

**THE IMPACT OF DEBT FINANCING ON THE FINANCIAL PERFORMANCE OF
SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN MUKONO
DISTRICT, UGANDA**

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M22B05/068

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

April, 2026

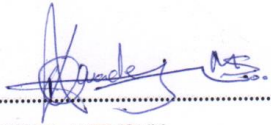


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DECLARATION

I, **OWADE ODONGO ANTHONY**, assert that all the information in this dissertation is a presentation of my own efforts excluding literature Cited from scholars to the best of my knowledge.

Signature..........Date.....08/06/2026.....
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APPROVAL

This is to verify that this dissertation titled "The Impact of Debt Financing on the Financial Performance of Small and Medium Manufacturing Enterprises in Mukono District. Uganda" by Owade Odongo Anthony has been written under my supervision.

Signature: Maureen Natuwhera Date: 15/04/2026

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(UNIVERSITY SUPERVISOR)

DEDICATION

This work is dedicated to Vincent Owiti who has enabled me to go to school since the beginning. It is due to his commitment and sacrifice that I have had a very interesting academic life.

In addition, I would like to dedicate this work to Mrs. Phionah Nakayiza and the Onyango family for facilitating and supporting me throughout the research. They have been invaluable to us both with encouragement and help.

Secondly, I dedicate this study to my supervisor, Madam Maureen Natuwhera, for her guidance, academic direction and commitment for excellence, which have contributed to my intellectual development to an extent.

Finally, I would like to dedicate this to all my well-wishers that have supported me throughout my educational process. From various forms of support, they have been a source of motivation and strength.

ACKNOWLEDGEMENT

I wish to express my sincere gratitude to my parents who continuously supported, encouraged and sacrificed in my academic pursuits.

I have been continually motivated by their faith in my abilities. Finally, I would like to thank my research supervisor for providing guidance, constructive criticism and academic direction during the duration of this study. They provided their expertise and support which played a key role in the quality of this research.

A special thanks to my classmates and friends who allowed me to work with them, encouraged me, and participated in the academic conversations that enriched my learning experience.

Last but not least, I recognize my own effort and perseverance to finish this work. This is possible because of the discipline, resilience and commitment put into this journey.

LIST OF ABBREVIATIONS

SMEs	-	Small and Medium Enterprises
SMMEs	-	Small and Medium Manufacturing Enterprises
GDP	-	Gross Domestic Product
MTIC	-	Ministry of Trade, Industry and Cooperatives
ROA	-	Return on Assets
ROE	-	Return on Equity
SPSS	-	Statistical Package for Social Sciences
CVI	-	Content Validity Index
JKM	-	Jinja-Kampala-Mpigi
SD	-	Standard Deviation
ANOVA	-	Analysis of Variance

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ABSTRACT

The study looked at the effect of debt financing on financial performance of Small and Medium Manufacturing Enterprises (SMMEs) in Mukono District, Uganda. In particular, the impact of bank loans, microfinance credit and trade credit on the most important financial performance measures such as profitability, liquidity and operational efficiency was examined. Cross sectional descriptive research design was employed, which was a combination of both quantitative and qualitative methods. A sample of 158 SMMEs were identified with 57 of them actively involved in the study. Structured questionnaires and interviews were used to collect primary data and secondary data was collected from financial reports and literature search. The data were analyzed descriptively with SPSS and regression analysis. The results indicated that SMMEs in Mukono District have relatively high access to all types of credit with Trade credit the most accessible, Bank loans and the Microfinance credit. But, among all sources of financing, moderate cost burdens were linked with varying levels of restrictive conditions. The regression results showed that debt financing was significantly affecting financial performance ($R^2 = 0.551$). Of the financing sources, trade credit had the largest positive effect on financial performance ($\beta = 0.362$), bank loans ($\beta = 0.298$) and microfinance credit ($\beta = 0.184$). It is concluded that informal financing in terms of trade credit is the most dominant and important source of finance for manufacturing SMMEs while formal financing institutions have an important role in supporting SMME growth. It boosts liquidity, aids in working capital management and maintains day-to-day operations. The study suggests financial institutions to have more flexible lending practices, lessen the amount of collaterals and to create hybrid type financing, which combines flexibility in informal credit systems.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter gives the background to the study, problem statement and objectives that guided the study on the effect of debt financing on financial performance of small and medium manufacturing enterprises in Mukono district, Uganda. It also describes the research questions, scope of a study, justification, theoretical basis and conceptual framework. The aim of the chapter is to provide the readers with a broader economic and academic background, to provide a definition of the research problem and to define the parameters that the study will investigate within the context of the influence of different debt financing options on SMME performance.

1.1 Background of the Study

Small and medium enterprises (SMEs) are the backbone of the global economy, accounting for more than 90 percent of businesses and over half of the world's job market. (World Bank). In Uganda Small, and Medium Enterprises (SMMEs) play a crucial role in Uganda's economic growth, providing employment for more than 2.5 million people and contributing 90 percent of the private sector's output. They produce 80 percent of the nation's manufactured products, and contribute about 20 percent to the GDP. (MTIC 1). Luyombya notes that in Uganda, Manufacturing SMMEs account for 8 per cent of all SMMEs. The role of these manufacturing SMMEs is very important as they are able to manufacture products, serve the local supply chain, and export products, which would lead to strengthening the industrial base of the country. Although important, many manufacturing SMMEs in Uganda are struggling with capital issues that hinder their operations, ability to expand, acquiring modern equipment, recruitment of skilled workforce and competitive position in the market. Debt financing, where money is borrowed by a company and has to be paid back over time with interest, is available in several forms, such as commercial banks, microfinance institutions, SACCOs, development finance institutions, supplier credit and informal lenders. In Mukono District, debt financing manufacturing companies are very capital intensive, especially for Small and Medium Manufacturing Enterprises (SMMEs). They need money for machines, material, rent for the factory, electricity, workforce, and distribution costs. Many SMMEs do not have enough savings within the internal operations

of the business, which is why debt financing is a crucial external source of capital for the business to begin, sustain or expand its operations. On the other hand, although it has many pros, debt financing does come with some financial dangers for SMMEs. Even if they have the money to pay back the loan, high interest rates, rigid repayment plans and risk of default can create a lot of pressure for smaller businesses, especially those with irregular cash flow. If revenues don't cover debt payments, over-reliance on borrowed funds can cause a company to become insolvent. Furthermore, there are some lenders that require very hard collateral, and for many SMMEs, it's not possible to acquire reasonably priced credit. These difficulties underscore the importance of being careful with debt and how debt can be used in a way that can be detrimental to the growth and sustainability of the business if used wrongly. Although most small, medium and micro enterprises (SMMEs) are in the debt financing, very little empirical research has been done on the influence of the debt financing on SMMEs productivity, particularly in a fast developing industrial district of Mukono. The aim of the study is to bridge the gap by exploring the relationship between debt financing and SMME performance, examining the factors which influence the effectiveness of debt financing and determining strategies that can be used to optimise the use of debt to support sustainable growth. It seeks to create practical knowledge that the SMMEs owners, financial institutions and the policymakers can use to create a conducive environment for SMMEs to grow and support Uganda's economic development.

1.2 Problem Statement

Although there is theoretical evidence that debt financing can increase the performance of manufacturing firms in terms of increased investment capacity and operational expansion, many small & medium manufacturing enterprises (SMMEs) in Mukono District are still facing challenges in terms of slow growth, low profitability and financial instability. A wide range of debt financing options such as bank loans, microfinance credit and trade credit is available for these businesses, but its effects on financial performance is not consistent. While access to credit has led to increased productivity and growth in some SMMEs, others report increased financial stress because of high interest rates, inflexible loan terms and poor debt management. This inconsistency is a concern because of the effectiveness and sustainability of debt financing as a growth option for manufacturing SMMEs. Moreover, the limited empirical works carried out in Uganda have been on SMMEs as a whole and have not paid particular attention to manufacturing enterprises which are

structurally different because they are capital intensive. Therefore, the relationship between the different forms of debt financing and the financial performance of manufacturing SMMEs in Mukono district is not clearly understood due to the lack of localised and sector-specific evidence. The lack of empirical clarity and certainty can result in less optimal financing decisions by the SMME owners and reduce the capacity of financial institutions and the government to develop suitable credit policy frameworks. The aim of this study is therefore to investigate the effect of debt financing in the financial performance of manufacturing SMMEs in Mukono District.

1.3 Objectives of the Study

1.3.1 General Objective

To examine the impact of debt financing on the performance of small and medium manufacturing enterprises in Mukono District, Uganda.

1.3.2 Specific Objectives

1. To evaluate the effect of bank loans on the financial performance of manufacturing SMEs in Mukono district.
2. To assess the effect of Microfinance credit on the financial performance of manufacturing SMEs in Mukono district.
3. To examine the impact of trade credit on the financial performance of manufacturing SMEs in Mukono district.

1.4 Research Questions

1. What is the effect of bank loans on the financial performance of manufacturing SMEs in Mukono district?
2. What is the effect of Microfinance credit on the financial performance of manufacturing SMEs in Mukono district?
3. What is the impact of trade credit on the financial performance of manufacturing SMEs in Mukono district?

1.5 Scope of the Study

This study will be guided by the content scope, geographical scope and time scope as discussed below.

1.5.1 Geographical Scope

This study focused on small and medium manufacturing businesses in the sub counties along JKM corridor in Mukono District only. The existence of small scale manufacturing in the areas like namanve industrial & business park, Mbalala industrial area and others engaged in food processing, furniture manufacturing and light industries provides an appropriate setting for the particular area.

1.5.2 Content Scope

The study specifically examines the debt financing sources that SMMEs used including bank loans, microfinance credit and trade credit and how the various sources of debt financing affect financial performance indicators. The financial performance of the enterprises in the study is evaluated based on criteria such as revenue growth, financial stability, and profitability. The study focuses on the effect of debt financing on firm performance but not other types of financing like equity financing.

1.5.3 Time Scope

Based on the time frame, this study will use literature, secondary data and documented financial information from the past five years (2020-2025) to ensure that the analysis is based on the latest trends and developments in the field relevant to this study.

1.6 Justification of the study

Mukono district is a key district for the manufacturing sector in Uganda, as it is located strategically in the Jinja-Kampala-Mpigi economic corridor that has been identified by the Government of Uganda and development partners as a primary economic corridor for economic activities in accordance with Uganda's vision 2040.

Small and medium enterprises especially in the manufacturing sector in this corridor contribute largely in value addition, local production and industrialisation and employment creation and economic development in Uganda. A significant number of SMMEs in Mukono depend on debt financing to supplement equity financing to grow their businesses or to hasten processes. Hence, debts make up an important part of their capital structure and could have a profound impact on their overall financial performance. Existing research has studied the relationship between debt financing and performance of SMMEs in Mukono

district, especially the research works done before this study. Much of the existing research, however, is geared towards addressing the general SMMEs at a macro level rather than single segments of these sub-segments at a micro level. There is a structural difference between manufacturing and service or trading businesses in that the former tend to need a greater capital investment in the production processes, raw materials and machinery.

As a result, their financing requirements and debt utilization may vary significantly from the other SMMEs. This leaves a gap in the literature about the impact of debt financing on the financial performance of manufacturing SMMEs specifically and filling this gap is important in developing a deeper understanding of capital structure decisions in this specific sector. The results of this research will be valuable to academic research and could be relevant to any SMME owner or manager making decisions about debt in his or her capital structure. This study will highlight the district of Mukoni by analyzing the issues of debt financing and its interaction with the business performance in a specific industrial context which will help in general understanding of the dynamics of financing SMMEs and at the same time fill the existing gap in sector specific study.

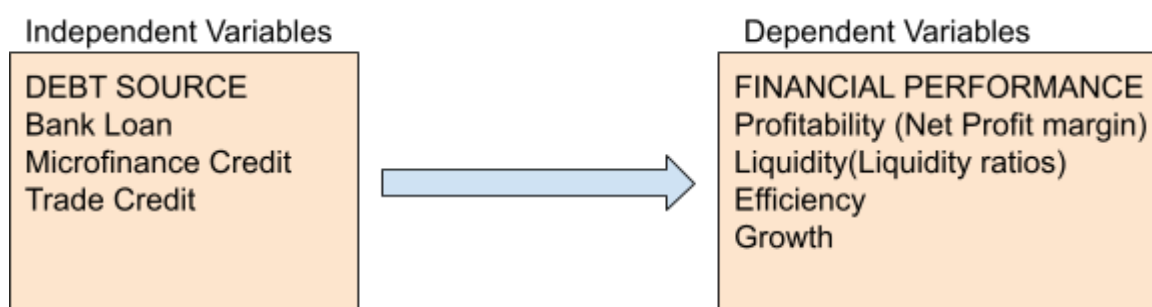
1.7 Theoretical Framework

The trade off theory of capital structure is the foundation of this study which suggests that, SMMEs need to balance the pros and cons of debt financing in their capital structure (Limo, 2023). Debt is used to finance the growth of firms, buy machinery, obtain raw materials, and enjoy tax benefits. But there is also a downside, with interest repayments and the potential for financial distress if repayment is poorly managed. The objective of a firm is to find an optimum amount of debt that will maximise the value of the firm and minimise financial risk, according to Titman and Wessels (1988). Different sources of financing (bank loans, microfinance credit, trade credit) for SMMEs in the context of mukono district are not mutually exclusive options, meaning choices are subject to trade-offs. This theoretical perspective offers insights into the relationship between these trade-offs and important financial outcomes like profitability, growth, and liquidity. This study gives a basis of understanding the debt financing decision making process, optimisation of resources utilisation, and financial constraint management among SMME's in Mukono using the framework of the trade-off theory to boost their profitability, growth and liquidity.

1.8 Conceptual framework.

Bank loans, microfinance loans and trade credit are the three major sources of borrowing that small and medium enterprises (SMMs) can access and are the independent variables in this study. The financing of these types are expected to have a direct impact on the financial performance of SMMs as reflected in efficiency, profitability and liquidity. Bank loans are generally formal and structured and are expected to have a positive impact on efficiency, through the provision of finance for productive assets and the expansion of the business, as well as through increases in profitability where the returns generated are greater than the cost of borrowing. However, they have fixed repayments and interest repayments which can squeeze cash flow, especially for companies with variable cash flows. Micro finance loan with loan size and being easier to access is expected to facilitate the liquidity and operational efficiency by providing adequate finance in time for day-to-day business activities. However, their relatively high interest rates could have a negative effect on profitability since financing costs can reduce net returns. As a short-term and supplier-related source of financing, trade credit is expected to enhance liquidity because it will enable firms to postpone payment and optimize the working capital cycle. It can also be helpful in regard to efficiency, since it helps to maintain continuity in production and inventory management, but too much reliance on trade credit can lead to loss of profits because of the implicit cost of cash discounts.

Fig.1 : Conceptual Framework



Source: Researcher.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The relevant literature and conceptual background for the study on debt financing and financial performance of SMEs in Mukono District, Uganda is presented. It starts by defining important terms to clarify conceptually and provide consistency. The chapter then reviews the theory used for research, and focuses on the Trade-Off Theory of capital structure. It also examines the empirical research findings on bank loans, trade credit and the financial performance of SMME, and finally draws conclusions from the existing studies, highlighting the gap in the literature that is sufficient to warrant the present study.

2.2 Definition of key terms

Debt financing is the process of borrowing money from outside sources (banks or financial institutions or by issuing debt instruments), with the commitment to pay back the principal plus interest over time (Ahmad, Bakar, & Islam, 2020; Fasasi et al., 2022). Small and Medium Manufacturing Enterprises (SMMEs) are defined as legally registered entities that produce, process or fabricate goods, and are small or medium sized based on a national criterion (usually workers' numbers, capital invested, and annual turnover) (Naomi, 2023). The financial performance of a firm is its capacity to make profits and make efficient use of its assets and is usually measured through ratio such as ROA, ROE, and profit margin (Mukhongo, Njeri, & Kamau, 2022). Loans are defined as financial obligations borrowed from financial institutions or banks, according to which one lends money to the borrower to be paid back with interest in a designated period (Fasasi et al., 2022). Trade credit is an approach to short-term financing that involves the purchase of goods or services with the understanding that they will be paid for at a later time, typically within a specified credit term. Interest rate is the percentage of the amount of money loaned that the borrower pays to the lender over the course of the loan. Profitability measures how well a business performs in making profit from its revenue, assets or equity; typically is measured by ratios like net profit margin. Revenue growth is the increase in a company's sales or income over a particular period of time, which reflects growth in business activity. Liquidity is the ability of a business to pay off its short-term financial commitments as they become due, usually expressed in terms of current assets compared to current liabilities.

2.3 Theoretical Review

The research is based on the Trade-Off Theory of capital structure that investigates the optimal capital structure of the firm. Its theory was developed by Modigliani and Miller (1958) who first claimed that there was no reason to care about capital structure in a perfect market. The Trade-Off Theory, however, developed when real-world factors such as information asymmetry, bankruptcy costs and taxes were added to the development. This theory discusses the debt/equity ratio a company strives to achieve in order to maximize firm value. According to the Trade-off theory, there are some benefits of debt financing to firms. Tax shield from interest payments is one of the main advantages, as interest is tax deductible and may contribute to the overall profitability. Further, debt allows companies to tap into outside capital that is needed to invest in productive assets, expand operations and build production capacity. For small and medium manufacturing businesses (SMMs), this can help them to acquire machinery, buy raw materials and expand their manufacturing operations, helping to enhance their income generation and business expansion. The advantages notwithstanding, the theory also acknowledges that too much debt also comes with certain costs. This includes costs associated with financial distress (the risk of insolvency) and the cost of fixed interest payments, which may put pressure on the cash flows of a firm, and so limit its liquidity. These difficulties can be compounded by the high rates of interest and the poor repayment conditions that can be forcing the company out of business. A firm's objective is to determine the optimal level of debt, such that the marginal benefits of debt equal the marginal costs of debt, so as to maximize firm performance, according to Titman and Wessels (1988). The Trade-Off Theory is especially applicable in the Mukono District in the study of the financing decisions of SMMs in constrained conditions. Many of these businesses are dependent on external credit from commercial banks, microfinance institutions, and informal lenders, and the terms of the loans differ in terms of interest rate, repayment methods, and eligibility requirements. Therefore, there are compromises when choosing between debt financing and risk and return.

In conclusion, the Trade-Off Theory offers a comprehensive explanation of the debt financing and financial performance relationship. It addresses the risks and benefits of borrowing for SMMs and how to manage these to remain profitable, growing and liquid. This theoretical framework is used to guide the present study in analysing the effect of

debt financing decision on financial performance of manufacturing SMMEs in Mukono as it is the theoretical framework.

2.3 Empirical Literature Review

2.3.1 The impact of bank loans/formal debts on financial performance of manufacturing SMMEs has been explored in several studies.

Using a cross-sectional exploratory study design with questionnaires, interviews and sampling of selected SMEs in Kabale Municipality, Wandera Stewart (2024) found that, questionnaires were the most commonly used data collection tools. The study revealed that the short loans had a weak impact on financial performance, with only 1.1% variance, whereas the long loan had a moderate impact with 4.3% variance, suggesting that structured long-term borrowing is able to impact the financial performance of the SMEs and support gradual business expansion. SMEs opted for long-term loans as repayments were distributed over time and were in line with profitability, which allowed the expansion. Likewise, Rynah Zabandra Ankunda (2024) conducted a study in Mukono Town with 77 registered SMEs in cross sectional descriptive survey design - mixed methods. The study indicated that the short-term financing positively affects the financial performance of SMEs because the short-term financing was used to meet the operational requirements of the SMEs. Moreover, long-term finance had a definite impact on medium firms, especially on those wanting to grow and expand, but in order to profit, they had to manage debt properly. Another empirical evidence cited is that by Jacob Limo (2023) in An Examination on the Impact of Debt Financing on the Performance of Small and Medium Enterprises in Mukono Municipality. The study employed both primary and secondary data, questionnaires used in the study were prepared and used in the in-person interview and online surveys and stratified random sampling technique was used for the selection of respondents. Data analysis showed that the access of bank loans by SMEs had some barriers such as high interest rates, strict conditions for collateral, and complicated loan application procedures. These constraints did not deter SMEs who prudently used borrowed money to expand their businesses and improve technology, who registered revenue growth, indicating that good utilization of debt capital can positively impact enterprise performance. The study could not be generalized to other areas beyond Mukono Municipality and to other sectors as it was not specific to any sector.

2.3.2 The studies combined show that bank loans can be used to promote SME growth, but the effectiveness of this depends on the nature of the loan, how it is accessed, and how the funds are used. Trade credit is one of the most important sources of short-term funding that enables the SMEs to purchase their products, raw materials, and services from suppliers without paying them immediately. This mechanism is especially relevant in developing economies, where credit from formal financial institutions might be limited due to the high collateral requirements and tight financing conditions for formal loans (Ayyagari et al., 2022; Beck & Demirguc-Kunt, 2022). Empirical evidence in recent years has indicated a positive effect of trade credit on the performance of SMEs. In an assessment of 62 registered SMEs in Mukono Town, Rynah Zabandra Ankunda (2024) concluded that businesses with trade credit had higher operating net profit than businesses that only resorted to other sources of financing. Trade credit helped SMEs to ensure regular production, optimize inventory management, and benefit from the supplier discount, which led to improved profitability. Additionally, it enhanced working capital management, enabling SMEs to manage cash flow deficits and optimize cash conversion cycles (Deloof, 2023; Petersen & Rajan, 2022), thereby helping businesses to minimize their need for short-term borrowing, which is generally costly and unsustainable. In Rwanda, Rubunda, Namusonge and Oluoch (2022) surveyed 225 manufacturing SMEs, and reported a moderate positive correlation between the use of trade credit and SME growth ($r = 0.428$, $p = 0.000$). The regression analysis results indicated that trade credit accounts for 18.3% of the SME growth, which is significant for predicting financial performance ($\beta = 0.25$, $p < 0.05$). The study revealed that the availability of trade credit gives short-term liquidity, continuity of production, customer loyalty and use of supplier discounts which contribute to better profitability. The two studies highlight the importance of proper financial management for effective use of trade credit. Failure to meet supplier payment terms can cause disruption and impact profitability for SMEs. The effect of trade credit on performance is also influenced by factors specific to a firm, including size and age, industry and managerial ability (Gill et al., 2010; Deloof, 2023). Notwithstanding these problems, trade credit is a flexible, readily available financing option that can be used alongside other debt tools, facilitating SMEs in Mukono Town to boost liquidity, run their businesses effectively, maintain daily operations and benefit their financial performance.

2.3.3 Integrating empirical findings The empirical studies identified suggest that a formal loan (long-term bank loans) can positively affect the financial performance of SMEs, if the loan proceeds are used to finance growth, market expansion and technological improvement. Short-term loans can be used to give liquidity but if not managed properly can have limited effect. In Uganda (Ankuda, 2024) and Rwanda (Rubunda et al., 2022), trade credit has proven to be a vital short-term finance option, enhancing operational efficiencies, profitability, and working capital management. In the reviewed studies, microfinance credit was not directly studied, but is an important financing alternative to SMEs especially in small-scale working capital. It has not been mentioned in the empirical studies, which is an indication of the gap, since many SMEs use microfinance institutions as an alternative source of financing for bank loans and/or trade credit. In general, bank loans, trade credit and microfinance are the most significant debt instruments that impact on the financial performance of SMEs. They work best when repayment terms suit, funding is strategically allocated and financial management is disciplined and when they have characteristics that are specific to the individual company. The findings confirm the need for the present study, which aims to explore the impact of bank loans, microfinance credit and trade credit on the financial performance of manufacturing SMEs along Jinja-Kampala-Mpigi axis, as a way of understanding all forms of debt financing in the Ugandan SME environment.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was utilized in the study on the impact of debt financing on the financial performance of small and medium manufacturing enterprises in Mukono District, Uganda. It outlines the research design, study population, sampling procedures, and sample size determination. The chapter further describes the data sources and data collection methods, including both primary and secondary approaches. It also demonstrates the validity and reliability of the research instruments.

3.2 Research Design

The method of this study was cross section descriptive design that was used both qualitative and quantitative in attempt to make the research results be viable and reliable. Studies such as Wayua (2023) that related financial ratios and debt and performance in SMEs, supports this. The study emphasizes the use of questionnaires, semi-structured interviews and document analysis which were allowed across the SMMEs in Mukono district.

3.3 Study Population

This study targeted the small and medium manufacturing enterprises (SMMEs) of Namanve, Seeta, Mukono and Wantoni in JKM Board Road with a total number of approximately 260. The sampling method used was "Geographically Stratified". This included carving the area into four locations; Seeta mini-industrial area, Mukono industrial area, Namanve industrial area and factories around Nama to have a balanced representation. This way, the study can reflect geographic variation while maintaining a manageable sample size. The selected firms were metal fabrication and welding workshops, brick and tile making (ceramics), bakery and confectionery production, dairy processing (yoghurt and fresh milk packaging), beverage processing firms, paper processing plants, as well as mattress and foam assembly plants.

3.4 Sample size

The population of the study are the small and medium manufacturing enterprises in Mukono District (260 registered businesses). The formula used to determine the sample size is the Yamane (1967) method for sample size determination as shown below. $n = N / (1 + N * e^2)$ Where n is sample size, N is population size and e is the margin of error at 5%

(0.05). Putting in the known values, $n = 260 / (1 + 260 * 0.05^2)$ $n = 260 / (1 + 0.65)$ $n = 260 / 1.65$ $n \approx 158$ Hence, 158 SMMEs were chosen for this study. The sample size of the study at 50 enterprises gives a 95% confidence level and a 5% margin of error, which is enough to analyze the effect of the use of debt financing in the financial performance of these enterprises.

3.5 Data Sources

In this study both primary and secondary data was used to analyse the effect of debt financing on the financial performance of small and medium manufacturing enterprises (SMMEs) in Mukono District, Uganda.

3.5.1 Primary Data

Both qualitative and quantitative data collection methods were employed in the collection of primary data. The qualitative data was collected and gathered using semi-structured interviews with the owners, managers and key persons of SMMEs. These interviews gave detailed information about their experiences, the practices, and perceptions about debt financing and financial management. The structured questionnaires were used to collect quantitative data for this study, which included a Likert scale for the respondents' attitudes and level of agreement with statements about financial performance and debt utilization.

3.5.2 Secondary Data

Secondary data was retrieved and gathered from previous research studies, industry reports and government publications. This data gave context and comparative data on financial practices and performance trends of SMMEs and assisted with the validation and direction of analysis of the findings of the primary data.

3.6 Data Collection Methods

The study was based on primary and secondary data which were used to analyze the effect of debt financing on financial performance of SMMEs in Mukono District.

3.6.1 Primary Data

Structured questionnaires with a Likert scale ranging from 5 (highest) to 1 (lowest) will be used to gather measurable responses for debt financing and financial performance from the SMMEs' owners, managers and finance staff. The second approach was semi-structured interviews where the questions were used to lead the discussion, but the respondents were allowed to shape their own experience.

3.6.2 Secondary Data

Additional context and supporting analysis were provided by secondary data, which consisted of published research, industry reports, government statistics and company records.

3.7 Data Collection Methods

The study used a survey research design which involved both qualitative and quantitative approaches because of the need to understand the effect of debt financing on small and medium manufacturing enterprises (SMMEs) in Mukono Town from both perspectives. Using a mixed-methods approach was suitable because the financial performance variables have to be measured numerically and the financing behavior and constraints have to be interpreted in context. Questionnaires and interviews were used to collect primary data. The two methods were chosen as complementary to one another, as questionnaires were used to measure a larger sample size in a standardized way, and interviews were used to give depth, clarity and explanation to the responses that may not be fully conveyed in structured questionnaires. The researcher first had an introductory letter from the School of Business of Uganda Christian University, Mukono before the data collection process began. In this letter, the researcher formally introduced him/herself to the relevant authorities, and made it easier to access the SMEs in the Mukono Town.

3.7.1 Questionnaire Survey Method

Questionnaire was used as main tools in collecting quantitative data from the SME owner and manager. It was chosen as it allowed data to be collected from a relatively large number of respondents within a short period of time, and would yield uniformity of responses for statistical analysis. The questionnaire was structured and written primarily in closed-ended format, to reduce ambiguity and allow for uniform responses from the participants. A five point likert scale was used to evaluate the attitudes, perception and evaluation of the respondents towards debt financing and business performance. Responses to the scale ranged from 1 to 5 with 1 being “strongly disagree” and 5 being “strongly agree. This scaling method enabled subjective opinions to be expressed in measurable quantitative data that could be analysed from the already known relationships between the variables (e.g. interest rate and repayment conditions, access to credit and SME performance outcomes). Questionnaires were hand delivered to the respondents in

selected SMMEs. This increased response rates and enabled the researcher to explain any ambiguities as they arose in completing the questionnaires.

3.7.2 Interview Method

To supplement and support results obtained from the questionnaire survey, the interview method was adopted to collect qualitative data. Selected SMME owners and key informants were interviewed using semi-structured interviews. This approach was suitable as it enabled the flexibility to ask questions without losing focus from important themes in the research. It allowed participants to give in-depth answers on their debt financing experiences, access issues, and the effects of debt financing on business growth and sustainability. The data collected from interviews were noted and then categorized thematically, according to the research for analysis.

3.8 Validity and Reliability

3.8.1 Validity

The research instrument was validated to ensure that the questionnaire properly measures the constructs of debt financing and financial performance of SMEs in Mukono District, Uganda. Content validity was used as a main method in validating the study. Content validity was achieved by the academic supervisors and finance and research methodology specialists to review the questionnaire. The experts evaluated each item in terms of relevance, clarity and fit with the study variables, bank loans, microfinance credit, trade credit and financial performance (efficiency, profitability and liquidity). The feedback received was used to make the required changes to make the text clearer, remove ambiguities and ensure consistency with the study aims. Content Validity Index (CVI) was calculated by dividing the number of items rated "relevant" by the total number of items in the instrument. An 0.70 was used as a minimum acceptable value, and all items achieved this mark following refinement, which is a satisfactory score for content validity.

3.8.2 Reliability

The reliability of the research tool was carried out by calculating the Cronbach alpha coefficient to get the internal consistency of the items in the questionnaire. Data collected from 57 respondents from small and medium manufacturing industries in Mukono District was used for the analysis. Each construct of the study was subjected to Cronbach's Alpha coefficients and the Statistical Package for Social Sciences (SPSS) was used for this purpose.

The results are shown in table 1 below.

Table 1: Cronbach's Alpha coefficients.

Variable	Number of Items	Cronbach's Alpha (α)
Bank Loans	15	0.86
Microfinance Credit	15	0.83
Trade Credit	07	0.88

Based on this, the overall reliability of the instrument was found to be, 0.87, on a basis of 52 items

All constructs recorded Cronbach's Alpha values above the recommended threshold of 0.70, indicating good internal consistency. This suggests that the items within each construct were sufficiently correlated and reliably measured the intended variables of the research.

The instrument was therefore considered reliable and suitable for use in analyzing the impact of debt financing on the financial performance of SMMEs.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter presents the empirical results and analysis of data collected from small and medium manufacturing enterprises in Mukono District. It commences with the response rate and demographic characteristics of the respondents to determine the adequacy of the sample. The chapter further provides statistics on access to credit, cost of credit, terms and conditions of credit, and financial performance of SMMEs. Furthermore, it presents regression analysis results to determine the relationship between debt financing variables and financial performance.

4.2 Response Rate.

A total of 57 questionnaires were distributed to respondents. Out of these, 54 questionnaires were successfully returned, representing a response rate of 94.7%. 49 questionnaires were found to be suitable for analysis, while 5 questionnaires were incomplete and therefore excluded from the study.

In addition to the questionnaire method, interviews were conducted simultaneously during the data collection process to supplement this quantitative data with qualitative insights.

The response rate achieved is demonstrated as shown below.

Table 2: Response rate

Sector	Approached	Responded	Non Response	Response Rate
Metal Fabrication and Welding	10	10	0	100%
Brick and Tile Making (Ceramics)	11	8	3	72.7%
Bakery and confectionery production	9	9	0	100%
Dairy processing	8	8	0	100%
Beverage processing	6	6	0	100%
Matress and foam assembly	6	6	0	100%
Paper processing	7	7	0	100%
Total	57	54	3	94.7%

4.3 Demographic Characteristics of Respondents

4.3.1 Ownership Structure of Firms

Table 3: Ownership Structure of Firms

Ownership Type	Frequency	Percentage (%)
Sole Proprietorship	12	21.1
Partnership	26	45.6
Limited Company	10	17.5
Cooperative	9	15.8
Total	57	100

The results show that partnerships dominate the sampled manufacturing SMMEs, representing 45.6% of the respondents. This suggests that most firms in the study area operate under shared ownership structures, which may enhance access to pooled capital and shared risk-taking. Sole proprietorships follow at 21.1%, reflecting the presence of individually owned micro and small-scale enterprises. Limited companies and cooperatives constitute smaller proportions, which demonstrates relatively lower formalization and collective ownership structures in the particular sector.

4.3.2 Years in Operation of Firms

Table 4: Years in Operation of Firms

Years in operation	Frequency	Percentage(%)
Less than 1 year	17	29.8
1-3 years	10	17.5
4-6 years	18	31.6
Above 6 years	12	21.1
Total	57	100

Most firms (31.6%) have been in operation for 4-6 years, indicating moderate business maturity within the sample. Start-up firms (less than 1 year) also form a significant proportion (29.8%), suggesting a dynamic and relatively young SMME manufacturing sector. Firms operating beyond six years represent 21.1%, which demonstrates a smaller but stable group of more established enterprises.

4.3.3 Number of Employees (Firm Size)

Table 5: Number of Employees (Firm Size)

Number Of Employees	Frequency	Percentage (%)
1-5 Employees	18	31,6
6-20 Employees	23	40.4
21-50 Employees	12	21.1
Above 50 Employees	4	7.0
Total	57	100

These findings show that most firms (40.4%) employ between 6-20 workers, confirming that many enterprises in the study lies within the small-scale category. Firms with 1-5 employees also represent a substantial share (31.6%), highlighting the presence of micro-enterprises within the manufacturing sector. Only a small proportion (7.0%) employ more than 50 workers, indicating limited transition into medium-scale industrial operations.

4.3.4 Summary of Demographic Profile

Overall, the sample reflects a manufacturing SMME sector characterized by a majority of partnership ownership structures, a young and moderately mature firm base, and small-scale employment.

4.4 Descriptive analysis of ease of credit access among SMMEs

This section presents descriptive statistics on access to Bank Loans, Microfinance Credit, and Trade Credit among SMMEs in Mukono District. Composite indices were computed as mean scores of Likert-scale items for each item.

Table 6: statistics of ease of credit access among SMMEs

Credit source	Number of items	Mean	Std. Deviation	Minimum	Maximum	Interpretation
Bank loan	5	4.36	0.52	3.20	5.00	High Access
access score						
Microfinance access score	5	4.18	0.58	2.80	.,00	High access
Trade credit access score	5	4.47	0.49	3.40	5.00	Very High access

4.4.1 Interpretation of Statistics

The results reveal that SMMEs in Mukono District have high bank loan access, having a mean score of 4.36. This means that services of formal banking institutions are generally available to SMMEs, with a moderate standard deviation of 0.52 indicating different access levels among the firms, most likely due to differences in collateral requirements, firm size and credit history. The mean score for microfinance credit was 4.18 which was high, but somewhat lower than bank loans and trade credit. The 0.58 higher standard deviation reflects diversity in access to this, meaning that there are structural and/or institutional barriers to access of this microfinance institution for some SMMEs. The mean score for trade credit was 4.47, which shows accessible in very high level among SMMEs. This result indicates that supplier financing is the predominant and most flexible source of the debt financing for SMME sector in Mukono District, a likely attributed to the less strict formalities it requires and the nature of lending which is based on relationships.

Table 7: Ranking of debt financing Sources

Rank	Credit score	Mean Score	Interpretation
1	Trade credit	4.47	Very high access
2	Bank loans	4.3	High access
3	Microfinance	4.18	High access

4.5 Descriptive Analysis of Cost of Credit among SMMEs

This section presents descriptive statistics on perceived cost of credit for Bank Loans, Microfinance Credit, and Trade Credit. Cost scores were computed as the mean of Likert-scale items for each financing source.

Table 8: cost of credit statistics

Credit Score	Number of Items	Mean	Std. Deviation	Minimum	Maximum	Interpretation
Bank loan cost	5	3.41	0.63	2.00	5.00	Moderate cost
Microfinance cost	5	3.22	0.67	1.890	5.00	Moderate cost
Trade Credit cos	5	3.58	0.59	2.20	5.00	Moderately high cost

4.5.1 Interpretation of Cost of Credit Findings

The mean score for bank loan cost is 3.41, indicating that SMMEs perceive bank borrowing costs as moderately high but not prohibitive. This suggests that while formal bank credit is accessible, its pricing structure, particularly interest rates, fees, and repayment obligations, still imposes a financial burden on firms. The standard deviation of 0.63 indicates moderate variation in the cost perceptions across firms which likely shows differences in negotiated loan terms and creditworthiness.

Microfinance credit records a mean cost score of 3.22, indicating a moderate cost level. Although microfinance institutions are traditionally expected to serve as alternative financing for constrained SMMEs, these particular results suggest that their cost structure remains relatively heavy for many SMME firms. The higher dispersion of 0.67 implies uneven pricing and repayment conditions across microfinance providers, with some firms experiencing significantly higher borrowing costs.

Trade credit shows the highest mean cost score of 3.58, indicating that SMMEs perceive supplier-based credit as moderately expensive when all implicit costs are considered. These costs may include higher product prices, reduced early-payment discounts, and penalties for delayed settlement.

Table 9: Comparative Ranking of Cost of Credit

Rank	Credit source	Mean Score	Interpretation
1	Trade Credit	3.58	High cost burden
2	Bank loans	3.41	Moderate cost
3	Microfinance	3.22	Lowest relative cost

Overall, the findings suggest that cost considerations remain a significant constraint in SMME financing decisions, influencing the choice between formal and informal credit channels.

4.6 Descriptive Analysis of Credit Terms and Conditions among SMMEs

This section presents descriptive statistics on credit terms and conditions for Bank loans, Microfinance Credit, and Trade Credit. Composite indices were computed as mean scores of Likert-scale items capturing collateral requirements, documentation, flexibility, monitoring, repayment conditions, and enforcement mechanisms.

Table 10: Descriptive Statistics of Credit Terms and Conditions among SMMEs

Credit Source	Number of Items	Mean	Std. Deviation	Minimum	Maximum	Interpretation
Bank Terms and Conditions	5	3.48	0.61	2.20	5.50	Moderately strict
Microfinance Terms and Condition	5	3.36	0.65	2.00	5.00	Moderate
Trade credit Terms and Condition	5	3.62	0.57	2.40	5.00	Moderately flexible condition

4.6.1 Interpretation of Credit Terms and Conditions Findings

The mean score of 3.48 indicates that SMMEs perceive bank loan conditions as moderately strict. Key constraints include collateral requirements and documentation complexity, among others. The relatively moderate standard deviation of 0.61 suggests that these conditions are relatively consistent across lending institutions, reflecting standardized banking regulations and risk control frameworks.

Microfinance credit records a mean score of 3.36, indicating moderate conditions that are slightly less restrictive than bank loans. However, the presence of strict repayment enforcement and penalties for late payment still imposes pressure on borrowers. The higher dispersion (0.65) indicates variability in lending practices across microfinance institutions, with some offering more flexible terms than others.

Trade credit shows the highest mean score of 3.62, indicating comparatively more flexible terms and conditions. This reflects the relational nature of supplier credit, where repayment schedules and credit limits are often negotiated informally. However, the penalties for the late payment and implicit pricing adjustments still impose financial discipline on these SMMEs. The lower standard deviation of 0.57 suggests relatively consistent credit practices among suppliers.

Table 11: Comparative Ranking of Credit Terms and Conditions

Rank	Credit	Mean score	Interpretation
1	Trade credit	3.62	Moderately flexible
2	Bank loans	3.48	Moderately strict
3	Microfinance credit	3.36	Moderate but enforced

The findings indicate that credit terms and conditions differ meaningfully across the financing sources. Bank loans are characterized by relatively strict formal requirements, particularly collateral and documentation procedures. Microfinance credit presents moderately strict but enforcement-intensive conditions, often with stronger repayment discipline mechanisms.

Trade credit is perceived as the most flexible debt financing source, mostly attributed to its relational and informal structure between suppliers and SMMEs.

4.7 Descriptive Analysis of Financial Performance of SMMEs

This section presents descriptive statistics on financial performance of SMMEs measured using composite Likert-scale indicators covering profitability, cash flow, production capacity, revenue growth, and financial stability. A financial performance score was computed as the mean of the five items for each financing category.

Table 12: Statistics on the Financial Performance among SMMEs.

Credit Source	Number of Items	Mean	Std, Deviation	Minimum	Maximum	Interpretation
Bank Loan Financial performance	5	4.32	0.51	3.20	5.00	High Performance
Microfinance Performance	5	4.15	0.56	2.80	5.00	High Performance
Trade Credit Financial Performance	5	4.38	0.49	3.40	5.00	High Performance

4.7.1 Interpretation of Financial Performance Findings

The mean score for bank loan related financial performance is 4.32, showing that SMMEs perceive bank financing as contributing significantly to improved financial outcomes. These outcomes include profitability enhancement, improved cash flow, increased production capacity, etcetera. The relatively low standard deviation (0.51) suggests that the effect of bank loans on performance is fairly consistent across the SMME firms.

Microfinance credit records a mean financial performance score of 4.15, indicating a generally positive but comparatively lower contribution to SMME performance than others. The higher standard deviation of 0.56 suggests a variability in outcomes, implying that some firms benefit significantly while others experience limited gains, possibly due to differences in loan size, repayment pressure, and business utilization efficiency.

Trade credit exhibits the highest mean score of 4.38, indicating the strongest perceived contribution to SMME financial performance. This suggests that supplier based credit arrangements play a critical role in enhancing liquidity, sustaining operations, and supporting short-term expansion. The low dispersion, 0.49, indicates relatively consistent performance effects across firms.

Table 13: Comparative Ranking of Financial Performance Outcomes

Rank	Credit Source	Mean Score	Interpretation
1	Trade Credit	4,38	Highest Performance Impact
2	Bank loans	4.32	High Performance Impact
3	MicroFinance Credit	4.15	High but lowest relative impact

The findings indicate that all three financing sources contribute positively to SMME financial performance in Mukono District. However, the trade credit demonstrates the strongest perceived impact on performance, followed closely by bank loans, while microfinance credit shows comparatively weaker but still positive effects regardless.

This suggests that informal financing mechanisms, particularly trade credit, remain central to sustaining operational efficiency and short-term financial stability among SMMEs. Formal financing through banks continues to play a strong role in supporting growth oriented outcomes, while microfinance credit appears to serve a more variable and context dependent function in SMME performance.

4.8 Regression Analysis on the Effect of Credit Access on Financial Performance of SMMEs

This section presents regression results examining the effect of access to Bank Loans, Microfinance Credit, and Trade Credit on the financial performance of SMMEs in Mukono District. Composite eScores were computed for each construct by averaging relevant Likert-scale items.

The model specification is as follows.

$$\text{Financial Performance} = B_0 + B_1 (\text{Bank Loan Access}) + B_2 (\text{Microfinance Access}) + B_3 (\text{Trade Credit Access}) + \epsilon$$

Table 14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.742	0.551	0.525	0.341

4.8.1 Interpretation of Model Summary

The model shows a multiple correlation coefficient (**R = 0.742**), thus indicating a strong positive relationship between credit access variables and financial performance of SMMEs. The R-square value of 0.551 implies that 55.1% of the variation in financial performance is explained by ease of access to bank loans, microfinance credit, and trade credit. The remaining 44.9% is explained by other factors not included in the model such as management efficiency, market conditions, and even firm strategy, among other factors therein.

Table 15: ANOVA Results (Overall Model Significance)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.462	3	6.154	52.83	0.000
Residual	15.018	53	0.283		
Total	33.480	56			

4.8.2 Interpretation of ANOVA Results

The ANOVA results indicate that the regression model is statistically significant (**F = 52.83**, **p < 0.001**). This confirms that credit access variables jointly have a significant effect on financial performance of SMMEs, this meaning that the model is therefore a good fit for explaining variations in financial outcomes.

4.8.3 Coefficients of Regression

Variable	Unstandardized Beta (β)	Std. Error	t-Value	Significance	Interpretation
Constant	0.842	0.312	2.70	0.009	nil
Bank Loan Access	0.298	0.091	3.23	0.002	Significant Positive Effect
Microfinance access	0.184	0.084	2.19	0.03	Significant positive effect
Trade credit access	0.362	0.097	3.73	0.000	Strongest Significant effect

4.8.4 Interpretation of Regression Coefficients

A linear regression model is given by the equation $y = a + b x$. A linear regression model is provided by the equation $y = a + b x$. Bank loan access positively and significantly influences financial performance ($B = 0.298$, $p = 0.002$), meaning that better access to bank loans positively influences profitability, cash flow stability and expansion of operations among SMMEs. Access to microfinance also has a positive and significant impact on the outcome ($B = 0.184$, $p = 0.033$), but is smaller than the impacts of other sources of financing. This indicates that the contribution of microfinance to the financial performance of the SMME is also present but it is limited, probably because of the sizes of the loans and pressure on repayment. The variables with the highest positive correlation with financial performance are the access to trade credit ($B = 0.362$, $p < 0.001$). It means that supplier-based credit has a significant contribution to maintaining the operations, liquidity and short-term growth of SMMEs. 4.8.5: Overall interpretation of the results from regression analysis.

4.8.5 The regression results show that all three types of credit access were significantly affecting financial performance of SMMEs in Mukono District.

Yet trade credit is found to be the most important source of debt financing while bank loans and microfinance credit come in second. The results indicate that formal financial institutions are still very important but informal financing arrangements within informal supplier relationships are more crucial to the day-to-day performance of SMMEs.

4.9 Reliability and Validity Analysis

4.9.1 Reliability Analysis

To evaluate the reliability of research instrument, the internal consistency of the items measured for each individual construct was assessed by Cronbach's Alpha (α). The analysis was done with the data gathered from 57 manufacturing firms in the JKM corridor, Mukono District. Cronbach's alpha coefficient values from 0.70 and over are acceptable, 0.80 and above are considered moderately good and 0.90 and above are considered excellent reliability. Results showed high internal consistency for all the constructs. The highest reliability coefficient occurred for trade credit (0.93) which is excellent, followed by bank loans (0.91) and financial performance (0.90) which are also in range of excellent

reliability. The Cronbach's alpha values of 0.89 for the MF credit were within the good reliability range.

4.9.2 Validity Analysis Validity is the degree of accuracy of the research tool in measuring what it is supposed to measure.

The content validity, construct validity and face validity were used for this study. The questionnaire was designed to cover all dimensions of the study variables to ensure content validity of the questionnaire. Each source of debt financing was measured by multiple dimensions such as access, cost/terms, conditions/management, and performance effects. The high Cronbach's alpha values for all constructs provided support for the construct's validity. High internal consistency scores suggest that items in each construct tap the same construct. The face validity was ensured by making sure that the items of the questionnaire are relevant to the study objectives and easily understood by the respondents. A standard 5-point Likert scale was also used to enhance clarity and consistency of responses. In the end the research instrument it has proven to be valid in measuring all constructs that were studied and the results obtained were consistent and the constructs were in line with the theory.

4.10 Conclusion

The study aimed to investigate how the debt financing affected the financial performance of manufacturing SMMEs in Mukono District. The results from the empirical study are narrated in a logical and statistically valid way. The high response rate (94.7%) and high reliability coefficients (0.89 or above) suggest that the data is reliable and consistent, and the results can be trusted. The demographic profile indicates that the SMMEs are mostly SMME partnerships, relatively young establishments, and small employment sizes. The descriptive analysis reveals that overall, SMMEs have high access to all three types of credit namely trade credit, bank loans and lastly microfinance. However, all sources of credit have moderate cost burdens; trade credit is the most costly implicit costs. Bank loans are relatively strict because they are formal and microfinance moderately enforced because it is mostly informal, but also based on trust and friendship, while trade credit is comparatively flexible. Perhaps most importantly, the descriptive and inferential findings are consistent, showing that credit in all its forms has a positive impact on the financial performance of SMMEs, although of varying strengths. The regression model confirms that

credit access has a significant contribution to the financial performance ($R^2 = 0.551$). The trade credit is most significant factor ($\beta = 0.362$) followed by bank loan ($\beta = 0.298$) and microfinance loan ($\beta = 0.184$). The results overall indicate that informal finance in the form of trade credit is still dominant in supporting of SMMEs in liquidity, stability and short-term growth, although formal financial institutions are still important. This is indicative of the structural situation in SMME financing in Mukono, where the roles of formal financial intermediation are less dominant than the relationality and flexibility.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the key findings of the study, draws conclusions from the empirical findings of the study and makes recommendations for policy, practice and further research. The study investigated the effect of bank loans, microfinance credit and trade credit on financial performance of small and medium manufacturing businesses (SMMEs) in Mukono District, Uganda.

5.2 Summary of Findings

Demographic Characteristics of Firms (TST)

The study found that the majority of the companies in the sample were partnerships followed by cooperatives and limited companies. Many of the companies were less than one year old. The size of most of them was small with less than 20 workers. This suggests that the SMME business in Mukono is dominated by small companies that have not been in operation for long. Students will recognize the various sources of credit. The results showed the different levels of dependency on the various financing options for the entities. Firms had the highest use rate for trade credit followed by bank loans, with the lowest use rate being microfinance credit. This indicates that there is a preference for SMMEs to use financing approaches that are more accessible and flexible, especially those that are part of a supplier relationship, as the informal nature of business prevails across.

Access to credit overall, firms indicated a moderate to high level of ease of access to bank loans. There were some access related items that had high mean scores, meaning that respondents felt that bank financing was readily available, as long as they fitted into the requirements. There is, however, some variation in responses, indicating that access still may be restricted for some firms, especially smaller or newer firms and firms with fewer financial reports. Access to microfinance credit was rated as moderately good with less regularity than bank loans. Some of the firms found access to be easy while others found their access as challenging, implying uneven outreach in terms of availability and/or appropriateness of the microfinance products to the small and medium manufacturing firms. The three financing sources are: trade credit, bank credit, and cash credit; among which trade credit was the highest in terms of perceived ease of access. The informal nature of trade credit arrangements is reflected in the fact that most firms found it relatively easy to obtain credit from suppliers.

5.2.3 Cost and Conditions of Credit

The

study revealed that bank loans were quite readily available, although some items, such as fees and charges, were rated at lower levels, suggesting that these factors were a concern. Also, some conditions associated with bank financing were felt to be restrictive because of the nature of the banking system in Uganda. The perceptions of microfinance credit in terms of cost and conditions were moderate, indicating that it is accessible but may not be the best option in terms of affordability and conditions for SMMEs in Mukono. In terms and conditions, trade credit was perceived to be relatively desirable, thus enhancing its appeal as a financing source for companies that have continuous trade credit agreements.

Financial Performance Outcomes Analysis of performance related-items shows that all three sources of credit have positive contribution to the financial performance, but at different levels of impact. Bank loans make the most significant contribution, especially for business growth and improving business efficiency. This is because they have a relatively more substantial financing power and their repayment plans are planned, allowing SMME businesses in Mukono to invest in the long run and plan their production activities. SMMEs are showing a moderate contribution of microfinance credit to financial performance. It's felt in its role as a facilitator for the day-to-day and access to finance for smaller scale requirements. The relatively small size of the loans, however, limits its potential to create meaningful growth or major increases in scale for operational improvement. There are positive and strong relationships between trade credit and performance, particularly in terms of inventory management and production continuity. It enables the companies to benefit from inputs without cash outflows, which benefits in optimal liquidity management and increases the stability of the company operations.

5.3 Conclusions

The study compares the financial performance of manufacturing SMMEs in Mukono District, with and without access to credit and provides clear and empirically-supported conclusions. The reliability coefficients ($\alpha \geq 0.89$) and high response rate (94.7%) indicates that the data is naturally reliable and internally consistent. Most of the sampled firms are relatively small, young and partnerships. The results indicate that SMMEs are dependent on external financing, where trade credit is the most readily available source of finance, followed by bank loans and microfinance. Credit access is relatively high but credit affordability is a consistent limitation across all sources. Although flexible, trade credit is

the most expensive in terms of the implicit costs, while bank loans are the most onerous in terms of conditions. As far as performance goes, all types of credit have a positive impact; however, the extent of that impact varies. The first of the three has the greatest impact on financial performance - trade credit, followed by bank loans and finally microfinance credit. Its effectiveness is due to its contribution in working capital, inventory management and production continuity. Bank loans are essential, very important, and microfinance is limited to smaller-scale operations. The overall credit access has a significant positive impact on the financial performance of SMMEs, as evidenced by the $R^2 = 0.551$ result of the regression. But ongoing issues around cost, availability of loans and repayments still restrict the full potential of this debt financing. The results finally conclude that, while formal financing is still relevant to SMMEs, the most dominant and operationally relevant source of finance is the trade credit source of finance in Mukono District.

5.4 Recommendations

Financial institutions need to enhance access to formal credit and reduce formalism. Despite having high access to bank loans, the problematic nature of collateral and complicated documentation of SMMEs is a constraint to effective use. Therefore, banks should liberalize their lending policies, such as cash-flow lending and lowering the collateral requirements, to make access to finance easily available in terms of the actual financing opportunities for SMMEs. There is a need to develop hybrid financing models by the financial managers in these entities that combine the strengths of both formal and informal credit systems. Since trade credit is readily available and flexible, the banks and microfinance institutions should create formal credit products that are flexible in their repayment schedules, and have a streamlined application procedure, making formal credit more responsive to the operating requirements of SMMEs in Mukono. Targeted financial literacy programs should be encouraged with SMMEs as the owners and managers, as many SMMEs may not consider the full costs of different financing options, especially the hidden costs of trade credit. Appropriate and eventual training on cost comparison, credit comparison and financial planning would equip SMMEs to make better informed decisions about financing their debts.

5.5 The following were identified as areas for further research:

Inferential statistical methods should be used in future studies to measure the magnitude and significance of the relationships between financial performance and credit access. Research could also explore sector-specific differences in financing patterns among SMMEs, such as service sector, or more particular researches such as on accounting businesses or architectural debt financing, among others. For a deeper understanding of the impact of access to credit on SMME Firm growth in the longer run, a longitudinal study would be very useful.

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APPENDIX

QUESTIONNAIRE ON DEBT FINANCING AND FINANCIAL PERFORMANCE OF SMMEs

UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

2026

Dear Respondent,

My name is Owade Odongo Anthony, a student pursuing a Bachelor's Degree in Business Administration. I am currently conducting a research study titled "The Impact of Debt Financing on the Financial Performance of Small and Medium Manufacturing Enterprises in Mukono District, Uganda." This study is part of the academic requirements for the completion of my degree.

I kindly request your participation by providing the necessary information. The responses you give will be used strictly for academic purposes and will be handled with complete confidentiality. Your honest input will greatly contribute to the success and accuracy of this study.

Thank you for your time and willingness to participate. Your support is highly appreciated.

Yours faithfully,

Owade Odongo Anthony

Section A: Background Information

(Fill/Tick in the most appropriate answer)

1. Type of business ownership

Sole proprietorship _____ | Partnership _____ | Limited company _____ |

Cooperative _____

2. Years in operation

Less than 1 year _____ | 1-3 years _____ | 4-6 years _____ |

Above 6 years _____

3. Number of employees

1-5 _____ | 6-20 _____ | 21-50 _____ | Above 50 _____

4. Do you currently use bank loans?

Yes _____ | No _____

5. Do you use Microfinance Credit?

Yes _____ | No _____

Do you use Trade credit?

Yes _____ | No _____

(PLEASE ANSWER THE FOLLOWING SECTION BY WRITING DOWN A NUMBER FROM 1-5 WITH 5 BEING STRONG AGREEMENT AND 1 BEING STRONG DISAGREEMENT)

QUESTIONNAIRE

Section B: Access to Bank Loans

1. My enterprise has easy access to bank loans when needed. _____
2. The process of applying for bank loans is straightforward. _____
3. Banks are willing to lend to my business without excessive requirements. _____
4. Loan approval time from banks is reasonable. _____

5. Information about bank loan products is easily available to my business. _____

Section C: Cost of Bank Loans

1. The interest rates on bank loans are affordable for my business. _____
2. Bank loan charges are reasonable. _____
3. Loan repayment schedules are flexible and manageable. _____
4. The cost of borrowing negatively affects my business profits. _____

5. High loan costs discourage borrowing. _____

Section D: Loan Conditions and Requirements

1. Collateral requirements make access difficult

2. Strict bank conditions limit credit access.

3. Documentation requirements are too complex.

4. Banks monitor use of borrowed funds

5. Compliance improves financial discipline.

Section E: Financial Performance

1. Bank loans have increased profitability

—

2. Bank loans improved cash flow.

—

3. Bank loans increased production capacity.

4. Bank loans increased revenue growth. _____

5. Bank loans improved financial stability. _____

APPENDIX II: Questionnaire on Microfinance Credit and Financial Performance of SMMEs

Section B: Access to Microfinance Credit

1. My business can easily obtain microfinance loans. _____

2. Microfinance institutions are accessible. _____

3. The application process is simple

4. Loan approval is fast enough

5. Information on microfinance credit is readily available

Section C: Cost of Microfinance Credit

1. Interest rates are manageable.

2. Repayment schedules are flexible.

3. Collateral requirements are reasonable

4. Late payment penalties are strict

5. Borrowing costs are fair

Section D: Relationship with Lenders

1. Microfinance institutions provide adequate support. _____

2. Communication is effective. _____

3. Lenders are understanding during difficulties. _____

4. Relationship reduces financial pressure. _____

5. Credit conditions are fair. _____

Section E: Financial Performance

1. Microfinance credit improves profitability

2. Improves cash flow.

3. Supports expansion

4. Increases revenue.

5. Improves financial stability

APPENDIX III: Questionnaire on Trade Credit and Financial Performance of SMMEs

Section B: Access to Trade Credit

1. Businesses easily obtain goods on credit from suppliers._____
2. Suppliers are willing to offer credit._____
3. Credit terms are clearly communicated._____
4. Adequate credit period is given._____
5. Trade credit relationships are easy to establish._____

Section C: Terms and Conditions

1. Repayment period is reasonable._____
2. Early payment discounts are beneficial._____
3. Late payment penalties are strict._____
4. Trade credit terms are flexible.

5. Trade credit influences cash flow management.
-

Section D: Management of Trade Credit

1. Trade credit is well managed
-

2. Has helped working capital management
-

3. Has supported stock maintenance
-

4. Poor management affected supplier relationships
-

5. Reduced immediate cash payments
-

Section E: Financial Performance

1. Trade credit has improved profitability.
-

2. Improved cash flow.
-

3. Increased sales.

4. Supported expansion

5. Improved financial stability
