

**THE IMPACT OF DEBT FINANCING ON THE FINANCIAL PERFORMANCE OF
SMALL AND MEDIUM ENTERPRISES IN MUKONO DISTRICT :A CASE STUDY
OF MUKONO TOWN**

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DECLARATION

I **ANKUNDA ZABANDRA RYNAH** 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.. *ANKUNDA*

Date *9/09/2024*

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S21B05/056

APPROVAL

This is to verify that this dissertation titled "The impact of debt financing to the financial performance of small and medium enterprises in Mukono town in Mukono district" by Ankunda Zabandra Rynah has been written under my supervision.

Signature:  Date: 

Abiyar Jennifer (Mrs)

University supervisor

DEDICATION

I would like to dedicate this research to my parents Mr Mugisha Denis and Mrs Ndibalekera Rhonah.M. M and all well-wishers.

ACKNOWLEDGEMENT

I would like to thank the Almighty who has enabled me come thus far. I also thank my parents for their unwavering support in all aspects of my life and for their unconditional love as well as my siblings. Thank you so much.

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I also thank my classmates and friends that I studied, discussed and shared wonderful moments with on this academic journey.

I conclude with extreme gratitude for whoever has contributed to the person I am and have become today. May God bless you abundantly.

LIST OF ABBREVIATIONS

SMEs - small and medium enterprises

Saccos- savings and credit co-operatives

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LIST OF TABLES AND FIGURES

Table 1; Gender of respondents

Table 2; Age of the respondents

Table 3; Marital status

Table 4; Highest level of education

Table 5; Type of business

Table 6; Period the business has existed

Table 7; Sources of business

Table 8; The role of short-term financing on the financial performance of small and medium enterprises.

Table 9; The role of long-term financing on the financial performance of small and medium enterprises.

Table 10; Regression analysis between debt financing and financial performance of small and medium enterprises in Mukono town.

Table 11; Coefficients

Figure 1: Conceptual framework

ABSTRACT

This research was intended to evaluate the impact of debt financing to the small and medium enterprises on small and medium enterprises in Mukono town in Mukono district. The study objectives included; To assess the role of short term financing on the financial performance of small and medium enterprises in Mukono town, to examine the role of long term financing on the financial performance of small and medium enterprises in Mukono town and to determine the relationship between debt financing and financial performance of small and medium enterprises in Mukono town.

The study used a cross-sectional, non-experimental and descriptive survey design. The study had a population of 95 registered SMEs from Mukono town. Simple random sampling method was used to choose the sample size which was 77 SMEs. A questionnaire was used for data collection in this study. Primary data and secondary data was used in the study. Data analysis was done using SPSS version 20 for the collected data.

Basing on the study findings, the response rate was 81.8%. This study found out that short term financing and long term financing positively influence the financial performance of small and medium enterprises. It also found out that the relationship between debt financing and financial performance of small and medium enterprises was a strong relationship (0.926) basing on the correlation and the regression analysis tool.

In conclusion, debt financing positively influences the financial performance of small and medium enterprises in Mukono town in Mukono district. The study recommends that small and medium enterprises should seek financial literacy mainly on debt financing and also policy holders could make a convenient for businesses to acquire loans such as loosening policies concerning SMEs so as to enhance their financial performance.

CHAPTER ONE

1.0 Introduction

This chapter presents the background of the study, statement of the problem, objectives, scope of the study, geographical scope and the significance of the study.

1.1 Background of the study

According to Nirmalarajah, 2024, small and medium enterprises are comprised of a restricted number of employees and a relatively low turnover. In other countries small and medium enterprises consist of not more than 250 employees and earn an annual turnover of 50 million. He further states that SMEs are considered as a backbone of a country's economy since they provide employment to people and contribute to its growth through taxation. There are two ways of raising capital which is equity and debt financing. Debt refers to the money borrowed and must be paid back at interest along with the principal (Capstone, 2024)

The earliest forms of debt financing are traced way back to ancient Mesopotamia around 3000 BC where farmers borrowed seeds with the promise of sharing their crops in order to repay their debts according to (Amery, 2019). In ancient Greece, lending was a common practice with interest generally accepted, although charging interest to family members was seen as shameful act. It also evolved rapidly in the city states of northern Italy, Flanders and the Hanseatic League which were driven by new technologies, institutional innovations, changing social forces and shifts in economic structures as well as cycles according to (Dyson, 2014). Ancient China also had a well-established grain-banking system which was transformed into a network of banks during the Buddhist period, with merchants issuing letters of credit to one another.

In ancient Egypt, there were two kinds of banks operating which consisted of the royal and private. They used documents to indicate the banking of taxes well-known as pep token records and the states of Greece after the Persian Wars produced a government and culture sufficiently organized for the birth of banking thus allowing the separation

of wealth from limited state ownership to the possibility of ownership by the individual. In the modern era, debt financing has been used extensively by nations to fund wars, infrastructure projects, and economic development. For example, during the American Revolution the Continental Congress accepted loans from France to finance the war effort, and the U.S. Government continued to rely on debt financing throughout the 18th and 19th centuries to fund its operations and expand its territory. In the recent years debt financing has become more accessible to individuals and businesses through the development of consumer and commercial credit markets.

Therefore, debt financing refers to the practice of borrowing funds to finance business operations or investments. According to (Mandy & Emily, 2023), debt financing refers to an agreement between you and the creditor. There are mainly two types of debts which include secured and unsecured debts which can either be short term or long term in nature. There are different businesses of debts from which businesses can acquire finances which include loans from banks, government and other financial institutions, trade credit, bonds to mention but a few. Debt financing is associated with advantages such as support of ownership, easy access to capital, tax-deductible, flexible and has a predetermined repayment structure. For SMEs, the decision to use debt as a basis of capital can significantly impact their financial performance. Not all that glitters is gold; this means debt financing has its disadvantages which include very high interest payments, loss of control in case one default, personal liability and risk of bankruptcy (Lightspeed, 2024). This impact can be both positive by allowing for growth and expansion and negative through increasing financial risk and affecting profitability.

1.2 Statement of the problem

Globally, SMEs contribute greatly to the economic development in both developed and developing countries. It therefore compels the need for funding for SMEs for them to contribute sustainably to the economic growth. Nevertheless, SMEs receiving funds remains a challenge in most countries especially in most countries especially developing ones. (Manyanga et al, 2023). According to (Lightspeed, 2024), access to capital is one of the biggest hurdles that companies face when seeking to put in place growth

strategies. Debt financing is a major driver in the sustainability of businesses' operations in situation where they don't have other or insufficient sources of capital. Most businesses usually borrow funds from financial institutions for purposes of expansion and for new or existing investments and this is the case for small and medium enterprises too. Many SMEs have not been able to recover from COVID-19 pandemic hence reaching out to financial institutions and government for financial assistance so as to jump starts their operations. A number of SMEs are unable to acquire financial resources from institutions like banks due to reasons such as collateral and other fundamental requirements required to get loans. Therefore, debt is fetched from Saccos, micro finance institutions, trade credit and government which has addressed the inaccessibility of funding to the SMEs according to (Nirmalarajah, 2024). Despite getting debt to finance their businesses, SMEs have had to pay a heavy cost for having borrowed through the interest rates on repayment. These heavy costs have resulted into closure of the SMEs, unemployment and declined economy activity of the country.

1.3 Purpose of the study

To assess the impact of debt financing on the financial performance of small and medium enterprises in Mukono town.

1.4 Objectives

- 1.To assess the role of short term financing on the financial performance of small and medium enterprises in Mukono town.
2. To examine the role of long term financing on the financial performance of small and medium enterprises in Mukono town.
- 3.To determine the relationship between debt financing and financial performance of small and medium enterprises in Mukono town.

1.5 Research questions

- 1.What is the role of short term financing on the financial performance of SMEs?

2.What is the role of long term financing on the financial performance of SMEs?

3.What is the relationship between debt financing and the financial performance of SMEs?

1.6 Scope of the study

1.6.1 Subject scope

The study concentrated on examining the impact of debt financing to the financial performance of SMEs in Mukono town, Mukono district. It comprised of the benefits of debt financing to the smooth running of operation and financial stability.

1.6.2 Geographical scope

The study was carried out in Mukono town which is located in Mukono district and is found in central Uganda. Its boarded by Buikwe district in the east, Wakiso district in the west and Kayunga district in the north.

1.6.3 Time scope

This research focused on the financial performance of small and medium enterprises from 2010- 2023 so as to identify the different patterns and trends that merge over time on the impact of debt financing to the financial performance of small and medium enterprises.

1.7 Significance of the study

The policy holders will use this knowledge in highlighting the importance of creating policies that supports SMEs access to timely and adequate debt financing.

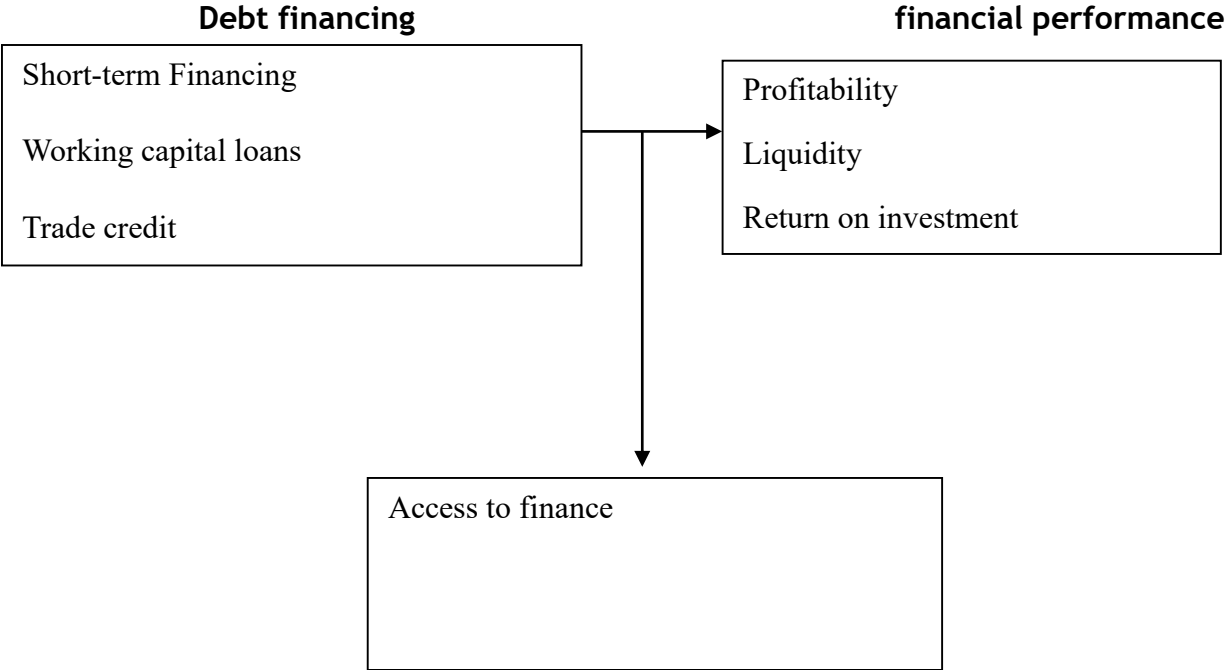
The management of SMEs will use this knowledge to enhance their use of debt financing to improve their financial performance.

Scholars will be able to explore other mechanisms through which debt financing affects small and medium enterprises.

1.8 Conceptual framework

The conceptual framework for this study suggested that the financial performance of small and medium enterprises (SMEs) in Mukono town; which is the dependent variable, was affected by three major independent variables that is short-term financing, long-term financing and debt financing.

Figure 1: Conceptual framework



Source: Brecht & Martin (1996) and modified by the researcher (2022)

The short-term financing variables were expected to impact the SMEs' ability to meet their immediate financial requirements and manage their everyday operations. The long-term financing variables are anticipated to influence the SMEs' ability to undertake larger investments, expand their operations, and achieve long-term growth.

The debt financing variables were hypothesized to have a significant relationship with the financial performance of the SMEs. The level of debt financing and the associated costs and constraints can either enhance or hinder the SMEs' ability to generate profitability, maintain liquidity, ensure solvency, and achieve growth.

The relationships between the independent variables (short-term financing, long-term financing, and debt financing) and the reliant variable (financial performance) was able to focus of the study by providing insights into the most effective financing strategies for SMEs in Mukono town.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The literature is on the impact of debt financing on the financial performance of small and medium enterprises is thoroughly reviewed in this chapter. The precise study objectives are used to divide the chapter into sections. Each section will summarize numerous current studies that are pertinent and offer opinions from diverse authors.

2.1 Definition of key terms

Debt financing is a crucial capital source for developing firms since retained earnings are insufficient or unavailable. Debt financing involves the issuance of interest-bearing instruments collateralized by asset-based and have either short-term or long-term maturity structures. The provision of debt finance has a very long history that is still evolving with technology. This has thus kept it in an all-time viable and popular option for business owners. Financing by way of debts has averred itself over time as a significant source of capital and subsistence funds for both new and existing ventures, as compared to equity financing- the sale of shares or ownership interests of a business to raise capital. SMEs depend on debt financing because debt financing is relatively inexpensive than equity financing, Pandey & Sahu 2019. In addition, firms that have inadequate track of their financial records result in a relatively higher risk for capital suppliers, Ahmad and Ejaz, 2019. Therefore, institutions such as banks are less likely to provide money to such firms, Aziz & Abbas 2019.

While setting up their liabilities, business managers must choose their related maturity, taking into account a series of issues and constraints that affect the debt maturity structure choice. According to Ahmad & Ejaz (2019), the nature of credit that a firm wants depends on various factors such as its growth stage, trading history, financing status, and how the business will use its finances. They array from short term credit

and long term credit. Debt financing as the best option to choose because it enables these enterprises enjoy the benefits attached to acquiring debt for business purposes such as tax exemption among many. Debt management and accountability can aid in reducing the costs of borrowing, debt sustainability and fiscal risks. Credit finance may be required when prevalent SMEs can achieve growth and investment opportunities and realize a bigger equilibrium size.

Financial performance is the business's ability to manage and govern its resources (IAI, 2016). It's also refers to the financial condition in which a firm operates over a certain of time. It is measured by with these financial indicators which include liquidity, solvency, profitability, leverage and capital adequacy. Financial performance can be measured according to; leverage, liquidity, profitability, solvency, return on assets as well as sales growth which are extracted from the financial reports and statements like the balance sheet and income statement (Miller et al,2012)

Profitability refers to the ability of an investment to earn a return from its use according to Ritu and Balaj, 2016. It is measured using financial ratios such as net profit margin, return on assets and return on equity.

Liquidity involves the firm's ability to meet their short term financial obligations that is paying suppliers, employees among many (Banks,2014). It usually measured using the current ratio and quick ratio.

According to Kyarikunda,2018 return on investment is a benefit to the investor as a result from an investment of some source. Solvency refers to the entity's ability to meet its long term financial obligations. This is measured by ratios like debt to equity ratio and debt to asset ratio.

2.2 The role of short term financing to the financial performance of small and medium enterprises in Mukono town.

Such short-term finance in terms of bank overdrafts, trade credit, and short-term loans plays a complementary role in facilitating the financial performance of SMEs, particularly those in developing economies like Uganda. According to Mina et al. (2022),

Africa, and Padachi (2016), if adequate access to short-term finance is available, that would provide an opportunity for SMEs to capitalize on their working capital needs and take into consideration daily activities whereby they can also use an advantage for the growth of their entities.

The existing body of literature has placed interest in the various ways that short-term financing can positively affect the financial performance of SMEs. First, the short-term financing aids the small and medium enterprises in bridging cash flow gaps, hence enabling them to pay suppliers on time, manage their inventory, and take advantage of supplier discounts, hence profitability, according to Deloof, 2023, and Petersen and Rajan, 2022. The second reason is that letting go of short-term financing strengthens the liquidity and working capital management of SMEs because this enables them to maintain an optimum cash conversion cycle with lesser chances of disrupting their operations at a high cost.

Evidence from research indicated that the utilization of short-term financing has contributed to the overall financial stability and elasticity of SMEs, in the sense of diversifying their financing options and hence making them less dependent on long-term debt. SMEs can manage financial risk and enhance their resistance ability to economic shocks.

The SMEs in developing countries, such as Mukono Town, usually face a number of significant challenges associated with access to short-term finances, including high interest rates, collateral stringency, and restricted access to formal financial institutions such as banks. According to Ayyagari et al. (2022), Beck and Demirguc-Kunt (2022), such challenges have substantially limited the ability of SMEs to commendably utilize short-term financing. Such limitations retarded the performance and growth of their finances. According to Abor (2022) and Yazdanfar and Öhman (2022).

Other factors may be operative, but size, age, industry, and management capabilities seem to be some of the specific factors which may slant the relationship between short-term financing and financial performance. Deloof, 2023; Gill et al., 2010.

Understanding such contextual issues is vital in developing effective policies and interventions which address the financial performance of SMEs in Mukono Town.

It consists of short-term financing through bank overdrafts and trade credit that will help an SME manage its working capital through the need of buying raw materials, paying wages, and other short-term needs, thus by consequence achieving better management of inventories and reducing cash conversion cycles while enhancing the profitability.

Unlike long-term financing, the interest rates charged are normally low and come with flexible repayments, which would hence make the cost of finance for SMEs operating in Mukono Town lower, thereby boosting their performance.

Short-term financing enables an SME to quickly react either to changes in the market, demand by customers, or some other needs of operations. Such flexibility may well be able to enable them to exploit emerging opportunities, modify their circumstances, and be at the edge of competitive advantage to improve financial performance accordingly.

Trade credit, among other sources of short-term financing, can improve SMEs' relations with suppliers in Mukono Town by creating avenues for them to negotiate better terms and ultimately exploit early payment discounts, which may mean cost savings and improved profitability.

In turn, short-term financing can be used to complement long-term financing in the provision of working capital that SMEs require to support day-to-day operations, while the latter addresses large-scale investments and strategic initiatives. It can create a well-balanced approach for SMEs in Mukono Town regarding overall financial performance and growth.

2.2 The role of long term financing to the financial performance of small and medium enterprises in Mukono town.

In this respect, long-term financing through bank loans, leasing, and equity investments remains critical to facilitating SME financial performance and growth, particularly in developing economies like Uganda. According to Abor and Biekpe (2009) and Demirgüç-Kunt and Maksimovic (1998), long-term finance facilitates making more substantial investments, expansion of business, and enhancing competitiveness in markets.

Long-term finance provides the firms with resources to reinvest in fixed assets, like machinery and infrastructure. These are vital for improvement in productivities, efficiencies, and qualities that are so essential for increasing the value addition of their products. In fact, this is where Abor and Biekpe 2009 and Mina et al. 2013 got their revenue gains and cost economies which improved profitability in their studies.

Access to long-term finance may, therefore, be particularly important to enable strategic activities of SMEs, such as research and development, product diversification, and entry into new markets. Therein lies its critical role in enhancing the competitive advantage of SMEs in the pursuit of sustainable growth. According to Demirgüç Kunt & Maksimovic (1998) and Beck et al. (2008), such investments can lead to diversified streams of revenues, reduction in dependence on a single product or market, and generally help build up financial resilience among the SMEs.

In this way, long-term financing not only will increase financial stability for SMEs but also enhance the capability of risk management by securing long-term funding, better management of their debt maturity structure, reduce their exposure to interest rate fluctuation and improve financial planning and budgeting as claimed by various authors such as Abor & Biekpe, 2009; Mina et al., 2013. This, in turn, can result in improved liquidity, reduced cost of financing, and enhancement of financial performance.

SMEs in developing countries, including Mukono town, are usually faced with high interest tariffs, collateral requirements, and fewer means of access to capital markets and institutional investors, which long-term financing often presents. Such constraints

constitute barriers to investing in the long term for growth and profitability and, therefore, make for inferior financial performance by SMEs.

Greater access to long-term finance reduces the financing constraints of SMEs to seize growth opportunities and undertake projects on a much larger scale than previously possible. According to Ayyagari et al. (2010) and Beck et al. (2008), such outcomes are likely to take the form of improved efficiency, higher productivity, and better financial performance.

By doing proper financial planning and budgeting, SMEs are in a better position to understand their long-term cash flow and the level of their indebtedness. This may lead to improved financial management, efficient resource allocation, and more judicious decision making in ultimately enhancing their financial performance Abor and Biekpe, 2009; Mina et al., 2013.

Long-term finance may provide greater financial stability to SMEs, offering the much-needed flexibility in mitigating risks arising from interest rates, slowdown of economies, and even changes in market conditions. This is what enables SMEs to withstand challenges and sustain their financial performance when situations become difficult.

It provides a potentially positive spillover to other stakeholders-suppliers, customers, and prospective investors-such a long-term finance role of bank loans or equity investments. In addition, it may raise the credibility and perceived creditworthiness of SMEs, thereby facilitating further access to finance and their financial performance.

The long-term finance effect on financial performance for SMEs may, therefore, be different and may vary depending on the various sectors or industries that the business enterprises are found. Sectors like manufacturing, infrastructure, or high-tech industries might require more capital-intensive investment that can derive higher benefits from long-term financing. According to Abor & Biekpe, 2009; Mina et al., understanding these sector-specific dynamics is important in providing a basis for designing targeted support mechanisms for SMEs in Mukono Town.

2.3 The relationship between debt financing and financial performance of small and medium enterprises in Mukono town.

While at the same time, there is literature suggesting that moderate levels of debt financing have an enhancing effect on the profitability of SMEs because it enables leverage of assets and capitalizing on growth opportunities. Abor, 2005 and Brav, 2009 Too much debt can result in higher interest expenses and financial distress.

The share of short-term and long-term debt in the capital structure of SMEs may have an impact on their financial performance. Short-term debt could be more flexible in better working capital management, and long-term debt supports larger investments with less threat of financial instability.

Thus, high-interest rates or unsavory conditions for loans can substantially depreciate the profitability and competitiveness of SMEs. This can affect the SMEs even more adversely in Mukono Town because access to affordable credit might be relatively low. Ayyagari et al., 2010; Beck and Demirguc-Kunt, 2006.

Collateral, for such a majority with limited tangible assets, may be a big headache to the SME sector. The collateral required to secure debt finance therefore restricts access to debt finances and negatively impacts the ability of firms to invest in growth opportunities.

The use of debt financing may signal the creditworthiness and financial stability of an SME to external stakeholders such as suppliers, customers, and investors. It will affect how those above-named stakeholders view and are willing to do business with the firm, affecting its financial performance.

Debt financing reduces the financial flexibility of SMEs; the reason being that a part of the firm's cash flow might be devoted to meeting certain agreements or repayment schedules. Therefore, this will finally reduce their prompt response capability to shifting market conditions or seizing new opportunities.

Debt financing exposes SMEs to a number of risks including interest rate fluctuations, currency exchange risks, and the risk of defaulting on loan repayments. Effective risk management strategies are therefore key for SMEs in Mukono Town in mitigating the potential adverse effect of these risks on their financial performance, Abor (2005), and Brav (2009).

This might be biased towards the size and age of the SMEs, as this could also affect the relationship between the debt financing and financial performance. The larger and more established SMEs have better accessibility to debt financing and resources to manage it efficiently, which differs from the younger and smaller ones that face inordinate challenges.

It is also important to point out that the industry in which a small and medium-sized enterprise operates plays an important role in the relationship between debt financing and financial performance. Some industries are more capital-intensive and may have different risk profiles, both of which can affect the optimal debt-to-equity ratio and the impact which debt financing has on its financial performance.

Matching maturity of SMEs debt finances with their expected life and cash flow patterns of the assets can also be useful. This can help making even their debt repayment obligations with their revenue streams. Thus, it reduces the risk of financial distress and thereby enhancing financial performance of the SMEs (Berger and Udell, 1998; Cassar and Holmes, 2003).

SMEs that can access manifold bank debt, leasing, trade credit, and alternative lending platforms will have an excellent chance of subsequently attaining optimality in their capital structure and enhancing their financial performance by reducing the vulnerability caused by dependence on one or few sources of debt financing. This will help them lighten the risks involved with reliance on a single source for debt financing.

The larger the institutional and regulatory environment in Mukono Town, the easier credit information availability, stronger the legal rights, and higher the efficiency in the banking sector, the better it has affected the association of debt financing with the

financial performance of SMEs. An enabling and conducive environment may assist SMEs in easing access to and improving their ability to utilize debt financing.

2.4 Theoretical framework

Pecking order theory was founded by Myers and Majluf (1984). It suggested that firms prioritize their financing sources depending on internal financing (retained earnings) vis-a-vis external financing (debt and equity). SMEs often rely on long-term debt when internal funds are deficient. The absence of long term loans in small and medium enterprises could frustrate their business operations (Kyarikunda, 2018). High levels of debt can lead to increased financial risk and lower profitability while low levels of debt may limit growth opportunities (Manyanga et al, 2023).

Information asymmetry theory was established by Stiglitz and Weiss (1981). This theory proposes that small and medium enterprises normally encounter challenges in accessing long term financing options due to information asymmetries between lenders and borrowers. Lenders may perceive SMEs as higher risk due to factors such as no or inadequate collateral (Kyarikunda, 2018). This thus results into higher interest rates or loan denial. This theory also highlights the significance of transparency and creditworthiness in securing favorable long-term financing terms which directly influences financial performance of a firm. SMEs with strong financial reporting and credit histories are more likely to secure debt financing at favorable terms which can improve their financial performance (Kyarikunda, 2018).

Trade-off theory was suggested by Kraus and Litzenberger (1973). It theorizes that firms can optimize the mix of debt and equity so as to maximize the tax benefits of debt and the risk against the costs of potential financial distress. For instance, SMEs could have to install an optimal capital structure which involves a careful mix of long-term debt to leverage tax advantages and minimize risks associated with high debt levels.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, the study population, the sampling technique, the sample size, and the types of data to be used, the data collection methods and data collection procedures to be used as well as data analysis.

3.2 Research Design

The study used a cross-sectional, non-experimental and descriptive survey design so as to be able to assess the impact of debt financing on the financial performance of small and medium enterprises in Mukono town. This study will use quantitative method. Quantitative data was by gathered by use of questionnaires. They were primarily close ended questions in that they had to capture numerical information about the study for the purpose of describing and explaining the phenomenon under examination and qualitative data will be collected using interviews.

3.3 The Study Population

The study population included all the registered SMEs in Mukono town Mukono district. According to Mukono municipal council records of 2023, there are 95 SMEs comprising of 23 medium enterprises and 72 small enterprises and this number was the source of the sample size respondents that helped the researcher to get the required information.

3.4 Sample Size

The researcher used Yamane's formula (1967) to capture our sample size. The sample (respondents) was designated from the study population. The researcher's sample size was 77 SMEs.

3.5 Sampling methods

A simple random technique to acquire the sample (respondents) was used by the researcher. Respondents were approached at their places of work mainly for first-hand information through use of interviews and asked to fill in the questionnaire accordingly.

3.6 Data Sources

3.6.1 Primary data

The researcher used the first-hand information that was be collected from the respondents that is the questionnaires and interview guides from the field.

3.6.2 Secondary data

The study comprised of data from journals, internet books, town records which provided an explanation to the abstract primary data. The primary data was from the respondents themselves using questionnaires and interview guides.

3.7 Data Collection Methods

The research study used a survey approach for the both qualitative and quantitative data that was collected. There were several survey approaches, but for the purpose of this study a questionnaire and interview approach used. The researcher acquired a letter of introduction from the school of Business, Uganda Christian University Mukono to conduct research in Mukono town in Mukono district. A letter of permission to carry out the research was picked from the municipal council offices in order for the researcher to undertake out the study.

3.7.1 Questionnaire Survey Method

The questionnaire was issued to all the selected SMEs in Mukono Town. The researcher administered the questionnaires to the sample respondents. The questionnaire consisted mostly of close ended questions. The questionnaire consisted of Likert questions measuring in a scale from 1-5 that is; strongly disagree 1, disagree 2, not sure 3, agree 4, and strongly agree 5.

3.7.2 Interview method

This is where structured interview guides were issued to the selected respondents and were collected from them after being answered.

3.8 Validity and Reliability

3.8.1 Validity

The validity of the instrument was verified using the Content Validity Index. This involved judges scoring the applicability of the questions in the instruments in relation to the study variables and a consensus judgment given on each variable taking only variables scoring above 0.70. The formula used to achieve the Content Validity Index was:

$$CVI = \frac{\text{Total number of items to declare valid}}{\text{Total number of items}}$$

3.8.2 Reliability

The study instruments were tested for their reliability on the sample of 10 respondents from Mukono town to assess individual questions and the whole questionnaire so carefully (Amin, 2005). Reliability measures the consistence of the instrument in measuring what it is supposed to measure (Amin, 2005). For this particular study, a Cronbach's alpha coefficient was calculated to illustrate reliability of the data is by use of Statistical Package for Social Sciences (SPSS) and taking only variables scoring 0.70. (Nunally 1978).

From the study findings, it was found that the reliability of the study was 0.884 with 68 items.

Cronbach's Alpha	Number of Items
0.884	68

3.9 Limitations of the study

As a result, the researcher was not able to investigate more on the subject matter since some respondents hid some information since it was considered as confidential. The researcher had to assure these respondents that all information given was to be treated with utmost confidentiality.

The problem the researcher faced was a limited funds in regards to this study. This involved transport, printing, and photocopying of relevant materials. To the contrary, the researcher had to seek some money from relatives as well as friends and use it wisely so as to minimize the costs.

The time needed for data collection, analysis and final presentation of the report was limiting to the researcher. The researcher solved this by ensuring that the time element was put into consideration and that appointments agreed upon with the respondents were met to the core.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This chapter involves the findings from the study. It involves the Response rate, the characteristics of the respondents, the responses from the questionnaire, the correlation analysis and the regression analysis.

4.1 Response rate

The research study has a response rate of 81.8%. this was because they received back only 63 questionnaires instead of the 77 respondents.

4.2 Demographic characteristics of respondents

The analysis looked at the respondent's gender, age, marital status, highest level of education, type of business, how long the respondent has been in the business and the sources of finance.

4.2.1 Gender of Respondents

Gender		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	39	61.9	61.9	61.9
	Female	24	38.1	38.1	100.0
	Total	63	100.0	100.0	

Source; Primary data, 2024

The table presents the gender distribution of the respondents, with a total of 63 participants. Out of these, 39 (61.9%) respondents were male while 24 (38.1%) were female. It indicated that the many of the respondents were male.

4.2.2 Age of the Respondents

Age of the respondents		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	Below 20 years	1	1.6	1.7	1.7
	20-30 years	38	60.3	65.5	67.2
	31-40 years	13	20.6	22.4	89.7
	Above 40 years	6	9.5	10.3	100.0
	Total	58	92.1	100.0	
	Missing	5	7.9		
	Total	63	100.0		

Source; Primary data, 2024

The table shows the age distribution of the respondents, with a total of 63 participants, of which 58 provided valid responses, while 5 responses were missing. Only 1 respondent (1.6%) was below 20 years, representing 1.7% of the valid responses. The majority, 38 respondents (60.3%), fell within the 20-30 years' age group, accounting for 65.5% of valid responses. Respondents aged 31-40 years totaled 13 (20.6%), making up 22.4% of valid responses. Finally, 6 respondents (9.5%) were above 40 years, representing 10.3% of valid responses. This implies that most small and medium enterprises owners are between the age of 20-30years.

4.2.3 Marital status

Marital status		Frequency	Percent %	Valid percent %	Cumulative percent %
valid	Married	23	36.5	39.7	39.7
	Single	35	55.6	60.3	100.0
	Total	58	92.1	100.0	
	Missing	5	7.9		
	TOTAL	63	100.0		

Source; Primary data, 2024

The table illustrates the marital status of the respondents, with a total of 63 participants. Among them, 58 provided valid responses while 5 responses were missing. Out of the valid responses, 23 respondents (36.5%) were married while the majority of respondents, 35 (55.6%) were single. This indicates that majority of the respondents were single.

4.2.4 Highest Level of Education

Highest level of education		Frequency	Percent	Valid percent	Cumulative percent
Valid	Certificate	22	34.9	34.9	34.9
	Diploma	24	38.1	38.1	73.0
	Bachelors	15	23.8	23.8	96.8
	Not at all	2	3.2	3.2	100.0
	TOTAL	63	100.0	100.0	

Source; Primary data, 2024

The table illustrates the highest level of education among the 63 respondents. A total of 22 respondents (34.9%) reported having a Certificate as their highest qualification. Those holding a Diploma accounted for 24 individuals (38.1%), while 15 respondents (23.8%) indicated having a Bachelor's degree. Only 2 respondents (3.2%) reported not having any formal educational qualification. This indicates that most small and medium enterprises owners are diploma holders.

4.2.5 Type of business

Type of business	Frequency	Percent	Valid percent	Cumulative percent	
Valid	Restaurant	5	7.9	8.1	8.1
	Supermarket	4	6.3	6.5	14.5
	Retail shop	46	73.0	74.2	88.7
	Other	7	11.1	11.3	100.0
	Total	62	98.4	100.0	
	Missing	1	1.6		
	TOTAL	63	100.0		

Source; Primary data, 2024

The table categorizes the type of business among the 63 respondents. The majority, 46 respondents (73.0%), operate a retail shop, which represents 74.2% of valid responses. A smaller number, 5 respondents (7.9%), are involved in the restaurant business, making up 8.1% of valid responses. Supermarkets account for 4 respondents (6.3%), equating to 6.5% of valid responses. Additionally, 7 respondents (11.1%) fall into the 'Other' business category, representing 11.3% of valid responses. With 1 missing response (1.6%), the cumulative valid percentage adds up to 100%, ensuring a comprehensive representation of business types among the participants. This implies that most small and medium enterprises' owners are engaged in retail shop business.

4.2.6 Period of business existence

Period of business existence		Frequency	Percent	Valid percent	Cumulative percent
Valid	1-2 years	32	50.8	62.7	62.7
	3-5 years	19	30.2	37.3	100.0
	Total	51	81.0	100.0	
	Missing	12	19.0		
	TOTAL	63	100.0		

Source; Primary data, 2024

The table illustrates the period of business existence among the 63 respondents. Most businesses have been in operation for 1-2 years, with 32 respondents (50.8%), which constitutes 62.7% of the valid responses. Meanwhile, 19 respondents (30.2%) have businesses that have been operational for 3-5 years, accounting for 37.3% of the valid responses. A total of 51 respondents provided valid responses, while 12 responses (19.0%) were missing. This implies that most small and medium enterprises have been operating most in a period of 1-2years.

4.2.7 Source of income

Source of income		Frequency	Percent	Valid percent	Cumulative percent
Valid	Bank loan	13	20.6	22.8	22.8
	Personal savings	32	50.8	56.1	78.9
	Grants	3	4.8	5.3	84.2
	Others	9	14.3	15.8	100.0
	Total	57	90.5	100.0	
	Missing	6	9.5		
	TOTAL	63	100.0		

Source; Primary data, 2024

The table displays the various sources of income among the 63 respondents. The majority, 32 respondents (50.8%), rely on personal savings, representing 56.1% of the valid responses. Bank loans are the second most common source of income, with 13 respondents (20.6%), accounting for 22.8% of the valid responses. A smaller portion, 3 respondents (4.8%), receive income from grants, making up 5.3% of the valid responses. Additionally, 9 respondents (14.3%) reported other sources of income, representing 15.8% of the valid responses. There were 57 valid responses in total, with 6 responses (9.5%) missing. The cumulative valid percentage totals 100%, highlighting the complete distribution of income sources among those who answered. This implies that the respondents' major source of finance was personal savings.

4.4 The Role of short Short-term Financing on the Financial performance of small and medium enterprises.

Table 8: The role of short-term financing on the financial performance of small and medium enterprises.

	Mean	Standard deviation
I am always ready to handle risk of uncertainty by having short term loans access.	4.13	0.751
With ease to access to short term credits am able to plan for immediate operation deficiency	5.00	0.000
Short term loan finance helps my business perform better	4.90	0.360
Overdraft finance helps my business perform better	4.78	0.419
There is business diversification through help of short-term loans.	5.00	0.000
There is always increased growth through access of short-term credits	5.00	0.000

Short term debt is less expensive due to its increasing low interest rates which in return leads to increased profits level	4.37	0.485
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The findings reveals that respondents are generally prepared to manage the risks associated with short-term loans, with a mean score of 4.13 and a standard deviation of 0.751, they believe that access to short-term credit facilitates planning for immediate operational needs, reflected in a perfect mean of 5.00 and a standard deviation of 0.000, short-term loans are seen as enhancing business performance, shown by a mean of 4.90 and a standard deviation of 0.360, while overdraft finance also contributes positively with a mean of 4.78 and a standard deviation of 0.419 and there is also a strong agreement that short-term loans aid in business diversification, with a perfect mean score of 5.00 and a standard deviation of 0.000. Furthermore, the study found that access to short-term credits is associated with increased growth, as indicated by another mean of 5.00 and a standard deviation of 0.000 and respondents find short-term debt to be less costly due to low interest rates, which enhances profit levels, with a mean of 4.37 and a standard deviation of 0.485.

The findings indicate that respondents have a high level of preparedness to manage the risks associated with short-term loans with a mean score of 4.13 and relatively low variability as indicated by the standard deviation of 0.751.

4.5 The Role of long term financing on the Financial performance of small and medium Enterprises.

Table 9: The role of long-term financing on the financial performance of small and medium enterprises.

	Mean	Standard deviation
When I have long term credits, am able to plan for the business future.	4.68	0.469

My business has grown due to availability of long-term credit.	5.00	0.000
With access to long term finance, the business has been able to deal with suppliers effectively	4.37	0.485
There is always room for long term credit negotiation due to long term servicing	4.68	0.469
Through long-term loans, SMEs can borrow a higher amount for a longer tenure that makes it better than other lines	5.00	0.000
As compared to short term loans, long-term loans help to scale a business.	4.37	0.485
Obtaining long-term business loans boosts creditworthiness if the debt is repaid on time	4.68	0.469

The study reveals that long-term credit enables respondents to plan for the future of their business, with a mean of 4.68 and a standard deviation of 0.469; long-term credit availability is considered the major driver of business growth-a perfect mean of 5.00 with a standard deviation of 0.000. Besides, long-term finance facilitates better management of relationships with suppliers, as indicated by a mean of 4.37 and a standard deviation of 0.485; moreover, the long-term credit is an opportunity for negotiation due to the long periods of service, which the respondents highly appreciate, as depicted by a mean of 4.68 and a standard deviation of 0.469 shown in the graph below.

Long-term loans, according to the data, offer higher amounts and longer tenure; thus, they are considered more attractive compared to all other sources of finance, as evidenced by the perfect mean of 5.00 with a standard deviation of 0.000. Compared to short-term loans, long-term loans were perceived as more effective for scaling a business, as evidenced by a mean of 4.37 and a standard deviation of 0.485. The respondents acknowledged that obtaining long-term loans and repaying the same on

time improves creditworthiness status of the business, as expressed by a mean score of 4.68 and a standard deviation of 0.469.

The study indicates that respondents believe long-term credit plays a vital role in enabling business owners to plan for the future evidenced by a mean score of 4.68 and a standard deviation of 0.469.

4.7 The relationship between debt financing and financial performance of small and medium enterprises in Mukono town.

Correlation		Debt Financing	Financial performance
Debt Financing	Pearson Correlation	1	.931**
	Sig. (2-tailed)		.000
	N	32	14
Financial performance	Pearson Correlation	.931**	1
	Sig. (2-tailed)	.000	
	N	14	33
**. Correlation is significant at the 0.01 level (2-tailed).			

The table indicates that it reveals the result of the Pearson correlation analysis for debt financing and financial performance. It was 0.931, I indicated that there existed some free positive relationship between these two variables. A positive correlation coefficient means that if debt financing rises, then financial performance will also tend to rise and vice versa. Such a high correlation is statistically significant, since it has a double asterisk (**) and it is lower than 0.01 (Sig. = 0.000). A significance value of 0.000 shows that in practice, the probability of the correlation being due to random variation in the sample is negligible, and certainly, a real relationship might exist between the debt finance and financial performance.

The sample size numbers for debt financing and financial performance are 32 (N=32) and 14 (N=14), respectively. This suggests that, quite possibly, the analysis was

accomplished on the basis of different sample sizes for each of the variables or missing data, differences that were possibly existing due to the way the data was collected.

The study indicates that there is a strong correlation coefficient which indicates that there is a significant relationship between the extent of debt financing and the financial performance of the SMEs in this study.

4.7 Regression analysis between debt financing and financial performance of small and medium enterprises in Mukono town.

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.926	1	.926	77.823	.000 ^b
	Residual	.143	12	.012		
	Total	1.069	13			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Debt Financing						

The following ANOVA table presents the results of a regression analysis carried out to investigate the effect of debt financing on financial performance. It follows that the sum of squares for the model is 0.926, representing the variation in financial performance explained by an independent variable of debt financing. The residual sum of squares accounts for 0.143, which is the variation in financial performance not explained by debt financing. The overall sum of squares is the sum of regression and residual sum of squares, amounting to 1.069. It reflected the total variation in the dependent variable-financial performance-across all observations.

The df for the regression model is 1 because there is one predictor variable in this model, namely debt financing. The df for the residuals is 12, since we have 14

observations and estimate two parameters, one for the constant and one for the slope. The mean square for the regression is computed as the regression sum of squares divided by its degrees of freedom, that is, to obtain a mean square value of 0.926. Similarly, the mean square for the residuals is obtained as the residual sum of squares divided by its degrees of freedom to obtain a value of 0.012.

The F-statistic is the ratio between the mean square of the regression and the mean square of the residuals, and in this case, it is 77.823. The relatively high value of F implies that the model fits well and that debt financing is a significant explainer of variation in financial performance. Finally, the significance value, Sig., is 0.000-far below the normally accepted significance level of 0.05-thus implying that this regression model is statistically significant.

This study therefore, implies that there is a strong influence that exists between debt financing and financial performance at 0.926, meaning that to a larger extent, debt financing affects financial performance.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.128	.505		.253	.804
	Debt Financing	.960	.109	.931	8.822	.000
a. Dependent Variable: Financial performance						

The coefficients table presents the outcomes of the regression analysis examining the impact of debt financing on financial performance. The first row represents the constant (intercept) term, which has an unstandardized coefficient (B) of 0.128. This means that when debt financing is zero, the predicted value of financial performance

would be 0.128. The standard error for the constant is 0.505, and the t-value is 0.253, with a significance level (Sig.) of 0.804. These results indicate that the constant is not statistically significant, as the p-value is much greater than the commonly accepted threshold of 0.05. Thus, the constant term does not significantly contribute to the prediction of financial performance in this model.

The second row of the table represents the coefficient for the independent variable, debt financing. The unstandardized coefficient (B) for debt financing is 0.960, indicating that for every one-unit increase in debt financing, financial performance is expected to increase by 0.960 units, holding all else constant. The standard error for this coefficient is 0.109, which is relatively low, suggesting that the estimate is precise. The standardized coefficient (Beta) is 0.931, showing a strong positive relationship between debt financing and financial performance. This high Beta value indicates that debt financing has a substantial impact on financial performance relative to other possible predictors.

The t-value for the debt financing coefficient is 8.822, and the corresponding significance level (Sig.) is 0.000. The high t-value and the very low p-value indicate that debt financing is a statistically significant predictor of financial performance at the 0.01 level. This strong significance supports the conclusion that debt financing positively and significantly affects financial performance, suggesting that as debt financing increases, financial performance is likely to improve. The evidence from these coefficients, particularly the high Beta and significant t-value, show the role of debt financing in influencing the financial outcomes of the SMEs studied.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings, the conclusions and the recommendations of the study.

5.1 Summary of findings

This study found out that short term financing positively influenced the financial performance SMEs according to the analysis above in chapter four. This has also been noted in similar studies like Manyanga et al, 2023 suggested that debt financing positively influenced the financial performance of SMEs especially short term debt financing. He also stated that this short debt was acquired depending on the firm's financial needs. Furthermore, the study states that respondents that have a high level of preparedness to manage the risks associated with short-term loans with a mean score of 4.13 and relatively low variability as indicated by the standard deviation of 0.751.

The findings stated that long term financing was significant if the business (medium firms) needed to grow more or expand further but needs to be managed so as to maximize profit and reduce the risk of closure or loss in case of default. Kyarikunda, 2018 similarly suggested that long term was usually used by medium enterprises acquired more long term debt financing for purposes of expansion since they were well established. Manyanga, 2023 also encouraged the use of long term debt as long as it did not exceed the required rate of return in SMEs in his study. The study states that the respondents believe that long-term financing plays a critical role in enabling business owners to plan for the future which is evidenced by a mean score of 4.68 and a standard deviation of 0.469.

The aim of this research was the impact of debt financing to the financial performance of SMEs. Basing on the correlation and linear regression tools, the relationship between debt financing and financial performance is a strong relationship and the effect of debt financing to the financial performance of SMEs is 0.926. The study also presented that

access to finance can be made easier for businesses especially SMEs to acquire debt through uncollateralized debts through which financial institutions like banks. This study suggested that there's a strong relationship between debt financing and financial performance (0.926) which means that to a larger extent debt financing contributes to the financial performance of SMEs.

5.2 Conclusion

In conclusion, debt financing that is short term finance, long term finance contributes to the firm's financial stability that is profitability, liquidity and return on investment. Short term financing is more convenient depending on the kind of business since it meets the business' emergent financial obligations unlike the long term financing.

5.3 Recommendations

Basing on the above discussions of findings and conclusions, the findings were presented and developed by the researcher as a way to commend in response to assessing the impact of debt financing to the financial performance of small and medium enterprises in Mukono town in Mukono district.

According to my study findings, the researcher recommends SMEs especially in Mukono town to seek financial literacy mainly on debt financing so as to make it popular in case of any shortages in their financial obligations. I also recommend that policy holders make it convenient for businesses to acquire loans such as loosening policies concerning SMEs so as to enhance their financial performance. I also recommend SMEs in Mukono to form societies from which help with risk pooling so as to acquire bank loans.

5.4 Areas for further research

Researchers in the future can focus on investigating the effect of debt financing to the organizational performance of small and medium enterprises. This will enable them to identify other factors influencing the overall smooth running of the organization besides financial performance. They could also identify the issues hinders most SMEs from incorporating debt financing in their operations.

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APPENDICES

Uganda Christian university

School of business

Department of Undergraduate

A questionnaire for the owners of the small and medium enterprises.

Dear respondent,

My name is ANKUNDA ZABANDRA RYNAH, a student of Uganda Christian University currently pursuing a Bachelor's degree in Business Administration. I am carrying out research on "the impact of debt financing on the financial performance of small and medium enterprises in Mukono town. Using a case study of Mukono town, in the partial fulfillment of the award of a Bachelor's Degree in Business Administration. The information you provide is purely for academic purposes and will be treated with utmost confidentiality

Thank you and may the Almighty reward you.

Yours faithfully,

Ankunda. Z. Rynah.

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender of the respondent

a) Female b) Male

2. Age of the respondent

a) Below 20 years b) 20 - 30 years c) 31 - 40 year d) Above 40 years.

3. Marital Status

a) Married b) Single c) Divorced e) Other

4. Highest level of education Qualification of the respondent

a) Certificate b) Dip c) B ors e) N t all

5. Type of business. a) Restaur b) Super ket tail
shops e) Other

Please specify

6. How long have you been in this business

a) 1-2years b) 3-5 c) 6 ars e) 10years

7. Sources of finance. a) Bank loa b) Personal sav c) G e)
Other Please
specify.....

Instructions. For sections B, C and D, please use the table below to tick the box that matches your opinion. Please assess the statement by ticking in the box with the number that best fits your response.

Opinion	Strongly agree	Agree	Not sure	Strongly disagree	Disagree
Rank	5	4	3	2	1

SECTION B The role of short term financing on the financial performance of small and medium enterprises

		SA	A	NS	D	SD
		5	4	3	2	1
1	I am always ready to handle risk of uncertainty by having short term loans access.					
2	With ease to access to short term credits am able to plan for immediate operation deficiency					
3	Short term loan finance helps my business perform better					
4	Overdraft finance helps my business perform better					

5	There is business diversification through help of short-term loans.					
6	There is always increased growth through access of short-term credits					
7	Short term debt is less expensive due to its increasing low interest rates which in return leads to increased profits level					

SECTION C The role of long term financing on the financial performance of small and medium enterprises

		SA	A	NS	D	SD
		5	4	3	2	1
1	When I have long term credits, am able to plan for the business future.					
2	My business has grown due to availability of long-term credit.					
3	With access to long term finance, the business has been able to deal with suppliers effectively					
4	There is always room for long term credit negotiation due to long term servicing					
5	Through long-term loans, SMEs can borrow a higher amount for a longer tenure that makes it better than other lines					
6	As compared to short term loans, long-term loans help to scale a business.					
7	Obtaining long-term business loans boosts creditworthiness if the debt is repaid on time					

SECTION D: The relationship between debt financing and financial performance of small and medium enterprises in Mukono town.

1.	Debt financing					
A	Short term financing	5	4	3	2	1
1	Short-term financing has enabled my SME meet immediate financial obligations on time.					
2	My SME has been able to take advantage of early payment discounts from suppliers due to short-term financing.					
3	The short repayment period of short-term financing creates cash flow challenges for my SME.					
4	Short-term financing has provided my SME with the necessary funds to maintain inventory					
5	My SME has been able to respond quickly to changes in market demand using short-term financing.					
6	The uncertainty of short-term financing has made it difficult for my SME to plan long-term.					
7	My SME has experienced difficulties in obtaining short-term financing from lenders.					
B	Working capital loans					
1	Working capital loans have enabled my SME to maintain a healthy cash conversion cycle					
2	I have been able to invest in growth opportunities using working capital loans.					
3	The interest rates on working capital loans have eroded my SME's profit margins					
4	Working capital loans have helped my SME avoid late payments to suppliers and employees					
5	I have been able to negotiate better terms with suppliers thanks to working capital loans.					
6	The reliance on working capital loans has increased my SME's financial risk.					
7	I have experienced difficulties in obtaining working capital loans from lenders.					

C	Trade credit				
1	Trade credit has allowed my SME to maintain a competitive edge by offering flexible payment terms to customers.				
2	I have been able to build stronger relationships with suppliers through the use of trade credit				
3	The overreliance on trade credit has led to late payments and strained supplier relationships				
4	When I have limited access to trade credits the business is unable.				
5	Trade credit has provided my SME with a cost-effective alternative to bank financing.				
6	I have been able to maintain a healthy inventory level using trade credit				
7	The uncertainty of trade credit terms has made it difficult for my SME to regulate cash flow.				
2	Financial performance				
A	Profitability				
1	The use of debt financing instruments has contributed to the SME's revenue.				
2	I have been able to generate higher profits by investing in growth opportunities funded by debt.				
3	The interest and fees associated with debt financing have reduced my profit margins.				
4	The SME has struggled to maintain profitability due to the burden of debt repayments.				
5	Debt financing has enabled the enterprise to invest in cost-saving technologies thus improving profitability.				
6	I have been able to negotiate better terms with customers due to the financial stability provided by debt financing.				
7	The risk of defaulting on debt obligations has limited the business' ability to take on profitable projects				

B	Liquidity				
1	Relying on debt financing has resulted to cash flow issues and reduced my business's liquidity.				
2	Debt financing has improved my business's liquidity and ability to meet short-term obligations.				
3	The uncertainty of debt financing has made it difficult for my SME to plan and manage liquidity effectively.				
4	The repayment of debt has reduced my SME's cash reserves negatively impacting liquidity				
5	Utilizing trade credit has positively impacted my business's liquidity and allowed for better supplier relationships.				
C	Return on investment (ROI)				
1	Debt financing has allowed my SME to diversify its investment portfolio.				
2	Debt financing has enabled my business to make strategic investments that have improved our return on investment				
3	I have struggled to achieve the expected ROI on projects funded by debt due to unforeseen circumstances.				
4	The interest and fees associated with debt financing have reduced the overall ROI of the SME's investments.				
5	I have been able to achieve a higher ROI through investing in growth opportunities funded by debt.				
6	The firm's ROI has been affected negatively by costs linked to refinancing debt.				
7	The risk of defaulting on debt obligations has limited the firm's ability to pursue high return projects.				
3	Intervening variables				
A	Access to finance				
1	I have been able to access a wider range of financing options				

2	Improved access to finance has positively influenced my ability to manage debt and enhance financial performance					
3	I have experienced difficulties in obtaining debt financing due to strict lending criteria.					
4	I have experienced difficulties in managing multiple debt obligations thus affecting access to additional financing.					
5	The complexity of debt financing options has made it challenging to navigate the process of application.					
6	The costs associated with debt financing have limited the business' ability to invest in other areas of the business.					
7	Financial constraints due to limited access to debt financing has constrained the firm's profitability.					

Thank you for your time.



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SCHOOL OF BUSINESS

27th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **ANKUNDA ZABANDRA RYNAH**

Reg. **S21B05/056**

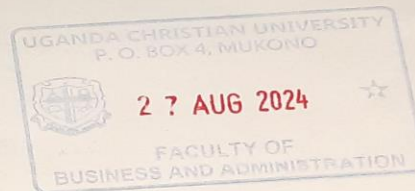
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.....
Mukisa Simon Peter
Research coordinator



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