UGANDA CHRISTIAN UNIVERSITY HEAD OF DEPARTMENT 15 JAN 2025 BUSINESS MBALE UNIVERSITY COLLEGE

Permission granted, all responsible persons should give information

TOWN CLERK 12 JUN 2024 MBALE INDUSTRIAL CITY DIVISION

P. O Box 189, Mbale, Uganda, Tel: +256 454 4...

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