

**CREDIT ACCESSIBILITY ON THE FINANCIAL PERFORMANCE OF SMALL &
MEDIUM ENTERPRISES SMES IN UGANDA: A CASE STUDY ON SMES IN
MUKONO CENTRAL DIVISION**

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Declaration


I NAMBUYA WHITNEY GLADYS do declare that this piece of work is original and has never been submitted to any academic institution for an academic award and it is true and accurate to the best of my knowledge.

Signature:.......... Date:.....11/09/2024.....

NAMBUYA WHITNEY GLADYS

Approval

This is to confirm that this dissertation was done by NAMBUYA WHITNEY GLADYS S21B33/ 080 under my guidance and supervision and it is ready for submission with my approval.

Signature:  Date: 11/09/2024

Mukisa Simon Peter

Dedication

This research is lovingly dedicated to my dear grandfather, Wilberforce Wasswa who is no longer with us. Even in his absence, his spirit continues to inspire me, and his remarkable legacy lives on. This work stands as a testament to the values you instilled in me and dreams you encouraged me to pursue.

May his soul continue to rest in peace.

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Abstract

This study was inspired by the barriers that small & medium enterprises face when trying to access credit from commercial banks which is essential for sustaining their business growth and financial performance. The aim of this study is to investigate how credit accessibility affects the financial performance of SMEs in Mukono Central Division. To achieve this, the study was focused on key objectives such as; to examine the relationship between availability of credit and the financial performance of SMEs in Mukono, to examine the relationship between cost of credit and the financial performance of SMEs in Mukono, to examine the relationship between ease of access to credit and the financial performance of SMEs in Mukono.

The study used a cross-sectional survey design. For data collection, a closed-ended questionnaire was issued to respondents who were the business owners or managers. A random sample of 52 respondents was drawn from a population of 60 licensed SMEs using simple random sampling method. The data was subjected to descriptive and inferential analyses, including linear regression to determine the relationship among the variables.

The findings revealed a significant positive correlation between access to credit and the financial performance of SMEs. To improve credit access for SMEs, it is important for commercial banks and other lending institutions to reconsider the cost of credit, ensuring it aligns with what borrowers can realistically afford.

Chapter One

Introduction

1.0 Introduction

This introductory chapter outlines the purpose and objectives of the study, giving an overview of the background information and a problem statement. Later within the chapter, there is a summary of what the rest of the study will cover. It also emphasizes how the study's context, research questions, scope, justification, significance, conceptual framework and limitations will be addressed.

1.1 Background of the study

Small & Medium enterprises are the mainstay for most countries and are deemed as the catalyst to industrial growth all over the world. According to Kamunge et al, (2014), advanced countries such as the United States of America (USA) and United Kingdom (UK) relate their evolution to the growth of small & medium businesses. Small & medium enterprises are perceived as the driving force for most countries and are seen as the key drivers of economic and social development in Africa Gichuki et al, (2014). In low-income and advanced countries, these enterprises significantly contribute to the creation and sustainability of economic growth and development. There is no universally agreed description of small & medium enterprises and the phrase contains a range of definitions and standards that vary from country to country (Eton et al. 2017). Those trying to identify small and medium enterprises use their attributes such as number of employees, sales turnover, assets and their location. For the less developed countries, small & medium enterprises are defined as businesses with less than 50 employees (Arinaitwe and Mwesigwa, 2015). In Uganda, SMEs are described using the number of employees and annual turnover (Turyahebwa et al., 2013). Therefore, for enterprises to be considered SMEs, they must employ between 5 and 49 persons and have total assets of 10 million but not exceeding 100 million Uganda shillings (Kyambadde, 2015).

With the contributions of SMEs in Uganda such as job creation and public revenue, financial resources are needed to strengthen the economy and increase economic growth and development. A report by the Uganda Investment Authority (2020) shows that there are 1.5 million small & medium enterprises registered in urban and rural areas, where majority around 90% are located in rural areas and the remaining 10% are based in urban areas. For SMEs to grow and contribute to economic development, access to adequate credit is essential (Hasnah et al, 2013). This is because small and medium enterprises cannot obtain financial resources

through from formal financial institutions to sustain their operations since they are among the excluded population.

In order to develop effective policies and interventions, understanding the relationship between credit access and the financial performance of small businesses is important. Kira & He, (2020) in view on previous studies shows that improving access to credit can increase the financial performance of SMEs and lead to increased productivity and economic growth. However, experimental studies by Moscalu et al. (2019) and Kamunge et al. (2014) show that high debt payments, bank charges and fees hinder the financial performance of SMEs. Furthermore, Mweheire (2014) states that most SMEs do not have access to formal financial services provided by commercial banks, but instead access credit from informal lenders and microfinance institutions. This is because it is difficult to pay off business loans and it takes a lot of effort to apply as well as approving the loan application which is usually not a guarantee that you will get it.

According to Gichuki et al (2014), the main sources of revenue needed to increase the financial performance of small and medium enterprises are savings and informal personal savings which are not understood and do not have transparency and limited scope of risk sharing. Because of this uncertainty, SMEs often search for loans and microfinance credits to finance their business advancement plans as well as increase sales revenue. These include guaranteed loans, group and working capital credits. The economic growth of small & medium businesses is determined by growth of shares, assets and profits. It has also been reviewed for continued growth in revenue, market share and customers. Loans are given to small & medium business owners after providing collateral security to the lending institution. Furthermore, Byabashaija et al, (2015) states that group loans are offered to borrowers after groups of 25 to 30 people are formed and group members become collateral security for each other as they closely interact. Working capital loans are a type of loan granted to entrepreneurs on a short-term basis with approval from lending institutions.

1.2 Statement of the problem

According to Nzibonera, E & Waggumbulizi, I. (2020), access to credit finance by SMEs in Uganda was largely unattainable for most business owners as the majority faced challenges obtaining credit from formal financial institutions such as commercial and development banks. However, the government through selected commercial banks, savings and credit cooperatives and the creation of microfinance institutions provides funds to business owners thus making credit finance available and improving the financial performance of SMEs in Mukono Central

Division (Uganda Microfinance Sector Review, 2014). Furthermore, financial institutions have been prompted to offer specific loans to business owners at comparatively low interest rates because of their escalation in number within Mukono thus boosting their financial performance (Ocinneidel, 2009). Despite these measures put in place to improve access to credit for SMEs in Mukono Central Division, the majority still face a high failure rate and approximately 90% of these businesses fail to reach their first anniversary (Arinaitwe and Mesigwa, 2015). Additionally, Nangoli et al. (2013) suggests that the sustainability of small businesses in Mukono is moderate because most of them do not operate for long. Therefore, this study aims to explore the extent to which access to credit affects the financial performance of small & medium enterprises.

1.3 Purpose of the study

The purpose of the study will be to examine the influence of credit accessibility on the financial performance of small & medium enterprises in Uganda.

1.4 Objectives of the study

- i. To examine the influence of availability of credit on the financial performance of SMEs in Uganda.
- ii. To examine the influence of cost of credit on the financial performance of SMEs in Uganda.
- iii. To examine the influence of ease of access to credit on the financial performance of SMEs in Uganda.

1.5 Research Questions

- i. How does the availability of credit influence the financial performance of Small and Medium Enterprises (SMEs) in Uganda?
- ii. What is the impact of cost of credit on the financial performance of Small and Medium Enterprises (SMEs) in Uganda?
- iii. How does the ease of access to credit affect the financial performance of Small and Medium Enterprises (SMEs) in Uganda?

1.6 Scope of the study

The scope of the study will focus on three dimensions that is; geographical, content and time and these are discussed in detail below.

1.6.1 Geographical scope

The research will be carried out in Mukono District, Central Uganda focusing on small-scale medium traders. This area was selected situated on multiple factors that include the presence

of relevant information, access following SMEs for data collection and the costs to be incurred while the study was carried out.

1.6.2 Content scope

The study was confined to accessibility of credit as the independent variable, and financial performance of small & medium enterprises as a dependent variable, exploring the connection between credit accessibility and financial performance of SMEs in Mukono Central Division.

1.6.3 Time scope

The study covers a duration of at least five months, from May 2024 to September 2024, capturing recent trends and developments in credit accessibility and SMEs' financial performance in Mukono Central Division. The research data will be focused on a time range of five years (2019 to 2024).

1.7 Justification of the study

First of all, the research is essential because SMEs hold a crucial position in Uganda's economic framework. Enterprises significantly contribute to employment, income generation, and poverty reduction. However, their financial performance is often constrained by limited access to credit. By examining the effects of credit access on small & medium businesses in Mukono Central Division, this study aims to explore the specific challenges these business owners face in accessing financing and how these challenges affect their profitability and growth. It is important that decision-makers and stakeholders understand the dynamics since their aim is to promote inclusive economic advancement in Uganda by improving the financial stability and sustainability of SMEs.

Secondly, the findings of this research will have direct consequences for policy by providing empirical evidence on the effectiveness of existing frameworks and policies regarding current credit accessibility in Uganda. Policymakers can use this information to tailor policies that best meet the unique needs of SMEs in informal sectors like Mukono Central Division. This includes assessing the adequacy of existing credit facilities, exploring alternative financing mechanisms, and designing targeted interventions to improve credit access. Improving capacity of SMEs to obtain and utilize credit effectively, policymakers can potentially stimulate entrepreneurial activity, foster innovation, and leading to wider economic advancement and stability

Lastly, academically this research adds to the body of knowledge on SME finance and development economics by concentrating on a specific geographic and professional subgroup

within the Ugandan SME sector. It fills an important gap in empirical research by providing detailed information on the financial dynamics of Mukono SME owners, thereby enriching theoretical knowledge and illuminating future research directions. Also, on a practical level, the study provides practical advice for owners of SME saloon in Mukono and similar SMEs, providing strategies to improve financial management practices, optimize the use of credit and to mitigate risks associated with credit access problems. This practical information has the potential to enable SMEs to improve their operational efficiency, grow their businesses, and ultimately contribute more effectively to local economic development and sustainability.

1.8 Significance of the study

The results of this study will be help improve the small & medium scale enterprises performance throughout Uganda and the outside, providing guidance on how to manage challenging situations related to obtaining credit for the functioning of small & medium businesses financially.

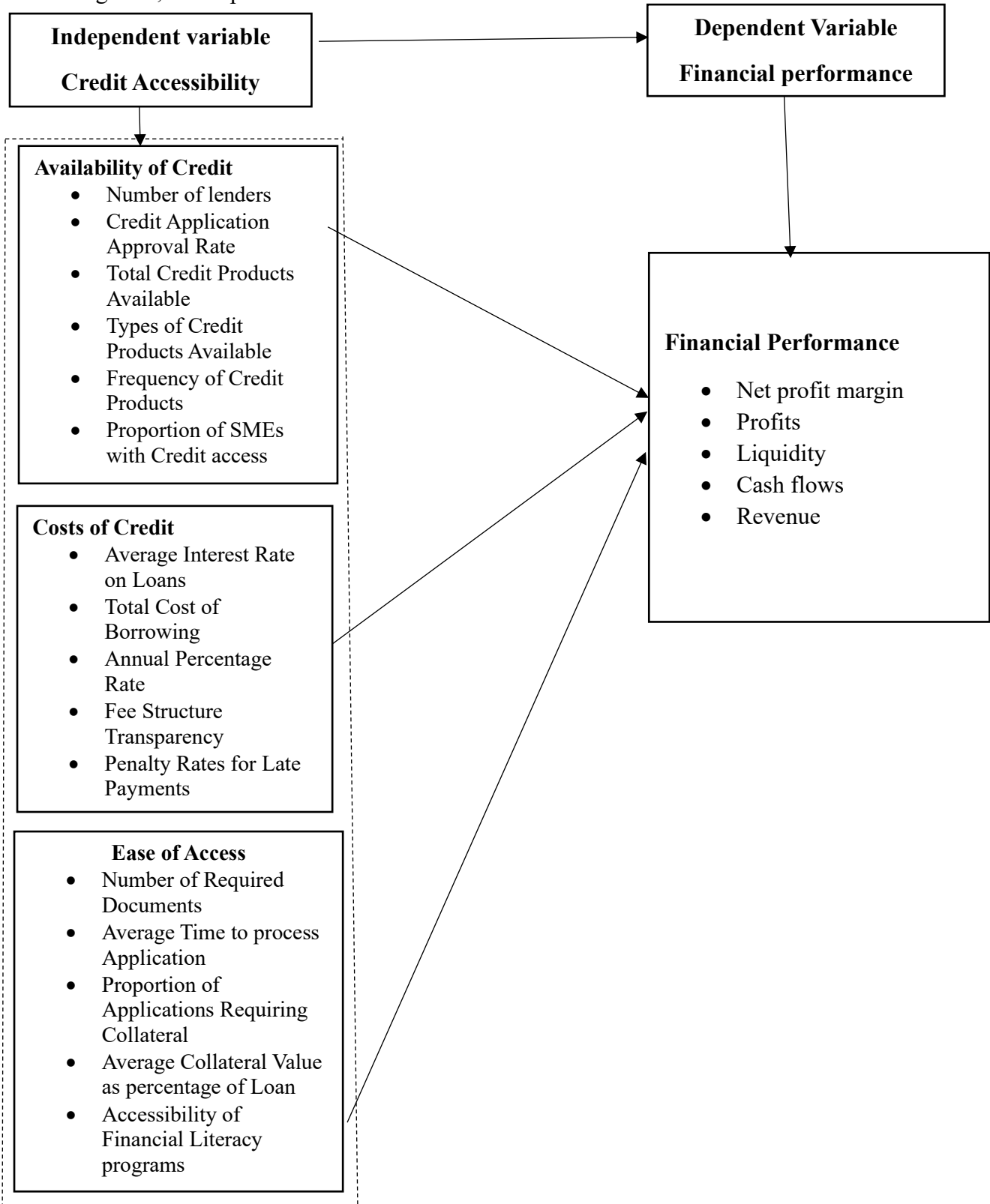
The findings of this research will add to the empirical evidence within the current body of knowledge about how credit availability affects the performance of SMEs financially in Mukono Central Division.

The completion of the study will enable the researcher develop practical skills in conducting research and analysing data. The researcher will be able to manage related tasks with great precision and skill using the skills acquired.

1.9 Limitations

Obtaining trustworthy and comprehensive financial data from SMEs is challenging, since they often have informal accounting practices and this can lead to incomplete or biased data. Additionally, establishing a clear-cause and effect connection between credit accessibility and financial performance is also complex since other factors such as management practices, market dynamics, and economic stability can influence the results significantly. Furthermore, the dynamic nature of fiscal performance and the potential for reverse causality (where better performance leads to better access to credit) present additional challenges to accurate interpretation of the results.

Figure 1; Conceptual Framework.



Source: Researcher's own conceptualization

Figure 1; Conceptual framework depicting availability of credit, cost of credit, ease of access to credit as predictors of financial performance.

1.10 Conceptual Framework

A conceptual framework is a visual or diagrammatic illustration of the association between the independent and dependent variables in a research study. It provides a clear and organized understanding of the research pattern, objectives and guides the investigation by identifying the key elements and their interconnection.

The framework provides a structured approach to examining the relationships between credit accessibility and financial performance of SMEs in Mukono Central Division in Uganda. It guides the researcher in understanding how these variables interact and influence each other within the context of small-scale enterprises operating in informal markets.

1.11 Summary of the chapter

In conclusion, this chapter has explored the intricate relationship between credit accessibility and the financial performance of Small and Medium Enterprises (SMEs) in Mukono Central Division, Uganda. The findings underscore the critical importance of credit accessibility as a determinant of SMEs' profitability, growth potential, and overall economic contribution. Despite the challenges identified, such as high costs of credit and limited availability of credit, there are clear opportunities for enhancing SMEs' financial performance through targeted interventions aimed at improving access to affordable and timely credit solutions. Moving forward, addressing these challenges and leveraging opportunities will be essential for fostering a resilient SME sector in Mukono Central Division, thereby driving local economic development and sustainable growth.

Chapter Two

Literature Review

2.0 Introduction

This part provides a comprehensive analysis of the current literature on how credit access affects the financial performance of SMEs in Uganda. The review is organized around three specific objectives: availability of credit, cost of credit and ease of access to credit on the financial performance of SMEs in Mukono Central Division in Uganda. The chapter references a variety of academic sources, industry reports, and case studies to provide a detailed insight of these topics.

2.1 Empirical review

This part addresses empirical research literature related to the study's objectives:

2.1.1 Availability of credit and the financial performance of SMEs

The ability to obtain credit is probably the most accepted engine of development and performance of SMEs in every part of the world. Most people often state that small & medium businesses are the driving force behind the world economy and these enterprises take long term loans in order to conduct business grow and introduce new products or services. According to Beck, Demirgüç-Kunt, and Maksimovic (2005), credit access remains the key factor for the development of SMEs, as it provides opportunity for investment in productive assets and efficient working capital management.

Adequate funding mechanisms, which more developed economies possess, are a vital steady factor for the SME sectors in the developed countries (OECD, 2015). However, even in such environments, SMEs continue to be rationed due to aspects like information disparity and high transaction costs (Stiglitz & Weiss, 1981). In this respect, the financial crisis of 2008 revealed that SMEs are heavily influenced by credit policies since it is only during such periods that commercial banks become unwilling to lend to them (Claessens & Tzioumis, 2006). However, such problems as government-assisted lending practices as well as the advent of fintech have positively altered the access to credit in SME financing which enhance SMEs financial performance (Mills & McCarthy, 2014). Such a global picture presents a framework within which the provision of credit is examined highlighting its impact on the growth of the SMEs and thereby economic development in various geographies.

In Africa, obtaining credit facilities continues to be a major challenge for SMEs, which are pivotal for the economic growth of the region. Although these SMEs contribute to over 50% of the employment and GDP in most of the African regions, this sector has a huge problem of

accessing formal credit (Abor & Quartey, 2010). As Beck and Demirgüç-Kunt (2006) have put it, financial markets are highly few in number without elaborated financial sector and are controlled by high level of risk perception among the lenders resulting in credit rationing and focus on well-established businesses only.

The studies conducted in various countries on the continent reveal a cause which mainly impedes the growth of SMEs, their capacity to innovate and indeed their ability to contribute to economic development at large (Kuntchev et al, 2013). The other aspect concerns the cost of borrowing and the excessive collateral requirements which invariably aggravate these problems, making it difficult for SMEs to ring-fence the funds required for growth. (Laeven & Woodruff, 2007). On the other hand, whereby microfinance institutions (MFIs) and informal credit systems play a major role, they are usually not enough for the SMEs; this leads them to seek other, often expensive, means of finance (Cull, Demirgüç-Kunt, & Morduch, 2009). Credit has to be understood as one of the many interventions that should be evaluated so as to enhance the financial situation of small & medium businesses in Africa and enhance the economic sustainability of several nations in the region.

As in the rest of the continent, the situation in East Africa is such that SMEs contribute significantly to the economy, but they cannot access credit without barriers. In countries such as Kenya, Tanzania and Rwanda, SMEs are essential providers of employment and their share of GDP is quite significant. However, their access to commercial services is limited because they are considered too risky and do not have enough financial information (Kira and He, 2012). In Kenya, mobile banking services such as M-Pesa enable SMEs, especially rural enterprises, to conduct business transactions with ease as it provides them with another way to obtain credit (Donovan, 2012). However, despite these advances, the level of credit in the economy remains low and many SMEs continue to depend on informal sources of financing, which are very costly and unreliable (Nkonge, 2013). Reviewing the studies carried out in Tanzania, Kira and He (2012) concluded that the lack of accessible credit is a major obstacle to the development of SMEs, with the high cost of loans and the strict measures of guarantees being the main reasons, in Rwanda, despite the government's efforts to promote financial inclusion, most SMEs face obstacles in obtaining credit and are unable to expand their businesses or invest in business ideas (Fatoki & Asah, 2011). These problems also indicate the extent to which EMEs seek assistance with credit development interventions to increase access to credit and thus the performance of Eastern SMEs.

In Uganda, small and medium enterprises (SMEs) are essential to the economy, providing many jobs and contributing significantly to the country's GDP. However, like other African SMEs, Ugandan companies struggle to get credit, which affects their financial health. Kasekende (2018) notes that a major problem for the growth of SMEs in Uganda is the lack of available credit, due to high perceived risks and an underdeveloped financial sector. The Uganda Bureau of Statistics (2020) reports that more than 70% of SMEs cannot access formal credit due to strict collateral requirements and high interest rates, limiting their ability to grow and to innovate. Informal sources of credit such as family, friends or microfinance institutions also worsen the situation, as they often provide insufficient funds or incur higher costs (Morduch, 1999). Although there are government programs such as those of the Development Bank of Uganda aimed at improving financial inclusion, these have had a limited impact on increasing the availability of credit (Uganda Development, 2020). This situation indicates the urgent need for better policies and interventions to improve access to credit and sustain the financial performance of SMEs in Uganda.

Although there is a lot of research on how access to credit affects the financial performance of small and medium enterprises (SMEs), there is no study on this topic for Uganda, especially for the Mukono Central Division. Most research has been focused on developed countries. Further studies are needed to understand the impact of access to credit on SMEs in Uganda. This research will examine how access to credit affects the financial performance of SMEs in Mukono Central Division.

2.1.2 Cost of credit and the financial performance of SMEs.

All over the world, the cost of credit is a determining factor in the financial performance of small and medium enterprises (SMEs). The cost of borrowing, which includes interest rates, fees and other related costs, has a direct impact on an SME's ability to invest, grow and sustain operations. According to Modigliani and Miller (1958), although in perfect market conditions, the cost of capital cannot affect the value of a company, in reality market imperfections such as taxes and costs of failure are a critical factor. High interest rates, often resulting from perceived risks and inflationary pressures, can prevent SMEs from seeking the necessary financing (Beck, Demirgüç-Kunt and Maksimovic, 2005). In developed economies, where financial markets are more efficient, the cost of credit tends to be lower, offering SMEs easier access to finance and better opportunities for expansion (OECD, 2015). On the other hand, in times of economic slowdown or financial crisis, such as that of 2008, the cost of credit tends to increase, affecting SMEs disproportionately compared to large companies, due to its higher

debt risk and its limited access to finance markets. Claessens and Tzioumis, 2006). Thus, global literature emphasizes the importance of affordable credit for the sustainability and growth of SMEs, emphasizing the need for financial policies and support interventions.

In Africa, the cost of credit remains one of the main obstacles to the growth and financial performance of SMEs. High interest rates and tight lending conditions are common across the continent, mainly due to underdeveloped financial markets, high inflation rates and perceived risks associated with lending to SMEs (Beck and Demirgüç- Kunt, 2006). According to Abor and Quartey (2010), the cost of credit in Africa is often prohibitive, with many SMEs unable to obtain credit at affordable rates, which hinders their ability to invest in productive activities and expand their businesses. The research of Kuntchev et al. (2013) show that in many African countries, SMEs charge significantly higher interest rates than those offered to large firms, reflecting the higher risk premium that borrowers pay to these small firms. The high cost of credit forces many SMEs to use informal sources of financing, such as family loans or savings, which are often insufficient to meet their capital needs (Morduch, 1999). This situation increases the financial constraints faced by SMEs and reduces their ability to ensure sustainable growth and competitiveness in the market. Tackling high debt costs through policy interventions, such as interest rate and debt guarantee schemes, is necessary to improve the financial performance of African SMEs.

In East Africa, the high cost of credit is a major obstacle to the growth and financial stability of SMEs. SMEs in countries such as Kenya, Tanzania and Rwanda face significant difficulties in obtaining affordable credit due to high interest rates and unfavorable lending conditions. According to Kira and He (2012), Tanzanian SMEs face some of the highest borrowing costs in the region, which significantly hinders their ability to invest in business expansion and innovation. Similarly, in Kenya, despite the introduction of interest rates, many SMEs still find it difficult to access affordable credit, especially from formal financial institutions (Donovan, 2012). The cost of credit in Rwanda is also a major barrier, with SMEs often forced to turn to informal lenders or microfinance institutions, which, although more accessible, tend to charge higher interest rates (Fatoki and Asah, 2011). These high borrowing costs reduce the profitability of SMEs, since a significant part of their income is spent on debt service. Regional literature highlights the need for financial products and services tailored to the specific needs of SMEs, as well as the importance of regulatory frameworks that promote fair lending practices and reduce the overall cost of credit.

In Uganda, the cost of credit is a critical issue affecting the financial performance of SMEs. High interest rates, coupled with additional borrowing costs such as fees and collateral requirements, make access to credit prohibitive for many SMEs. According to Kasekende (2018), Ugandan SMEs face some of the highest borrowing costs in the region, due to factors such as high inflation rates, underdeveloped financial markets and the perceived risk of lending to small businesses. The Uganda Bureau of Statistics (2020) reports that the average interest rate on loans to SMEs in Uganda is significantly higher than that of large countries, reflecting the higher risk premium that banks incur for these businesses. This high cost of credit significantly limits the ability of SMEs to invest in new technologies, expand their operations or even manage their day-to-day working capital needs. As a result, many SMEs are forced to rely on more expensive informal sources of credit, further impairing their financial performance. The literature on Uganda highlights the urgent need for policy interventions that can reduce the cost of credit, such as interest rate subsidies, credit guarantee schemes and the promotion of competitive financial markets.

Although there is an extensive literature on the impact of access to credit on the financial performance of small and medium-sized enterprises (SMEs), there is still no literature on this topic for Mukono Central Division in Uganda. Empirical studies on this topic have focused mainly on developed countries. Therefore, empirical studies are needed to understand the impact of credit access on the financial performance of small and medium enterprises (SMEs). This study aims to deepen this knowledge by examining the impact of access to credit on the financial performance of small and medium enterprises (SMEs) around Mukono Central Division.

2.1.3 Ease of access to credit and the financial performance of SMEs.

Worldwide, easy access to credit is a determining factor in the financial performance and growth of small and medium-sized enterprises (SMEs). Access to timely and adequate credit allows SMEs to invest in expansion, manage cash flow and overcome economic difficulties. According to Beck, Demirgüç-Kunt and Maksimovic (2005), access to finance is one of the most important factors affecting the development of SMEs in the world. In developed economies, where financial systems are more mature, SMEs generally have better access to credit, which contributes to their good performance (OECD, 2015). However, even in these regions, barriers such as strict lending requirements, creditworthiness assessments and the need for collateral can prevent SMEs, especially newer or smaller businesses, from obtaining the necessary financing (Claessens and Tzioumis, 2006). The global financial crisis of 2008

highlighted the vulnerability of SMEs to disruptions in access to credit, as banks tightened their lending practices, disproportionately affecting small businesses (Rajan & Zingales, 1998). The global literature highlights that improving access to credit is essential to enable SMEs to thrive, innovate and contribute to wider economic growth. Thus, easy access to credit remains a priority for policy makers and financial institutions that aim to support the sustainability and expansion of SMEs around the world.

In Africa, easy access to credit is a significant challenge for SMEs, which are vital for economic growth and job creation across the continent. Despite their importance, African SMEs often face significant barriers to accessing formal financial services, with strict collateral requirements and complex loan application processes being the main obstacles (Beck & Demirgüç-Kunt, 2006). Abor and Quartey (2010) indicate that many African SMEs are excluded from the formal credit market due to their inability to meet the rigorous requirements imposed by banks, making them rely on informal sources of financing, which are often not unreliable and expensive. Studies across Africa show that lack of access to credit not only limits the growth potential of SMEs, but also affects their ability to sustain operations during economic crises (Kuntchev et al., 2013). In some African countries, initiatives such as microfinance institutions (IMFs) have tried to fill this gap, but their reach is often limited and the loans they offer do not necessarily meet the full financial needs of SMEs (Cull, Demirgüç-Kunt and Morduch, 2009). Addressing these access issues is critical to improving the financial performance of SMEs in Africa, as improving access to credit can allow these businesses to invest in expansion, improve productivity and strengthen their competitiveness in markets local and international.

In East Africa, access to credit remains a major constraint on the financial performance of SMEs. Countries such as Kenya, Tanzania and Rwanda have seen rapid growth in their SME sectors, but SMEs often struggle to access the credit needed for sustainable growth. In Kenya, although mobile banking platforms such as M-Pesa have increased financial inclusion, many SMEs still struggle to obtain larger loans from traditional banks due to stringent requirements and high risks (Donovan, 2012). Kira and He (2012) found that in Tanzania, most SMEs cite difficulties in accessing credit as a major barrier to their growth, with application processes being lengthy and complex, further deterring potential borrowers. Similarly, in Rwanda, despite government efforts to improve access to finance, many SMEs continue to rely on informal sources of credit, which are generally more expensive and less reliable (Fatoki and Asah, 2011). These access problems are exacerbated by limited access to formal financial institutions in rural

areas, where many SMEs operate. English articles from East Africa emphasize the need for financial reforms and new financial products that provide access to credit and make it easier for small and large businesses to get financing to improve more economic activities and development in the region.

In Uganda, ease of access to credit is a crucial issue affecting the financial performance of SMEs. Despite their significant contribution to the economy, Ugandan SMEs face significant challenges in obtaining loans from formal financial institutions. According to Kasekende (2018), the main obstacles include strict collateral requirements, high transaction costs and long credit approval processes, which make it difficult for many SMEs to obtain the financing they need. The Uganda Bureau of Statistics (2020) reports that a significant proportion of SMEs in Uganda rely on informal sources of credit, such as savings groups or loans from family and friends, due to difficulties to access formal credit. This reliance on informal financing often limits the amount of capital available to SMEs, limiting their ability to invest in growth opportunities or manage cash flow effectively. Uganda's financial sector has made some strides in access, with initiatives such as the creation of microfinance institutions and the promotion of digital financial services. However, these efforts have not yet fully addressed the challenges faced by SMEs in accessing adequate and timely credit. The literature highlights the urgent need for policy interventions that can simplify the credit access process, reduce collateral requirements and improve financial inclusion to support the financial performance of SMEs in Uganda.

Although there is extensive literature on the impact of access to credit on the financial performance of small and medium enterprises (SMEs), there is still no literature on this topic for Uganda and Mukono Central Division. Empirical studies on this topic have focused mainly on developed countries. Therefore, empirical studies are needed to understand the impact of credit access on the financial performance of small and medium enterprises (SMEs). This study aims to deepen this knowledge by examining the impact of access to credit on the financial performance of small and medium enterprises (SMEs) around Mukono Central Division.

2.2 Summary of literature

The literature review on the influence of credit accessibility, cost of credit, and ease of access to credit on the financial performance of SMEs reveals significant global, regional, and local challenges. Globally, these factors are critical to SME growth, with well-developed financial systems offering better credit access at lower costs, thereby enhancing SME performance. In Africa and East Africa, however, underdeveloped financial markets, high-interest rates, and

stringent borrowing conditions significantly hinder SMEs, limiting their growth potential and financial stability. In Uganda, SMEs face similar challenges, with high costs and complex processes restricting access to formal credit, forcing reliance on informal sources. Specifically, in Mukono Central Division, there is a notable gap in localized research on these issues. This study aims to bridge this gap, providing empirical insights to inform policies that enhance credit access and support SME financial performance in the region.

Chapter Three

Methodology

3.0 Introduction

This chapter outlines the research methodology that will be applied to examine the effect of credit access on the performance of SMEs financially in Uganda. The research approach will cover the study design, methods of gathering data, techniques for data analysis and ethical concerns addressed in the research. The selected methodology seeks to deliver a thorough and detailed analysis to appropriately address to the study objectives.

3.1 Research Design

This study used a quantitative, prospective, cross-sectional survey design. A Cross-sectional survey involves collecting data on large samples at a single point in time (Kesmodel, 2018; Kothari, 2009). Thus, the use of a cross-sectional survey is aimed at obtaining data from several sources at a given time. The study will use stratified random sampling to ensure diverse representation in different sectors. Data collection will include structured questionnaires for quantitative analysis and semi-structured interviews for qualitative information. Quantitative data will be analyzed using statistical tools such as regression analysis to determine correlations and causal relationships, while qualitative data will be analyzed thematically to provide depth and contextual understanding.

3.2 Study Population

The target population for this research are the owners of small and medium salons in the heart of Mukono, who were strategically selected to represent different business objectives. The distribution of models is grouped into categories such as salons for men only, ladies only and unisex, which vary according to the type of business, i.e. partnership or sole proprietorship, ensuring sustainability. Each category will receive a certain number of participants based on their capacity in the main category, ensuring fiscal transparency. Therefore, the target population is 60 SME salon owners in Mukono Central Division as shown in the table below.

Table 1 Table 3.1: A table of the target population of SME saloon owners in Mukono Central Division

SN	SME Saloon Category	Partnership	Sole proprietorship	Total
1	Gents Only	2	10	12
2	Ladies Only	10	15	25
3	Unisex	8	15	23
	Total	20	40	60

Source: Primary data 2024

3.3 Sample Size

The study selected up to 52.17≈52 respondents based on Yamane (1967)'s formula of sample

Size determination:

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

Where by

n = Sample size

N = Study population

e = Error term

1 = As scientifically given

Therefore, taking Yamane (1967)'s formula, and a confidence interval (CI) of 95%:

$$n = \frac{60}{1 + 60(0.05)^2} = \frac{60}{1 + 60(0.0025)} = \frac{60}{1 + 0.15} = \frac{60}{1.15} = 52.17 \approx 52$$

3.4 Population Category and Sample Size

As table 3.2 indicates below, a sample of 52 SME saloon owners was considered out of a study population of 60, based on Yamane (1967)'s formula of sample size determination Equator.

Table 2 Table 3.2: A table showing population category and sample size

SME Saloon Category	Study Population (N)	Sample Size (n)	Sampling Techniques
Gents Only	12	10	Simple random sampling
Ladies Only	25	22	Simple random sampling
Unisex	23	20	Simple random sampling
Total	60	52	Simple random sampling

Source: Primary data 2024

3.5 Sampling Techniques

This study used proportional and simple stratified random sampling techniques. Different categories of salons, such as men-only salons, women-only salons, and unisex salons, formed

the strata into which the study population was divided. Samples were selected proportionally from the strata by simple random sampling to ensure equal proportional representation. Using simple random sampling, a lottery approach was used where several SME owners were selected from each category until the required number was achieved.

3.6 Data Collection Method

The research employed a questionnaire survey as the method for gathering data. The questionnaire survey is less expensive and allows the collection of data from many and large sources at a given time (Kothari, 2009), which justifies its use in this research.

3.7 Data Collection Instruments

The research employed a closed- ended questionnaire divided into sections on the study’s objectives such as, availability of credit factors, cost of credit factors and ease of access to credit factors. A five-point Likert scale was used to obtain quantitative data from individual respondents on a scale of 5-Strongly Agree; 4- Agree; 3- Not Sure; 2- Disagree; 1- Strongly Disagree.

3.8 Validity

The research instrument was designed to collect valid data. Content validity was established by having items that reflected in the conceptual framework reflect in the instrument as well. In addition, the researcher relied on the recommendation of the consultant and the comments of the internal reviewer and the evaluations of the applications for wording, the clarity of the questions in the tool to ensure alignment with the study’s objectives. There was also an opportunity to evaluate the relevance of the questions related to the study variables and assess the acceptance of each variable. To establish the questionnaire’s validity, the content validity index (CVI) was calculated using the following formula:

$CVI = \left(\frac{\text{Total number of items declared Valid}}{\text{Total number of items}} \right)$ and the following are the CVI results.

Table 3 Table 3.3: Content Validity Results

Variable	Total No. of Items	Number of valid items	CVI
Level collaboration	10	6	0.60
Availability of credit	6	6	1.00
Cost of credit	6	6	1.00
Ease of access to credit	6	6	1.00

Source: Expert Judgment

Table 3.3 indicates that all CVI scores exceed 0.50, which is considered acceptable according to Tavakol and Dennick, (2011). It was concluded that the tool was suitable for measuring the intended variables and was therefore valid.

3.9 Reliability

The survey instrument was pretested for reliability on a sample of 10 SME respondents from Mukono Central Division to review the individual questions and the entire questionnaire very carefully. Cronbach's alpha coefficient was calculated to establish the reliability of the Statistical Package for Social Sciences (SPSS). Only items with scores above 0.50 (Peterson, 1994); Tavakol & Dennick, 2011) are considered, as shown in the table below.

Table 4 Table 3.4: Reliability Results

Variable	Total No. of items	Cronbach's alpha
Level of collaboration	10	0.835
Availability of credit	6	0.813
Cost of credit	6	0.636
Ease of access to credit	6	0.765

Source: Primary data 2024

Table 3.4 shows that all variables yielded an alpha value higher than 0.50 accepted as per Tavakol & Dennick (2011). This shows that the self-administered Questionnaire was reliable.

3.10 Data Collection Procedure

The researcher received a letter of (Appendix II) from the Dean of the Business School to go to the field. Respondents were contacted through physical meetings, while others used an online tool transformed into a Google spreadsheet. Some respondents responded immediately to the tool, while others offered to contact the researcher to collect the questionnaire in the field.

3.11 Data Management and Analysis

The collected data were further prepared, processed and analyzed. Data preparation required sorting while data processing required coding and entering into the computer. Frequency tables were created specifically for the basic variables. The data has been corrected to eliminate some errors made during coding and entry. Data were analyzed using descriptive and inferential analyses. French descriptive data analysis includes the calculation of frequencies, percentages, and measures of central tendency. People who strongly agree and agree were combined to indicate that they agree, while people who strongly disagree and disagree were combined to indicate that they disagree. This included the calculation of relative frequencies and descriptive statistics such as means and STDs on numerical variables. At this stage, the analyzes were univariate, meaning that they analyzed one variable at a time. Predictive data analysis using simple linear regression analysis (using ANOVA statistics of adjusted R² values, beta, t values and significance values) was used to determine the determinants of financial performance of

SMEs in Mukono Central Division to determine the extent of influence. of independent variables on the dependent variable (Kothari, 2009).

3.12 Ethical Considerations

Participants were informed about the purpose and nature of the study, its benefits and alternatives, and respondents were given the opportunity to ask questions about the research process. The information provided by the respondents was treated with the utmost confidentiality. The sources consulted and the quotations used are acknowledged and cited throughout the work.

Chapter Four

Data Presentation, Analysis and Interpretation

4.0 Introduction

This chapter presents, analyses and interprets the study findings. It specifically presents the response rate, background of the respondents, description of variables and findings of the study objective by objective.

4.1 Response rate

A total of 52 questionnaires were issued and 42 were returned as shown in table 4.1 below.

Table 4.1 Response Rate

Category	Questionnaires Issued	Questionnaires Returned	Response Rate
Gents Only	10	7	70.0
Ladies Only	22	20	90.9
Unisex	20	15	75.0
Total	52	42	80.8
Overall Response rate			80.8

Source: Primary data 2024

Table 4.1 above displays an overall response rate of 80.8%, which is high indicating that the survey results were representative. According to Fincham, (2008), a response rate of 50% is generally sufficient and acceptable for a survey.

4.2 Background of the Respondents

This section reflects the distribution of respondents by gender, age group, and education level of the respondent as shown in Table 4.2.

Table 4.2: Background Information of the Respondents.

Item	Details	Frequency	Percentage
Gender of the respondent	Male	17	40.5
	Female	25	59.5
	Total	42	100.0
Age of the Respondent	Between 18-25	12	28.6
	Between 26-30	16	38.1
	Between 31-40	13	31.0
	Between 40-45	1	2.4
	45 and above	0	0.00
	Total	42	100.0
Education level of the Respondent	Primary	2	4.8
	Secondary	16	38.1
	Certificate	7	16.7
	Diploma	12	28.6
	Bachelor's degree	4	9.5
	Master's degree	1	2.4
	Total	42	100.0

Source: Primary Data 2024

According to Table 4.2, females contributed more to the sample with 59.5% of the respondents compared to the males who contributed 40.5% of the respondents. This suggests that majority of the SME saloon owners in Mukono Central Division are female.

Table 4.2 also shows that the age group of 26-30 years dominated the sample by contributing 38.1% of the respondents. This was followed by the age group of 31-40 years that contributed 31.0% of the respondents. This was further followed by the age group of 18-25 years who contributed 28.6% of the respondents and lastly 40-45 years who contributed 2.4% of the respondents. While age group 45 and above didn't contribute to any percentage of respondents. This suggests that majority of the SME saloon owners in Mukono Central Division were aged between 26-30 years.

Table 4.2 further reveals that the secondary level dominated the sample by contributing 38.1% of the respondents. This was followed by diploma level which contributed 28.6% of the respondents. This was followed by certificate level which contributed 16.7% of the respondents. This was further followed by bachelor's degree, primary and master's degree levels that had the least contribution of 9.5%, 4.8% and 2.4 % respectively. This suggests that among the SME saloon owners in Mukono Central Division, majority studied up to secondary level.

4.3 Description of the Dependent Variable: Financial Performance

The dependent variable, financial performance was conceptualized as level of collaboration. It comprised 6 quantitative items. These were measured using a five-point Likert scale ranging from 1-5, Where (1) = strongly disagree, (2) = disagree, (3) = Not sure, (4) = agree and (5) = strongly agree as shown in Table 4.3.

Table 7Table 4.3: Statistics for Respondents' Self-Rating on the Level of collaboration.

Level of collaboration	Agree(F)%		Disagree(F)%		Mean	SDV
	SA	A	SDA	DA		
1. My business maintains a healthy net profit margin.	6 (14.3)	21 (50.0)	4 (9.5)	4 (9.5)	3.62	1.011
2. I efficiently use assets to generate profits.	10 (23.8)	17 (40.5)	2 (4.8)	5 (11.9)	3.79	1.001
3. My current ratio indicates strong liquidity and the ability to meet short-term obligations.	16 (38.1)	15 (35.7)	2 (4.8)	4 (9.5)	3.98	1.047
4. I generate sufficient cash flow from the operations to sustain my business.	9 (21.4)	14 (33.3)	2 (4.8)	4 (9.5)	3.62	.987
5. My business experiences consistent revenue growth.	16 (38.1)	11 (26.2)	2 (4.8)	8 (19.0)	3.81	1.215
6. I achieve a steady growth rate in my total assets.	8 (19.0)	18 (42.9)	3 (7.1)	7 (16.7)	3.60	1.149

Source: Primary Data 2024

Table 4.3 shows the mean for the six items which range from 3.60 and 3.98 suggesting that respondents generally feel positive about their businesses' financial performance as well as standard deviations ranging from 0.987 to 1.215 indicating some variability in responses, particularly in areas like revenue growth where opinions on performance diverge more.

It further reveals that liquidity and short term obligations (statement 3) has the highest mean (Mean= 3.98; STD= 1.047), indicating that respondents feel more confident in their ability to manage their liquidity and meet short-term financial obligations while Asset growth (statement 6) has the lowest mean (Mean= 3.60; STD= 1.149) which shows moderate confidence in steadily growing total assets.

4.4 Availability of credit on the financial performance of SMEs.

The first objective of the study was to examine availability of credit on the financial performance of SMEs in Mukono Central Division. Availability of credit comprised of six items which were measured using a five-point Likert scale ranging from 1-5, Where (1) = strongly disagree, (2) = disagree, (3) = Not sure, (4) = agree and (5) = strongly agree and the findings are presented in Table 4.4.

Table 4.4 Descriptive Results for Availability of credit.

Level of collaboration	Agree(F)%		Disagree(F)%		Mean	SDV
	SA	A	SDA	DA		
1. My business has access to a variety of lenders for obtaining credit.	19 (45.2)	6 (14.3)	2 (4.8)	9 (21.4)	3.38	.854
2. Majority of my credit applications are approved by lenders.	16 (38.1)	9 (21.4)	2 (4.8)	1 (2.4)	3.67	1.052
3. The credit limit provided by lenders meets my business needs.	5 (11.9)	9 (21.4)	1 (2.4)	14 (33.3)	3.10	.617
4. I have access to diverse credit products that suit my business requirements.	17 (40.5)	7 (16.7)	2 (4.8)	7 (16.7)	3.12	1.064
5. I frequently receive offers from financial institutions	10 (23.8)	10 (23.8)	4 (9.5)	15 (35.7)	2.76	.821
6. Many SMEs in my sector successfully obtain credit.	7 (16.7)	4 (9.5)	2 (4.8)	3 (7.1)	3.12	1.017

Source: Primary data 2024

Table 4.4 above reveals that “majority of credit applications are approved” (statement 2) has the highest mean and a higher deviation (Mean= 3.67; STD= 1.052) indicating that respondents generally agree with this statement as well as showing a wider variation in responses. While “I frequently receive offers from financial institutions” (statement 5) has the lowest mean (Mean= 2.76; STD= 0.821) implying disagreement or neutrality regarding the frequency of offers and less variability compared to statement 2. This suggests that while SME owners feel more confident about getting their credit applications approved, they are less certain or negative about receiving frequent credit offers.

4.5 Cost of credit on the financial performance of SMEs.

The second objective of the study was to examine the cost of credit on financial performance of SMEs in Mukono Central Division. Cost of credit factors construct was measured using six items using a five-point Likert scale ranging from 1-5, where (1) = strongly disagree, (2) = disagree, (3) = Not sure, (4) = agree and (5) = strongly agree and the findings are presented in Table 4.5.

Table 9Table4.5 Descriptive Results for Cost of Credit.

Level of collaboration	Agree(F)%		Disagree(F)%		Mean	SDV
	SA	A	SDA	DA		
1. The interest rate on loans I receive are reasonable.	2 (4.8)	17 (40.5)	2 (4.8)	8 (19.0)	3.81	1.292
2. The total cost of borrowing is manageable for my business.	13 (31.0)	4 (9.5)	2 (4.8)	3 (7.1)	3.98	.924
3. The APR on my loans is competitive compared to market rates.	2 (4.8)	3 (7.1)	23 (54.8)	4 (9.5)	3.33	1.028
4. Lenders provide clear and transparent information about all fees involved.	6 (14.3)	4 (9.5)	14 (33.3)	2 (4.8)	3.86	1.201
5. Penalty rates for late payment are fair and clearly communicated.	1 (2.4)	5 (11.9)	3 (7.1)	16 (38.1)	3.05	1.447
6. The repayment terms for our loans are flexible and suitable for my business.	3 (7.1)	13 (31.0)	3 (7.1)	12 (28.6)	3.43	.887

Source: Primary data 2024

Table 4.5 shows that Manageability of the total cost of borrowing (statement 2) has the highest mean and a lower deviation (Mean=3.98; STD= 0.924) while Fairness and communication of penalty rates for late payments (statement 5) has the lowest mean and a higher deviation (Mean= 3.05; STD= 1.447). This suggests that respondents find the overall borrowing costs manageable for their businesses but are dissatisfied with statement 5. There is a general positive sentiment regarding the cost of credit but there are notable concerns with penalty rates and competitiveness and APR.

According to Table 4.5, most respondents agree that statement 1 of interest rates (Mean= 3.81; STD= 1.292) and statement 4 of fee transparency (Mean= 3.86; STD= 1.201) are reasonable but views are mixed on statement 3 of APR competitiveness (Mean=3.33; STD= 1.028) and statement 6 of loan repayment flexibility (Mean= 3.43; STD=0.887).

4.6 Ease of access to credit on the financial performance of SMEs.

The third objective of the study was to examine the ease of access to credit on financial performance of SMEs in Mukono Central Division. Ease of access to credit comprised of six items measured using a five-point Likert scale ranging from 1-5, where (1) = strongly disagree, (2) = disagree, (3) = Not sure, (4) = agree and (5) = strongly agree and the findings are presented in Table 4.5.

Table 10Table4.6 Descriptive Results for Ease of access to Credit.

Level of collaboration	Agree(F)%		Disagree(F)%		Mean	SDV
	SA	A	SDA	DA		
1. The documentation required to apply for credit is reasonable and manageable.	4 (9.5)	9 (21.4)	4 (9.5)	10 (23.8)	3.05	1.081
2. Credit applications are processed in a timely manner.	7 (16.7)	7 (16.7)	2 (4.8)	13 (31.0)	3.26	1.106
3. The collateral requirements for obtaining credit are fair and not overly burdensome.	3 (7.1)	13 (31.0)	14 (33.3)	2 (4.8)	3.14	1.026
4. The value of collateral required is appropriate relative to the loan amount.	8 (19.0)	2 (4.8)	3 (7.1)	16 (38.1)	3.05	1.188
5. There are financial literacy programs accessible to help me understand the credit process.	7 (16.7)	19 (45.2)	2 (4.8)	2 (4.8)	3.79	.782
6. I am satisfied with the overall credit application process provided by lenders.	8 (19.0)	6 (14.3)	5 (11.9)	9 (21.4)	3.24	1.226

Source: Primary data 2024

Table 4.6 shows that Statement 5 of accessibility of financial literacy programs has the highest mean and a relatively low standard deviation (Mean= 3.79; STD= 0.782) while Statement 1 of the documentation required to apply for credit is reasonable and manageable has the lowest mean and higher standard deviation (Mean= 3.05; STD= 1.081). This implies that respondents generally agreed more with statement 5, indicating satisfaction with the availability of financial literacy programs to aid in understanding the credit process unlike the documentation in statement 1 which has more varied responses suggesting differing opinions on this matter.

Table 4.6 further reveals that statement 6 “I am satisfied with the overall credit application process provided by lenders” has the highest deviation and a moderate mean (Mean= 3.24; STD= 1.226) indicating that while some SMEs are satisfied with the overall credit process, others are not leading to mixed opinions.

4.7 Linear Regression Results

Multiple regression analysis was carried out to establish the overall casual effect of availability of credit, cost of credit and ease of access to credit on the financial performance of SMEs using adjusted R² statistics. The linear regression analysis was conducted to establish which among the dimensions of the independent variable was the most significant in determining the financial performance of SMEs in Mukono Central Division. The linear regression results were also used to make a decision on the study hypothesis and are represented in Table 4.7

Table 11 Table 4.7: Linear Regression Analysis Results

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.660 ^a	.436	.392	.48218	

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.835	3	2.278	9.799	.000 ^b
	Residual	8.835	38	.233		
	Total	15.670	41			

Coefficients ^a						
Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	2.329	.456		5.105	.000
	OBJECTIVE 1	.554	.122	.740	4.532	.000
	OBJECTIVE 2	-.184	.282	-.163	-.651	.519
	OBJECTIVE 3	.003	.178	.003	.016	.987

a. Dependent Variable: Financial Performance

b. Predicators (constant) availability of credit, cost of credit and ease of access to credit constraints. P<0.05

Table 4.7 shows a coefficient of determination (R-square) of 0.436 at a significance level of 0.000 suggesting that financial performance was 43.6% at a standardized error of estimate of 0.48218. The correlation coefficient (R= 0.660 or 66%) indicated the strength of SMEs with such dimensions like availability of credit, cost of credit and ease of access to credit taking into considerations all interactions among the study variables. The adjusted R² of 0.392 or 39.2% was the variance in the level of financial performance explained by availability of credit, cost of credit and ease of access to credit factors putting into consideration all the variables and the sample size of the study. The remaining variance of 60.8% is explained by other factors other than availability of credit, cost of credit and ease of access to credit factors.

The standardized coefficient statistics revealed that, Availability of credit (objective 1) ;($\beta = 0.740$, $t = 4.532$, $p = 0.000$) is the only significant factor determining the financial performance of SMEs in Mukono Central Division among the factors considered in this study. Cost of credit (objective 2) ;($\beta = -0.163$, $t = -0.651$, $p = 0.519$) and Ease of access to credit (objective 3); ($\beta = 0.003$, $t = 0.016$, $p = 0.987$) were statistically insignificant in determining the financial performance of SMEs in Mukono Central Division among the factors considered in this study as their P values were greater than 0.05(P P<0.05).

Table 4.7 also presents the analysis of variance (ANOVA). The findings reveal that an average score on the determinants of the financial performance of SMEs tend to differ significantly. With the computed F-statistic (F= 9.799) large enough as its accompanying P-value =

0.000<0.05. Thus, since the significance or $P= 0.000$ is less than $\alpha=0.05$, then at 5% level of significance, it is deduced that the computed or observed F is large enough to infer that the responses differed significantly. This means that even when the SMEs in Mukono Central Division have access to credit services with the collaborating financial institutions and even when there are favorable interest rates on credit that favor borrowing, this alone is not good enough to foster the financial performance of SMEs. The findings further reveal that accessibility of credit such as loans to mention but a few as well as failure to effectively transfer knowledge about financial credits to SME owners has a great impact on the financial performance of their businesses. Therefore a few strategies can be laid out to improve on that such as encouraging them to come up with Sacco group for saving, monitoring and evaluating their businesses on a daily, improving access to market information and networks among others.

Chapter Five

Discussion, Conclusions and Recommendations

5.0 Introduction

This chapter presents the summary, discussion, conclusion and recommendations of the study based on the findings resulted to availability of credit, cost of credit and ease of credit access for financing SMEs activities in Mukono Central Division. The first section summarizes the study findings, followed by discussions, conclusions, recommendations, limitations, contributions and suggestions for future research.

5.1 Summary of the Study Findings

5.1.1 Availability of credit and the financial performance of SMEs.

The research findings indicate that the availability of credit is vital to the financial performance of SMEs in Mukono Central Division, as evidenced by a p-value of (0.000), significantly below the significance level. Additionally, the correlation coefficient of 0.740 indicates a moderate positive relationship between credit availability and SME financial performance. Therefore, the findings suggest that access to credit has an analytically significant and positive effect on the financial performance of these businesses.

5.1.2 Cost of Credit and financial performance of SMEs.

The study showed that the cost of credit significantly impacts the financial performance of small and medium enterprises in Mukono Central Division, as evidenced by a p-value of (.000), which is below the acceptable significance level. The correlation coefficient of (-0.163) indicates that despite variations in interest rates, the overall cost of borrowing is a key factor affecting the performance of the SMEs financially. Consequently, the findings indicate a strong positive association between the cost of credit and the performance of businesses financially.

5.1.3 Ease of access to credit and the financial performance of SMEs.

The study revealed that having easy access to credit plays a crucial role in the financial performance of small and medium enterprises in Mukono Central Division, as indicated by a p-value of (.000), which is below the accepted significance threshold. Additionally, the correlation coefficient stands at (0.003), suggesting that improving access to credit can lead to better financial outcomes for SMEs. Consequently, the findings indicate that easier access to credit has a strong and positive impact on the financial performance of SMEs.

5.2 Discussions of the Study Findings

5.2.1 Availability of credit and the financial performance of SMEs.

The study indicated a clear positive link between the availability of credit and the financial performance of small and medium enterprises (SMEs). These findings align with previous studies that suggest that access to credit enables SMEs to achieve higher growth rates, profitability, and productivity in their operations (Berger and Udell, 2006). Financial institutions and microfinance institutions play crucial roles in facilitating the flow of money from savers to borrowers, effectively bridging the gap between surplus and deficit sectors (Diamond, 1984). In regions like Mukono, which are a mix of rural and urban areas, microfinance institutes are particularly prominent as they target underserved groups, including SMEs that often face exclusion from traditional banking systems due to their size or insufficient collateral. A study conducted by Cull, Demirgüç-Kunt, and Morduch (2009) found that microfinance institutes offer not just loans but a variety of financial services, including savings accounts, insurance, and financial literacy programs. They also provide small loans with more adaptable terms than those typically offered by commercial banks (Morduch, 1999). Nonetheless, the effectiveness of microfinance institutes can be undermined by challenges such as high-interest rates and limited funding resources.

Despite the acknowledged significance of credit availability in enhancing SME financial performance, several obstacles continue to hinder SMEs' access to credit in Uganda. These challenges encompass high-interest rates, strict collateral demands, and an underdeveloped financial infrastructure. Stringent collateral requirements represent a major hindrance, as many SMEs do not possess the physical assets necessary to secure loans (Kasekende, 2018). Additionally, Uganda's financial infrastructure is underdeveloped, particularly in rural areas, where the reach of formal financial institutions is limited, further complicating credit accessibility for SMEs. Given these identified barriers, it is essential to consider implementing policy measures designed to improve the financial environment to support SME growth and enhance their performance.

5.2.2 Cost of Credit and the financial performance of SMEs.

The study revealed a significant positive association between credit costs and the financial performance of small and medium enterprises (SMEs). It highlighted that lower interest rates and borrowing expenses help enhance the profitability and sustainability of these businesses. As a result, companies are more likely to invest in productive initiatives and broaden their operations. Several factors influence the cost of credit, such as macroeconomic conditions, the

reputation of financial institutions, and the risk profiles of borrowers. According to Diamond (1984), financial institutions assess risks and market conditions to set loan costs. Nonetheless, they also add various fees, which can raise the effective cost of borrowing (Kasekende, 2018). Elevated credit costs pose numerous challenges for SMEs, including strict collateral requirements, as many of them struggle to secure financing. The lack of competition within the banking sector often leads to inflated loan interest rates. These constraints restrict SMEs' access to affordable credit and hamper their ability to invest in growth, manage working capital, and attain financial stability. To mitigate the adverse effects of high debt payments on SMEs, governments and financial institutions could adopt several supportive policies.

5.2.3 Ease of Access to Credit and the financial performance of SMEs.

The study found a positive relationship between ease of credit access on the financial performance of SMEs. This aligns with current literature which shows that when SMEs can easily access credit, it supports business growth and expansion (Berger and Udell, 2006). According to (Schmidt& Kropp 1998), dependable access to small, short-term loans is highly valuable for SMEs and focusing on this can be more effective in credit programs designed to help these businesses succeed. This suggests that better access to credit leads to improved financial performance for SMEs. Ogujiuba (2004); Ojo (1992) and CBN (2007) argue that increased access to credit by SMEs leads to higher profitability, greater sales and lower business costs.

Nevertheless, SMEs often struggle to obtain loans from commercial institutions due to lack of information on how and where to access credit on favorable terms as well as the risks associated with defaulting on loans. This means that SMEs face funding constraints and are excluded from traditional banking services due to their small size and they are often discriminated against in credit markets. This exclusion allows large businesses to dominate pushing smaller businesses out. As a result, small & medium businesses explore alternative financing services which sometimes aren't favourable, thus experiencing low incomes, low profits and low capital information.

5.3 Conclusions of the Study

5.3.1 Availability of credit and the financial performance of SMEs.

In conclusion, the discussions from the findings show that when the credit limits are good, the credit products fit the business needs, the access to different lenders, the ease of approval of

credit applications and easy access to credit for SMEs around the workplace. A business can get loans to improve business operations.

5.3.2 Cost of credit and the financial performance of SMEs.

In conclusion, the discussion from the findings indicates that favourable interest rates, penalty rates, total borrowing costs, APR loans, transparent and clear information about fees as well as repayment terms makes the cost of credit affordable for SMEs thus enhancing sustainability and productivity of SMEs.

5.3.3 Ease of access to credit and the financial performance of SMEs.

In conclusion, the discussion from the findings indicates that when documentation for applications are reasonable and manageable, processed in a timely manner as well as the collateral requirements used to obtain credit is fair and not overly burdensome and its value is equivalent to the loan amount will improve the ease of access to credit for SMEs thus improving their profitability leading their financial performance.

5.4 Recommendations of the Study

5.4.1 Availability of credit and financial performance of SMEs.

Adoption of government and financial institution policy measures such as lowering interest rates, easing collateral requirements and establishing credit guarantee programs to increase credit to business owners.

In addition, the promotion of digital banking services and new technologies such as mobile banking, peer-to-peer lending and digital credit assessment are new opportunities for SMEs to participate. to borrow. Mobile banking platforms, which are widely used in Uganda, allow SMEs to conduct financial transactions without the need for traditional banking infrastructure. It can narrow the gap for SMEs in rural areas and areas where formal financial services are limited.

5.4.2 Cost of credit and financial performance of SMEs.

Improving competition in the financial sector by encouraging the entry of new banks and fintech companies can lead to more competitive interest rates and lower borrowing costs. Credit guarantee schemes, in which the government partially covers default risk, can also encourage financial institutions to offer lower interest rates to SMEs by reducing perceived risk.

5.4.2 Ease of access to credit and financial performance of SMEs.

Creating of special funds for SME financing and collaboration with international development partners as well as exploring alternative financing sources.

5.5 Limitations of the Study

Most of the SME respondents in Mukono Central Division had busy commitments and were not available at the time the researcher wanted to include them in the study. However, the researcher made a schedule and organized a meeting with all the selected respondents who reserved their time and provided the necessary data for the study.

5.6 Contributions of the study

This researcher provides new information on how access to credit has affected the financial performance of SMEs in Mukono. It showed that availability of credit, affordability and easy access to credit play an important role in the financial performance of SMEs. These findings provide evidence and understanding of the impact of credit access on the financial performance of SMEs in Mukono Central Division.

5.7 Areas for further Research

Future research should continue to explore innovative solutions and the impact of emerging financial technologies on improving credit access for SMEs in Uganda.

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Appendices

Appendix I; Questionnaire

Dear respondent, my name is **Nambuya Whitney Gladys** I am carrying out a study to examine the influence of credit accessibility on the financial performance of small & medium enterprises in Uganda in partial fulfillment of the requirements for the reward of the degree in **Bachelors of Science in Accounting & Finance** of Uganda Christian University. Your knowledge ability regarding the issue is the basis for your selection to participate in this study as a respondent. Kindly provide the most appropriate information as indicated in the questionnaire based on your experiences. The information provided shall be used for academic purpose only and will be treated with utmost confidentiality.

If you agree please tick the box and proceed to section I.

If you decline, kindly do nothing and return the questionnaire to the researcher.

Thank you in advance. Yours truly,

Signed

WHITNEY GLADYS NAMBUYA

SECTION I: BACKGROUND INFORMATION

01	My Sex	Male Female	
02	My age in years	Between 18-25 Between 26-30 Between 31-40 Between 40-45 45and above	
03	My Education Level	Primary Secondary Certificate Diploma Bachelor's degree Master's Degree	
04	Number of years in Business	Less than a year 1 - 3 years 4 - 6 years 7 years and above	
05	Category of Business	Gents Only Ladies Only Unisex	
06	Type of Business	Partnership Sole proprietorship	

SECTION II: Financial Performance (circle as Appropriate)

Indicate the extent to which you agree with the following observations on Demand for University Accommodation on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Financial Performance					
1. My business maintains a healthy net profit margin.					
2. I efficiently use assets to generate profits.					
3. My current ratio indicates strong liquidity and the ability to meet short-term obligations.					
4. I generate sufficient cash flow from the operations to sustain my business.					
5. My business experiences consistent revenue growth.					
6. I achieve a steady growth rate in my total assets.					

Objective 1: Availability of credit on the financial performance of SMEs in Uganda (circle as Appropriate)

Indicate the extent to which you agree with the following observations on Demand for University Accommodation on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Availability of credit on the financial performance of SMEs.					
1. My business has access to a variety of lenders for obtaining credit.					
2. Majority of my credit applications are approved by lenders.					
3. The credit limit provided by lenders meets my business needs.					
4. I have access to diverse credit products that suit my business requirements.					
5. I frequently receive offers from financial institutions.					
6. Many SMEs in my sector successfully obtain credit.					

Objective 2: Cost of credit on the financial performance of SMEs (circle as Appropriate)

Indicate the extent to which you agree with the following observations on financial capacity on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Cost of credit on the financial performance of SMEs.					
1. The interest rates on loans I receive are reasonable.					
2. The total cost of borrowing is manageable for my business.					
3. The APR on my loans is competitive compared to market rates.					
4. Lenders provide clear and transparent information about all fees involved.					
5. Penalty rates for late payment are fair and clearly communicated.					
6. The repayment terms for our loans are flexible and suitable for my business.					

Objective 3: Ease of access to credit on the financial performance of SMEs. (circle as Appropriate)

Indicate the extent to which you agree with the following observations on socio-demographic factors on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Ease of access to credit on the financial performance of SMEs.					
1. The documentation required to apply for credit is reasonable and manageable.					
2. Credit applications are processed in a timely manner.					
3. The collateral requirements for obtaining credit are fair and not overly burdensome.					
4. The value of collateral required is appropriate relative to the loan amount.					
5. There are financial literacy programs accessible to help me understand the credit process.					
6. I am satisfied with the overall credit application process provided by lenders.					

Appendix II



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09th Sep, 2024

TO WHOM IT MAY CONCERN

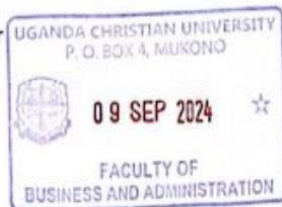
Name: **NAMBUYA WHITNEY GLADYS** Reg. **S21B33/080**
a bachelor's student who is seeking permission from your office to collect data for
her dissertation titled

**Credit Accessibility on the Financial of Small and Medium Enterprises (SME's) in
Uganda .A case study of SME's in Mukono Central Division**

We shall be grateful if you could render assistance to her in collecting the
necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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