

**THE EFFECT OF MICROFINANCE CREDIT TERMS ON THE FINANCIAL
PERFORMANCE OF SMALL-SCALE ENTERPRISES IN MUKONO
MUNICIPALITY**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
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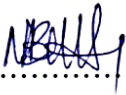


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DECLARATION

I, Natasha Barbara, hereby certify that this research report was created entirely on my own initiative under the supervision of my supervisor and that it has never been submitted for an award to any other organization.

Signature.....

Date.....05th / 05 / 2026.....

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APPROVAL

This is to certify that this dissertation titled, “the effect of microfinance credit terms on the financial performance of small scale enterprises in Mukono Municipality” has been written under my guidance as the university supervisor and is ready for submission for examination.

Signature..... 

Date..... 05 / 05 / 2026

JENNIFER ABIYAR N. (MRS.)

(Supervisor)

DEDICATION

I would especially like to dedicate my work to my parents, who have always encouraged me to pursue my studies. May you be abundantly blessed by the All-Powerful God.

ACKNOWLEDGEMENT

I want to express my gratitude to the Almighty God for giving me life and for guiding me along my academic journey. Although it hasn't been simple, it has been possible.

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I also thank the proprietors of the chosen small-scale businesses (SSEs) in Mukono Municipality for giving me the data I needed to do my investigation.

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ABSTRACT

The study looked at how microfinance credit terms affected Mukono Municipality's small businesses' financial performance. It particularly concentrated on establishing the connection between interest rates and small businesses' financial performance, figuring out the connection between collateral requirements and small businesses' financial performance, and investigating the connection between repayment terms and small businesses' financial performance in Mukono Municipality.

A cross-sectional correlational research strategy was employed in the study, along with a quantitative research approach. Questionnaires were utilized to gather the data, and stratified sampling was employed throughout the process. Although 320 of the owners of the chosen small businesses in Mukono Municipality replied to the study, a sample size of 384 respondents was used.

The results of the study showed that the financial performance of small businesses in Mukono Municipality is highly influenced by the terms of microfinance lending. The level of interest, requirement for collateral, and period of repayment have an influence on enterprise performance, such that the higher the interest rate, the stricter the collateral requirement, and the stiffer the period of repayment, the lower the profitability of the business. The correlation analysis revealed significant positive correlations between financial performance and interest rate ($r = .723^{**}$, $p < .05$), collateral requirement ($r = .677^{**}$, $p < .05$), and repayment period ($r = .615^{**}$, $p < .05$).

In conclusion, it was established that the terms of microfinance credit such as interest rates, requirements for collateral, and repayment periods significantly influence the financial performance of small scale enterprises in Mukono Municipality. Inappropriate terms make the operations of businesses less profitable and financially unsustainable, whereas flexible terms promote better financial performance.

Finally, it was recommended that in order to improve the financial performance of small scale enterprises, the interest rate policies of microfinance institutions should be flexible and consistent. Additionally, collateral requirements need to be flexible and repayments should be done based on the cash flows of businesses.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The research focused on the impact of microfinance credit conditions on the financial performance of small businesses in Mukono Municipality. This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significant of the study and conceptual framework.

1.1 Background of the study

Small scale enterprises (SSEs) are recognized as the vital drivers of economic growth, employment, and innovation in developed and developing economies alike (Bhorat & Oosthuizen, 2020). SSEs contribute toward poverty alleviation, generation of income, and diversification of the local economy; hence they are vital pillars of national development strategies (Beyhaghi et al., 2020). Access to credit from MFIs has played a significant role in enabling SSEs to overcome financial constraints, invest in expansion, and increase productivity (Gonzalez-Vega, 2021). However, the terms of microfinance credit, including interest rates, collateral, and repayment conditions, may support or undermine their performance (Wafula & Miroga, 2020). When these conditions are unsatisfactory, SSEs miss payments, face cash flow issues, and suffer profitability and growth retardation (Iqbal & Rao, 2023).

Credit terms are relevant since they influence the availability and affordability of small business entrepreneurs' loans (Widyastuti et al., 2023). Favorable terms, such as lenient repayment terms and low interest rates, enable businesses to repay financial liabilities while maintaining business stability (Aminkeng et al., 2024). Conversely, tight credit terms put pressure on finances, particularly for businesses that are running on thin capital and irregular revenue streams (Adusei & Adeleye, 2024). MFIs tend to include stringent terms of lending because of envisaged risk from lending to small businesses, hence restricting access to finance (Bhorat & Oosthuizen, 2020). Hence, the effectiveness of microfinance in enabling SSE development is largely a function of the degree to which credit terms are equitable and affordable (Beyhaghi et al., 2020).

Microfinance has been central in catalyzing entrepreneurship and small business development worldwide in different economies (Widyastuti et al., 2023). In the United States, microfinance programs and community development financial institutions have enabled disadvantaged entrepreneurs with favorable and accessible credit terms (Adusei & Adeleye, 2024). Germany and France in Europe provide subsidized credit facilities and favorable repayment terms to ensure SME competitiveness (Beyhaghi et al., 2020). Similarly, in Asia, nations such as Bangladesh, India, and Indonesia rely largely on microfinance to finance SSEs but face high interest rates and short repayment terms (Emran et al., 2021). In Bangladesh, for example, credit rationing has limited reinvestment opportunities and slowed the growth of small businesses (Emran et al., 2021). These cross-country experiences further establish that access to credit continues to be an important factor determining small firm performance under different economic scenarios (Widyastuti et al., 2023).

In Africa, SSEs contribute significantly to employment and GDP and are therefore crucial to sustainable development (Brixiová et al., 2020). Nevertheless, the majority suffer from financial exclusion as a result of unprofitable lending conditions and high interest rates charged by MFIs (Igwe & Icha-Ituma, 2020). In Nigeria, strict payment schedules and requests for collateral have hindered the growth and profitability of small enterprises (Effiom & Edet, 2020). In South Africa, township enterprises prefer informal credit networks with punitive conditions, which limit business stability (Tshivhase, 2020). Similarly, in Kenya, harsh collateral requirements and high interest rates have deterred small firms from borrowing (Muthama & Warui, 2021). In the entire sub-Saharan Africa, financing access ranks as one of the biggest concerns, and terms of microfinance credit are the key determinant of business success or failure (Endris & Kassegn, 2022).

In Uganda, SSEs contribute about 75% to GDP and employ over 2.5 million people, thus playing a critical role in the national economic transformation process (Okello et al., 2025). Most of the Ugandan businesses, however, do not have access to cheap credit due to strict lending conditions (Agaba & Mugarura, 2023). Interest rates of 23% to 30%, collateral charges as high as 150% of the loan amount, and repayment periods limited to a maximum of 24 months (Effiom & Edet, 2020) all contribute to these unfavorable terms. They have a bearing on liquidity, lower profitability, and restrict the capacity of enterprises to grow (Nakibigi, 2023). In Mukono

Municipality, where majority of SSBs engage in manufacturing, agro-processing, and trade, the effect of strict credit terms is realized through declining enterprise performance (Ssemakula, 2022). The effect of microfinance credit terms on the financial performance of small-scale firms in Mukono Municipality is therefore sought to be assessed through this study (Wafula & Miroga, 2020).

1.2 Problem statement

Small-scale enterprises (SSEs) are key drivers of economic growth, job creation, and innovation in Uganda (Wafula & Miroga, 2020). Ideally, they should exhibit strong financial performance through profitability and business sustainability (Ssemakula, 2022). However, in Mukono, SSEs' financial performance has declined sharply in recent years. Profitability levels dropped by 27% between 2020 and 2024, liquidity ratios fell from 1.6 to 0.9, and sales growth slowed by 18% (USSIA, 2024). Additionally, business sustainability has weakened, with over 60% of SSEs failing to survive beyond five years (Nakibigi, 2023). This trend will eventually result in a large number of closures for SSEs, thereby resulting in reduced employment and revenue generation within these regions (Agaba & Mugarura, 2023). Despite efforts taken by the Ministry of Finance, Microfinance Support Centre, and Uganda Microfinance Regulatory Authority to enhance credit availability, financial performance among SSEs is still very poor (Okello et al., 2025).

Also, despite prior efforts made in understanding the relationship between access to credit and growth of SMEs by researchers such as Brixiová et al. (2020), Effiom & Edet (2020), there is no empirical research conducted on how certain aspects of microfinance credit, namely, interest rate, collateral, and repayment periods influence financial performance of firms in developing countries such as Uganda. This study, therefore, sought to fill this gap by examining the effect of microfinance credit terms on the financial performance of small-scale enterprises in Mukono Municipality.

1.3 Purpose of the study

The purpose of this study was to examine the effect of microfinance credit terms on the financial performance of small scale enterprises in Mukono Municipality.

1.4 Objectives of the study

- i. To establish the relationship between interest rates and financial performance of small scale enterprises in Mukono Municipality.
- ii. To determine the relationship between collateral requirements and financial performance of small scale enterprises in Mukono Municipality.
- iii. To examine the relationship between repayment period and financial performance of small scale enterprises in Mukono Municipality.

1.5 Research questions

- i. What is the relationship between interest rates and financial performance of small scale enterprises in Mukono Municipality?
- ii. What is the relationship between collateral requirements and financial performance of small scale enterprises in Mukono Municipality?
- iii. What is the relationship between repayment period and financial performance of small scale enterprises in Mukono Municipality?

1.6 Scope of the study

1.6.1 Content Scope

The study was specifically limited to; establishing the relationship between interest rates and financial performance of small scale enterprises, determining the relationship between collateral requirements and financial performance of small scale enterprises, and examining the relationship between repayment period and financial performance of small scale enterprises in Mukono Municipality.

1.6.2 Time scope

The review of reports and documents covered a period of five years, from 2020 to 2024. It allowed for an extensive examination of current trends and patterns in the provision of microfinance credit and its impact on the financial performance of small businesses within Mukono Municipality.

1.6.3 Geographical scope

The study was conducted in Mukono Municipality, Mukono district, which is situated in the central region of Uganda. These SSEs in Mukono Municipality were selected because there have been high rates of failure of these SSEs in the area standing at 50% which could be partly attributed to the stringent microfinance credit terms that hinder them from getting finances to invest in their businesses (USSIA, 2023/24).

1.7 Significance of the study

Moreover, through the findings of the study, there were formulated policy regulations for favorable credit terms in the promotion of performance within small-scale enterprises.

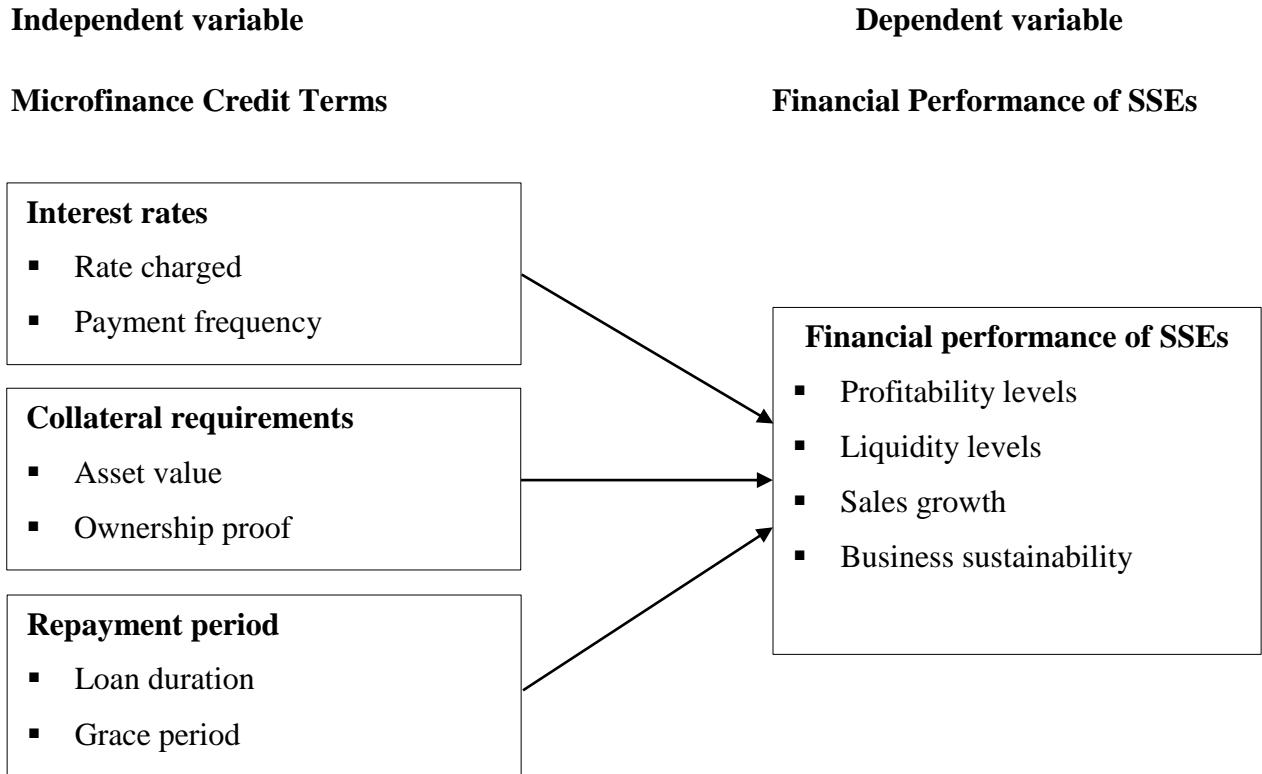
Through the findings of the study, there were formulated policies and regulations that facilitated the formulation of credit facilities for the small-scale enterprises in line with their financial capacities and requirements.

Additionally, the results of the study were significant to the small entrepreneurs in Uganda because they will benefit from knowledge on how microfinance credit terms affect their business performance. This was possible since the results gave the entrepreneurs a chance to be better equipped with knowledge to handle microfinance loans.

In conclusion, the study made its contribution to the existing literature concerning the effects of microfinance credit terms on business performance of small firms by making it easier for future researchers to conduct studies on the topic of interest.

1.8 Conceptual framework

Figure 1: Conceptual Framework



Source: Adopted from, Agaba & Mugarura (2023); Wafula & Miroga (2020) and modified by the researcher (2025)

It is noted that the credit terms of the microfinance credit in terms of interest rate (interest rate and payment frequency), collateral requirements (asset value and proof of asset ownership), and loan duration (loan period and grace period) have a direct effect on the performance of the small-scale enterprises, as reflected in their profit margins, liquidity ratios, sales volume, and viability. Genial credit terms such as reduced interest rates, flexible payment schedules, fair collateral requirements, and extended payment terms enhance the financial performance of SSEs through enhanced cash flow, profitability, and growth opportunities. Conversely, tight or unfavorable terms restrict financial stability, reduce liquidity, and inhibit business growth, rendering overall enterprise performance weak.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Other literary works are covered in this chapter. It is crucial to examine similar studies on the impact of microfinance credit terms on small businesses' financial performance and to research some relevant literature in order to compare, validate, and highlight any discrepancies. As a result, the review of numerous works of literature deemed pertinent to the research was intended to be included in this chapter.

2.1 Definition of key terms

Microfinance credit terms: Microfinance credit terms refer to the contractual conditions attached to small loans provided to micro and small enterprises, including interest rates, repayment schedules, collateral requirements, and related obligations that define the cost and structure of borrowing (Wafula & Miroga, 2020). Beyhaghi et al. (2020) conceptualize credit terms more broadly as part of credit rationing mechanisms that determine not only pricing but also access, maturity, and enforcement conditions imposed by lenders. In the same vein, Iqbal and Rao (2023) point out that credit terms involve social elements, including group guarantees and social capital contracts, which affect the actual terms of credit borrowing in microfinance contracts.

Interest rates: Interest rates are defined as the charges borrowers incur when borrowing money from lenders, measured as a certain percentage of the amount of the loan during an agreed period (Gonzalez-Vega, 2021). In the words of Okello et al. (2025), interest rates are critical components of credit conditions that dictate the cost of borrowing, thereby affecting the repayment capacity of small businesses. Additionally, Emran et al. (2021) explain how interest rates are the channels used to transmit distortions in the credit markets and their effects on production motives and profit-making capabilities of small businesses operating within supply chain arrangements.

Collateral requirements: Collateral requirements are the guarantees or assets pledged by the borrower in exchange for the loan provided by the lender to mitigate risks (Reuben, 2014).

According to Endris and Kassegn (2022), collateral requirements are formal financial instruments that dictate access to credit in microfinance markets, mostly in developing nations where credit markets are not entirely efficient. Aminkeng et al. (2024) define collateral requirements as credit conditions that limit the borrowing ability of firms, affecting their liquidity and financial performance.

Loan Repayment Period: The term 'loan repayment period' implies the period during which a loan borrower must repay the total amount of the principal along with the interest. It includes aspects related to installment and grace periods for such a loan (Muthama & Warui, 2021). According to Widyastuti et al. (2023), loan repayment period can be defined as one of the dimensions of credit conditions which affects the time pressure faced by an enterprise's cash flow and working capital position. Further, Emran et al. (2021) view the loan repayment period as an important attribute of loans that impacts liquidity and profitability based on its compatibility with business operations.

Small Scale Enterprise (SSE): Small scale enterprises refer to businesses which make relatively low investments in capital and labor and have a smaller market presence (Reuben, 2014). According to Nakibigi (2023), SSEs are micro-enterprises and small businesses that are crucial for generating employment opportunities, incomes, and development in developing countries. Borat and Oosthuizen (2020) have described small-scale enterprises as vital contributors to economic growth and capacity building in African countries.

Financial Performance of SSEs: The financial performance of SSEs is defined by the profitability, liquidity, and growth potential of the small-scale enterprises. Adusei and Adeleye (2024) define the financial performance of SSEs based on profitability ratios, liquidity status, the ability to service debts, and asset management. According to Agaba and Mugarura (2023), the financial performance of SSEs entails not only profitability but also the growth in sales and financial sustainability, especially for microenterprises in developing countries.

2.2 Conceptual review

2.2.1 Microfinance credit terms

The definition of microfinance credit terms is usually seen as the conditions of loans such as interest rates, repayment period, collateral, and sanctions that define the terms under which loans can be accessed. In contrast, some studies have focused on the behavioral nature of credit terms and the involvement of loaners in defining the terms through their flexibility, enforcement, and rationing. According to some studies, there should be a focus on credit terms involving relational dynamics, especially considering the role of social capital, peer guarantee schemes, and informal enforcement mechanisms (Iqbal & Rao, 2023). Nonetheless, research on credit rationing shows how regulatory limits and lenders' risk management lead to actual credit terms, even if the rates are seemingly favorable.

Microfinance credit terms are evaluated by taking into consideration a combination of price, time, and security indicators. Interest rates and frequency of payments are the most widely used measures for price (Wafula & Miroga, 2020). Asset value requirements and loan-to-collateral ratios, alongside ownership documents, are the measures typically used to evaluate security requirements. As for the time dimensions of the credit terms, those comprise borrowing period, grace period, and installment schemes, as these parameters are typically incorporated in empirical research (Emran et al., 2021). Additionally, there are other indicators used more often in recent research, such as loan amounts, disbursement speed, penalties for delays in payment, and procedural conditions (Widyastuti et al., 2023).

It is controversial whether the effect of strict credit terms is positive or negative overall. Several researchers claim that strict credit terms safeguard the lender's interest and guarantee better repayment performance, especially when monitoring costs are relatively high (Gonzalez-Vega, 2021). However, a number of researchers demonstrate that strict terms – high interest rate, substantial collateral requirements, and shorter loan tenure – limit investment, decrease profits, and threaten small firms' survival (Effiom & Edet, 2020). Additionally, empirical evidence suggests that the impact of strict credit terms on small firm performance is weakened by the borrowing firm's capacity. Financial awareness, accounting, and management skill are examples of borrower characteristics that mitigate any negative impacts arising from restrictive credit

terms (Widyastuti et al., 2023). Hence, several scholars advocate the use of a comprehensive credit term indicator that integrates price, time, security, and relational measures, thereby allowing an assessment of lending conditions' influence on small firm performance (Brixiová et al., 2020).

2.2.2 Financial performance of small scale enterprises

SSE financial performance is the extent to which these firms generate profit, ensure liquidity, and develop financially. However, there are differences in how scholars define this term. According to Reuben (2014), financial performance can be understood as the financial strength of the business, which involves financial measures of profitability, liquidity, and solvency, with a focus on short-run financial viability. However, according to Endris and Kassegn (2022), financial performance is not only about profitability but involves sustainability and innovation potential, particularly for developing countries. Along the same lines, Borat and Oosthuizen (2020) have suggested that financial performance for SSEs includes creating employment and fostering skills development, as financial success in African economies cannot be achieved without strong small firms.

Several authors have proposed various dimensions in determining the financial performance of SSEs. According to Adusei and Adeleye (2024), profit margins, return on investments, and revenue growth are essential aspects that capture both organizational effectiveness and strategic competence. However, Aminkeng et al. (2024) highlight liquidity ratios, the capacity to service debt, and effective asset management as significant factors in evaluating the stability of short-term financial performance. Furthermore, according to Agaba and Mugarura (2023), sales growth and sustainability constitute critical criteria for measuring the financial performance of microenterprises in Uganda due to their high likelihood of being reflective of the true situation for such businesses, which frequently work within an ecosystem characterized by restricted access to formal lending institutions.

Further empirical research indicates that SSE performance depends on both internal and external aspects such as financing structure and management competency. For instance, according to Ssemakula (2022), venture capital improves profit and growth rates potential among small firms, while Okello et al. (2025) indicate that financial experience and literacy among women

entrepreneurs enhance the chances of survival and sustainability of enterprises in rural Uganda. From the research conducted by Nakibigi (2023), availability and accessibility of credit play a major role in the level of profitability and liquidity because lack of access to credit hampers cash flow and sale growth. These discussions tend to demonstrate the point that profitability, liquidity, sale growth, and sustainability, despite being regarded as key indicators, have changing and contextual factors determining their levels of performance.

2.3 Empirical review

2.3.1 Relationship between interest rates and financial performance of SSEs

The work by Wafula and Miroga (2020) explored the effect of credit terms of banks on the financial performances of SMEs in Bungoma County, Kenya. It was found that high interest rates set by banks affected negatively the profit and liquidity positions of SMEs, because most SMEs failed to repay the amounts borrowed. In a similar way, other researchers such as Effiom and Edet (2020) examined the role of financial innovation on the performance of SMEs in Nigeria. It was observed that changes in interest rates affected adversely the ability of small companies to invest profits back into businesses. Overall, from both studies, it is clear that although loans play an important role in SMEs' growth, high interest rates adversely affect the financial performance of SMEs.

As for Muthama and Warui (2021), they focus on the influence of the conditions of lending on the performances of microfinance organizations in Kisii County, noting that the primary reason for loan defaulting is linked to high interest rates. In turn, flexible interest rate structures appear essential for improving repayment performance and, therefore, for ensuring business sustainability. Likewise, Brixiová et al. (2020) considered the issue of finance access by SMEs in Africa. The authors stated that limited credit pricing strategies hindered enterprise development, which, in turn, resulted in decreased profit margins. Thus, it becomes evident that both studies highlight the importance of developing reasonable interest rate structures for promoting the growth of small businesses in underdeveloped countries.

Interest rate is one of the rationing mechanisms in Beyhaghi et al.'s (2020) study where it was discovered that increased interest rates can affect limited borrowing capacity and thus force small firms to seek informal lending facilities. Credit rationing has been observed to negatively

impact the profitability and liquidity of small enterprises. On the same note, in his research, Gonzalez-Vega (2021) found out that imposing high interest ceilings in rural financing systems adversely affects the profitability of enterprises because funds get channeled towards loan repayment. These various studies collectively affirm that high borrowing costs deter not only the uptake of credit but also the operational efficiency and sustainability of small enterprises.

Tshivhase (2020) explored interest rates as either an enabler or a constraint to the township economy of South Africa. The findings indicated that small enterprises in underdeveloped areas face poor cash flow and retarded sales growth because of high lending rates set by microfinance institutions. Similarly, Igwe & Icha-Ituma (2020), in their review on African trends in entrepreneurship, averred that excessive costs of credit undermine entrepreneurial capacity and limit reinvestment opportunities toward declining business performance. These studies indicate that the cost of borrowing is still one major determinant for profit among SMEs and that more inclusive financial systems with reasonable interest rates are required to support sustainable enterprise development.

Emran et al. (2021) investigated credit rationing and pass-through effects in supply chains and proved that the higher the interest rates down the lending chain, the greater the distortion in production incentives and the lower the profit margins of small firms. In the same manner, Widyastuti et al. (2023) conducted a study on how credit terms affect micro, small, and medium-sized enterprises and discovered that enterprises that have the benefit of good interest rates performed better financially and managed their liquidity better than those who had high-interest rates. The researchers argued that good interest rates stimulate enterprise development, improve financial performance, and lower business failures, and thus proper credit pricing policies are vital for the financial survival of small enterprises.

According to Endris and Kassegn (2022), high-cost borrowing, including high interest rate levels, substantially constrains the growth opportunities of small and medium-sized enterprises in Ethiopia. In their systematic review, the authors noted that small and medium enterprises facing high borrowing costs would have to allocate their capital for paying back their debts instead of expanding their business operations, reducing their profit and thus hindering their sustainability. Likewise, Borhat and Oosthuizen (2020) discovered that in African economies, youth enterprises and small businesses had restricted access to low-cost credit products and enterprises faced with

high interest levels failed to increase their revenues effectively and make further investments because of high prices.

Reuben (2014), investigating small enterprises in Kisumu, Kenya, found that firms operating with high-interest rates achieved lower profits and thus were under greater financial pressure, and the latter was associated with higher risks of defaults on loans. Tshivhase (2020), who investigated township enterprises in South Africa, also found out that enterprises facing high-interest rates could not generate enough cash flow, pay for their suppliers timely, and use working capital productively.

Igwe and Icha-Ituma (2020) in their research have shown that unstable interest rates decrease entrepreneurial resilience because it causes uncertainties within business financial planning, leading to negative implications in sales and investments. Likewise, Brixiová et al. (2020) have found that SMEs in multiple African nations experience limited profitability due to unreliable or expensive credit. In addition, it was revealed that interest rates do not only affect payments, but they influence decision making strategies as well. In such cases, the cost of interest rates may significantly impair financial sustainability of firms and their competitiveness.

According to Aminkeng et al. (2024), credit constraints influence financial performance in small scale businesses, and they found out that unstable interest rates increase liquid shortages within these firms resulting in prioritization of debt repayment before expansion of operations. Widyastuti et al. (2023) have confirmed this idea by proving that businesses with access to structured and affordable credit manage liquid resources better, reinvesting profits, thus improving their financial performance. Therefore, from the results presented in these papers, it becomes clear that proper management of interest rates is essential for success of small-scale businesses.

2.3.2 Relationship between collateral requirements and financial performance of SSEs

The findings by Borat & Oosthuizen (2020) have shown that collateral requirements act as barriers to young entrepreneurs and small businesses accessing formal credit resources, thereby limiting growth. As highlighted by Reuben (2014), the high collateral requirement in Kisumu resulted in most small business operators resorting to expensive financing channels, reducing profitability levels and increasing risk. As revealed in a study carried out by Endris & Kassegn

(2022) through a systematic review, stringent collateral requirements decrease firm investments in productive assets and limit growth, leading to poor performances. Collateral-based credit restrictions lead to reduced liquidity buffers and a reduction in smoothness, according to Aminkeng et al. (2024).

As indicated by Adusei & Adeleye (2024), burdensome collateral requirements impact start-ups and young firms more negatively through a lack of access to venture funding, thereby resulting in lower survival rates. Other empirical findings by Nakibigi (2023) have revealed that in an urban area of Uganda, high collateral requirements are associated with declining liquidity ratios due to firms' inability to pay their suppliers in time for fulfilling loan agreements. The findings of another study by Iqbal & Rao (2023) indicate that when social capital is low, the imposition of formal collateral obligations compels firms to allocate profits towards securing loans, thus causing lower rates of return. In addition, yet another study by Agaba & Mugarura (2023) found that excessive collateral obligations are connected to slower sales growth since firms reduce inventories to meet their collateral needs.

As observed by Ssemakula (2022), alternative forms of financing, which do not need collateral, such as venture capital, can significantly increase profitability and growth; however, such financing is rare among many small businesses, meaning that the requirement for collateral is a major hindrance. In an additional study carried out by Aminkeng et al. (2024), it was found that companies forced to use informal sources of finance due to the lack of collateral incurred higher costs of financing and were less profitable. According to Reuben (2014), the need to prove ownership of assets results in higher transaction costs to borrowers through the added bureaucratic requirements.

According to Iqbal & Rao (2023), social or group collateral is to some extent able to serve as an alternative to formal collateral and improve access, although the alternative is differential and cannot fully compensate for poor performance in finance. Other results of the studies by Agaba & Mugarura (2023) have also demonstrated that the negative effect between formal collateral requirements and liquidity/profitability persists where there is poor use of group guarantee. Yet another study by Adusei & Adeleye (2024) showed the effect of policies such as movable collateral registration and other alternatives to formal guarantee systems that can prevent exclusion from formal credit and finance problems for SMEs.

Beyhaghi et al. (2020) examined the concept of credit rationing and pointed out that collateral needs tend to be a restrictive mechanism that constrains the ability of small businesses to get access to credit, considering that risk aversion is preferred by creditors over inclusive financing. According to their findings, those organizations that lack the ability to offer enough collateral find themselves excluded from low-cost credit markets, being forced to look for funds from non-formal or expensive sources, thereby affecting profit generation and hampering business expansion. In the same manner, Emran et al. (2021) found out that in the context of supply chains, the issue of collateral constraints makes it impossible for companies to manage their working capital effectively due to loan acquisition expenses.

High collateral requirements may impact relatively young enterprises as well as enterprises in their early years of operation due to their relatively low amount of capital stock, noted Igwe and Icha-Ituma (2020). Such a situation may lead to financial exclusion and lack of possibilities for reinvestments, resulting in poor performance of the enterprise. In this regard, the point made by Brixiová et al. (2020) is that collateral restrictions in Africa's SMEs make it impossible to allocate business incomes in an efficient way, focusing on productive activities rather than on fulfilling the lender's demands.

Adusei and Adeleye (2024) found that collateral-intensive lending makes it necessary for enterprises to resort to informal sources of financing with higher borrowing costs and stricter payment terms. As indicated by Ssemakula (2022), such a strategy negatively impacts the net income of micro and small enterprises as well as their stability. Moreover, Widyastuti et al. (2023) pointed out that although other types of guarantees such as movable property registries might help in overcoming difficulties, small enterprises still do not have the necessary tools to implement such alternatives.

According to Nakibigi (2023), Agaba & Mugarura (2023) found that the relationship between collateral constraints and social capital could have an effect on the outcome; however, such a replacement is not perfect. Companies with poor social ties and weak group guarantees would have their access to relatively cheap loans hindered; this would result in reduced revenues, insufficient liquidity, and poor profitability. It can be concluded from the above findings that despite the role collateral constraints play in managing risks for loan providers, they act as structural constraints for SMEs' performance and growth.

2.3.3 Relationship between repayment period and financial performance of SSEs

According to Widyastuti et al. (2023), lengthy and flexible periods of repayment help in reducing the liquidity pressure on the MSEs to a great extent, making it possible for the business to direct their funds towards operations and stock. According to research conducted by Emran et al. (2021), shorter repayment periods have greater financing costs when it comes to supply chain management scenarios. Muthama & Warui (2021), in a study concerning Kisii County, showed that loans with very short durations were associated with a higher default risk and poorer loan performance among micro-borrowers, further worsening firms' liquidity positions. Beyhaghi et al. (2020) argued that rigidity in the repayment period forms the core of credit rationing that constrains the ability of firms to smooth out shocks and invest, with negative implications for longer-term financial outcomes.

Wafula & Miroga (2020) realized that the short grace period made many of the small enterprises shift working capital from productive use to debt service, leading to less reinvestment and depressing sales growth. Other research findings by Effiom & Edet (2020), conducted in Nigeria, determined that microfinance products with grace periods that are too short reduce start-up cash cycles and lower the chances that a firm would attain its break-even point sooner, hence lowering short-run profitability. The other study by Igwe & Icha-Ituma (2020), which reviewed African entrepreneurship studies, noted that timing mismatches in loan repayments—that is, repayment falling due at a time when business cash-flow is low—are consistently reported as one of the major factors undermining the financial stability of small firms. Tshivhase (2020) further noted that within the township economies, rigid instalment schedules exacerbate seasonal shortfalls in receipts and cause liquidity crises among small traders.

Iqbal & Rao (2023) show that strong social capital or group-based lending programs mitigate these negative effects of short repayment periods on profitability and liquidity, because peer monitoring can allow for a little longer, community-aligned schedule. Brixiová et al. (2020) note that there is no general ideal repayment scheme but rather one that is determined by each country and economic sector involved, with agriculture and seasonal operations requiring longer repayment periods and grace periods, unlike urban traders in retail activities. The findings of Gonzalez-Vega (2021) were that regulatory restrictions on lending could have a negative impact of constraining the time to repay loans, even if this adversely affects borrower performance. The

main problem in relation to timing associated with loan repayments, as noted by Emran et al. (2021), arises in supply chain relationships, where cash flow is dependent on the payment terms offered by downstream buyers.

Empirical evidence indicating that longer loan repayment periods, complemented with minimal financial literacy education, lead to considerable improvement in terms of loan usage and profitability compared to maturity extension alone was established by Widyastuti et al. (2023). Further research conducted by Muthama & Warui (2021) recommended that micro-finance institutions employ a staggered payment scheme, which begins with small payments, since this would enhance the borrower's ability to make payments on time while minimizing the risk of defaults. In another study by Beyhaghi et al. (2020), it was found that excessively long loan maturity periods have the potential to promote moral hazard when poorly monitored, making a trade-off essential in designing repayment plans. Another study by Igwe & Icha-Ituma (2020) posited that repayment plans tailored to local contexts and cash flow patterns would be most efficient in promoting sustained business performance and sales growth.

According to Emran et al. (2021), small businesses can achieve enhanced profits, increased liquidity positions, and greater prospects for reinvestment and growth when repayment schedules are properly matched with their business cycles. Likewise, Widyastuti et al. (2023) indicate that proper maturities and financial training prevent misallocation of loans and increase the rate of return on investment among micro and small businesses. According to Gonzalez-Vega (2021), policy makers and regulators should refrain from issuing blanket maturity rules because such rules may harm small firms and instead should encourage the development of diverse products according to firm category. It was therefore suggested by Brixiová et al. (2020) that more empirical studies were needed to determine repayment models that would improve financial performance but maintain low risks.

According to Borat and Oosthuizen (2020), the issue of flexible repayments is important for youth-owned enterprises and small businesses in Africa since flexibility would help maintain adequate levels of liquidity. The authors have confirmed that strict repayment schemes might worsen cash shortages leading businesses to allocate more resources on debt payments than production and inventory acquisition, which adversely affects their development and financial gains. Similar findings were provided by Endris and Kassegn (2022) in their systematic review

devoted to MSMEs in Ethiopia. According to their findings, aligning repayment periods with cash flow cycles increases the efficiency of cash management within small enterprises, positively influencing their financial outcomes.

Moreover, Adusei and Adeleye (2024) noted the significant benefits that extended grace periods and repayment scheduling could provide to start-up and early-stage micro enterprises. Lack of flexibility regarding repayment terms leads to severe liquidity problems faced by such firms, which negatively influences their ability to expand operations and generate additional income. In a similar way, Ssemakula (2022) found out that SMEs operating in Mukono Municipal Council that had longer periods for repayment of credit survived better and had a greater potential to reinvest resources.

Aminikengetal. (2024) assessed the influence of repayment periods as a factor influencing credit constraints for small and medium-sized firms, proving that repayment periods correlate with credit limits and collateral considerations to have an impact on the finances of such firms. Those companies that were constrained by short repayment periods and had increased borrowing rates were found to have poor liquidity, restricted re-investment capacity, and narrow margins for profits. However, Widyastutietal. (2023) built on this theory by illustrating that, by integrating flexible repayment periods with financial education programs, small firms could improve their ability to generate profits from loans.

The study by Okello et al. (2025) noted that small-scale enterprises owned by women in rural areas of Uganda were especially sensitive to the loan repayment terms, as stringent short-term loan terms were often incompatible with the seasonal income cycles, which led to missed repayments and low profit margins. In a similar vein, Agaba and Mugarura (2023) found that firms in Kabale District were able to enhance liquidity, facilitate inventory turnover, and avoid informal borrowing when the loan repayments were structured in accordance with their income cycles. According to Nakibigi (2023), repayment models tailored to specific contexts were key to maximizing financial effectiveness.

2.4 Summary of literature review and research gaps

From the reviewed literature, it was evident that, although several studies had looked into the relationship between credit terms like interest rates, collateral, and repayment periods offered by microfinance institutions and financial performance, there were some areas where research lacked. The majority of the studies focused on SMEs generally in Kenya, Nigeria, and South Africa, but there were few studies on SMEs in Uganda. Additionally, studies on the relationship had not taken into consideration how those credit terms affect the financial performance of firms when considered together, or individually for that matter. Studies have rarely looked at other variables like financial literacy, social capital, or institutional arrangements like movable collateral registries. Finally, financial performance had been evaluated based on different variables.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The research approach is presented in this chapter. It explained the methodology used for this investigation. It comprises the study population, study design, study setting, and sample size. It also discusses ethical concerns, data administration and analysis, research instruments, sample selection procedures, and potential study constraints.

3.1 Research design

For this research, I chose the cross-sectional research design since it was intended to assess the link between microfinance credit conditions (the interest rate, amount of collateral, and repayment period) and the financial performance of small-scale businesses within Mukono Municipality. The reason is that using the cross-sectional research design helped me collect information at a particular point in time and analyze the data collected through correlation. This design fit my study since it required an assessment of the connections and not manipulation of the variables.

3.2 Study population

Small scale enterprises in Kauga, Mukono Municipality including secretarial bureaus, groceries, salons, restaurants, boutiques and bars which were used as the population for the study despite the fact that the real population in terms of number of SSEs was not known. The study population for the current study or the unit of analysis were therefore the selected SSEs in Kauga, Mukono Municipality with the owners/managers being the unit of inquiry.

3.3 Sample size

In this case study, due to the known population, the sample size was 384 small scale enterprises in Kauga based on Cochran (1977) formulae for unknown population estimation at a proportion of 50%.

3.4 Sampling method

Stratified sampling was adopted for the selection of samples from the SSEs in Kauga, Mukono Municipality, categorizing them according to their type of business ranging from secretarial bureaus, groceries, salons, eateries, boutiques, and bars. The reason behind the adoption of stratified sampling technique is its accuracy in proportionally representing different categories of SSEs and therefore giving an accurate representation of the entire target population. The other reason is that the use of stratified sampling made it easy for collecting and analyzing the data. Additionally, this approach was appropriate for this study since it allowed the research to capture potential differences in financial performance across different types of SSEs, which was critical for understanding the effects of microfinance credit terms.

3.5 Sources of data

3.5.1 Primary source

Since primary data is precise information on an experiment's or observation's outcomes, it is crucial for all fields of study. Questionnaires were given to a chosen group of respondents in order to gather primary data from the field. The researcher used primary data to gather information for their study's particular objectives. The researcher used questionnaires to get the data herself.

3.5.2 Secondary source

Data handled, gathered, and potentially processed by anyone other than the researcher in question is referred to as secondary data. Secondary sources for a historical research study are typically academic publications and articles. Data from previously written works, such as e-books, journals, published papers, and periodicals, were gathered using this source. To make data collecting and textual analysis easier, documentary materials were categorized.

3.6 Data collection method

3.6.1 Questionnaire survey

This approach entailed methodically gathering data from a sample of respondents who were the owners of the chosen SSEs in Kauga, Mukono Municipality. Because it offers a high degree of

general competence in representing a broad population, a questionnaire survey was employed. The data being collected has a greater grasp of what is being investigated because of the typical large number of people that respond to surveys. Finding statistically significant results is frequently simpler with the questionnaire survey approach than with other data collection techniques due to its high representativeness. Because there were too many of these respondents to interview, a questionnaire survey was also used to save time.

3.7 Data collection instrument

3.7.1 Questionnaire

In addition to requiring respondents to provide more information about the topic, the questionnaire's open-ended questions allowed respondents to freely express their opinions and gave them time to reflect before responding because it avoided direct communication. Semi-structured or closed-ended questions in which respondents were only asked to check the most appropriate response on the topic. Because the researcher employed questionnaires, she assisted the respondents in making sure the appropriate data was gathered from the SME owners. A Likert scale with 5 (strongly agree), 4 (agree), 3 (not sure), 2 (disagree), and 1 (strongly disagree) was used to measure the surveys. The owners of the 384 chosen SSEs that operate in Kauga, Mukono Municipality, were asked to complete the questionnaires.

3.8 Validity and Reliability of the data collection instruments

The study must be devoid of bias and distortion in order to be considered reliable. Two key ideas for characterizing and quantifying bias and distortion are reliability and validity. The methods used to determine validity and reliability in this study are described in the next subsections.

3.8.1 Validity

Choosing an appropriate scale, making sure there are sufficient resources for the necessary research to be conducted, choosing an appropriate methodology to ensure the research questions, avoiding having an excessively long or short interval between the pre-test and post-test, ensuring standardized procedures for gathering data or for information administering tests, and customizing the instruments to the respondents' concentration span are all ways to ensure validity. To determine whether the questions could capture the desired data, validity was

examined. The questions were examined by research experts to determine whether they could elicit the desired response. To determine the validity of the research tool, a Content Validity Index (CVI) was computed.

3.8.2 Reliability

The Cronbach's coefficient alpha was used to evaluate the questionnaire instrument's reliability. Five participants participated in a pilot study, and the Statistical Package for the Social Sciences (SPSS) version 26 was used to calculate the reliability results.

3.9 Procedure of data collection

Following Uganda Christian University's approval of the proposal, the researcher received an introduction letter from the chosen SSEs in Kauga, Mukono Municipality. This helped to obtain authorization to conduct the study within this organization. After giving the respondents a consent form, the researcher distributed questionnaires. The respondents were given a deadline to return the completed questionnaires. The researcher gathered, processed, and coded the completed surveys.

3.10 Data analysis

3.10.1 Quantitative data analysis

The package (SPSS) version 26 was used to analyze the data; in addition to being user-friendly, it was suitable for managing the study's regressions and correlations between the variables. For computer entry, each variable was given a name and coded. Second, in order to make computer data input easier, every response was coded. Thirdly, negatively worded scales were recorded and given new values after data entry was finished. Fourth, target variables were calculated to obtain composite scores for items on a scale. Fifth, to reduce data entry errors, data was reviewed. Descriptive statistics and Pearson Correlation were used to evaluate quantitative data in order to investigate the relationship between the study's independent and dependent variables.

3.11 Ethical considerations

Throughout the study's execution, the researcher demonstrated a high degree of ethical behavior, maintaining confidentiality and using field data exclusively for academic objectives.

Additionally, the respondents' anonymity was displayed so they could freely express themselves. Furthermore, prior to their inclusion in the study, each responder gave their informed consent.

3.12 Limitations and delimitations of the study

Some respondents were reluctant to divulge information because they were dubious about the source of the data. This was resolved by the university's excellent reputation as a learning institution and by receiving an introductory letter.

The researcher was constrained by the amount of money required to support the study, including daily transportation to the organization to gather data, printing costs, and motivating the responders. Nonetheless, the researcher mobilized financial support from family members through self-initiatives and tactics.

The researcher's target time for analyzing her study was impacted by some people's tardiness in returning the surveys. She was able to fill in the gaps for individuals who did not return the surveys by distributing more than the intended number.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter uses SPSS software to analyze quantitative data in order to summarize and evaluate the research findings. Questionnaires were used to gather information from the owners of the chosen registered SSEs in Kauga, Mukono Municipality. The results are shown and explained as follows:

4.1 Response rate

A total of 384 respondents were meant to be involved in the study using questionnaires, however, 320 responded to the study leaving out 64 respondents as shown in Table 1 below in relation to the different categories.

Table 1: Response rate for questionnaires

Response Rate	Sample Size	
	Frequency	Percentage (%)
Received	320	83.3%
Non Response	64	16.7%
Expected Response	384	100.0%

Source: *Primary data*

A total of 384 (100%) respondents who are owners of specific small-scale companies (SSEs) were anticipated to complete the questionnaires, according to table 1 above; however, only 320 (83.3%) did so, leaving out 64 (16.7%). Ahuja (2009) stated that a response rate of 50% is sufficient for analysis, 60% is good, and 70% is great. As a result, the 83.3% response rate was deemed trustworthy and suitable for the research. Due to time constraints and the fact that some respondents refused to give the researcher the necessary information, the researcher was unable to obtain information from one of the respondents.

4.2 Descriptive analysis of the demographic characteristics of respondents

The demographics of the respondents who own the chosen registered SSEs in Kauga, Mukono Municipality, were determined by the researcher. These variables included gender, age, highest level of formal education, kind of business, and duration of business operation.

Table 2: Showing of demographic characteristics of respondents

Item	Description	Frequency	Percentage (%)
Gender	Male	179	55.9
	Female	141	44.1
	Total	320	100.0
Age	21-30 years	96	30.0
	31-40 years	134	41.9
	41-50 years	58	18.1
	Above 50 years	32	10.0
	Total	320	100.0
Marital status	Single	125	39.1
	Married	195	60.9
	Total	320	100.0
Level of education	Primary	58	18.1
	Secondary	122	38.1
	Tertiary	102	31.9
	Others	38	11.9
	Total	320	100.0
Type of business	Boutiques	45	14.1
	Saloons	38	11.9
	Groceries	74	23.1
	Garages	19	5.9
	Bars	32	10.0
	Restaurants	36	11.3
	Stationary Bureaus	25	7.8
	Market stalls for agricultural produce	51	15.9
	Total	320	100.0
Period spent operating the business	1-5 years	102	31.9
	6-10 years	154	48.1
	Above 10 years	64	20.0
	Total	320	100.0

Source: Primary data

The data reveals that the majority of the respondents were males at 55.9%, while the females comprised 44.1%. It shows that the dominant players in the business world of Kauga Municipality are male small scale enterprises. However, the number of females participating is also very high. The distribution of gender is balanced, indicating that both genders participate in businesses actively. The domination of men over women might imply that men play more significant roles in the enterprises as owners and managers, making decisions for the enterprises.

Most of the respondents belonged to the age bracket of 31-40 years at 41.9%, while those aged between 21-30 years were 30.0%, followed by those aged between 41-50 years at 18.1%, and those aged above 50 years were 10.0%. It is evident that most of the business owners are at their most productive age, implying that there is experience combined with vigor among the business owners to run the businesses successfully.

According to the results, the largest group of respondents was married people, accounting for 60.9% of the total number of interviewees, while the rest comprised singles, accounting for 39.1%. The higher ratio of married individuals can be seen as indicating that the operators of small-scale enterprises have family commitments, affecting their decision-making in terms of finance and operation.

It is evident from the findings that majority of respondents, 38.1%, attained their secondary level of education while 31.9% attained tertiary level of education while 18.1% attained the primary level and others having other levels of education constituted 11.9%. Therefore, most of the business owners were at least minimally educated. Formal education is necessary for business people to understand various issues associated with the operations of any enterprise. The presence of respondents who were educated up to tertiary level also indicates that some of the entrepreneurs are highly educated to contribute positively to business operation.

From the findings, it was discovered that the major number of respondents were engaged in groceries amounting to 23.1%, while others engaged in markets stalls for agriculture products accounted for 15.9%, boutiques 14.1%, restaurants 11.3%, saloons 11.9%, bars 10.0%, stationary bureau 7.8%, and garages 5.9%. From this analysis, it is evident that the businesses being carried out in the area are majorly related to retail and agricultural enterprises.

The results indicate that most of the respondents had been in business operations for between 6–10 years with 48.1%, whereas those who were in business operation for between 1–5 years were 31.9% and lastly those in business operation for more than 10 years were 20.0%. This means that most businesses have been existing and thus are stable, having passed through the initial phase of setting up the business and therefore have developed some level of experience.

4.3 Relationship between interest rates and financial performance of SSEs

Table 3 summarizes respondents’ responses on the relationship between interest rates and financial performance of small scale enterprises in Mukono Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 3: Relationship between interest rates and financial performance of SSEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
High interest rates reduce the profitability of my business.	139 43.4%	112 35.0%	00	69 21.6%	00
Interest rates influence my decision to borrow from microfinance institutions.	100 31.3%	139 43.4%	00	19 5.9%	62 19.4%
High interest charges limit my ability to expand my business operations.	201 62.8%	81 25.3%	00	19 5.9%	19 5.9%
Affordable interest rates improve the financial performance of my enterprise.	170 53.1%	38 11.9%	00	112 35.0%	00
Fluctuating interest rates negatively affect my business planning.	158 49.4%	100 31.3%	00	62 19.4%	00
High interest rates increase the financial burden on my enterprise.	139 43.4%	119 37.2%	00	62 19.4%	00
Lower interest rates would enable my business to grow faster.	62 19.4%	139 43.4%	00	62 19.4%	57 17.8%
Interest rates affect my enterprise’s ability to manage cash flow effectively.	81 25.3%	170 53.1%	31 9.7%	38 11.9%	00
The interest rates charged on loans are favorable for my business growth.	65 20.3%	160 50.0%	00	95 29.7%	00
High interest rates lead to reduced reinvestment of profits in my business.	103 32.2%	180 56.2%	00	37 11.6%	00

Source: Primary data

The findings revealed that 78.4% of the respondents agreed that high interest rates reduce the profitability of their business, while 21.6% disagreed with the statement. From the findings, we can conclude that most of the respondents see the cost of interest rates as a big hurdle towards profitability. From this finding, it is clear that an increase in interest rate will negatively affect the financial performance of small scale businesses because of the low net income and financial gain.

It was found that 74.7% of respondents agree that interest rate affects their borrowing decision from micro finance institution while 25.3% disagreed to the given statement. It is clear that most of the people take interest rate as one of the factors to consider while deciding on their borrowing decision.

It was found out that 88.1% of the respondents felt that high interest rates affect their capacity to increase business operations whereas 11.8% felt otherwise. The findings show that majority of the respondents relate costly financing with low expansion capacity. It therefore follows that high cost of loans discourages investments hence limiting business expansion and poor performance.

From the research findings, it can be seen that 65.0% of the respondents felt that reasonable interest rates improve the financial performance of their business enterprise. Only 35.0% disagree with the assertion. Majority of the respondents believe in the relationship between reasonable interest rates and improved financial performance of businesses.

The data revealed that 80.7% of the respondents were of the view that the fluctuation of interest rates had a negative effect on the planning process, whereas 19.4% were opposed to the idea. This proves that uncertainty of interest rate impacts the business negatively. This shows that fluctuating rates make it difficult to plan finance and investments, thus impacting business efficiency.

It was revealed from the data that 80.6% of the respondents felt that their businesses were financially stressed due to high interest rates, whereas 19.4% were of the opposite opinion. This proves that most respondents are stressed by the high cost of borrowing. This shows that higher loan servicing burdens cut down working capital, thus impacting business activities negatively.

The results indicated that 62.8% of the participants concurred with the notion that low interest rates would facilitate quicker growth for their company, while 37.2% did not agree. These results show that most of the participants believed that low interest rates contribute to business growth. This implies that affordable loans improve investments, productivity, and growth in small scale businesses.

In terms of interest rates' effects on business operations, 78.4% of the respondents concurred with the idea that interest rates have an impact on cash flow management in their businesses, while 9.7% were uncertain about the idea, and 11.9% were in disagreement. These results imply that interest rates have a huge influence on business finance management. High and unstable interest rates negatively affect cash flow management.

From the above results, it is clear that 70.3% of the respondents feel that the interest rate charged on the borrowed funds is favorable, while 29.7% do not think so. It means that even though the majority of respondents find the interest rates favorable, there is a good number of them who consider them to be unfavorable. It therefore means that while some businesses perform well because of the favorable credit situation, some businesses are hindered by the prevailing conditions hence poor financial performance.

It was found out that 88.4% of the respondents strongly agree that high interest rates result into low profits being re-invested into the business, while 11.6% disagree. It means that most of the respondents strongly feel that due to high interest rates, businesses end up re-investing low amounts into themselves.

In conclusion, the research has clearly shown that the interest rates have a significant impact on the financial performance of the small scale enterprises in Mukono Municipality based on the high percentages of the respondents' agreement to most of the statements provided. The findings have shown that higher interest rates have a negative impact on profitability, expansion of the business, cash flow, and reinvestment ability. On the other hand, low interest rates promote expansion and enhance the overall financial stability of the business. This means that interest rates play an important role in determining the financial performance of the business, and therefore favorable lending interest rates are crucial in achieving improved financial performance

and profitability of the enterprises. The following is a correlation analysis conducted using Pearson's correlation to determine the findings of the study;

Table 4: Pearson's correlation on interest rates and financial performance of SSEs

		Interest rates	Financial performance of SSEs
Interest rates	Pearson Correlation	1	.723**
	Sig. (2-tailed)		.000
	N	320	320
Financial performance of SSEs	Pearson Correlation	.723**	1
	Sig. (2-tailed)	.000	
	N	320	320

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The results shown in table above demonstrate that there exists a strong positive correlation between interest rates and financial performance of small scale enterprises in Mukono Municipality. The correlation is supported by r-values of 0.723** with significance levels of 0.000 for the level of 0.05 (2-tailed) ($r = .723^{**}$, $p < .05$). This suggests that interest rates have a profound and statistically significant impact on the financial performance of small scale enterprises in Mukono Municipality. This means that any changes in the interest rate for lending purposes will directly impact the financial performance of the small scale enterprises.

4.4 Relationship between collateral requirements and financial performance of SSEs

Table 5 shows the participants' views about the relationship between collateral requirements and financial performance among small scale enterprises in Mukono Municipality by means of a Likert scale, where SA is strongly agree, A is agree, NS is not sure, D is disagree, and SD is strongly disagree.

Table 5: Relationship between collateral requirements and financial performance of SSEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Strict collateral requirements limit my access to loans.	170 53.1%	100 31.3%	00	50 15.6%	00
Lack of adequate collateral affects my ability to obtain credit.	158 49.4%	131 40.9%	00	31 9.7%	00
Collateral requirements reduce my business's ability to invest in new opportunities.	139 43.4%	131 40.9%	00	50 15.6%	00
High collateral demands negatively affect my business growth.	158 49.4%	62 19.4%	00	100 31.3%	00
Providing collateral increases the financial strain on my enterprise.	170 53.1%	81 25.3%	00	38 11.9%	31 9.7%
Flexible collateral requirements would improve my access to financing.	139 43.4%	81 25.3%	00	38 11.9%	62 19.4%
Collateral requirements influence the size of loans I can obtain.	129 40.3%	107 33.4%	16 5.0%	68 21.3%	00
Difficulty in meeting collateral conditions delays loan acquisition.	96 30.0%	135 42.2%	00	29 9.1%	60 18.7%
Collateral requirements affect the profitability of my business.	192 60.0%	76 23.7%	00	28 8.8%	24 7.5%
Alternative forms of collateral would improve my business performance.	58 18.1%	172 53.7%	00	90 28.1%	00

Source: Primary data

It was found out that 84.4% of the respondents agreed that stringent collateral requirements affect their access to credit, while 15.6% disagreed with the statement. This means that most respondents view collateral requirement as a big problem when accessing loan facility. It is

therefore possible that collateral requirement affects the ability of small businesses to access funding needed for investments and growth.

It was found out that 90.3% of the respondents agreed that lack of sufficient collateral affects their access to credit facilities, while 9.7% disagreed with the statement. This means that most respondents view lack of sufficient assets as hindrance to their access to loans. This therefore implies that lack of sufficient collateral assets makes it difficult for the respondent to access finances to expand business operations.

It was found out that 84.3% of the respondents agreed that requirement of collateral reduces their firm's ability to invest in new areas, while 15.6% disagreed. It is therefore true that most of the respondents see collateral requirement as a constraint to investment activities.

It was established that 68.8% of the respondents were of the view that the stringent collateral requirement hinders the development of their enterprise while 31.3% did not concur with the statement. This reveals that although majority of the respondents recognize the negative influence, there exists a significant number who do not have this opinion. This means that apart from being restricting, the influence of collateral requirements differs among various enterprises depending on their financial status.

The outcome of the analysis showed that 78.4% of the respondents agreed that collateral requirement increases financial burdens of their enterprise, and 21.6% did not agree. This indicates that the majority of the respondents viewed collateral requirement as a financial challenge. This indicates that using their property as collateral limits their financial freedom.

It was established that 68.7% of the respondents agreed that flexible collateral requirement would facilitate financial inclusion of their enterprises, but 31.3% did not concur. This indicates that majority of the respondents felt that flexible collateral requirements will favor their financial accessibility.

As per the results obtained, 73.7% of the respondents were of the view that collateral considerations are a factor in the size of credit available, whereas 21.3% respondents disagreed, and only 5% of the respondents were unsure. It is clear from these results that most respondents

believed collateral considerations are important for determining their ability to borrow. As a result, low levels of collateral limit the credit available, thus limiting their growth.

Results show that 72.2% of the respondents agreed that difficulty in satisfying the collateral requirements slows down credit acquisition, whereas 27.8% disagree with this statement. The implication of these results is that many firms encounter problems with regard to delay in accessing credit because of the strictness in collateral requirements.

The results indicated that 83.7% of the respondents agreed that collateral requirements affect the profitability of their business, while only 16.3% disagreed with this view. From the above results, we note that a majority of the respondents believe that profitability is affected by collateral requirements.

The findings revealed that 71.8% of the respondents believed that alternative collateral forms would make the operations of their enterprises better, while 28.1% disagreed. This means that most of the respondents are favorable toward flexible collateral approaches. This further means that the adoption of alternative collateral strategies would be beneficial for improving the performance of enterprises.

Generally, from the results of the study, it is clear that the requirement for collateral plays a significant role in determining the financial performance of small scale enterprises in Mukono Municipality due to the high percentages of agreement with the statements presented. The study revealed that stringent requirements regarding collateral reduce access to financing, restrict investments, delay access to loans, and create financial constraints on enterprises. All these elements result in poor business performance, reduced profits, and financial sustainability. Hence, flexible collateral policies need to be established in order to improve access to financing, which would improve the financial performance of small scale enterprises. The findings of the study regarding the link between financial performance and the requirement for collateral were also confirmed by conducting Pearson's correlation as follows;

Table 6: Pearson’s correlation on collateral requirements and financial performance

		Correlations	
		Collateral requirements	Financial performance of SSEs
Collateral requirements	Pearson Correlation	1	.677**
	Sig. (2-tailed)		.000
	N	320	320
Financial performance of SSEs	Pearson Correlation	.677**	1
	Sig. (2-tailed)	.000	
	N	320	320

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The results presented in the above table clearly demonstrate the existence of a positive relationship between collateral requirement and the financial performance of small scale enterprises in Mukono Municipality. This assertion is backed by the r-value of 0.677** with significant p-values of 0.000 at the level of 0.05(2-tailed)($r = .677^{**}$, $p < .05$). The above assertion means that there exists a significant impact of collateral requirement on the financial performance of small scale enterprises in Mukono Municipality. Therefore, the conditions for borrowing, including the requirements for collateral, influence financing and investments.

4.5 Relationship between repayment period and financial performance of SSEs

The relationship between the repayment period and financial performance of small-scale enterprises in the Municipality of Mukono is presented in Table 7, using a Likert Scale of (SA= Strongly Agree), (A= Agree), (NS= Not sure), (D= Disagree) and (SD= Strongly Disagree).

Table 7: Relationship between repayment period and financial performance of SSEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Short repayment periods create financial pressure on my business.	146 45.6%	100 31.3%	00	74 23.1%	00
Flexible repayment periods improve my business cash flow.	100 31.3%	139 43.4%	00	19 5.9%	62 19.4%
Long repayment periods enable my business to invest in growth.	139 43.4%	112 35.0%	00	69 21.6%	00
Rigid repayment schedules affect my ability to meet other business expenses.	100 31.3%	139 43.4%	00	19 5.9%	62 19.4%
Repayment periods influence my ability to repay loans on time.	201 62.8%	19 5.9%	00	81 25.3%	19 5.9%
Short repayment periods reduce my business profitability.	170 53.1%	38 11.9%	00	112 35.0%	00
Grace periods help my business stabilize before repayment begins.	158 49.4%	100 31.3%	00	62 19.4%	00
Repayment schedules aligned with business income improve financial performance.	139 43.4%	57 17.8%	00	62 19.4%	62 19.4%
Inflexible repayment periods increase the risk of loan default.	81 25.3%	170 53.1%	31 9.7%	38 11.9%	00
Suitable repayment periods enhance the sustainability of my business.	65 20.3%	160 50.0%	00	95 29.7%	00

Source: *Primary data*

It was established that 76.9% of the respondents strongly agreed that short repayment periods cause financial stress in their business, while 23.1% of the respondents disagreed with the same statement. This finding signifies that the majority of respondents consider short repayment

periods as a challenge to their business operation. This finding therefore means that short repayment periods affect the finances of firms, hence making the operations challenging.

According to the findings of the study, 74.7% of the respondents strongly agreed that flexible repayment periods help their business cash flows, while 25.3% of the respondents disagreed with the statement. This means that the majority of respondents understand the importance of flexible loan repayments. The findings imply that flexible loan repayment helps in managing cash flow easily.

The findings indicate that 78.4% of the respondents strongly agreed that long repayment periods make investments in their business possible, while 21.6% of the respondents disagreed with the statement. This means that most respondents understand the importance of long repayment periods. It is implied by this finding that the use of long repayment periods will help firms in investment.

It was established that 74.7% of the respondents agreed that rigid repayment programs hinder their ability to cover other expenses incurred by their businesses, while 25.3% disagreed. It is clear that rigid repayment programs disrupt business activities through the diversion of resources towards unnecessary expense coverage. It can therefore be concluded that rigid loan terms disrupt the business by diverting resources from necessary expenses.

The research results showed that 68.7% of the respondents agreed that repayment periods determine the success of timely loan repayment, while 31.2% disagreed. It is therefore clear that many small-scale enterprises recognize the effect of repayment periods in facilitating loan repayment processes. Appropriate repayment periods should therefore be observed in order to increase repayment levels.

From the results obtained, it was evident that 65.0% of the respondents agreed that short repayment periods hinder the profitability of their businesses, while 35.0% disagreed. It is clear that most respondents consider short repayment periods as a factor that inhibits profitability levels. Frequent repayment hinders re-investment hence profitability.

It was discovered that 80.7% of the respondents agreed that grace periods are helpful to stabilize business performance prior to repayments, whereas only 19.4% of the people disagreed on that

matter. This proves that most of the respondents appreciate the role of grace periods in financial management. Therefore, the implication drawn from the results is that providing businesses some time before repayments begin improves their income potential.

It was discovered that 61.2% of the respondents agreed that repayment schedules that correspond to business income increase the performance level of finance, whereas 38.8% of the respondents disagreed with this statement. This means that while a majority of respondents are supportive of such repayment schedule, another significant part of respondents are against it. The implications of such a finding are obvious – flexible repayment schedule will improve financial performance.

It was discovered that 78.4% of the respondents agreed that rigid repayment periods raise the probability of loan defaults, whereas only 11.9% disagree, and 9.7% had no idea about that. It means that a majority of the respondents agree that lack of flexibility in terms of repayment schedule poses risks to finances.

It was found out that 70.3 percent of the respondents agree on the fact that proper repayments periods will improve the sustainability of their business, while 29.7 percent of the respondents disagree with this statement. This indicates that many of the respondents understand the significance of proper repayments schemes in ensuring the sustainability of their businesses.

Generally speaking, the findings suggest that there exists a substantial connection between repayment periods and financial performance of small scale businesses in Mukono Municipality as revealed by the large percentages of respondents who agree with most of the statements made in the survey. This study shows that short and strict repayment periods result into financial stress, unprofitability, and higher chances of default, whereas flexible repayment periods ensure adequate liquidity, investments, and sustainability. All the above mentioned aspects suggest that a right repayment period is important for ensuring financial stability and improving performance of small scale businesses. Findings of this study regarding the connection between repayment period and financial performance of small scale enterprises in Mukono Municipality were further analyzed through the Pearson's correlation as follows:

Table 8: Pearson’s correlation on repayment period and financial performance

		Correlations	
		Repayment period	Financial performance of SSEs
Repayment period	Pearson Correlation	1	.615**
	Sig. (2-tailed)		.000
	N	320	320
Financial performance of SSEs	Pearson Correlation	.615**	1
	Sig. (2-tailed)	.000	
	N	320	320

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The results presented in the above table indicate a significant positive correlation between the repayment period and financial performance of small scale enterprises in Mukono Municipality. This is because the results show r values of 0.615** and significant p-values of 0.000 for the level of 0.05 (2-tailed). That is, ($r = .615^{**}$, $p < .05$). This suggests that there exists a significant positive relationship between repayment period and financial performance of small scale enterprises in Mukono Municipality. This means that the repayment schedule has a direct impact on financial performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter outlines all the findings discussed in Chapter Four in light of the research questions, and presents conclusions, recommendations, and suggestions for further research.

5.1 Summary of findings

It was found that the interest rates play a great role in influencing the performance of small scale businesses within the Mukono municipality, with most of the respondents indicating that the performance of the small scale firms is negatively influenced by high interest rates and instability of such interest rates, since they result to poor profitability, inability to expand the business ventures, high costs, difficulty in handling cash flows, and inability to re-invest profits whereas low interest rates positively affect their performance. Further still, the Pearson correlation analysis revealed a great and statistically significant relationship ($r = 0.723^{**}$, $p < 0.05$) between interest rates and the financial performance.

In addition, the study found that the need for collateral has a significant and positive impact on the financial performance of small scale enterprises within Mukono Municipality. Most respondents affirmed that collateral terms and conditions are restrictive when it comes to access to finance, investments, borrowing funds, as well as financial stress, all factors that contribute towards poor financial performance. In addition, most respondents indicated that there was a possibility of improvement in the performance of small scale enterprises if the policy of collateral was more flexible. Indeed, a stronger positive relationship was evident between the need for collateral and financial performance ($r = 0.677^{**}$, $p < 0.05$).

Finally, the results of the study indicated that repayment period is an important factor that significantly and positively impacts the financial performance of small-scale enterprises in the Mukono Municipality. Most of the respondents indicated that having short and stringent repayment periods brings financial difficulties to them, decreases their profit margins and increases the likelihood of defaults. On the other hand, having long and flexible repayment periods, including grace periods, helps in improving cash flow and facilitates investments. It is

also indicated that matching repayment periods with income flows leads to improved financial management. Additionally, the Pearson correlation analysis confirmed a strong and statistically significant positive relationship between repayment period and financial performance ($r = 0.615^{**}$, $p < 0.05$), implying that well-structured and flexible repayment terms are essential for improving liquidity, profitability, and the overall performance of small scale enterprises.

5.2 Discussion of findings

5.2.1 Relationship between interest rates and financial performance of SSEs

The findings revealed that interest rates have a strong effect on the economic performance of small scale organisations in Mukono Municipality, in particular via their results on profitability, cash flow control, and commercial enterprise enlargement. The findings relate with the literature with the aid of Adusei & Adeleye (2024) who set up that favorable financing phrases, together with conceivable hobby rates, drastically beautify employer performance by using improving get entry to attain less expensive capital and reducing monetary pressure. Further, Agaba & Mugarura (2023) discovered that high hobby prices imposed by microfinance institutions in Uganda restrict the growth and profitability of small organizations due to extended value of borrowing. In the same vein, Aminkeng et al. (2024) argued that credit constraints, in particular the ones associated with excessive borrowing fees, negatively affect the financial results of small organisations. those research are consistent with the present day findings, which show that high and fluctuating hobby costs constrain commercial enterprise overall performance, even as affordable quotes sell boom and stability.

The findings in addition revealed that hobby rates extensively influence borrowing selections, reinvestment potential, and average economic sustainability of establishments. The findings relate with the literature by using Widyastuti et al. (2023) who stated that suitable credit phrases, inclusive of reasonable interest rates, improve loan usage and beautify profitability amongst micro and small enterprises. Likewise, Nakibigi (2023) found that access to inexpensive credit score in Uganda plays a vital function in boosting corporation productivity and financial overall performance. but, the findings contradict those of Gonzalez-Vega (2021), who argued that regulated or lower hobby charges may additionally once in a while lead to credit rationing, restricting get entry to get loans for some borrowers. This shows that although low interest

charges are favorable for organizational performance, they can also bring about some negative effects on credit availability as per the terms and conditions prevailing in the market.

Besides, the results showed strong evidence of a significant fine correlation between interest rate levels and performance in the sector under study, showing how variations in interest rates conditions have a direct impact on the organizational outcomes. The results are supported by studies done by Wafula & Miroga (2020), who found out that credit terms offered by banks and interest rates have a major impact on the financial performance of small and medium enterprises. In addition, Brixiová et al. (2020) suggested that access to properly priced finance is key for business growth and employment creation in Africa. In contrast, Igwe & Icha-Ituma (2020) noted that firms respond to high interest rates through informal sources of funding. Nevertheless, the general proof helps the modern-day survey findings that hobby fees are an essential determinant of financial overall performance among small scale businesses.

5.2.2 Relationship between collateral requirements and financial performance of SSEs

The findings revealed that collateral requirements have a robust effect on the economic overall performance of small scale corporations in Mukono Municipality, particularly thru limiting get entry to attain credit, constraining funding opportunities, and growing economic stress. The findings relate with the literature by means of Aminkeng et al. (2024) who discovered that stringent credit score conditions, along with collateral demands, notably restriction SMEs' get right of entry to attain finance and negatively have an effect on their overall performance. Similarly, Agaba & Mugarura (2023) set up that strict collateral necessities imposed by way of microfinance institutions in Uganda hinder SMEs from having access to good enough financing, thereby proscribing their increase and profitability. In the equal line, Brixiová et al. (2020) emphasised that boundaries to finance, which include excessive collateral necessities, lessen business enterprise expansion and activity advent. Those studies assist the present day findings, This result is also consistent with the notion that fixed collateral requirements present significant challenges for the economic success of small business ventures.

In addition, it was found that such collateral needs delay the time for loans and hinder the ability of the businesses to invest in potential projects. The results obtained connect with the findings of literature, for example, according to Beyhaghi et al. (2020), the rationing system based on

collateral requirements decreases the ability of firms to secure financing, thus limiting their options to develop and improving performance in the long-term perspective. In a similar way, Muthama & Warui (2021) proved that stringent lending criteria, including the need for collateral, have a negative effect on borrowers' financial performance, contributing to financial instability in micro enterprises. On the other hand, the findings diverge from those reported by Iqbal & Rao (2023), who suggest that social capital and firm-based lending strategies can decrease the stringency of collateral requirements without negatively affecting financial performance.

The results have also shown that flexible and opportunity types of collateral arrangements may improve financing access and enhance organizational performance, as indicated through the strong positive relationship between collateral requirements and economic performance. These results align with the theoretical frameworks by Widyastuti et al. (2023), who discovered that flexible loan conditions, including flexible collateral arrangements, would increase loan use and profitability in micro and small firms. Also, Nakibigi (2023) revealed that increased access to credits due to collateral security would improve SME performance in Uganda. Conversely, Gonzalez-Vega (2021) suggests that liberalizing collateral requirements might raise lending risks and lead to inefficiency in credit allocations if not well-regulated. However, despite this controversy, it is evident that the findings support the current study that flexible and well-crafted collateral arrangements are vital for enhancing economic access and SME performance.

5.2.3 Relationship between repayment period and financial performance of SSEs

The study findings revealed that reimbursement length has a giant effect on the economic overall performance of small scale firms in Mukono Municipality; particularly thru its results on cash drift management, profitability, and commercial enterprise sustainability. The findings relate with the literature through Widyastuti et al. (2023) who set up that bendy loan compensation phrases, together with extended compensation durations and charm intervals, notably enhance loan usage and enhance profitability among micro and small enterprises. Further, Agaba & Mugarura (2023) located that favorable credit score phrases, including plausible compensation schedules, permit SMEs in Uganda to stabilize operations and enhance monetary overall performance. Within the equal line, Aminkeng et al. (2024) argued that restrictive credit score situations, which include brief compensation durations, negatively have an effect on agency liquidity and overall performance. Those researches are constant with the modern findings,

confirming that bendy repayment systems are vital for improving the financial results of small scale firms.

The findings similarly found out that short and inflexible repayment intervals create financial strain, lessen profitability, and increase the hazard of mortgage default among establishments. The findings relate with the literature by Muthama & Warui (2021) who discovered that strict compensation phrases negatively affect debtors' capacity to fulfill loan duties, leading to improved default quotes and negative monetary performance. Similarly, Emran et al. (2021) mentioned that strict reimbursement periods in credit scoring mechanisms create financial pressure on small businesses, thereby limiting their operations and lowering profit margins. However, these results are contrary to the arguments raised by Gonzalez-Vega (2021) that long reimbursement periods could also lead to an increased risk of defaults and inefficiencies in credit markets without proper regulation. It can be seen that although flexible reimbursement periods are helpful in improving business performance, balance is required between flexibility and credit risk management.

In addition, the findings have revealed an equally strong and statistically significant fine association between compensation time frame and economic performance, showing that proper repayment schedules that coincide with business income cycle boost operations and development. The findings are related to the literature in which Wafula & Miroga (2020) indicated that credit terms including compensation time frame have a great effect on economic performance of SMEs due to increased ability to manage financial obligations. In the same context, Nakibigi (2023) indicated that access to credit under positive reimbursement conditions boosts SME development and sustainability in Uganda. On the other hand, Igwe & Icha-Ituma (2020) suggested that some businesses rely on informal financial management practices, thus decreasing the effect of formal compensation processes on economic performance. Despite the fact that, the overall evidence supports the current survey findings that suitable and flexible reimbursement periods are critical in improving liquidity, profitability, and the lengthy-term sustainability of small scale companies.

5.3 Conclusion

The research concludes that interest rates are one of the crucial determinants of the financial performance of small scale enterprises within Mukono municipality. High and inconsistent interest rates hinder profitability, inhibit growth, generate financial strain, and hinder proper management of cash flows in the organization while low and consistent interest rates encourage growth, investments and overall financial stability in enterprises.

In addition, it can be concluded from this study that collateral plays an important part in influencing the financial performance of small scale enterprises within Mukono municipality. The stricter the collateral conditions, the more difficult becomes access to finance for these businesses and their growth and performance as the former hinders growth and generates financial strain on enterprises while less strict and alternative collateral arrangements foster access to finance for enterprises.

Finally, it can be concluded that repayment periods also have a significant influence on the financial performance of small scale enterprises within Mukono municipality. Repayment period affects profitability, creates financial strain on organizations and hinders business growth and sustainability, but well-established repayment periods help in ensuring positive financial flows, generating profitability and overall business sustainability and performance.

5.4 Recommendations

Based on the results of the study, the following recommendations are provided towards the effect of microfinance credit terms on the financial performance of small scale enterprises in Mukono Municipality.

It is suggested that micro finance institutions implement an interest rate policy that is not only affordable but also sustainable. There is a necessity to have lower and stable interest rates in order to minimize financial constraints faced by borrowers and promote sustainable borrowing. This will help businesses access funds, increase their profitability and promote business development.

Financial institutions are advised to consider implementing flexible collateral requirement policies that cater for small businesses. The availability of alternative collateral such as movable

assets, group pledges, and borrower character must be considered. Financial institutions must provide flexible terms of borrowing that do not place small businesses at a disadvantage when it comes to obtaining loans.

The study calls for the need for microfinance organizations to offer flexible and organized loan repayment periods that match the cash flow cycle of small scale businesses. Longer loan repayment periods, grace periods, and flexible loan repayment periods would alleviate financial strain, facilitate loan repayments, and contribute to the sustainability and expansion of the small scale businesses.

The study calls for the need for the governments and policy makers to enforce policies that govern microfinance lending operations in a manner that is favorable to small scale businesses. This would involve enforcing fair interest rates and financial inclusion models while advocating for more favorable borrowing conditions among financial institutions.

The study calls for the need for training and financial education for the owners of small scale businesses to improve their understanding of borrowing conditions and financial management skills. Training on financial management will equip the borrowers with the necessary skills and knowledge to borrow and manage loans to improve the financial performance of small scale businesses.

5.5 Areas for further research

Further research may need to be undertaken that focuses on investigating the effect of microfinance credit conditions on business performance in various regions within the country so as to see whether the conclusions made here hold true for other regions of Uganda.

Also, further research needs to be done focusing on other financial variables besides microfinance loans such as transaction fees, the procedures of obtaining credit facilities, and financial literacy. This would give more insight into the complex issues of multiple credit factors affecting the performance of small scale businesses.

Finally, future research can be done using a comparative method whereby various categories of small scale enterprises will be compared in relation to their response to the credit terms offered by financial institutions.

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APPENDICES

Appendix 1: Questionnaire

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

UNDER GRADUATE DEPARTMENT

A QUESTIONNAIRE FOR OWNERS OF SELECTED SSES IN MUKONO MUNICIPALITY

Dear respondent,

I am Natasha Barbara a student of Business Administration at Uganda Christian University conducting research on “The effect of microfinance credit terms on the financial performance of small scale enterprises in Mukono Municipality”. I assure total confidentiality of the information given to me during this research. This research will contribute to the award of my degree of Bachelor of Business Administration so I humbly ask you for your cooperation.

Section A: Personal Background Information

Tick where applicable

1. Gender of the respondents

a) Male b) Female

2. Age group of the respondents

a) 21-30 years b) 31-40 years

c) 41-50 years d) Above 50 years

3. Marital status of the respondents

a) Single b) Married

c) Divorced d) Separated

4. Highest level of education

- a) Primary b) Secondary
c) Tertiary e) Others specify:.....

5. Which kind of business do you operate in Mukono Municipality?

Business categories	Tick	Code
Secretarial bureaus		1
Groceries		2
Salons		3
Restaurants		4
Boutiques		5
Bars		6

Others specify:.....

6. How long have you been operating this business?

- a) Less than 1 year b) 1-5 years
c) 6-10 years d) Above 10 years

Guide for Completing the Questionnaire:

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree). Please answer questions by making a tick (√) on your preferred answer of choice.

Section B: Microfinance Credit Terms

Statements		Responses				
s. no	Interest rates	5	4	3	2	1
1	High interest rates reduce the profitability of my business.					
2	Interest rates influence my decision to borrow from microfinance institutions.					
3	High interest charges limit my ability to expand my business operations.					
4	Affordable interest rates improve the financial performance of my enterprise.					
5	Fluctuating interest rates negatively affect my business planning.					
6	High interest rates increase the financial burden on my enterprise.					
7	Lower interest rates would enable my business to grow faster.					
8	Interest rates affect my enterprise's ability to manage cash flow effectively.					
9	The interest rates charged on loans are favorable for my business growth.					
10	High interest rates lead to reduced reinvestment of profits in my business.					
s. no	Collateral requirements	5	4	3	2	1
1	Strict collateral requirements limit my access to loans.					
2	Lack of adequate collateral affects my ability to obtain credit.					
3	Collateral requirements reduce my business's ability to invest in new opportunities.					
4	High collateral demands negatively affect my business growth.					
5	Providing collateral increases the financial strain on my enterprise.					
6	Flexible collateral requirements would improve my access to financing.					
7	Collateral requirements influence the size of loans I can obtain.					
8	Difficulty in meeting collateral conditions delays loan acquisition.					

9	Collateral requirements affect the profitability of my business.					
10	Alternative forms of collateral would improve my business performance.					
s. no	Repayment period	5	4	3	2	1
1	Short repayment periods create financial pressure on my business.					
2	Flexible repayment periods improve my business cash flow.					
3	Long repayment periods enable my business to invest in growth.					
4	Rigid repayment schedules affect my ability to meet other business expenses.					
5	Repayment periods influence my ability to repay loans on time.					
6	Short repayment periods reduce my business profitability.					
7	Grace periods help my business stabilize before repayment begins.					
8	Repayment schedules aligned with business income improve financial performance.					
9	Inflexible repayment periods increase the risk of loan default.					
10	Suitable repayment periods enhance the sustainability of my business.					

Section E: Financial performance of small scale enterprises in Mukono Municipality

	Statements	Responses				
s. no	Profitability	5	4	3	2	1
1	My business generates sufficient profits to cover its operating costs.					
2	Profit margins in my enterprise have improved over time.					
3	My business is able to retain a portion of its earnings after expenses.					
4	My enterprise consistently records profits from its operations.					
5	Access to finance has contributed to increased profitability.					
6	My business profits are sufficient to support expansion activities.					
7	My enterprise experiences steady growth in net income.					
8	My business is financially more profitable compared to previous years.					
9	Profit levels in my enterprise are stable and predictable.					

10	My business is able to generate returns that meet my expectations.					
s. no	Liquidity	5	4	3	2	1
1	My business is able to meet its short-term financial obligations on time.					
2	My enterprise maintains sufficient cash to support daily operations.					
3	I rarely experience cash flow shortages in my business.					
4	My business can easily pay suppliers when payments are due.					
5	My enterprise has adequate working capital to sustain operations.					
6	Cash inflows in my business are sufficient to meet expenses.					
7	My business does not frequently rely on emergency borrowing.					
8	My enterprise manages cash flow effectively.					
9	My business maintains a healthy balance between income and expenses.					
10	My enterprise can respond quickly to unexpected financial needs.					
s. no	Sales growth	5	4	3	2	1
1	My business has experienced an increase in sales over time.					
2	Customer demand for my products/services has grown.					
3	My enterprise has expanded its customer base in recent years.					
4	Monthly sales revenue has shown steady improvement.					
5	My business records higher sales compared to previous periods.					
6	Marketing and financing have contributed to increased sales.					
7	My enterprise has improved its market share.					
8	Sales performance in my business is consistent and growing.					
9	My business attracts repeat customers regularly.					
10	Overall, my enterprise experiences positive sales growth trends.					
s. no	Business sustainability	5	4	3	2	1
1	My business is likely to continue operating in the long term.					
2	My enterprise can survive economic challenges and shocks.					
3	My business has stable operations that support continuity.					
4	My enterprise is not at risk of closure in the near future.					

5	My business is able to adapt to changes in the market.					
6	My enterprise has strong prospects for future growth.					
7	My business is sustainable without relying heavily on external support.					
8	My enterprise maintains consistent operational stability.					
9	My business has developed strategies for long-term survival.					
10	Overall, my enterprise is financially sustainable.					

Thank you for your cooperation

Appendix 2: Turnitin Report



Barbra Natasha

THE EFFECT OF MICROFINANCE CREDIT TERMS ON THE FINANCIAL PERFORMANCE OF SMALL SCALE ENTERPRISES I...

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