MICROFINANCE CREDIT TERMS AND THE FINANCIAL PERFORMANCE OF SMALL-SCALE ENTERPRISES IN MUKONO CENTRAL DIVISION

EMMANUEL JB MUWANGUZI

S23B33/042

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

May, 2026

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I, **Muwanguzi Emmanuel**, hereby declare that this research report is my very own work and has not been submitted before for the award of any degree at this University or at any other institution of higher learning.

Signature.................................... Date....04/05/2026...

Muwanguzi Emmanuel JB

S23B33/042

APPROVAL

This is to certify that the research report has been written under my supervision and is now ready for submission with my approval.

Signature................................ Date......04/05/26

Mr. Agume Anthony Kabisyaki

Research Supervisor.

DEDICATION

I dedicate this report to my beloved parents and family, whose unwavering love, support, and encouragement have been the foundation of my academic journey. Their sacrifices and guidance have inspired me to pursue excellence in all that I do.

ACKNOWLEDGEMENT

I am extremely thankful to the Almighty God for his guidance, courage, and endurance which have seen me through in this research. His guidance has been my companion throughout this academic journey, and I am truly humbled by the unending grace and blessings from above.

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

The growth and sustainability of SSEs is crucial for Uganda's economy. Small businesses help with progress in the economy by offering job opportunities and lifting people out of hardship. Even so, a large number of these small-scale enterprises struggle just to stay in business because capital remains hard to get. Loans from Micro-finance institutions have become a common solution towards stability for these Small-Scale enterprises. In addition to that is what comes with those loans, for example like how much they have to pay back, time constraints on payments, or needing assets upfront can shape whether a business is successful or barely survives.

This research used a cross-sectional survey method combining numbers and personal insights where the quantitative and qualitative approaches were used. All officially listed small scale enterprises in Mukono Central Division made up the group being studied. Representation across different business types was balanced through random selection. Information came mainly from a questionnaire form filled out directly by participants, shaped around what the study aimed to find. Before full use, the form underwent testing for accuracy via the Content Validity Index (CVI). Its consistency in results would later be checked using Cronbach's Alpha measure.

Data entered into SPSS 20 went through coding before examination. To outline patterns, measures like averages, frequency counts, proportions, and spread around the mean shaped the summary approach instead of just listing numbers. Relationships linking credit conditions from microfinance lenders to business money results emerged via regression plus correlation methods. From start to finish, respect guided every step participant knew their role, could leave anytime, privacy stayed protected. Each person learned why the work mattered, trusted details shared would stay private, applied strictly for learning reasons. Results might quietly show those running lending groups, local decision makers, small shop owners in Mukono Central Division how adjusting loan rules could strengthen cash outcomes and also ensure the Sustainability of Small-scale enterprises.

CHAPTER ONE

INTRODUCTION

1.0 Introduction.

This chapter presents the background of the study, the statement of the problem, the purpose of the study, and the objectives of the study. It also outlines the research questions, scope of the study, significance of the study, and the conceptual framework guiding the research.

1.1 Background of the Study

Small-Scale Enterprises (SSEs) are globally known as the drivers of economic growth and development in various regions around the world (Wafula and Miroga ,2019). Small businesses matter a lot when it comes to growing economies worldwide. Across nations, these firms help build wealth while opening doors for workers - seen clearly even in poorer areas. (CGAP and the World Bank in 2023). On the African continent, such ventures make up over eight out of ten companies, giving jobs to roughly six in ten people. (Aduhene and Osei found in 2021). In addition to that lack of Capital continues to often block progress and long-term survival for these SSEs. Due to gaps in regular banking, small lenders known as MFIs stepped in to fill space across Africa. In East Africa today, little businesses still hold up much of daily commerce. Take Kenya, where tiny loans help street sellers keep goods moving. Still, charges sometimes past twenty percent pile up fast. Tough rules asking for property as backup slow things down too much. These hardships weigh on how well the lenders can do their job (Ngugi & Kerongo, 2020).

It would be impossible to not talk about the importance of financial services for Small-Scale Enterprises (SSEs). To efficiently utilize the resources in their communities and reach their full potential, small-scale enterprises, notably those in emerging countries, need numerous supporting and long term credit solutions (Daba & Amanu, 2019). However, academics like Hadis & Ali (2018) have pointed out that the financial services industry places a strong emphasis on loan management. It has then forced the financial services providers to focus on loan terms while borrowing to clients especially the Small-Scale Enterprise borrowers. This is because these institutions consider lending to small businesses as profitable though a risky business. Providing financial services to large businesses is considered to be more costly and difficult. This leaves MFIs with no option but to lend to SSEs though at unfavourable credit terms (Bhorat & Oosthuizen, 2020).

Wafula and Miroga (2023) suggests that , credit terms are the conditions agreed between a buyer and a seller that explain how and when payment of goods and services should be made when the buyer is allowed to pay later. These help to determine the periodic payments that are supposed to be made by the borrower during that period, and any penalties for late payment or defaulting to pay back the principle amount to the lender. When the terms are acceptable, this aids businesses in drawing in additional clients (Odongo, 2014). These credit terms, Interest rates, Collateral security and repayment period apply to all industries, according to (Owusu et al. 2015). Credit conditions have an influence on the financial decisions made by borrowers in Small-Scale Enterprises, particularly in light of the financial services sector. For instance, since the loan must be repaid, some crucial measures must be implemented, such as deferring the dividend payout (Reuben, 2014). This is because the credit duration must coincide with the present cash flows. Similarly, phrases like "collection procedures," which refer to measures taken to quicken the process of collecting debt from clients who are taking their time to pay, have the potential to harm small businesses' reputations, particularly if they escalate to the point of going to court. This could jeopardize the small businesses' reputation, which could impact their performance in the market and alter consumers' perceptions of them. (Wafula & Miroga, 2020).One of the biggest challenges facing small businesses is undoubtedly getting financing. For instance, it was shown that 63% of Small-Scale Enterprises in Tanzania believe that their inability to obtain financing from MFIs is the major hindrance to their prosperity (Tshivhase, 2020). Strict credit terms can often make financing more difficult, especially when it comes to penalties for late loan repayment. These penalties reduce a company's profitability since they have to pay back any profit that could have been made in fines and other penalty related expenses (Godfrey, 2019).

Small-scale businesses in Uganda employ about 2.5 million people and account for about 75% of the country's GDP, demonstrating the significance of these businesses to the country's economic growth. Hatega (2007) states that 90% of Uganda's enterprises are thought to be Small Scale Enterprises (SSEs). About 80% of these enterprises are located in metropolitan areas, and most of them are involved in small-scale manufacturing, agro-processing, and trading activities. Despite their importance, access to affordable credit continues to be a major challenge for many SSEs, especially in growing urban areas like Mukono Central Division.

Microfinance institutions and Credit unions remain the main sources of external financing for small-scale enterprises, mainly because of Mukono’s strategic location as a fast-growing commercial hub near larger business centres. Kampala, the financial performance of SSEs in the area reflects the broader dynamics between credit accessibility and enterprise sustainability.

(Brixiová et al., 2020). However, because loan terms are viewed as unfavorable, obtaining credit has proven to be challenging in Uganda. Effiom & Edet (2020) state that in Uganda, interest rates could be ranging from 23% to 30% per month, collateral can be up to 150% of the loan, and the payback time can be as short as 24 months. These unfavorable credit terms of these MFIs often constrain business expansion, reduce profitability, and sometimes lead to business closure.

1.2 Statement of the problem

Small-scale enterprises (SSEs) are key drivers of the Ugandan and global economies. According to statistical abstracts from (UBOS, 2020), SSEs contribute significantly to the development if the country and have the capability of enhancing national development. Despite their importance, many SSEs experience declining performance and business closures, with only 5–10% surviving beyond five years (Endris & Kassegn, 2022). The International Monetary Fund did a survey and discovered that only 44.8% of the population in Uganda had the capability to use formal lending services in 2022 which shows that a big percentage of these SSEs mosty rely on MFIs for loans to ensure sustainability of their businesses.

This poor performance is caused by lack of access to capital . Many SSEs find it very difficult to get loans from microfinance institutions due to unfavorable credit terms that include high interest rates, short repayment periods, and strict collateral requirements. Research carried out by the Uganda Bureau of Statistics (UBOS) in 2020 showed that only 35% of SSEs can access formal financial services, and in Mukono district 23% of borrowers faced challenges repaying loans (Global Findex Database, 2022). This therefore suggests that the terms of microfinance loans may not be at the same level and capability and of SSEs, negatively affecting their performance

1.3 General objective of the Study

To establish the relationship between Microfinance Credit Terms and the Financial Performance of Small-scale enterprises in Mukono central division.

1.4 Specific Objectives

1. To examine the relationship between interest rates and the financial performance of Small-Scale Enterprises in Mukono Central Division.

2. To assess the role of collateral security on the financial performance of Small-Scale Enterprises in Mukono Central Division.

3. To analyse influence of repayment period on the financial performance of Small-Scale Enterprises in Mukono Central Division.

1.5 Research questions

1. What is the relationship between interest rates and the financial performance of Small-Scale Enterprises in Mukono Central Division?

2. What is the role of collateral security on the financial performance of Small-Scale Enterprises in Mukono Central Division?

3. What is the influence of repayment period on the financial performance of Small-Scale Enterprises in Mukono Central Division**?**

1.6 Significance of the study.

This study will guide researchers to be able to get and obtain information and policies that encourage appropriate loan terms, which can improve availability to capital and increase the sustainability of these enterprises. The findings will also enable microfinance institutions improve their loan products and conditions so that they can align with the financial abilities and needs of small businesses in Mukono Central Division and Uganda in general. In addition to that, the study will be of use to small business owners in Uganda. It will enable them to be able to understand how microfinance credit terms can affect the sustainability of their businesses in the long-term. With this knowledge, they will be able to make more informed decisions when applying for loans from microfinance institutions, negotiate appropriate conditions where possible, and have control of their funds better. Finally, this research will provide more insights to the existing data on how microfinance loan terms influence the performance of small businesses, especially in Mukono Central Division. Future researchers may also use these research findings as a back-up for further studies or to explore related areas in more detail.

1.7 Scope of the Study

1.7.1 Content Scope

This study focused on establishing the relationship between microfinance credit terms and the financial performance of small-scale enterprises in Mukono Central Division. It mainly looked at three credit terms: interest rates, repayment period, and collateral requirements financial performance was measured using net profit margin, liquidity, and return on equity. The study mainly collected data from the attendants of small-scale enterprises in Mukono who have been able to obtain loans from microfinance institutions in the past.

. 1.7.2 Geographical Scope

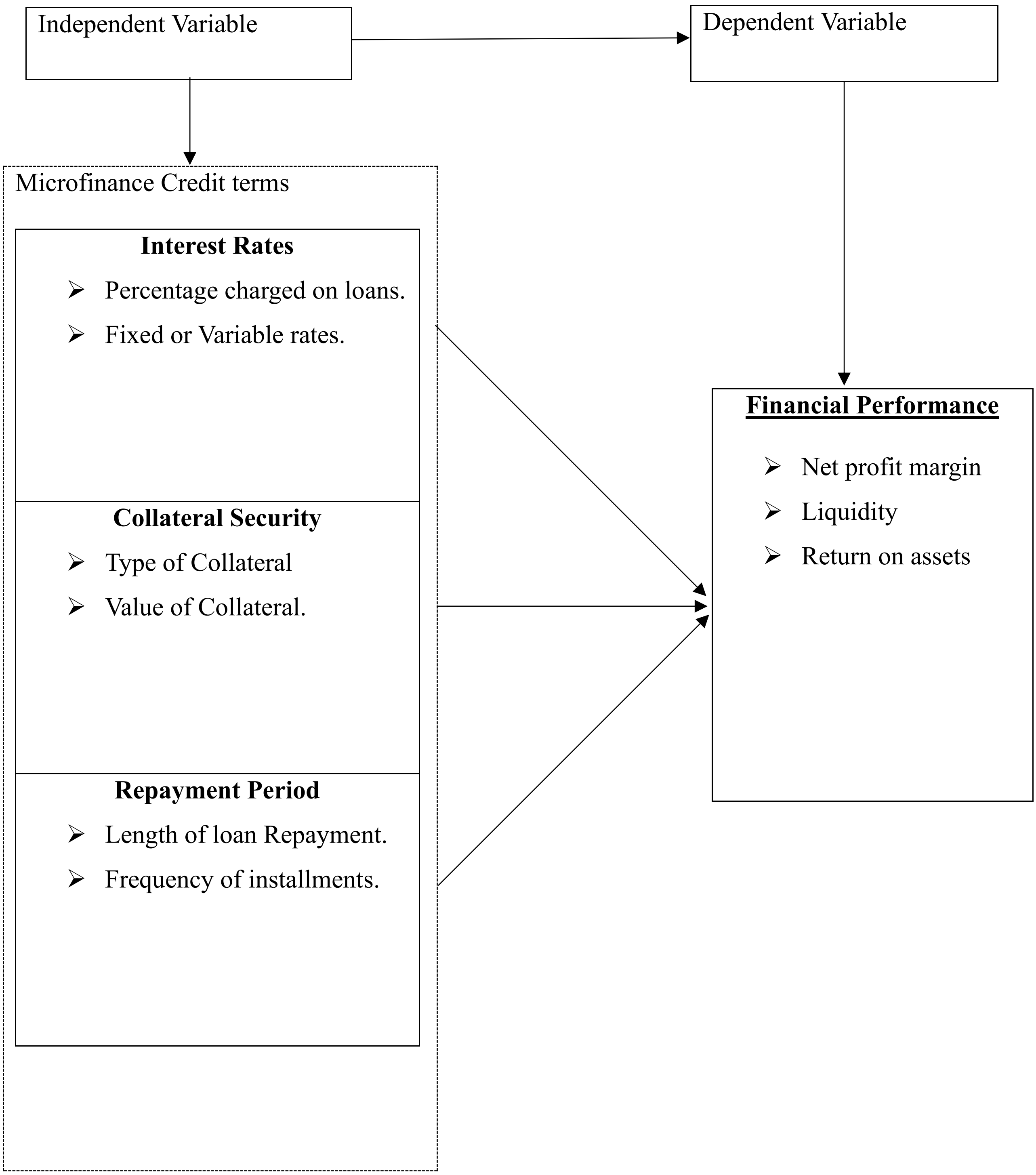
The study was conducted in Mukono Central Division, Mukono District one of Uganda’s most important and crucial urban business centres located along the Kampala-Jinja highway. Mukono Central Division has a large number of small-scale enterprises engaged in trade, manufacturing, and services, making it a suitable place for finding out the influence of microfinance credit terms on enterprise performance.

1.7.3 Time Scope.

This research was be carried out for a time period of four months from September to December, 2025. This period was sufficient because it helped the researcher to get all the necessary information needed about the topic and also come up with reliable information from the respondents.

1.8 Conceptual framework

Figure 1: Conceptual framework



Source: Adapted from Wafula &Miroga (2020)

The conceptual framework above shows us relationship between Independent Variable and the Dependent Variable. The independent variable that is microfinance credit terms, has three key dimensions which is interest rates, collateral security, and repayment period. Interest rates represent this cost of borrowing then the collateral security refers to the type and value of assets pledged as loan guarantees; while the repayment period show duration and frequency of loan instalments. These three dimensions all at once influence the financial performance of small-scale enterprises, which is the dependent variable. Financial performance in this study is measured by indicators such as net profit margin, liquidity, and return on equity.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction.

This chapter presents a review of the existing literature related to Microfinance Credit Terms and the Financial Performance of Small-Scale Enterprises and a review some of the literatures pertinent to the study. This literature was reviewed from the various sources such as reports, textbooks, internet, and journals.

2.1 Theoretical Framework

2.1.1 Credit Rationing Theory

Stiglitz & Weiss's (1981) credit rationing theory served as the foundation for this investigation. These writers offered a methodology for examining inefficiencies in the financial markets. According to this theory, the primary reason why the financial markets in emerging nations malfunction is information asymmetry (Jin & Zhang, 2019). In addition to the profit they earn on loans, financial institutions which give out credit to SSEs are also interested in the exposures that come with these particular loans. The large number of microfinance organizations are good at keeping an eye on borrowers as compared to other financial lending institutions. They are qualified at keeping customers information safe. These institutions own very sensitive information about a company's receipts, expenditures, and development, as a result of managing money and deposit accounts (Emran et al., 2021). According to Stiglitz & Weiss (1985), if these institutions demand collateral, credit rationing and adverse selection will still take place. They contend that borrowers with minimal risk typically anticipate a lower rate of return. After a while, they are therefore typically less rich than high-risk borrowers. Therefore, low-risk borrowers are unable to offer further collateral. Raising the requirements for collateral could have the same detrimental selection effect as raising interest rates. Rather, Gonzalez-Vega (2021) contends that banks only provide contracts that allow them to concurrently change the criteria for collateral and interest rates

2.3 Empirical Review

2.3.1 The relationship between interest rates and the financial performance of Small-Scale Enterprises in Mukono Central Division.

Interest rates are very important for small businesses. Many small-scale enterprises feel the weight of interest rates more than most. Researchers, policymakers, and industry analysts keep returning to this topic, how shifting interest rates shape their path. Findings from multiple reports point in one direction, rate changes go through tiny operations fast. When borrowing costs rise, trouble follows close behind. A wide-ranging analysis by Beck et al. in 2008 pulled together numbers across nations, tracing how lending prices alter firm expansion. High interest rates make it tough for small companies to thrive. Money costs more when loans are expensive, so expansion gets tougher. Growth slows because cash is tight. Survival becomes a challenge under heavy loan payments. These firms struggle to stay strong. Their ability to contribute weakens. The economy feels the pressure too. Small companies often rely on loans to operate, yet the price of borrowing - interest - shapes whether funding feels reachable. Though tiny enterprises seek support through microloans, what happens when lenders charge more? Morduch and Haley studied lending habits in Bangladesh during 2002, observing shifts tied to rate changes. When fees climbed, access shrank, making survival tougher for local ventures. Growth slowed, investment dipped, daily operations faced strain - all linked to pricing trends few could control. Higher costs blocked paths forward, revealing how delicate financial balance really is. High interest rates shape how small firms decide to spend on growth. A look at India's factory sector by Banerjee and Duflo in 2011 revealed what happens when loan prices rise. As those rates climb, smaller companies hold back on spending, seeing lower returns as a result. Without affordable credit, owners hesitate, limiting expansion along with future gains. High interest rates shape how small firms decide to spend on growth. A look at India's factory sector by Banerjee and Duflo in 2011 revealed what happens when loan prices rise. As those costs climb, smaller companies cut back spending, seeing weaker returns. Without affordable credit, owners hold off on new moves - growth stalls, along with earnings potential. One way shifts in interest rates matter is for smaller companies. Research by Agbola and Adesoye from 2015 examined Nigerian SMEs during such shifts. Wild swings in borrowing costs tend to damage these firms - investment drops, earnings shrink, repayments stall. Stability in those rates gives small operators room to map out moves without surprise hurdles. Predictability becomes a quiet backbone for daily function. Small businesses often get support through microfinance groups. A look at findings from a trial in the Philippines, explored by Karlan and Zinman in 2011, reveals what happens when loan costs drop. When rates went down, profits climbed while borrowers put more into their ventures. So cheaper credit might actually boost how well these firms do over time. Looking at Bawuah's 2014 work, it becomes clear plenty of financial paths open up for small firms. Yet Leippoid, years earlier in 2006, argued otherwise, lenders hesitate due to frequent defaults and risk exposure. On top of that, steep borrowing costs add pressure. Research into central bank moves hints: rising rates tighten access to capital, hitting home harder where funds already run thin. Just like Gertler and Gilchrist discovered back in 2014 - U.S. factories with smaller teams feel every rate jump more deeply. When rates go up, smaller firms often reduce inventory. Because borrowing gets costlier, their expenses rise while sales tend to fall sharply this hits earnings and slows expansion. Yet bigger corporations handle debt more smoothly; they hold onto supplies longer, experience milder dips in revenue, just like Ehrman noted around 2000. Look at balance sheets: signs of tight credit appear clearly there. What happens when loan costs climb links directly to how these small operations fare. Rising rates block easy access to funding, shift where owners put money, then weaken both income and forward movement. Still, when rates drop, companies often do better - spurring investment, lifting earnings, pushing expansion. That link gives officials and analysts a clearer path toward smarter lending rules, wider credit reach, stronger backing for smaller firms.

2.3.2 The role of collateral security on the financial performance of Small-Scale Enterprises in Mukono Central Division.

William (2007) defines collateral as any valuable item that the debtor can pledge as assurance that the principle shall be fully , including the interest agreed upon. When a business is borrowing money, collateral requirements could be as high as or more than the whole loan amount. This percentage is contingent once more upon the level of risk that the lender determines after noting that financial institutions have attempted to expand loan business, with these borrowers. emerging as a progressively appealing clientele. Collaterals have been studied since Barro's 1976 paper, which concentrated on pricing problems in cases where the collateral asked wasn't affordable by most small businesses. In addition to that, current research has recognized the practical significance of collateral, placing collateral as the primary critical component in deciding external funding and investment (Leitner, 2006). Businesses that possess physical collateral appear to be more successful in obtaining loans than those that do not. Thus, there is a slight but favourable correlation between collateral and the overall growth of small businesses

In order to lessen equilibrium credit rationing and other issues brought on by asymmetric knowledge between lenders and borrowers, collaterals are employed. Furthermore, a corporation's ability to borrow more is made possible by rises in the value of its collateral, which lessens the credit constraints the firm goes through. Collateral security is evaluated solely for determining the needed loan loss provision for non-performing loans, since it is considered a supplementary source of repayment. The extent of the financial limitation is likely to be smaller for Small and Medium-Sized Enterprises with more collateral security to offer. More broadly, it may be hypothesized that the deeper or more developed a financial system is, the more loans are available to businesses, especially small and medium-sized ones, and, consequently, the smaller the financial gap. As with corporate transparency, business plan preparation, entrepreneur skill level, and credit rating, it is hypothesized that collateral availability positively correlates with firm performance. This helped these enterprises by making it easier for them to get loans and reducing their financial challenges. This means that offering a variety of collateral options can help small businesses get past the usual requirements for asset-based collateral, leading to better results. Banks frequently demand complete collateral, including real estate and structures, to take care of deficit in case of setbacks. Collateral security has a detrimental impact on small businesses' performance since it significantly hinders their ability to obtain financing (Punyasavatsut, 2011). (Tshivahe 2019)states that in Tanzania over a direction not relationship of importance, even though they agree on the level of significance. These results solely relate with those of Anyieni (2019), that did research of the same nature in Kisii Town, and Nyabicha (2015), who discovered a favorable correlation in Nairobi.

2.3.3 The influence of repayment period on the financial performance of Small-Scale Enterprises in Mukono Central Division.

The length of repayment of a loan , is typically divided into two categories: short-term and long-term. A loan that has a one-year repayment term is referred to as short-term. Conversely, a long-term loan is any loan that has repayment periods longer than a year. In addition to that, there is almost no discovered research that checks these results in the context of loan terms to SSEs, despite the fact that certain theoretical models have addressed the risks of borrowing and the payment of maturity and interest to the lender.(Ortiz-Molina & Penas, 2004)

The most annoying issue that is faced by financial institutions globally is the impoverished and small-scale enterprises inability to repay their debts. According to Amonoo et al. (2003), the credit reimbursement duration is impacted by factors such as the gathering that ensures prompt instalment, the rigid structure of advance reimbursement, regular gatherings, and the beauty period. Advance misapplication has been viewed as a marvel that poses an ethical risk, with implications for credit reimbursement. Some factors that may lead to the misuse of advance payments include the borrower's perception of the amount permitted as being too small, which could lead to them twisting the credit for uses that could jeopardize advance repayment (Armah, 2001). According to Bragg (2010), the short duration lowers the bank's risk of non-repayment because it gives them a reasonable amount of assurance that the company's fortunes won't deteriorate to the point where they are unable to repay the loan in that short of time. Additionally, the bank is shielded from decline in interest rates in the short term. Multiple sources suggest that repayment period has affects the performance of small-scale enterprises in one way or another. Haruna and Marwa (2019) did research in Tanzania, determining the relationship between loan repayment period and the financial performance of small-scale enterprises. And the study showed favourable repayment periods are linked to greater profitability, more sustainaibility, and business expansion. This evidently means giving smaller businesses adequate time to clear debts can reduce burdens and give the appropriate room they need to perform well over time. But there's proof that a quicker loan payback time can help small businesses do better. Back in 2018, Chen along with colleagues checked into loan repayment periods within Chinese small firms. Instead of long waits, quicker payoff schedules seemed to reduce defaults. Better cash handling popped up when deadlines tightened. Performance trends climbed under these tighter terms. With less time to repay, discipline around spending grew sharper. Meeting due dates became more routine. That rhythm supported stronger financial footing across operations.

How long a small business has to pay back a loan might matter more in some industries than others. Research done by Mahmud and team in 2020 checked what happens when farmers in Bangladesh get longer times to repay loans. It turned out that extra time often led to higher profits and more spending on growth. Yet, the benefit leaned heavily toward livestock operations rather than crop farms. One reason could lie in how different kinds of farming manage cash flow over time. Because of this, judging loan terms should include attention to what type of work the business actually does.

One way small firms do better ties back to how long they have to pay loans. A Nigerian research team led by Ajagbe in 2017 explored links between payoff time, borrowing costs, and profit growth. Instead of rushing debt off the books, having more months or years to repay gave companies breathing room. So long as lending fees stayed reasonable, stretched-out schedules lifted earnings power. Profit gains stuck around when interest didn’t spike. Longer timelines meant smoother cash flow management. Business results got stronger under these balanced conditions.

2.4 Summary of literature Review and Gaps Identified.

The literature reviewed indicates that Micro Finance credit terms such as interest rates, collateral requirements and repayment periods influence the financial performance of small scale enterprises. The reviewed articles all agree that access to microfinance help small scale enterprises but did little to show how credit terms impact SSEs positively or negatively. Other scholars have studied these variables but conclusions drawn about the relationship are still mixed for example, which credit terms has the greatest influence on each dependent variable. Most of the studies were generalized to focus on SMEs or Microfinance customers as a whole with little to no evidence on SSEs and none on customers in Mukono Central Division. Also no study was done to identify how these variables work together in influencing Microfinance customer's financial performance. This leaves us with both contextual and methodological gaps, and thus the proposed study seeking to find the effect of Microfinance credit terms on financial performance of small-scale enterprises in Mukono Central Division.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter highlights the methodology that was used in doing the research. It shows research design, study population, sample size, sampling technique, data sources, data collection methods, data analysis procedures and ethical considerations that were used when carrying out this particular research.

3.1 Research design

This research used a cross-sectional survey design. It is a research design that collects information from a population at a single point in time. It is efficient in terms of cost and time for examining relationships between variables (Kothari, 2019). The research had both quantitative and qualitative approaches into the study. Quantitative data was collected through structured questionnaires that were analysed with statistical tools. Qualitative data was collected through interviews the owners of SSEs in Mukono.

3.2 Study Population

This involved all of the formally registered SSEs in Mukono. According to the Mukono municipal council's 2024 records, 60 SSEs businesses are active that work mainly in retail, services, production, or farming activities. Since most of these businesses receive loans directly from MFIs , their experiences reflect how loan conditions like the payback period , interest levels, and collateral security play out in real situations. What stands out is that each of them bears the full impact of those financial rules. The SSEs being studied includes every business, person, or item that has something in common tied to the topic at hand. Here, what ties them together is official registration and active operation in Mukono Municipality. Because there were only 60 small-scale enterprises, including most of them in the analysis became practical. That inclusion helped make results more accurate and better reflect reality. People asked from each business were mainly those running it, owners or supervisors, who know how money flows and how contact with lending groups works.

3.3 Sample Size

The study targeted a population of 60 registered small-scale enterprises (SSEs) in Mukono Central Division. To determine an appropriate sample size, the study applied Yamane's (1967) formula, which is expressed as;

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

Where; n = Sample Size

N = Population Size

e = Margin of error (0.05)

Substituting the values;

$$n = \frac{60}{1 + 60\,(0.05^2)}$$

$$n = 52.$$

3.4 Sampling technique

This study employed a stratified sampling technique to pick out respondents. From a pool of 60 registered small-scale businesses in Mukono Central Division, participants were picked using stratified sampling. Split in such a way that those dealing in one main item versus those offering many goods, the groups formed two distinct layers. Out of each layer, people got included in numbers matching their group's size, keeping balance. In every chosen shop or business , it was the boss or supervisor that was interviewed, as they had the most useful information about the business. Using them made sure results reflected real patterns of the business while making sure everything is covered.

3.5 Data Sources

The study used on both the primary and secondary sources of data. From first hand talks with owners and managers in Mukono Central Division came details about microfinance conditions plus how businesses were doing financially. These insights arrived from questionnaires built around clear questions. Information gathered straight from those running the small firms made up the topic being studied. Earlier written records also played a role - things like paperwork filed by companies when they started. Financial summaries that some had kept added depth to what was learned. Reports issued by lending groups focused on smaller loans contributed too. So did official numbers released by state departments tracking economic activity. Together, these pieces formed the background layer behind fresh findings. Books and journal articles made up another part of the material looked at. From these, information was pulled that had already been written down like digital texts, academic papers, or magazines. Documents got sorted into groups so pulling out details and studying wording would be easier later on. Instead of standing alone, those materials backed up firsthand results, filled in context, and helped make sense of what the research showed

3.6 Data Collection Method(s)

The study used questionnaires as the only method of collecting data. Questionnaires were used because they allow the researcher to collect data from a big number of respondents within a short period of time. The questionnaires were given out to owners of the small-scale enterprises in Mukono Central Division, since they are directly involved in finances of the SSE and interact with microfinance institutions. The questionnaires consisted of closed-ended questions to facilitate quantitative analysis, while also including open-ended questions to capture additional insights and opinions. This method was suitable because it ensures uniformity of responses, enhances accuracy, and allows for easier comparison and statistical analysis using SPSS.

3.6.1 Data Collection Instrument

3.6.2 Questionnaire

Open-ended questions on the questionnaire allowed respondents to freely express their ideas and provide further facts about the subject. In addition, respondents were asked to choose the best appropriate response about the subject matter in semi-structured or closed-ended questions with predetermined answers. Because the researcher employed questionnaires, he assisted in directing respondents to guarantee accurate data is gathered from the proprietors of small and medium-sized businesses. Likert scales were utilized to assess the questionnaires. The owners of the 52 SSEs that were chosen and were operating in Mukono Central Division were surveyed in order to gather data.

3.7 Validity and Reliability

The study was devoid of bias and distortion in order for it to be considered sound. When defining and quantifying bias and distortion, two key ideas are reliability and validity. The methodology used in this study to establish validity and reliability is described in the next subsections.

3.7.1 Validity

Validity refers to the extent to which an instrument measures what it is intended to measure. To ensure the validity of the questionnaire, the instrument was reviewed by the research supervisor and other experts in research methodology to confirm that the questions are clear, relevant, and aligned with the study objectives. Pre-test was conducted on a small sample of SSEs to identify and correct any unclear or irrelevant questions. The study employed the Content Validity Index (CVI) to quantitatively assess the validity of the questionnaire items. A CVI score of 0.7 or higher was considered acceptable, as recommended by Lynn (1986).

The CVI will be computed as follows;

$$C.V.I = \frac{\text{No. of Questions declared Valid.}}{\text{Total No. of questions in the questionnaire.}}$$

3.7.2 Reliability

Reliability refers to the consistency of an instrument in measuring what it is designed to measure across repeated trials (Kothari, 2004). To ensure reliability, the study applied the Cronbach's Alpha coefficient test using SPSS to determine the internal consistency of the questionnaire items. A reliability coefficient of 0.7 or higher was be considered acceptable for the study. Additionally, the structured nature of the questionnaire minimized variations in responses, while administering the same instrument to all respondents under similar conditions w further strengthened the reliability of the data collected.

3.8 Data Collection Procedure

The data collection programme was carefully designed and applied to enhance the quality of the study. Initially, the investigator received a letter of introduction from the School of Business at Uganda Christian University (UCU), in order to conduct the study on the impact of microfinance credit terms on the financial performance of Small-scale Enterprises. The letter was then forwarded for approval to the Mukono Municipal Council, as a request for official permission to conduct research within the study area. Subsequently, the letter, along with the structured questionnaires, was presented to the owners of the business for their request of participation. The self-administered questionnaires given to the respondents to fill in seven days before the investigator went to collect the questionnaire for coding and data entry for subsequent analysis. This procedure was expected to produce reliable and representative data for the population under study.

3.9 Data Analysis

The information collected from the structured questionnaires was checked for completeness and consistency before coding and entry into SPSS version 20 for data analysis. Descriptive and Inferential statistical methods were employed to analyze the quantitative data obtained from the respondents to help to achieve the study objectives. Frequencies, percentages, mean, and standard deviation were calculated to find the relationships between demographic characteristics of respondents and the general characteristics of microfinance credits terms and financial performance of small-scale enterprises. To test the hypothesized relationship between microfinance credit terms (interest rates, loan repayment period, and collateral requirement) and financial performance of small-scale enterprises, correlation and regression analysis were employed to delineate the strength and direction of the relationship between the variables.

3.10 Ethical Considerations

The principles of research ethics were followed in this study, in that the rights and welfare of all participants are protected. The research has obtained informed consent from each respondent. The respondents were informed that the purpose of the study is to collect data and that they are participating voluntarily and that they have the right to withdraw at any time without penalty. Respondents' confidentiality and anonymity is assured as the identity of respondents will not be revealed in reporting and analysis of the results. Questionnaires were coded and no personal identifying information was used in the research report. Finally, the researcher took care that the data collected was only for academic purposes and that it was secured against unauthorized access in accordance with general research ethics.

CHAPTER FOUR

PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter presents analyses and interprets the data that was collected from respondents regarding the study. The data was presented using tables and percentages to facilitate interpretation. The findings of the study were analysed in accordance to study objectives and research questions to determine the relationship between microfinance credit terms and the financial performance of small-scale enterprises in Mukono Central Division.

4.1 Response rate

Table 1: Response rate

Category	Freq	(%)
Questionnaires given out	**52**	**100**
Questionnaires brought back	**45**	**86.5**
Questionnaires not answered	**7**	**13.4**
Total	**52**	**100**

Source: Primary data

The study showed a response rate of 86.5% according to the results from the respondents, which justifies the reliability and accuracy of the findings of the research. A large response rate like this reduces the chances of any possible bias, meaning the results are a representative of the whole population. This enhances the reliability of the information extracted from the research.

4.2 Demographics of the Respondents.

4.2.1 Table 2: Showing the Gender distribution.

Genders	Frequency	Percentage (%)
Male	33	66
Female	17	34
Total	50	100

Source: Primary data

According to the information in table above, a large number of respondents are taken up by 66 % of which these are male as compared to the female population that took up only 34% of the total respondents. This then shows us that there were more males involved in the study as opposed to the females. The reason for including males and females in the study was to get an independent opinion from each gender about the study.

4.2.2 Age of the Respondents

Table 3: Age of the respondents in the study

Age Bracket	Frequency	Percentage (%)
Below 21 years	6	10
22-35	19	41
36-50	15	32
Above 50 years	10	19
Total	**50**	**100**

Source: Primary data

The table illustrated above indicates that most of the respondents where between the age groups of 22-35 years and they took up 41.0%, Secondly, the respondents who were between the ages of 36-50 years took up 32% of the respondents, and lastly those above 50 years who represented 19.0% This tells that almost all the age groups were able to participate in the study.

4.2.3 Level of Education of the respondents

Table 4: Table 4 shows the of the education levels

Level	Freq	(%)
Certificate	11	22
Diploma	26	52
Bachelors	12	24
Masters	1	2
Total	**50**	**100**

Source: Primary data

According to the results above, the majority of respondents had a Diploma, representing 52% of the sample. This was followed by those with a Bachelors at 24%, while 22% of respondents had a Certificate. The least represented group was those with a Master's degree, accounting for 2%. This distribution shows us that most of the respondents had a minimum level of education, which helped them to read and understand the questionnaire and answer accordingly.

4.2.4 Type of business

Table 5: Presents the line of business of the respondents.

Business of the respondent	Frequency	Percentage (%)
Clothing shops	6	13
Hair saloons	7	13
Grocery shops	11	21
Car wash	4	7
Clubs	6	11
Food Kiosks	4	9
Book shops	7	13
Agriculture stalls	6	15
Total	**55**	**105**

Source: Primary data

The table above shows us that 21% of the respondents operated grocery shops, followed by 15% of agriculture stalls, then 13% operated clothing shops or boutiques, the same percentage operated hair salons and book shops. In addition to that, 11% operated clubs, 9% operated food kiosks and finally 7% operated a car wash.

4.2.5 Years of Experience in the business

Table 6: Years of Experience

Years	Frequency	Percentage (%)
Below 5 years	14	28
6-15 years	26	52
16-20 years	4	8
21-30 years	6	12
Above 30 years	0	0
Total	**50**	**100**

Source: Primary data

This table above shows us that the most of the respondents 52% have 6-15 years of experience in the business which shows high levels of experience. In addition to that, those respondents with 16-20 years of experience consumed approximately 8% which illustates a good level of experience, while those with 16-20 years of experience took up the lowest with 8% . According to the study, there were no respondents were assumed to having more than 30 years of experience in there business

4.2.6 Marital Status

Table 7: Marital Status

Marital Status	Freq	(%)
Single	18	39
Married	39	65
Total	**55**	**105**

Source: Primary data

The above table shows the of the marital status among respondents who were involved in the study. The table also clearly shows the frequencies and percentages that highlight that 39% of the respondents were single and 65% were married.

4.3 Interest rates and the financial performance.

1= Strongly Agree, 2= Agree, 3=Not Sure, 4=Disagree and 5=Strongly Disagree.

Table 8: Responses according to the relationship between interest rates and the financial performance of SSEs.

	1		2		3		4		5	
	freq	(%)	freq	(%)	freq	(%)	freq	(%)	freq	(%)
The interest rates charged by MFIs are affordable for my small-scale business.	36	72.0	4	8.0	10	20.0	00		00	
High interest rates negatively affect the profitability of my business.	32	64.0	7	14.0	4	8.0	4	8.0	3	6.0
Interest rates influence my decision to borrow from a Microfinance Institution.	20	40.0	20	40.0	00		7	14.0	3	6.0
The interest rates offered to me my lender are competitive and affordable.	8	16.0	28	56.0	7	14.0	3	6.0	4	8.0
I fully understand how interest is calculated on my loan.	24	48.0	22	44.0	4	8.0	00		00	
My ability to afford interest rates is a critical factor in influencing my access to loans from MFIs	8	16.0	23	46.0	12	24.0	3	6.0	4	8.0

Source: Primary data

The table shows that, 80% where in agreement that interest rates charged my MFIs are affordable for the small-scale enterprises, in addition to that, 20% of the respondents not sure of what the statement meant and so did not answer anything. The study showed that 78% where in agreement high interest rates negatively affect the profitability of their business. Conversely, 8% did not have an idea while the 14% of the respondents did not agree with the statement in the table above. The research showed that 80% of the respondents where in agreement that interest rates influence their decision to to borrow from a micro finance institution, while 20% disagreed with the statement put across. The continued to show that 72% of the were in agreement interst rates offered by their lender are competitive compared to other institutions, 14% did not have an idea while 14% of the respondents where not in agreement with the statement in table above. In addition to that , the study established that 92% of the respondents agreed that they fully understand how interest rates are calculated on their loan , whereas 8% of the respondents were not sure of the statement put across. Finally, the study found out that 62% of the respondents agreed 24% of the respondents were not sure, whereas 14% disagreed with the statement.

The findings were calculated using Pearson's correlation that was conducted as shown below;

Table 9: Pearson's correlation on interest rates and financial performance of SSEs.

		Interest rates	Financial Performance of SSEs
Interest rates	Pearson Correlation	1	-.645**
	Sig. (2-tailed)		.000
	N	50	50
Financial Performance of SSEs	Pearson Correlation	-.645**	1
	Sig. (2-tailed)	.000	
	N	50	50
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary data

The results above show a negative relationship that's significant between interest rates and the performance of small-scale enterprises in Mukono Central Division. This relationship can be seen by r-values of -0.645** with significant p-values of 0.000 at the level of 0.05 (2-tailed) ($r = -.545^{**}$, $p < .05$). A negative relationship simply means the variables go in different directions for example if the interest rates increase, then financial performance declines and if interest rates decrease, financial performance increases. It can also be seen that the p-value is below the significance level of 0.05 which means that the null hypothesis can be accepted.

4.4 Collateral security and the financial performance of SSEs.

1= Strongly Agree, 2= Agree, 3=Not Sure, 4=Disagree and 5=Strongly Disagree.

Table 10: The responses of respondents on the role of collateral security on the financial performance of SSEs in Mukono Central Divison.

	1		2		3		4		5	
	freq	(%)	freq	(%)	freq	(%)	freq	(%)	freq	(%)
The collateral requirements are reasonable and easy for me to meet.	24	48.0	12	24.0	3	6.0	7	14.0	4	8.0
Lack of sufficient collateral prevents many SSEs from accessing loans from MFIs.	8	16.0	31	62.0	4	8.0	7	14.0	00	
The collateral I provided is proportionate to the size of the loan I received.	16	32.0	24	48.0	00		00		10	20.0
I would be more likely to apply for loan if the collateral requirements were reduced or considerable	28	56.0	11	22.0	4	8.0	4	8.0	3	6.0
The value of collateral I can provide directly influences the amount of credit I receive.	20	40.0	20	40.0	00		7	14.0	3	6.0
Making the collateral assessment process easier and faster encourages me to get loans from MFIs.	8	16.0	28	56.0	7	14.0	3	6.0	4	8.0

Source: Primary data.

The table 10 above clearly shows us that, 72% of the respondents are in agreement that the collateral requirements are reasonable and easy for them to meet, In addition to that 6% of the respondents did not have an idea of the statement above. Conversely, 22% where not in agreement with the statement. The results showed that atleast 78% of the population were in agreement that lack of sufficient collateral prevents many SSEs from accessing credit, 8% did not have an idea while 14% were in disagreement of the statement. The continued to show that 80% where in agreement that the collateral they provided is proportionate to the size of the loan that they received, while 20% of the respondents didn't agree. The results continued to show that 78% would be more likely to apply for a loan if the collateral security requirements were reduced or eliminated, 8% didn't have an idea while 14% of the respondents did not agree. In addition to that, the results showed that 80% that the value of collateral they can provide directly influences the amount of credit they receive from micro finance institutions, while 20% of the did not agree with the statement put across. Finally, the study found out that 72% of the respondents where in agreement, 14% of the respondents were not sure, whereas 14% disagreed with the statement.

Table 11: Pearson's correlation on collateral security and financial performance of SSEs in Mukono Central Division.

		Collateral Security	Financial Performance of SSEs
Collateral Security	Pearson Correlation	1	.613**
	Sig. (2-tailed)		.000
	N	50	50
Financial Performance of SSEs	Pearson Correlation	.613**	1
	Sig. (2-tailed)	.000	
	N	50	50
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary data

The results above show a positive relationship that's significant between collateral security and the performance of small-scale enterprises in Mukono Central Division. This relationship can be seen by r-values of 0.613** with significant p-values of 0.000 at the level of 0.05 (2-tailed) ($r = .613^{**}$, $p < .05$). A positive relationship simply means the variables go in similar directions for example if the collateral requirements are favourable , then financial performance will increase and if collateral requirements are not favourable, financial performance decreases. It can also be seen that the p-value is below the significance level of 0.05 which means that the null hypothesis can be accepted.

4.5 The influence of repayment period on the financial performance of SSEs in Mukono Central Division.

Table 12 summarizes respondents' responses on the influence of repayment period on the financial performance of SSEs in Mukono Central Division, by using a Likert scale where;

1= Strongly Agree, 2= Agree, 3=Not Sure, 4=Disagree and 5=Strongly Disagree.

Table 12: The responses of respondents on influence of repayment period and the financial performance of SSEs.

	1		2		3		4		5	
	freq	(%)	freq	(%)	freq	(%)	freq	(%)	freq	(%)
The repayment period provided by my lender is suitable for my business operations and plans	36	72.0	4	8.0	10	20.0	00		00	
Longer repayment perios allow to make better use of borrowed funds.	32	64.0	7	14.0	4	8.0	4	8.0	3	6.0
Short repayment period creates cashflow problems in my business.	20	40.0	20	40.0	00		7	14.0	3	6.0
Longer loan repayment periods enable me to invest in long term projects and make strategic business decisions	8	16.0	28	56.0	7	14.0	3	6.0	4	8.0
Strict repayment schedules improve my ability to repay loans on time.	24	48.0	22	44.0	4	8.0				
Repayment period is a critical factor in determing my access to credit.	8	16.0	23	46.0	12	24.0	3	6.0	4	8.0

Source: Primary data

The table shows that, 80% where in agreement that the repayment perios provide by their lender is suitable for there business operations and financial planning, inaddition to that, 20% of the respondents not sure of what the statement meant and so did not answer anything . The study showed that 78% where in agreement that longer repayment periods allow them to make better use of borrowed funds . Coversely, 8% did not have an idea while the 14% of the respondents did not agree with the statement in the table above. The research showed that 80% of the respondents where in agreement that short repayment periods create cashflow problems in their business, while 20% disagreed with the statement put across. The continued to show that 72% of the respondents were in agreement interest rates offered by their lender are competitive compared to other institutions, 14% did not have an idea while 14% of the respondents where not in agreement with the statement in table above. In addition to that , the study established that 92% of the respondents agreed that flexibile repayment schedules improved their ability to repay their loans on time, whereas 8% of the respondents were not sure of the statement put across. Finally, the study found out that 62% of the respondents agreed 24% of the respondents were not sure, whereas 14% disagreed with the statement.

Table 13: Pearson's correlation on repayment period and Financial performance of SSEs in Mukono Central Division.

		Repayment period	Financial Performance of SSEs
Repayment period	Pearson Correlation Sig. (2-tailed) N	1 50	.675** .000 50
Financial Performance of SSEs	Pearson Correlation Sig. (2-tailed) N	.675** .000 50	1 50
**. Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary data

The results above show a positive relationship that's significant between collateral security and the performance of small-scale enterprises in Mukono Central Division. This relationship can be seen by r-values of .0675** with significant p-values of 0.000 at the level of 0.05 (2-tailed) ($r = .675^{**}$, $p < .05$). A positive relationship simply means the variables go in similar directions for example if the repayment period is longer, then financial performance will increase and if the repayment period is shorter then, financial performance decreases. It can also be seen that the p-value is below the significance level of 0.05 which means that the null hypothesis can be accepted.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings, conclusions drawn from the findings, recommendations based on the results of the previous chapter which relate with the objectives of the study.

5.1 Summary of the findings.

5.1.1 The relationship between Interest rates and the financial performance of Small-Scale Enterprises in Mukono Central Division.

The results from the research evidently show significant negative relationship between intere st rates and the financial performance of small-scale enterprises (SSEs) in Mukono Central Division. ($r = -.546^{**}$, $p < .05$). Most of the respondents showed positive perceptions, with most of them agreeing that high interest rates discourage them from seeking financial assistance and that interest rates influence their decision to borrow from financial institutions.In addition to that , they noted that interest rate fluctuations make it challenging to manage their business finances effectively. Accessibility to cheaper loans with affordable interest rates was a very big factor in promoting the success of small scale enterprises, and lowering interest rates was seen as encouraging more investments in expansion and innovation. The affordability of interest rates also played a crucial role in determining access to credit. These results show us the huge impact of high interest rates on SSEs' performance in the mukono, promoting the need for more ideal lending conditions to enable their sustainability. Research shows that hi gher interest rates can impact the success of SSEs. For example, a study by Mburu and Ngugi (2017) on Smaller Businesses in Kenya discovered that indeed high interest rates reduce business profits, mainly because of the increased cost of repaying loans. A similar study by Okpara (2011) in Nigeria also found that expense of borrowing is a critical barrier to performance and survival of small businesses. These studies agree with findings from Mukono Central Division, indicating that small businesses in various areas face similar problems when interest rates go up.

5.1.2 The role of collateral security and the financial performance of Small-Scale Enterprises in Mukono Central Division.

The results from the study shows a positive relationship that's significant between the collate ral security and the financial performance of small-scale enterprises (SSEs) in Mukono Central Division. ($r = .613^{**}$, $p < .05$). A large number of the respondents where in agreement during the entire process, a large number of them confirmed that reasonable collateral requirements make their chances of obtaining loans easier and that adjusting the collateral assessment process makes it simple to access to loans from MFIs for SSEs. In addition to that, most of them accepted that the collateral they provided was indeed proportionate the size of the loan that they received affecting their access to credit from MFIs. Lastly ,the majority of the respondents agreed that they would most likely be able to apply for loan from these institutions if the loan requirements where reduced or considerable. These findings are supported by earlier research, like the research made by of Stiglitz and Weiss (2015), that tells us high collateral requirements can discourage small businesses from applying for loans because they might not have enough assets to meet these demands. As a result, these businesses might decide not to seek financing at all or turn to more costly and less beneficial financing options, which could harm their financial health. Moreover, the results match those of Beck and Demirgüç-Kunt (2006), who point out that Small Scale Enterprises (SSEs) in emerging economies frequently struggle to get financial support due to strict collateral rules. These rules can prevent SMEs from investing in growth opportunities because a large part of their assets is used as collateral. The difficulty in accessing capital can slow down their ability to innovate, grow, and improve their operations, that could negatively affect performance.

5.1.3 The influence of repayment period on the financial performance of SSEs in Mukono.

The results from the study show a positive relationship between the repayment period and the f performance of Small-Scale enterprises (SSEs) in Mukono Central Division. ($r = .670^{**}$, $p < .05$). The majority of the respondents in the study agreed that interest rates charged by microfinance institutions are affordable for their business which allows them to make more strategic decisions which increases their financial performance. In addition to that, higher interest rates negatively affected the performance of their business which cause cash flow problems and also increased their financial burdens, contributing to untimely repayment of loans and business closures. This suggests that SSE owners in Mukono agree that longer repayment periods allow them to make better use of borrowed funds The positive correlation between repayment periods and SSE performance highlights the rationale of adjusting loan terms to the urgent needs of SSEs to enhance their financial growth in the longrun.

The results of this research are similar to what other researchers have been able to show about how repayment terms influence the financial performance of small businesses. Research has found that long repayment periods cause deficit problems for small businesses. Mekiki and Odeyem (2016) showed that small scale enterprises with very long repayment periods are more likely to have cash flow issues, which makes it harder for them to invest in growth and keep operations running smoothly. This is because of the fact that longer repayment times could take up resources that could be used for daily operations or expansion, limiting the business's financial operations Bugos and Udell (1996), who observed that SSEs businesses with long-term debt often have a higher risk of financial trouble. The extended time needed to repay this debt can strain the company's resources, making it difficult to meet other financial obligations, which then impacts their overall financial health.

5.2 Conclusion

In conclusion, the study conducted has proven the existence of strong relationships between the independent variables and performance of SSEs in Mukono. Firstly, there exists a considerable negative relationship between high-interest rates and financial performance of SSEs which reveals to us the importance of these high-interest rates to SSEs and how they affect their growth thus a call for more favorable credit terms. Secondly, existence of a positive relationship between flexible collateral security and performance of SSEs in Mukono Central Division has taught us the role certain variables like collateral security play in allowing borrowers to access loans from MFIs and therefore improving the performance of SSEs. Lastly, study has shown us that there exists which emphasizes the crucial role of loan flexibility in enabling strategic decision-making and sustainable growth for these enterprises. These results all together show us the role of Credit financial institutions and policies in promoting the and growth of SSEs in Mukono Central Division.

5.3 Recommendations.

Because the results of the research project are now known, suggestions are provided to look into how the rules of borrowing money affect the business results of Small-Scale enterprises in Mukono Central Division. Making changes to the interest rates is very important. Many people believe that the high cost of borrowing money has a bad connection with the success of Small-Scale enterprises. Individuals who create laws and the micro-lending organizations must make changing these interest rates a main goal. Efforts to make the interest rates lower and making sure the interest rates stay stable should be explored. This ensures that Small-Scale enterprises have the chance to get money that they can afford. Micro-lending organizations should consider making the requirements for a guarantee more flexible. These organizations could accept items like a promise from a person or the tools of the business. When the guarantee is made easier, the Small-Scale enterprises will get money more quickly.

Changing the way money is paid back is another important path. To use the good connection between the time given to pay back the money and the business results of Small-Scale enterprises, micro-lending organizations should offer ways to pay back that are made for each person. Small-Scale enterprises should be given the option to choose a time for paying back that matches the plans of the business. Experts claim that teaching about money and giving educational systems is very helpful for those who own Small-Scale enterprises. These systems help individuals who manage the work to see the rules of the money clearly. When the owners learn how to handle their finances, the Small-Scale enterprises can make good choices. The knowledge is given to the owners so that the Small-Scale enterprises do not face failure.

Helping Small-Scale enterprises to grow and find new ways of working is a task for micro-lending organizations. It has been observed that checking the health of the money in the Small-Scale enterprises on a regular schedule is necessary for success. The micro-lending organizations should conduct a deep look at the money of the Small-Scale enterprises to see if trouble is coming. When trouble is seen early, the micro-lending organizations can provide help before the Small-Scale enterprises suffer. Because the business results of Small-Scale enterprises depend on the rules of the land, the micro-lending organizations must work with the government to make the rules better. Policy advocacy is used to protect the business environment for every Small-Scale enterprise.

5.4 Areas for further research.

Investigations in the years ahead could examine the ways having entry to monetary wisdom instruction changes how small business owners handle and apply microfinance loans. Many people believe that understanding regarding wealth coordination makes the application of microfinance loans and operational results better. Knowledge is required because the effectiveness of microfinance loans is determined by the skills of small business owners.

Scholarly inquiries might look at the impact that the cost of borrowing money has on the continued existence and growth of small-scale enterprises. Scholars say that diverse levels of the cost of borrowing money influence the gain of wealth and permanent advancement for small-scale enterprises. Profitability is influenced by the cost of borrowing money when small-scale enterprises operate in difficult markets.

Individuals who conduct research might investigate the link between the quantity of borrowing obtained and how small businesses perform. Experts claim that the size of borrowing determines if small businesses reach wider markets or increase their selling of goods. Expansion is achieved while the quantity of borrowing is utilized for the correct purposes.

Academic exploration could look at how the rules of paying back money change how small-scale enterprises behave regarding the return of funds. Scholars say that adaptable rules for paying back money lower the stress of wealth and make the return of funds better for small-scale enterprises with inconsistent earnings. The ways that microfinance services guide the operation and lasting nature of small-scale enterprises are explained when these subjects are studied.

REFERENCES

Omondi, R. I., and A. Jagongo. "Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya." *International academic journal of economics and finance* 3.1 (2018): 24-43.

Ngeno, John Kiplangat. "Influence of Credit Lending Terms of Microfinance Institutions on Financial Performance of Small and Medium Enterprises in Eldoret Town." (2019): 3.

Amsi, F., Ngare, P., Imo, P., & Gachie, M. (2017). Effect of microfinance credit on SMEs financial performance in Kenya. *Journal of emerging trends in economics and management sciences*, *8*(1), 48-61.

Odongo, James. "Lending terms and financial performance of small medium enterprises in Uganda: Case of Soroti District." *Research Journal of Finance and Accounting* 5.2 (2014).

Babajide, Abiola. "Effects of microfinance on micro and small enterprises (MSEs) growth in Nigeria." *Asian Economic and Financial Review* 2.3 (2012): 463.

Wanambisi, Albert Njiwakale, and Henry M. Bwisa. "Effects of microfinance lending on business performance: A survey of micro and small enterprises in Kitale municipality, Kenya." *International Journal of Academic Research in Business and Social Sciences* 3.7 (2013): 56.

Ngo, Trong Vi, Andrew W. Mullineux, and Anh Hoang Ly. "The impact of scale of operation on financial performance in microfinance." *Eurasian Economic Review* 4.2 (2014): 177-198.

Ngo TV, Mullineux AW, Ly AH. The impact of scale of operation on financial performance in microfinance. Eurasian Economic Review. 2014 Dec;4(2):177-98.

Rotich, Irene, Charles Lagat, and Japhet Kogei. "Effects of microfinance services on the performance of small and medium enterprises in Kenya." *African Journal of Business Management* 9.5 (2015): 206-211.

Daher, Lâma, and Erwan Le Saout. "Microfinance and financial performance." *Strategic Change* 22.1-2 (2013): 31-45.

Ibor, Bassey Ina, Amenawo Ikpa Offiong, and Enyeokpon Samuel Mendie. "Financial inclusion and performance of micro, small and medium scale enterprises in Nigeria." *International Journal of Research Granthaalayah* 5.3 (2017): 104-122.

Kisaka, Sifunjo E., and Naomi M. Mwewa. "Effects of micro-credit, micro-savings and training on the growth of small and medium enterprises in Machakos County in Kenya." *Research Journal of Finance and Accounting* 5.7 (2014): 43-49.

Otieno, Simeyo, et al. "Effect of provision of micro-finance on the performance of micro-enterprises: A study of youth micro-enterprises under Kenya Rural Enterprise Program (K-REP), Kisii County, Kenya." (2013).

Gatuhu, Rosemary N. "The effect of credit management on the financial performance of microfinance institutions in Kenya." *Unpublished MBA Dissertation, University of Nairobi, Nairobi* (2013).

Mot, H. O., Masinde, J. S., Mugenda, N. G., & Sindani, M. N. (2012). Effectiveness of Credit Management Systemon Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya.

Cull, Robert, Asli Demirgu¨ ç-Kunt, and Jonathan Morduch. "Financial performance and outreach: A global analysis of leading microbanks." *The economic journal* 117.517 (2007): F107-F133.

Kyereboah-Coleman, Anthony. "The impact of capital structure on the performance of microfinance institutions." *The journal of risk finance* 8.1 (2007): 56-71.

Munguti, Joe Mulili. "Determinants of Micro Credit Performance in Microfinances in Kenya." PhD diss., 2013.

Otieno, Simeyo, Michael Nyagol, and Arvinlucy Onditi. "Relationship between Credit risk management and financial performance: empirical evidence from microfinance banks in Kenya." *Research journal of finance and accounting* 7.6 (2016): 2222-2847.

Quayes S, Hasan T. Financial disclosure and performance of microfinance institutions. Journal of Accounting & Organizational Change. 2014 Aug 26;10(3):314-37.

Mosley, Paul, and David Hulme. "Microenterprise finance: is there a conflict between growth and poverty alleviation?." *World development* 26.5 (1998): 783-790.

Morduch, Jonathan. "The microfinance promise." *Journal of economic literature* 37.4 (1999): 1569-1614.

Matin, I., Hulme, D. and Rutherford, S., 2002. Finance for the poor: from microcredit to microfinancial services. *Journal of international development*, *14*(2), pp.273-294.

APPENDICES

APPENDIX I: QUESTIONNAIRES

UGANDA CHRISTIAN UNIVERSITY

Questionnaire for SSEs in Mukono Central Division

Dear respondent,

I, **MUWANGUZI EMMANUEL** a student of Uganda Christian University conducting research on the topic 'Microfinance credit terms and the financial performance of small-scale enterprises in Mukono central division'. I kindly request you to fill in this questionnaire.

I appreciate your responses and cooperation.

Yours faithfully,

Muwanguzi Emmanuel.

SECTION A: DEMOGRAPHIC INFORMATION.

Kindly tick ☑in the blank spaces, the items that best describe your choice for each question.

1.G**ender of the Respondent**

Male ☐ Female ☐

2. Age of the Respondent

Below 20 years ☐ 21-30 years ☐ 31-40 years ☐ Above 41 years

3. Marital Status

Married ☐ Single ☐

4. Education level

Certificate ☐ Diploma ☐ Bachelors ☐ Masters

5. How long has the respondent been in the business.

Below 4 years ☐ 5-10 years ☐ 11-15 years ☐ 16-20 years

Above 20 years ☐

6. What line of business does you Small-scale engage in?

………………………………………………………………………………………

SECTION B: MICROFINANCE CREDIT TERMS.

Use the scale below and tick in the box with the most suitable response.

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

1	**Microfinance Credit terms**	Tick Appropriately				
A	**Interest Rates**	**1**	**2**	**3**	**4**	**5**
1	The interest rates charged by MFIs are affordable for my small-scale business.					
2	High interest rates negatively affect the profitability of my business.					
3	Interest rates influence my decision to borrow from a Microfinance Institution.					
4	The interest rates offered to me my lender are competitive and affordable.					
5	I fully understand how interest is calculated on my loan.					
6	My ability to afford interest rates is a critical factor in influencing my access to loans from MFIs					

B	**Collateral Security**	**1**	**2**	**3**	**4**	**5**

1	The collateral requirements are reasonable and easy for me to meet.					
2	Lack of sufficient collateral prevents many SSEs from accessing loans from MFIs.					
3	The collateral I provided is proportionate to the size of the loan I received.					
4	I would be more likely to apply for loan if the collateral requirements were reduced or considerable					
5	The value of collateral I can provide directly influences the amount of credit I receive.					
6	Making the collateral assessment process easier and faster encourages me to get loans from MFIs.					

C	**Repayment Period**	**1**	**2**	**3**	**4**	**5**
1	The repayment period provided by my lender is suitable for my business operations and plans					
2	Longer repayment perios allow to make better use of borrowed funds.					
3	Short repayment period creates cashflow problems in my business.					
4	Flexible repayment schedules improve my ability to repay loans on time.					

5	Strict repayment schedules improve my ability to repay loans on time.					
6	Repayment period is a critical factor in determing my access to credit.					

SECTION C: FINANCIAL PERFORMANCE OF SSEs

2	**Financial performance of SSEs**	Tick Appropriately				
A	**Net Profit Margin**	**1**	**2**	**3**	**4**	**5**
1	My business usually make a profit after covering all the expenses.					
2	My net profit has improved over the last three years.					
3	Sales revenue is sufficient to generate satisfactory results.					
4	Operating costs are well controlled in my business.					
5	The business retains enough profit reinvestment and growth.					
B	**Liquidity**	**1**	**2**	**3**	**4**	**5**
1	My business can easily pay its daily and short term expenses when due.					
2	I rarely experience cash shortages in running the business.					
3	The business maintains enough cash or working capital for operations.					
4	I am able to repay short term loans or supplier debts on time					
5	Cashflow in the business is stable through out the year.					

C	**Return on assets**	1	2	3	4	5
1	The assets I own generate good returns.					
2	My business uses its assets efficiently to produce income.					
3	Sales increase when I invest in more equipment or stock.					
4	The value of my assets contributes positively to business' profitability					
5	Overall my business assets help improve financial growth.					