CREDIT FACILITIES AND THE FINANCIAL PERFORMANCE OF SMALL AND MICRO ENTERPRISES (SMES) IN UGANDA

A CASE STUDY OF KIBUYE TRADING MARKET

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DEDICATION

I dedicate this work to Lord Almighty, my parents, sisters, brothers and my close friends. Thank you for the support and encouragement during the entire period of study and for their prayers towards the successful completion of this research.

I also dedicate this work to determined scholars who are willing to change the financial performance of their organizations.

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My special appreciation goes to my parents Mr. & Mrs. Sekubunga for their support, gift of education and virtues of hard work that has been a source of inspiration to me.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

MFIs	Microfinance Institutions
NGO	Non –government Organization
SMEs	Small and Micro Enterprises
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority
UMU	Uganda Martyrs University
WTO	World Trade Organization

ABSTRACT

This study was carried out in order to examine the effect of credit facilities on the financial performance of small and medium enterprises. It was a conducted at Kibuye market in Kampala district. The study objectives were to; assess the effect of bank loans on financial performance of SMEs in Kibuye market, examine the effect of trade credit on financial performance of SMEs in Kibuye market and investigate the effect of bank overdraft on financial performance of SMEs in Kibuye market. A cross-sectional survey design and descriptive design will be used for this study. Qualitative and quantitative methods of data collection were used and a total of 52 respondents participated. These were selected using purposive, stratified and simple random sampling. Questionnaires and interview guides were used to collect data while data analysis was done by use of descriptive and inferential statistics.

The findings established that there is a significant positive relationship between bank loans and financial performance ($p=.003<0.01$ at $r=.402$) implying that SMEs that receive bank loans have high levels of financial performance and vice versa. It was further observed that there is also a significant positive relationship between trade credit and financial performance ($p=.008<0.01$ at $r=.365$) implying that SMEs that receive trade credit have high financial performance and vice versa. The results also showed that there is no significant relationship between bank overdrafts and financial performance ($p=.887>0.01$ at $r=.020$) implying that SMEs financial performance is not necessarily influenced by bank overdrafts. The study concluded that credit facilities especially bank loans and trade credit improved financial performance of SMEs. It was recommended that SMEs should improve their credit facilities so as to avoid the fall in their financial performance and banks are expected to be socially responsible, support local communities and ensure adequate supply of credit.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This study was undertaken to examine the effect of credit facilities on the financial performance of Small and Micro Enterprises (SMEs) sector in Uganda. Credit facilities refer to loans extended to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families (Yunus, 2007).

The study focuses on the effect of bank loans, trade credit and bank overdrafts on financial performance of small and micro enterprises in Uganda, a case study of Kibuye trading market. This chapter comprises of the introduction to the study, background to the study, statement of the problem, the general and specific objectives of the study, research questions, scope of the study, significance of the study, justification of the study and the conceptual framework.

1.1 Background to the study

Credit facilities greatly affect the financial performance of SMEs in Uganda. A credit facility is borrowing money from an outside source with a promise to return the principal in addition to an agreed upon level of interest. The most popular source of credit financing is the bank, but can also be issued by a private company or even a friend or a family member (Richard, 2009).

Kakuru (2000) argued that credit financing includes both secured and unsecured loans. He further said that security for the loans involves a form of collateral as an assurance for the loan. Therefore if the debtor defaults on the loan, that collateral is forfeited to satisfy payment of the debt.

Small and Medium Enterprises (SMEs) in the past years till now do not have consensus definitions, (Olajide, 2014). In Uganda, Small and micro enterprises are defined as enterprises which employ less than five people, with value of assets, excluding land and buildings, of not more than Uganda Shs.2.5m and an annual turnover of below Uganda Shs.10 million. The Ministry also points out, micro-enterprises are predominantly family businesses which are usually not registered and primarily operate in the informal sector. Small enterprises are defined them as businesses that employ up to 50 people with value of assets, excluding land and buildings, of not more than Uganda Shillings 50 million, an annual turnover of between Uganda Shs.10 million and Shs.50 million and an investment in plant and machinery not exceeding Uganda shillings 40 million.

According to the Uganda Bureau of Statistics report (UBOS, 2004) Small and medium enterprises are defined in terms of sales volume and number of employees in the business indicated by structural development, profitability and employment levels. They mainly engage in buying produce, market vending, confectionery and catering, shop keeping, second hand clothing, secretarial services, telephone services among others.

SMEs in Uganda are spread across most sectors of the economy, such as metal working, carpentry, textiles, chemicals brick-making, foods and beverages, crafts and technical services. Thus, on the basis of size and sector alone, it is clear that there is great heterogeneity within the small firms sector (Uganda Bureau of Statistics, 2003).

Elliot (2005) defines financial performance as the act, process, or manner of doing things or execution of the financial duties. The efficiency of any accounting system is measured by its ability to provide basic services and meet information needs of its customers. Financial performance can be measured in terms of effectiveness of output and costs incurred, also if they can enable business system to prepare monthly and annual reports, projections and management schedules. Financial performance of small and medium enterprises involves increased number of output, employee performance. Increased level of creativity and innovation, industrial restructuring and wealth generation in both developing and developed economies Uganda investment report (UIA, 2008).

Financial performance is the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. The financial performance indicators are so many but this study has concentrated mainly on profitability, liquidity and sales performance of a firm (Turyahebya, 2013)

Although traders are exposed to all these credit financing options, most of them have failed to grow and expand and profitability has remained low meaning credit financing has not made a positive impact on the businesses in some areas. It has been attributed that poor credit financing caused by lack of collateral security, low rate of repayment, high deficiency rates, and poor business plans might be discouraging the financial institutions to offer them credit services (UIA report, 2008). This study therefore attempts to look at the credit facilities used by SMEs and how they affect the financial performance of SMEs.

1.2 Problem statement

Credit facilities directly affect the financial performance of small and medium enterprises. SMEs in Kibuye market are perceived by banks as risky and costly to serve due to the fact that majority of the Small Medium Enterprises use credit facilities from the commercial banks in Uganda. Traders in Kibuye trading market finance their businesses with loans from commercial banks, overdrafts, leasing facilities, trade financing and money lenders. These credit facilities are taken in different sizes and their repayment period differs depending on the lending authority.

Traders either take group or individual loans depending on the size of the loans and the purpose to which these loans are to be put and the progress of each group or individual in the lending cycle.

The loan sizes also depend on the collateral security and the capacity of the group or individual to pay (UIA report, 2008).

Proper management of debts lead to the financial performance of businesses and poor management of debts will not only cripple the ability of commercial banks and other lending institutions to offer credit facilities to small and medium enterprises but threatens their profitability and survival (UIA Report, 2008).

In spite of the efforts that have been put in providing Kibuye traders with bank loans and trade credits, bank overdrafts as a form of credit facilities in order to increase their financial performance, this has not been the case as majority lack collateral security, many are offered small loan sizes with high interest rates, short loan periods and the rapidly growing inflation rates. This discourages the financial institutions to offer them credit facilities thus intimidating their profitability survival and ability to grow financial. As a failure to perform their operations, many traders have lost their businesses since they cannot be sustained with their own equity. (Kyomuhendo, 2014).

According to (UIA Report, 2008) the financial performance of small and medium enterprises could be hindered due to inadequate funding, planning, limited credit facilities and therefore, this study is set to fill this gap by examining the effect of credit facilities on the financial performance of SMEs in Uganda basing on a study of Kibuye market.

1.3 Objectives of the Study

1.3.1 General Objective

This study aimed at examining the effect of credit facilities on the financial performance of small and micro enterprises (SMEs) in Uganda

1.3.2 Specific Objectives

1. To assess the effect of bank loans on financial performance of SMEs in Kibuye market.
2. To examine the effect of trade credit on financial performance of SMEs in Kibuye market
3. To investigate the effect of bank overdraft on financial performance of SMEs in Kibuye market.

1.4 Research Questions

1. What is the effect of bank loans on financial performance of SMEs in Kibuye market?
2. What is the effect of trade credit on financial performance of SMEs in Kibuye market?
3. What is the effect of bank overdraft on financial performance of SMEs in Kibuye market?

1.5 Scope of the Study:

1.5.1 Geographical Scope

The research was conducted in Kampala Capital City in Kibuye Market. Kibuye is bordered by Katwe to the north, Nsambya to the east, Makindye to the south, Ndeeba to the west, and Mengo to the northwest. This location is approximately 4 kilometers, by road, from Kampala's central business district. Kibuye Market is owned by the Buganda Kingdom government and is mostly occupied by owners or operators of small scale businesses.

1.5.2 Content Scope

The study aimed at evaluating the effect of credit facilities on the financial performance of small and micro enterprises (SMEs). Generally the study looked at three variables. The independent variable had bank loans, trade credit, and bank overdraft. The dependent variable consisted of profitability, return on investment, liquidity and the moderator variable which was work environment, government policies and procedures and environmental factors

1.5.3 Time Scope

The study focused on the period between the years of 2014 and 2017 this is because there was need to collect the data, analyze it and interpret it for the study.

1.6 Significance of the Study

To researchers; the study will help other scholars and researchers to find out how credit facilities are very important in the financial performance of small and micro enterprises (SMEs) in Uganda.

Small and micro enterprises (SMEs); the study is expected to reveal to the SMEs the problems that hinder their productivity and performance and hence highlight the effective role of getting micro credit to inject in their businesses.

To Microfinance Institutions; the study shall act as a useful tool for the microfinance sector with which institutions can gauge their contribution to Uganda's economy by promoting small-scale business ownership in the country and hence suggest how they can further promote small investments country at wide.

To scholars of Uganda martyrs university; this study will serve as a source of secondary data for future UMU academicians conducting studies on a similar topic especially those from the department of Business Administration and Management.

1.7 Definition of key concepts

Credit facilities: Credit facilities refer to loans extended to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families (Yunus, 2007). According to the urban dictionary, a credit facility is a type of loan made in a business or corporate finance context including revolving credit, term loans, committed facilities, letters of credit and most retail credit accounts.

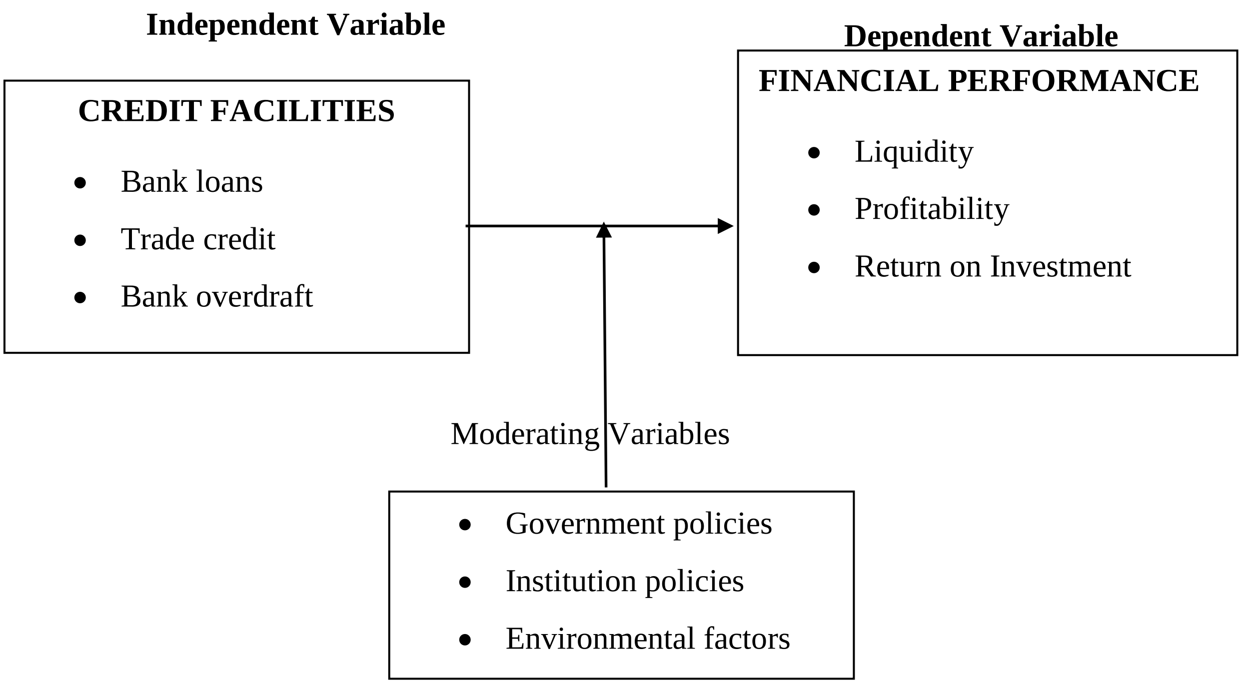
Financial performance: According to World Bank, (2013) financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Small and medium enterprise; According to WTO, (2015) Small and medium-sized enterprises (SMEs, also small and medium enterprises) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO).

1.8 The Conceptual Framework

The conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of phenomenon. The conceptual frame work of this study relates the independent variables to the dependent variable and also the moderating variables as seen below.

Figure 1:1 a conceptual framework showing the relationship between credit facilities and financial performance of small and micro enterprises (SMEs) in Uganda



Source: Wright, et al, (2009) as modified by researcher

The model above reveals how the different variables of the study interrelate. The independent variable for this study is the credit facilities whereas the independent variable is the financial performance of the small businesses. Credit facilities which is the independent variable comprises of elements like bank loans which are subdivided into secured loans, unsecured loans and transaction loans, trade credit, bank overdraft . On the other hand, the dependent variable which is financial performance of SMEs can be seen through the business liquidity, profitability increase, as well as return on investments. Furthermore, the intervening variables in the relationship between independent variable and dependent variable. Hence, from the diagram it is revealed that the financial performance of SMEs is dependent on credit facilities accessible to the SMEs.

1.9 Conclusion

In conclusion, credit facilities determine the financial performance of small and medium enterprises and therefore the research continues to establish the effect of credit facilities on the financial performance of small and medium enterprises.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the literature on the effect of credit facilities and the financial performance of SMEs in Uganda. Specifically, the chapter addresses the theoretical review guiding the study an overview of the study variables, empirical review based on objectives and the conclusion.

2.1 Theoretical Review

This section reviews theories that guided the study. It consists of the theories governing effect of credit facilities and the financial performance of SMEs. This section looks at the financial intermediation theory which holds that for a business to make returns, it has to obey the modern economics.

2.1.1 Financial Intermediation Theory

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. Bisignano (1992) identified that financial intermediaries can be distinguished by four criteria. First, their main categories of liabilities or deposits are specified for a fixed sum which is not related to the performance of a portfolio. Second, the deposits are typically short-term and of a much shorter term than their assets. Third, a high proportion of their liabilities are cheques which can be withdrawn on demand and fourthly, their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units.

According to Scholtens & Van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a perfect competitive market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous traders in Kibuye are characterized by informational differences between buyers and sellers that uses credit facilities from financial institutions.

2.2 Conceptual review of Credit facilities

According to (Stearns, 1997), credit financing is a strategy that involves borrowing money from a lender with an understanding that full amount will be paid in future with and is divided into two categories based on the type of loan you are seeking either long term or short term credit financing. Long term credit financing usually applies to assets your business is purchasing such as equipment, buildings, land, or machinery. With long term credit financing, the scheduled repayment of the loan and the estimated useful life of the assets extends over more than one year. Short term credit financing usually applies to money needed for the day-to-day operations of the business such as purchasing inventory, supplies or paying the wages of employees. Short term credit financing is referred to as an operating loan or short term loan because the scheduled repayment takes place in less than one year.

Credit financing is a useful strategy particularly for small and medium enterprises with good credit history. However, small businesses should think carefully before committing their businesses to credit financing options to avoid cash problems and reduced flexibility (Enterprise Uganda report, 2003).

Microfinance is the provision of financial services to low income clients or solidarity lending groups including consumers and the self-employed who traditionally lack access to banking and related services from most formal financial institutions because of their business savings level and credit needs are small. These financial services commonly take the form of loans (microcredit) and micro-savings, though some microfinance institutions will offer other services such as micro-insurance and payment services, deposit taking, retail financing services, consultancy and training in business management to catch up with competition (Ledger wood & Wright, 1999).

Others are money transfer, safe custody of valuable items, health care schemes and salary based loan products. They lend to the poor who have few assets that cannot be secured by a bank as collateral (Hernando de Soto polar, 1989). MFIs in Uganda include money lenders, micro finance agencies, NGOs, rural farmers schemes and savings societies.

MFIs could act as an efficient vehicle for the intermediation of finance institutions and the small scale enterprises (Hansen, 2000). Micro finance provides the needed opportunity for entrepreneurs to start or improve business in order to make profit and improve their lives (Allan *et al.*, 2008). .

Women are the most beneficiaries from products offered by MFIs. They enhance their status financially socially and even politically. Equip them with skills through training. Despite of this, micro finance activities have shown little potential to thoroughly change existing inequalities in power relations or the role of women in society (Buckley 1996). MFIs advice small scale entrepreneurs on the viable business venture to undertake and on how best to go about the operation of the business, this helps boost efficiency and their performance thus enabling growth (Ledger wood, 1999).

2.2.1 Sources of credit facilities

Sources of credit facilities are either long term or short term capital. Long term capital is normally required by businesses for making long term investments such as buildings, machinery. Short term capital on the other hand, is required essentially for financing the daily operations of the business (Kakuru, 2001). All types of credit facilities may broadly be classified into two groups on the basis of funding for example; Fund Base Credit and Non Fund Base Credit. Fund Base Credit is the any credit facility which involves direct outflow of Bank's fund to the borrower. (Barnes & Sebstad, 2009) Non Fund Base credit is a credit facility where there is no involvement of direct outflow of Bank's fund on account of borrower rather the outflow of Bank's fund on account of Third party on behalf of borrower. Various types of credit facilities include;

2.2.2 Bank loans

A bank loan is when one receives money from a financial institution in exchange for future repayment of the principal. The principal is the amount borrowed and interest is the amount charged for receiving the loan. A loan entails the reallocation of the subject assets for a period of time, between the lender and the borrower the money is paid back in regular instalments, or partial repayments; in an annuity, each instalment is the same amount. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent (Vincent, 1991).

Types of bank loans

Unsecured loans. Unsecured loans are the opposite of secured loans and are defined as monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages which include but not limited to: credit card debt, bank overdrafts, personal loans, credit facilities or lines of credit, corporate bonds (may be secured or unsecured). The lender will believe that you may pay back the loan on basis of financial resources. Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets.

Secured loan. A secured loan is a loan protected by an asset or collateral of some sort. The item purchased such as a home or car can be used as a collateral and the borrower pledges it. The finance company or bank will hold the title until the loan has been paid in full including interest and all applicable fees. Other items such as stocks, bonds, property can be put up to secure a loan. Secured loans usually offer lower rates, higher borrowing limits and longer repayments than unsecured loans. Thus a secured loan providing security that the loan will be repaid according to the agreement terms and conditions.

Transaction loans

Transaction loans refer to business dealings that are closed for a particular period of time. There are some loans that can be obtained by the businessman for general purpose and these can be referred to as general loans (Kakuru (2001). The costs associated with the transaction loans include interest, commitment fee, and compensatory balance.

2.2.3 Trade credit

Trade credit transactions normally involve short-term (e.g. thirty to sixty days) delayed payment of purchases of intermediate goods or services. Through delayed payment, trade credit suppliers are effectively funding their clients with short-term debt (Cuñat &Appendini, 2012). According to (Kakuru, 2001), trade credit is a short term source of credit and in most cases it is less than one year and because it gives the firm the time to invest in the money it would have otherwise use to pay the supplier and possibly pay more pressing expenses.

Trade credit may also emerge as a natural way to reduce costs inherent in a firm's cash management. There are two major theories that motivate trade credit because of these transaction costs. First, firms facing uncertainty of the time of delivery of the goods may use trade credit to determine in anticipation when there will be a cash inflows or outflows (Ferris, 1981)

Trade credit contract determine the implicit interest rate on trade credit that is to say the price of trade credit. Contract terms include discounts for early payment, size of the discount, length of the discount period, fin al payment due date, and late payment penalty fee. When the delivery and payment do not occur at the same time, payment arrangements define credit terms (Ng. et al. 1999). The seller may require the payment before the delivery (CBD-cash before delivery) or cash on delivery (COD), where the buyer bears most of the risk.

2.2.4 Bank Overdraft

An overdraft is an extension of credit from a bank when the account reaches zero. An overdraft allows the individual to continue withdrawing money even if the account has no funds in it. For example if a firm has 70 million shillings on its account, a financial institution to which that businessman is a client may allow him or her to overdraw a maximum of 20m such that at any one time, the firm can be able to tap a total of 40m from its account. An overdraft can also be defined as an agreement where a customer can purchase goods on account (without paying cash), paying the supplier at a later date. Usually when the goods are delivered, a trade credit is given for a specific amount of days for example 30, 60 or 90 days.

An overdraft allows a current account holder to withdraw in excess of their credit balance up to a sanctioned limit. It is secured by way of Mortgage of immovable properties and pledge of financial deposit, Bonds, Shares securities, Gold and silver and any physical asset and Hypothecation of Stock and Debtors and all other current Assets of the business generated during the course of business. (Wright, et al, 2009)

2.3 An overview of Financial Performance

According to the business dictionary financial performance involves measuring results of a firm's policies and operations in monetary loans. These results may be reflected in the firms return investment, profitability and liquidity. Stoner (2003) as cited in Turyabebya (2013) defined financial performance as the ability to operate difficulty, profitability, survive, grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) asserted that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Hitt et al, (1996) believes that many firms with low performance is the result of poorly performing assets.

A financial ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals. Some of the important financial ratios which a firm would like to analyze include: liquidity ratio, profitability ratios, and financial leverage ratios among others. It is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Jayawardhera & Foley, 2000). Profitability which is the ultimate goal of a firm is measured using a variety of ratios including: Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy & Sree, 2003). ROA is a major ratio that indicates the profitability of an organization. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of an organizations management to generate income by utilizing company assets at their disposal. ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment.

2.3.1 Business profitability

One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the banks bottom line and its return to its investors. Profitability measures are important to company managers and owners alike. If a small business has outside investors who have put their own money into the company, the primary owner certainly has to show profitability to those equity investors. Profitability ratios show a company's overall efficiency and performance. Pandey (2010) affirms that profits are essential but it would be wrong to assume that every action initiated by the management of the company should be aimed at maximizing profits, irrespective of concerns for customers. However, Return on Assets (ROA) falls within the domain of performance measures and tracks MFIs ability to generate income based on its assets. The ratio excludes non-operating income and donations. ROA provides a broader perspective compared to other measures as it transcends the core activity of MFIs namely, providing loans, and tracks income from operating activities including investment, and also assesses profitability regardless of the MFIs funding structure. ROA is expected to be positive as a reflection of the profit margin of the MFI, otherwise it reflects non-profit or loss. In banks and other commercial institutions, the commonest measures of profitability are Return on Equity (ROE), which measures the returns produced for the owners, and Return on Assets (ROA), which reflects that organization's ability to use its assets productively. Profitability is measured with an income statement. This is essentially a listing of income and expenses during a period of time, usually a year for the entire business.

Information File Your Net worth Statement includes, a simple income statement analysis. An Income Statement is traditionally used to measure profitability of the business for the past accounting period. However, a “pro forma income statement” measures projected profitability of the business for the upcoming accounting period (Ahlin and Jiang, 2008.

2.3.2 Business liquidity

Chirwa (2013) argued that the term “Liquidity” means the ability of an organization to realize value in money the post liquid among all assets. It implies conversion of assets into cash during the normal course of business and have regular uninterrupted flow of cash to need outside current liabilities as and when due and payable and also ensure availability of money for –to-day business operations. The concept of liquidity in case of companies has to dimensions viz; the quantitative and qualitative. The quantitative aspect includes the quantum, structure and utilization of liquid assets. The quantitative aspect emphasizes upon the ability of a firm to need all present and potential demand on cash in and a manner that minimize cost and maximize cost and minimize the value of the business (Eun, 2011).

Montfort (2013) stated that the liquidity is vital factor in business operations. For the very survival of business, the firm should have requisite degree of liquidity. It should be neither excessive nor inadequate. Excessive liquidity means accumulation of ideal funds. Which may lead to lower profitability, increase speculation, and unjustified extension, extension of liberal credit terms, liberal dividend policy; whereas inadequate liquidity result in interruptions of business operations. A proper balance between these two extreme situations therefore should be maintained for efficient operation of business through skill full liquidity management.

2.3.3 Return on investment

Cooperman (2010) asserted that return on investment (ROI) is the benefit to an investor resulting from an investment of some resource. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to capital invested (Ghassem, 2014).

According to Hubbard (2011), the purpose of the "return on investment" (ROI) metric is to measure, per period, rates of return on money invested in an economic entity in order to decide whether or not to undertake an investment. It is also used as indicator to compare different project investments within a project portfolio. The business with best ROI is prioritized. Recently, the concept has also been applied to scientific funding agencies (National Science Foundation) investments in research of open source hardware and subsequent returns for direct digital replication (Coyle, 2010)**.**

2.4 Actual review of literature

2.4.1 Bank loans and financial Performance of SMEs

According to (Ayyagari *et al.*,2007), the financing of small and medium enterprises (SMEs) has been a topic of keen interest in recent years because of the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment. In developing economies including Sub-Saharan Africa, SMEs are typically more credit-constrained than large firms, severely affecting their possibilities to grow (Demirguc-Kunt, 2006; and Ayyagari *et al*, 2012). As regards extending financing to SMEs, banks have an important role to play in Sub-Saharan Africa due to their dominance in the financial systems and the limitations of informal finance, especially as regards serving the higher end of the SME market (Ayyagari *et al.*, 2012).

According to (Berger & Udell, 1998; Beck et al, 2008; De la Torre *et al.*, 2010), the main factors impacting bank financing for SMEs are inter alia the macroeconomic environment, the legal and regulatory framework, the state of the financial sector infrastructure, bank-internal limitations in terms of capacity and technology, and SME specific factors, particularly the SME landscape in terms of number, size, and focus of operation, as well as the opaqueness of information. Due to the opaqueness of SMEs, i.e. the challenges associated with ascertaining the reliability of information provided, it has conventionally been assumed that small and domestic banks applying relationship lending are better equipped to lend to SMEs (Berger and Udell, 1995; Berger et al, 2001; Mian 2006; among others).

Nsobilla (2015) investigated the effect of non-performing loans on financial performance and trend of incidence of non-performing loans. His research revealed that nonperforming loans, cost-income ratio, loan recovered and total revenue were all statistically significant at 1% significance levels respectively. The non-performing loans and cost-income ratio had a negative influence on financial performance whereas total revenue and loan recovered had a positive effect on financial performance. Recently, however, this view has been challenged with the argument that large and foreign banks are also able to lend to SMEs effectively by using arms-length technology and centralized organizational structures (Berger and Udell, 2006; Berger *et al.,* 2007; De la Torre *et al.,* 2010; Beck *et al.,* 2011).

Additionally Mwangi (2012) examined the relationship between bank loans and financial performance of Amenfi rural small and medium enterprises. Times series data was employed for this analysis, the Return on asset (ROA) was used as a proxy for the financial performance which served as the dependent variable and the independent variable was bank loads. Results showed a positive a negative relationship between bank loans and financial performance of small and medium companies. Similarly report by Mathuva (2009) showed a negative relationship between bank loans and profitability which was used as an indicator for financial performance of enterprises in Kenya. Furthermore Mombo (2013) who revealed a positive correlation between financial performance and total revenue of banks.

Credit facilities activities have capacity to reduce poverty, contribution to food security, change social relations for the better and reduce vulnerability. Ishengoma, 2004 and Kimuyu, 2004 confirm the importance of SSB"s access to productive resources (micro finance). They help poor diversify their income sources, build up physical , human and social assets, focus on good money management, rebuild household's base of income and assets after economic shocks have occurred and to smooth consumption (Sebstad & Chen, 1996; Hulme ,1998; Ito,1998; Cohen ,1997; Cohen, 1999). However most criticism of micro finance have actually been criticism of micro credit, being delivered in the absence of other micro finance services such as savings, remittances, payments and insurance. Credit facilities can be used to acquire financial assets to expand business capital and generate more profits, working capital, attain productive assets. Savings as a micro finance factor enable people with few assets to save, since they could make weekly savings as well as contribute to group savings, and such savings are mobilized by the MFIs for further lending to other clients and finance small emergencies through holding small amounts held in highly liquid form (Mkpado & Arene, 2007).

2.4.2 Trade credit and financial Performance of SMEs

Bougheas *et al.*, (2009) show that, for a given liquidity, an increase in production will require an increase in trade credit. A higher production is associated with a higher production cost which, for a given (insufficient) amount of liquidity, implies that these SMEs will need to take more trade credit. So trade credit works as an alternative mean to finance production. Moreover, several authors have demonstrated how trade credit provides safety value for firms using liquidity shocks (Wilner, 2000; Boissay & Gropp, 2007; Cunat, 2007).

Also, Cunat (2007) argued that fast growing firms may finance themselves with trade credit when other types of finance are not sufficiently available. Moreover, Petersen and Rajan (1997) revealed that firms with high profit margins, i.e. those that would benefit most from making additional sales via price discrimination, indeed have higher accounts receivable. Fisman and Love (2003) extend the analysis to link trade credit substitutability for institutional financing and the overall development of the financial sector. They find evidence that industries that use more trade credit grow relatively faster in countries with poorly developed financial markets.

Kapkiyai & Mugo (2015) examined the relationship between trade credit and SME financial performance for a sample of 50 audited Kenyan Small and Medium Enterprise firms. Documentary guide was used in the study to collect secondary data and the data collected were keyed and coded into SPSS package version 20. Analysis was conducted using both inferential and descriptive statistics specifically mean and standard deviation. Findings indicated that trade credit positively affected liquidity, profit margin and return on assets. The results of this finding were seen to be consistent to pecking order theory by SMEs in pattern of using trade credit instead of other external source of finance. Rodríguez (2006) argued that through trade credit, suppliers can reduce the transaction costs associated with the liquidation of each individual commercial exchange. According to Ferrando & Mulier (2012) small and young SMEs are more likely to be financially constrained, and hence they rely more on the trade credit channel to manage growth.

According to the study by Bougheas, Mateut, & Mizen, (2009) analyzed the relationship between trade credit management efficiency and financial performance of SMEs in the health industry in Nigerian. The study hypothesized negative relationship between trade credit Management and financial performance. The study used regression analysis and unit root test was used verify order of integration for each time series data employed. Findings indicate minimal causation between trade credit and financial performance but greater dependency on operational efficiency parameters. Similarly, Boissay & Gropp (2007) argued that firms that are facing liquidity problems tries to pass on one fourth of the stock to their suppliers through trade credit in order to overcome this distressed situation.

According to Pérez (2012) argued that firms with high net profit margin probably have more liquidity since they earn more from their economic activity and thus the reason why they take less trade credit. Therefore Perez explained that there is a negative relationship between trade credit and financial performance of SMEs. According to Bebczuk (2004), the higher the return on asset the lower the probability of default and therefore the higher the probability of obtaining a loan. SME return on asset was positively determined by level of trade credit.

Sola *et al.,* (2012) in their study found a positive linear relationship between trade credit and firm performance derived from the fact that the benefits associated with trade credit surpass the costs of vendor financing. According to the financial motive for trade credit, larger and more creditworthy firms will extend trade credit to their smaller customer's thus increasing firm's sales and generating an implicit rate of return. Similarly Ferrando & Mulier (2012) argued that firms provide more trade credit to customers that are in temporary distress. This also enhances their sales, since otherwise the distressed customer would not be able to buy the goods.

2.4.3 Bank overdraft and financial Performance of SMEs

Bank overdraft is a quick loan, helping firms quickly deal with unexpected financial demands in condition of high interest rate but firms can withdraw money to access a loan whenever they want. Overdraft facility is a common financial instrument especially in developing countries, for instance in Sub-Saharan Africa, 40% of firms have a loan overdraft (Dalberg, 2011), while there is quite a small percentage of total SMEs (13%) having overdraft facility in Vietnam. Feakins (2005) pointed out that overdrafts and term loans are the two major products offered by commercial banks to new SMEs.

According to the study by Minh Le (2012) shows that firms using overdraft services increase by size and perform financially well. For small and new firms, they use less that is not meaning less demand for overdraft facility because they haven't good financial indicators and payment credit. Minh-Le (2012) further argued that on the other hand, banks charge businesses with usurious interest rate, so businesses should be cautious to choose overdraft after checking all sources of cash. Findings by Marshal& Onyekachi (2014), provided evidence that SMEs also depend on some form of external financing for their performance which including trade credit and bank overdrafts. The result shows that there is a positive relationship between bank overdraft and financial performance of SMES. The conclusion from this study showed that increase in the bank overdraft might result into financial performance of the SMEs.

Ogboi & Unuafe (2013) examined the impact of bank overdraft and capital adequacy on banks financial performance in Nigeria. The findings showed that sound bank overdraft management and capital adequacy impacted positively on bank's financial performance with the exception of loans and advances which was found to have a negative impact on banks' profitability during that period. Ayyagari *et al.,* (2012) examined the impact of bank overdraft indicators on the profitability of rural and community banks in the Brong Ahafo Region of Ghana. The findings indicate a significant positive relationship between bank overdraft and rural banks' profitability revealing that, there are higher loan losses but banks still earn profit. This indicates that, rural banks do not have sound and effective bank overdraft management practices. Such inverse relationships between financial performance and bank overdraft measures were also found in other studies (Achou & Tenguh, 2008; Kolapo *et al*., 2012; Musyoki & Kadubo (2011).

2.5 Relationship between Credit Facilities and Financial Performance of small micro enterprises

According to the findings of a study by Joeveer (2006) noted that bank loans have a significant positive effect on most performance indicators of Small and medium sized enterprises (SMEs) in the transition economies. Credit facilities encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients (Asiama, 2007). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (World Bank 1994).

Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

2.6 Conclusion

The role played by financial institutions in providing credit facilities has greatly fostered the financial performance of small and medium enterprises and it cannot be under estimated as the literature above reveals. This chapter also shows different authors' works on credit facilities, bank loans, bank overdrafts, trade credit, liquidity, profitability, return on investment, the effect of credit facilities and the financial performance and the relationship between credit facilities and the financial performance of SMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Ochieng (2009) defined methodology as an analysis of and rationale for, the particular method (s) used in a given study. This section entailed aspects of research design, study area, study population, sample size, sampling techniques, data sources, data collection, quality assurance, measurement of variables, data analysis and presentation, ethical issues and study limitations.

3.1 Research Design

A cross-sectional survey design and descriptive design was used to select the respondents to the study. The study employed both qualitative and quantitative methods of data collection. This design enabled the respondents who are owners of small scale businesses in Kibuye trading market to provide actual data on the level of credit facilities and the financial performance of small and micro enterprises. Quantitative data analysis was used to describe the statistics of the scores using indices that describe the current situation and investigate the associations between the study variables using information gained from the questionnaires.

According to Eric & Rea (2001) gives a depth investigation, because the design deals with samples of the population which is descriptive due to the population of Kampala capital city authority that can easily be done for a short period in terms of collecting, analyzing and presentation.

3.2 Study Area

The research was conducted in Kampala Capital City in Kibuye Market. Kibuye is bordered by Katwe to the north, Nsambya to the east, Makindye to the south, Ndeeba to the west, and Mengo to the northwest. This location is approximately 4 kilometers, by road, from Kampala's central business district

3.3 Study Population

The study examined Small and Micro Enterprises in Kibuye trading market. Then the survey design consisted of manufacturing SMEs, restaurants, retail shops and boutiques. Different respondents constituting business proprietors, employees of small and medium enterprises and officials of the financial institutions that were operating in Kibuye trading market in Rubaga division were involved in the study. According to Kothari (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated.

The study targeted 60 open market vendors within Kibuye market (city Authority report, 2017). These were considered because they had knowledge about the effect of credit facilities and the financial performance of SMEs.

3.4 Sample size and selection

3.4.1 Sample size

Singh, (2007) defined sample size as finite part of a statistical population whose properties are used to make estimates about a population as a whole. For this research study, a cross section of individuals was selected to draw research responses that give a true picture of the research phenomena. The sample size of the study was 52 and it was selected using Krejcie & Morgan, (1970) standard sample size determination table from the study population of 60 as presented in table below.

Table 3.1: Sample Size

Category of Population	Population Size	Sample	Sampling Technique
Retail shops	10	10	Stratified random/Simple random sampling
Agricultural producers	20	12	Purposive sampling
Garments	10	10	Stratified random/Simple random sampling
Tailors	8	10	Stratified random/Simple random sampling
Restaurants	10	10	Stratified random/simple random sampling
Total	**60**	**52**	

Source: Krejcie and Morgan, (1970)

3.4.2 Sampling Techniques

Sampling techniques are the methods used in identifying the respondents that participated in the research. The researcher used stratified sampling. This is a type of sampling where the researcher selects a sample that is just convenient, judgemental without going through random sampling. The researcher also used purposive sampling.

3.4.2.1 Purposive sampling

Purposive sampling technique, also called judgment sampling, is the deliberate choice of an informant due to the qualities the informant possesses. It is a non-random technique that does not need a set number of informants. The researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience (Bernard 2002, Lewis & Sheppard 2006). Here the researcher used her judgment in regard to some participants. This was particularly used for the management of the market. This was because participants in those categories were few and could be selected purposively because they are known and they are believed to have more information necessary for the study.

3.4.2.2 Stratified random sampling

Stratified sampling is a technique used to analyze or divide data into homogeneous groups. The study used stratified random sampling because of the heterogeneity of the elements. The population was divided on the basis of the respondents which formed the strata.

3.4.2.3 Simple random sampling

The study used simple random sampling. It’s a basic sampling technique where a group of subjects was selected from a larger group of population. Each individual was chosen entirely by the chance and each member of the population had an equal chance of being called a sample.

3.5 Data Sources

Data was collected from primary sources as well as secondary sources.

3.5.1 Primary sources

Kumar (2005) noted that primary sources are the sources that give first-hand information and this depends on the resources available and the skills of the researcher. These included responses of respondents such as managers and other workers of different departments as well as interview to be held. Information was collected using the questionnaires and interview guide from the respondents.

3.5.2 Secondary sources

The study also used secondary data that was sourced from secondary sources like use of journals, books, reports from the organization, performance reviews among others. This helped to capture what other scholars had written about credit facilities and the financial performance of small and micro enterprise.

3.6 Data Collection Tools

The study employed the relevant techniques/ instruments during the process of data collection and these include;

3.6.1 Questionnaire

The questionnaire tool informed of both open ended and closed ended in nature and the respondents was filled in the answers of their choice in line with the study questions in the questionnaire. Hence the researcher analyzed the respondent's information for the relevant study objectives. This method of data collection was preferred because it gives a great degree of assurance to the anonymity and confidence of the research respondents. And also, the research findings or data collected was unique and original from the research field and these questioners were availed to the different heads of the mentioned department and their assistants.

3.6.2 Interview Guide

The researcher prepared an interview guide that was used by only respondents who are well versed with the required information but with the problem of illiteracy (people who do not know how to read and write). This helped the researcher to get first-hand information on the topic of interest.

3.7 Quality Assurance

3.7.1 Validity

Validity refers to the appropriateness of the instrument while reliability is the consistency in measuring whatever it is intended to measure (Amin 2005). For this particular research study, the research validity involved verifying the research tools or instruments to ascertain their degree of accuracy, truthfulness and consistency in the research data gathered while in the field. Validity of the research instruments was done with consultation with the supervisor and other experts who would assess, rate and critique the study instruments such that right instruments are used to collect valid data.

3.7.2 Reliability

According to Saunders *et al.,* (2007) reliability refers to the extent to which your data collection techniques or analysis procedures yielded consistent findings. Research reliability refers to the ability of the researcher to produce accurate results is based on the level of the researcher's consistency in terms of data management. The reliability of the research instruments was established by carrying out reliability tested using SPSS. This was done through established on the reliability score using Cronbach alpha coefficient.

3.8 Measurement of Variables

The independent variable is credit facilities and the dependent variable is financial performance of SMEs. Therefore the researcher used a five point Liker Scale ranging from 1-5 strongly disagree to strongly agree). Where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree. This enabled the researcher to know clearly the performance of a given organization.

3.9 Data Analysis and Presentation

Data collected by use of questionnaires and interview guide were filled and transcribed. Raw data was categorized by grouping similar ideas within the research. All data collected was processed into one document of responses collected from the field. This was then referred to for presentation, discussion and analysis of the findings. Esterberg (2002) asserted that data management is the process of analyzing, arranging and organization and presenting research data that has been gathered from the research field in a way that gives meaning to the end user of the research study. The researcher used both quantitative and qualitative research approaches while analyzing data.

3.9.1 Quantitative Data Analysis

The collected data was edited as this involves sorting of the data in order to attain information that was relevant to the study variables. The researcher carried out an analysis using descriptive and inferential statics using SPSS version 16 computer package for social scientist .SPSS version 16. This helped the researcher to come up with spearman correlation coefficient, frequencies and regression analysis that was used to determine the degree and predication for the performance

3.9.2 Qualitative Data Analysis

The researcher used the interview guide as a tool to collect data under qualitative research approach, and data was analyzed by the use of proceedings and presents the data in narrative quotations. At this stage all the responses were revised through by the researcher while giving codes to the answered options.

3.10 Ethical considerations

The following ethical considerations were used in carrying out this research;

- Respondents who required for anonymity were granted it but were requested to sign a consent form that was to be distributed with the questionnaires because the study was carried out in their work place and sources to earn a living at times assistants were used to limit suspicious and beliefs that the research was to cover up for competitors strategy.

- The researcher obtained an official letter from Uganda Martyrs University authorizing her to carryout research in Kibuye market which was presented to the traders before interviewing them. The letter was used to reduce suspicions from the field.

- The researcher cited all the sources she used in the study either in the literature or appendices and also accessed data through official channels and acknowledged works of other researchers that she consulted.

- The researcher carried out data collection exercise from Kibuye market and still also personally explains the importance of the study being carried out so as to get acceptance and total participation of the sampled population.

- The researcher ensured that the gathered data was kept confidential and private of their research work and used it for the purpose of the study.

- The researcher also sought for voluntary participation for everyone involved in the study.

- The researcher also acknowledged authors and their sayings about the study and this was done through citations and references.

- The questionnaire was designed to collect information directly related to the research questions, and no private or personal questions were to be asked from respondents

3.11 Limitations of the Study

In conducting the study, the researcher experinced a number of methodological and practical impediments as highlighted below;

Some respondents were not willing to avail the researcher with the required information due to negative attitudes, suspiciousness and speculations. To reduce this challenge, the researcher highlighted the importance of the study and also created awareness with the market association leaders.

The researcher met a problem of misinterpretation, suspicion and uncertainties about the purpose of the study from the respondents. This was solved by fully explaining to the respondents the purpose of the study before its actual execution.

Inadequate financial resources. This was solved by keeping the population coverage at a minimal representative level. Research is expensive to carry out for example buying a digital camera, transport and others and as such, the researcher created a research budget and save up the budgeted money, which she able to carefully utilize to meet all the financial needs of the study.

3.12 Conclusion

This chapter gave the researcher an understanding on how data was collected and analyzed during the study. This included understanding the population and the sample size which was sampled during the research. Therefore through these methods, the researcher believes the information to be presented was of a required result that is valid and reliable.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

4.0. Introduction

This chapter contains a presentation of research findings on the study. Findings were collected basing on the study objectives. Data was obtained on the effect of bank loans on financial performance of SMEs, the effect of trade credit on financial performance of SMEs and the effect of bank overdraft on financial performance of SMEs in Uganda. Both descriptive statistics and inferential statistics were used in the analysis of the findings.

4.1. Background of the respondent

All the fifty two respondents participated in the study, attracting 100% response rate. The bio data about the participants was as shown in the description below.

4.1.1. Gender of the Respondents

Gender of the respondents was as shown in Table 4.1 below responses.

Table 4.1: Gender of the Respondents (n–52)

	Gender	Frequency	Percent	Cumulative Percent
Valid	Female	36	69.2	69.2
	Male	16	30.8	100.0
	Total	52	100.0	

Source: Primary data (2017)

From the table above, majority of the respondents were females (69.2%) and males (30.8%) of the participants. This implies that most traders in Kibuye were females. The researcher got views from people of different gender and therefore the findings from the study are gender sensitive and not gender biased.

4.1.2. Education Level of the Respondents

The researcher aimed at finding out the highest level of education of the respondents and the findings were as follows.

Table 4.2: Showing the education Level of the respondents (n=52)

Level of education		Frequency	Percent	Cumulative Percent
Valid	Primary Level	13	25.0	25.0
	Secondary	9	17.3	42.3
	Degree	10	19.2	61.5
	Diploma	20	38.5	100.0
	Total	52	100.0	

Source: Primary data (2017)

From the table above, the biggest percentage of respondents' highest level of education qualification was diploma (38.5%), followed by primary level (25.0%). Respondents with a degree constituted 19.2% while secondary level was the least with 17.3. This implies that the researcher obtained views from people with different education status and therefore the study is not biased.

4.1.3. Age of the Respondents

The researcher intended to examine the age range of the respondents and the findings from this question are presented by Table 4.3 below.

Table 4.3: Age of respondents

	Age Bracket	Frequency	Percent	Cumulative Percent
Valid	Below 25years	6	11.5	11.5
	25-35years	18	34.6	46.2
	40-50years	22	42.3	88.5
	50years And Above	6	11.5	100.0
	Total	52	100.0	

Source: Primary data (2017)

Findings above showed that majority of the respondents were aged 40-50 years (42.3%), followed by those aged 25-35 years (34.6%), below 25years and above 50 years both constituted 11.5%.the findings also showed that the majority of the respondents' stay in business was 6-10 years (55.8%), followed by 1-5 years (26.9%), with least being 10 years and above (17.3%). This implies that the researcher got views from people of different age groups and therefore the findings from the study are reliable and not age biased.

4.1.4. Duration spent by respondents doing business

The respondents were asked to mention how long they have been in business, and the following were established as shown in Table 4.4.

Table 4.4: Duration spent doing business in Kibuye

	Duration spent(years)	Frequency	Percent	Cumulative Percent
Valid	**1-5years**	14	26.9	26.9
	6-10years	29	55.8	82.7
	10years and above	9	17.3	100.0
	Total	52	100.0	

Source: Primary data (2017)

Findings from table 4.4 above show that most of the respondents had been in business for between 6-10 years represented with 55.8%, this was followed by those who had been in business for between 1-5 years represented with 26.9% and also those who had operated business for 10 years and above who were least represented with 17.3% and therefore provided detailed information about credit facilities being used by **S**ME**S.**

4.1.5 Positions held by respondents in the business

Participants were asked on the position they held in the business where they were contacted and in response the following were established.

Table 4.5: Position held in the business

	Levels	Frequency	Percent	Cumulative Percent
Valid	Employee	11	21.2	21.2
	Owner	41	78.8	100.0
	Total	52	100.0	

Source: Primary data (2017)

Results from table 4.5 indicated that majority of the respondents were owners of the business as revealed by (78.8%) of the respondents and only (21.2%) were employees. This showed that most SMEs don't employ people but work for themselves.

4.1.6. Type of business involved in the study

Participants were selected from different categories of businesses as shown in Table 4.6 below.

Table 4.6: Type of business owned

	Type of business	Frequency	Percent	Cumulative Percent
Valid	Retail Business	10	19.2	19.2
	Garments	5	9.6	28.8
	Restaurants	7	13.5	42.3
	Tailoring	10	19.2	61.5
	Agricultural Products	20	38.5	100.0
	Total	52	100.0	

Source: Primary data (2017)

From the table 4.6, (38.5%) of the respondents were dealing in agricultural products, while 19.2% respectively owned retail businesses and others dealing in tailoring. The study also had participants dealing in restaurants (13.5%), and the least dealt in garments (9.6%). This implies that to a larger extent Kibuye market offered a lot of agricultural products, although different business owners were involved including retail, garments and tailoring.

4.2. Descriptive analysis of credit facilities through bank loans

The first objective was to assess the effect of bank loans on financial performance of SMEs in Kibuye market. The findings were collected through questionnaires under the linkert scale order of strongly disagree, disagree, not sure, Agree and strongly disagree. The ranking was by 1, 2, 3,4 and 5 respectively. Details of the descriptive analysis is shown by mean values and standard deviation scores of the key empirical reference statements as shown in Table 4.7 below.

Table 4.7: Descriptive statistics of bank loans on SMEs

Statements	***N***	***Min***	***Max***	***Mean***	***Std. Deviation***
Bank loans have increased my sales volume	52	1	5	4.09	1.937
I can afford the terms and conditions of the bank loans	52	1	5	4.40	0.905
The time frame given for the bank loan is enough	52	1	5	3.83	1.964
The bank loan I get is adequate	52	4	5	1.81	0.190
Valid N (list wise)	52				

Source: Primary data 2017

The results of the survey study as reflected in Table 4.7 above show responses obtained about bank loans with in SMEs in Kibuye Trading Market. The descriptive statistics are based on the mean and standard deviation (Std.) values.

4.2.1 Bank loans have increased my sales volume

Findings show that a mean (4.09) was obtained regarding the view that SMEs using bank loans had their sales volume increased, although it attracted varying opinions shown by (std 1.937. The majority of the respondents agreed that bank loans have increased their sales volumes. This view was in agreement with Ferrando & Mulier (2012) argued that firms that have access to loans have potential of increasing their sales although it depends on their ability to use the loans received well and for the purpose it has been obtained.

4.2.2. Loan Terms and Conditions are affordable

Regarding on whether the loans provided were being offered on affordable loan terms and conditions, the study results revealed most respondents agreed. A significant response attracting a (mean 4.40), and a standard deviation of 0.905) an implication that most of the respondents agreed the terms were affordable although this showed that there were variations in response to the answers provided. This finding is in contrast with Mwangi (2012) who revealed that bank loans are useful and relevant when they are manageable and affordable to the borrower.

4.2.3 Time frame given is enough

From the table 4.7 above, results show that a mean value of 3.83 was obtained from the overall responses of the participants in the study. This shows that a large number of respondents considered time not enough while some were not sure of the exact time lag that is enough since the time was determined by the bank giving out loans. However, standard deviation of 1.964 was established which meant there were a lot of variations in the answers provided on this aspect. This shows that some people considered the time was not enough while others said it was enough depending on their ability to service the loan. This finding was in agreement with Stearns (1997) who reported that with long term loans , the scheduled repayment of the loan and the estimated useful life of the assets extends over years and hence it is enough.

4.2.4 Loan given is adequate

Regarding the view that the loan granted was adequate the mean response on this was 1.81 which implied that most respondents agreed to the assertions statement. In addition, the standard deviation of 0.1900 was established which meant that a few people agreed in their responses about this view.

4.3 Descriptive analysis of Trade Credit

The second objective was to examine the effect of trade credit on financial performance of SMEs in Kibuye market. Respondents through questionnaires provided a number of views on this aspect through presenting their responses. Responses were ranked basing on the linkert scale order of strongly disagree, disagree, not sure, Agree and strongly disagree. These were ranked 1, 2, 3, 4 and 5 respectively from strongly disagree to strongly agree. Details of the descriptive analysis presented by mean values and standard deviation scores of key empirical reference statements as shown in Table 4.8 below.

Table 4.8: Descriptive statistics of Trade Credit on SMEs

Statements	***N***	***Min***	***Max***	***Mean***	***Std. Deviation***
I always use trade credit facilities into my business	52	1	5	4.68	.993
I am aware of the terms and conditions of the attached to trade credit	52	1	5	4.37	1.170
I always pay trade credit on time	52	1	5	1.79	.338
I always qualify for more trade credit facilities to run my business	52	4	5	2.26	.743
My capital would be small without trade credits	52	4	5	4.31	.710
Valid N (list wise)	52				

Source: Primary data 2017

The results of the survey study as reflected in Table 4.8 above show responses obtained about Trade Credit in SMEs in Kibuye Trading Market. The descriptive statistics are based on the mean and standard deviation (Sd.) values as described below.

4.3.1 SMEs always use trade credit facilities

According to the findings in Table 4.8, respondents were asked on whether they (participants) use trade credit facilities into my businesses, and findings revealed that majority of the SMEs owners and employees agreed to the assertion as revealed by a mean value of 4.68 and std. deviation of 0.993. This shows that doing business through giving or using trade credit was a common practice among SMEs and was a common feature among SMEs in the area. This finding was in agreement with Bougheas et al. (2009) who show that, for a given liquidity, an increase in production will require an increase in trade credit. A higher production is associated with a higher production cost which, for a given (insufficient) amount of liquidity, implies that these SMEs will need to take more trade credit who noted that credit when obtained in trade activities, is key in ensuring that SMEs are relevantly used. SMEs base on trade credit facilities but not all of them use this service as it has a number of associated requirements.

4.3.2 Awareness of the terms and conditions of the attached to trade credit

It was found out that most respondents gave their views regarding the awareness regarding the terms and conditions attached from the trade credit, and this was noted by participants at a mean of 4.37 and a standard deviation of 1.170. This implies that while majority gave varying views, there was a high level of agreement that whoever used trade credit knew which terms and conditions to the credit they access.

4.3.3 Traders pay back their trade credit on time

Further results shows that SMEs were actively involved in trade credit usually paid their trade credit in time, and respondents revealed that they paid back their credit though not on time. This finding attracted a mean value of 1.79 at a standard deviation value of 0.338. This finding shows that while traders pay back on their trade credit they did not do it in time . SME return on asset is positively determined by level of trade credit especially when the credit is paid in time.

4.3.4 Qualify for more trade credit facilities

Regarding on whether they (SMEs) qualified for more trade credit facilities to run their businesses, the study found out that not all SMEs qualified for more trade credit facilities and attracted mean value of 2.26. This further indicates that not all traders who qualify for credit are able to get more than one credit. There were a few variances in responses regarding this assertion statement.

4.4.5 My capital would be small without trade credit.

In addition, the study also focused on establishing whether there were capital improvements due to trade credit. A mean value of 4.31 indicated that majority of the SMEs' capital would be small without trade credit. A standard deviation of 0.710 was obtained regarding this view. This view reveals and agrees with Fisman and Love (2003) who argues that they find evidence that industries that use more trade credit grow relatively faster in countries with poorly developed financial markets.

4.4. Descriptive analysis of Bank Overdraft

The third objective was to investigate the effect of bank overdraft on financial performance of SMEs in Kibuye market. To establish information on this objective, questions were asked to respondents. Findings were analyzed into descriptive statistics. Details of the analysis shown by the mean values and standard deviations scores of the key empirical references statements are shown in table 4.9 below;

Table 4.9: Descriptive statistics of Bank Overdraft on SMEs

Statements	***N***	***Min***	***Max***	***Mean***	***Std. Deviation***
I have all the qualifications to be given a bank over draft	52	1	5	2.77	1.230
I use bank overdraft to finance my business	52	1	5	1.82	.809
Bank overdrafts have increased my working capital	52	1	5	1.77	1.034
Bank overdraft has helped me in keeping track record of my business	52	4	5	2.09	.996
Bank overdrafts has ensured that timely payment are made	52	4	5	1.01	.949
Valid N (list wise)	52				

Source: Primary data 2017

Results of the survey study in Table 4.9 above show responses obtained about the status of using bank overdraft as a mode of credit facilities among SMEs. Responses were as noted below.

4.4.1 SMEs qualify for bank over drafts

The study found out that majority of the respondents were in disagreement and this attracted a mean value of 2.77 regarding the assertion that they had all the qualifications to be give a bank overdraft. This shows that not all SMEs operating in Kibuye market had an opportunity to get bank over drafts. However, a standard deviation 1.2300 was obtained implying that many respondents gave varying views regarding the statement.

4.4.2. I use bank overdraft to finance my business

Further results show that using bank overdraft to finance their businesses was a less used approach just as revealed by participants in Kibuye market. This response was attracted a mean value of 1.8200 and standard deviation (0.809) from all participants. This response was in agreement with the earlier view of Minh Le (2012) who noted that firms using overdraft services increase by size and perform financially well but the unfortunate circumstance is that not many firms use bank over drafts. For small and new firms, they use less that is not meaning less demand for overdraft facility because they haven't good financial indicators and payment credit.

4.4.3 Bank overdrafts have increased my working capital

Respondents were asked to mention whether bank overdrafts have increased my working capital and in response a number of participants did not agree with the view, as such it attracted a mean value of (2.09) and a standard deviation of 0.996. This responses were also cited in the earlier study and contradicts the view of Marshal & Onyekachi (2014) who provided evidence that SMEs also depend on some form of external financing for their performance which including trade credit and bank overdrafts.

4.4.4 Bank Overdraft has helped me to keep track record of business

Further findings show that majority of the participants noted that there were different responses obtained regarding this view and a large number of respondents were in disagreement to the statements given. The mean value of (2.09) and a standard deviation of 0.996 were established regarding this statement. This shows that bank overdraft has not done much to help SMEs to improve and keep track of record of business activities.

4.4.5 Bank overdrafts has ensured that timely payment are made

From Table 4.9, it was established that bank overdraft had not done much to ensure timely payment by SMEs and the respondents strongly disagreed with this view. This was revealed by a mean value of 1.01 and a standard deviation of 0.949. This finding shows that since most firms did not get bank overdrafts, the use of bank overdrafts has not ensured timely payments in their activities. This findings was in line with the earlier view of Turyabebya (2013) who mentioned that bank over drafts are meant to be timely paid as soon as the client makes the next bank payment Any outstanding payment has to keep at halt until the bank overdraft has been sorted. This implies that not all firms access bank overdrafts but those which do access these services do not several times pay in time.

4.5 Descriptive analysis of financial performance

To establish about the status of financial performance, questions were asked to respondents. Findings were analyzed into descriptive statistics. Details of the analysis shown by the mean values and standard deviations scores of the key empirical references statements are shown in table 4.10 ;

Table 4.10: Descriptive statistics of financial performance on SMEs

Statements	*N*	*Min*	*Max*	*Mean*	*Std. Deviation*
The profit level of my business are increasing	52	1	5	4.51	1.061
Has liquidity increased	52	1	5	4.93	2.020
Sales volume of my business has increased	52	1	5	3.97	1.991
My business has continuously expanded	52	4	5	2.68	0.591
I always get excess on my income	52	4	5	1.190	.970
Valid N (list wise)	52				

Source: Primary data 2017

The researcher sought to establish descriptive statistics about financial performance among SMEs and the following key financial performance indicators were established and examined.

4.5.1 Profitability

The study focused on looking at financial performance basing on the profitability levels. In response, the participants were asked on whether the profit level of my business is increasing. In response, the mean value of 4.51 was established which showed that most SMEs being dome were profitable. However, a standard deviation of 1.061 was reported which was very high, an implication that there were variances in responses on this matter, an indication that some SMEs did not have their profits increasing. This findings agree with the view of Khrawish (2011) who stated that profitability measures are important to company managers and owners alike. If a small business has outside investors who have put their own money into the company, the primary owner certainly has to show profitability to those equity investors.

4.5.2 Liquidity

The respondents were asked on whether their liquidity has increased and in response, majority strongly agreed and a mean value of 4.93 was established regarding this this view. It was also revealed by a standard deviation of 2.020 that most of the respondents presented varying views on this aspect. Therefore, a large number of SMEs had liquidity which was however not increasing over time. This finding is in agreement with Montfort (2013) who reported that the liquidity is vital factor in business operations. For the very survival of business, the firm should have requisite degree of liquidity. It is neither excessive nor inadequate. Excessive liquidity means accumulation of ideal funds.

4.5.3 Sales volume

On the aspect of sales volume as one of the key indicators of financial performance, respondents were asked on whether their sales volume has increased over time. In response a mean value of 3.97 was established indicate that sales volume was average. This however attracted varying responses as noted by a standard deviation of 1.991. This shows that a number of SMEs were still making average sales but not many had increased sales volume. Related to this finding is the view held by Asiama (2007) who noted that credit facilities encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients,

4.5.4 Business has expanded

As noted in Table 4.10, respondents were asked to note whether their business had expanded and a mean value of 2.68 was established. The study further established the not many SMEs had done much regarding their roles and as such, they were not expanding. Nevertheless, a standard deviation of 0.591 was established an implication that there was minor variances in business expansion for different SMEs in Kibuye Market. In addition, respondents were asked on whether they usually get excess income and majority of the respondents disagreed with the statement. The mean value of 1.190 was established implying a high level of disagreement to the statement, and this attracted minor variances from respondents' views. A number of traders complained they were not having their anticipated surplus after meeting their expenses.

4.6 Correlation Analysis

4.6.1 Bank Loans and Financial Performance

In order to establish the effect of bank loans on financial performance, a Pearson Product Moment Correlation Coefficient (r) was computed and used to test the relationship between bank loans and financial performance as shown in Table 4.11 below.

Table 4.11: Correlation between Bank Loans and Financial Performance

		Bank Loans	Financial Performance
Bank Loans	Pearson Correlation	1	.402**
	Sig. (2-tailed)		.003
	N	52	52
Financial Performance	Pearson Correlation	.402**	1
	Sig. (2-tailed)	.003	
	N	52	52
**. Correlation is significant at the 0.01 level (2-tailed).			

The findings in Table 4.11 show that ($p=.003<0.01$ at $r=.402$). This revealed a significant positive relationship between bank loans and financial performance. This implies that SMEs that receive bank loans have high levels of financial performance and vice versa. Since the P value 0.003 is less in magnitude than the level of significance 0.01, then this means that bank loans have the ability to influence the financial performance of Small and medium enterprises, although not at a very high rate. This finding is in agreement with Mwangi (2012) who also revealed that a positive relationship exists between bank loans and financial performance of small and medium companies. Similarly report by Mathuva (2009) showed a negative relationship between bank loans and profitability which was used as an indicator for financial performance of enterprises in Kenya. This can be explained based on the fact that, as more loans are recovered by the rural banks the money can be channelled into other areas or loan to other potential customers which will increase their profitability.

4.6.2 Trade Credit and Financial Performance of SMEs

To ascertain the effect of trade credit on the financial performance of SMEs, a Pearson Product Moment Correlation Coefficient (r) was computed as shown in Table 4.12 below.

Table 4.12: Correlation between Trade Credit and Financial Performance

		Financial Performance	Trade Credit
Financial Performance	Pearson Correlation	1	.365**
	Sig. (2-tailed)		.008
	N	52	52
Trade Credit	Pearson Correlation	.365**	1
	Sig. (2-tailed)	.008	
	N	52	52
**. Correlation is significant at the 0.01 level (2-tailed).			

The findings in Table 4.12 revealed a significant positive relationship between trade credit and financial performance ($p=.008<0.01$ at $r=.365$). This implies that SMEs that receive trade credit have high financial performance and vice versa. The findings revealed a significant positive relationship between trade credit and financial performance ($p=.008<0.01$ at $r=.365$).

Several research findings are in agreement with the study findings that trade credit and financial performance is positive and significantly related to each other. Kapkiyai & Mugo (2015), indicated that trade credit positively affected liquidity, profit margin and return on assets. The results of this finding were seen to be consistent to pecking order theory by SMEs in pattern of using trade credit instead of other external source of finance. Also in line with the study findings is Rodríguez (2006) who argued that through trade credit, suppliers can reduce the transaction costs associated with the liquidation of each individual commercial exchange. According to Ferrando & Mulier (2012) small and young SMEs are more likely to be financially constrained, and hence they rely more on the trade credit channel to manage growth.

4.6.3 Relationship between Bank Overdraft and Financial Performance

To ascertain whether there was a relationship between bank overdraft and financial performance, a Pearson Product Moment Correlation Coefficient (r) was used to test for the relationship and findings were as shown in Table 4.13 below.

Table 4.13: Correlation relationship between Bank Overdraft and Financial Performance

		Financial Performance	Bank Overdraft
Financial Performance	Pearson Correlation	1	.020
	Sig. (2-tailed)		.887
	N	52	52
Bank Overdraft	Pearson Correlation	.020	1
	Sig. (2-tailed)	.887	
	N	52	52
**. Correlation is significant at the 0.01 level (2-tailed).			

The findings in Table 4.13 show that (p=.887>0.01 at r=.020). This analysis showed no significant relationship between bank overdrafts and financial performance. This implies that SMEs financial performance is not necessarily influenced by bank overdrafts and a few SMEs do have and use financial bank over drafts and do not in any way influence the financial performance of SMEs. This finding agrees with the Kolapo *et al*. (2012) who found a positive relationship between bank overdraft and financial performance. It also relates closely with Feakins (2005) are contrary to the study findings which points out that overdrafts and term loans are the two major products offered by commercial banks to new SMEs.

4.7 Conclusion

In this chapter, the variables of the credit facilities and financial performance were analyzed quantitatively and qualitatively in relation to the objectives thus making the findings relevant in the study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the findings and conclusions regarding credit facilities and the financial performance of small and micro enterprises (SMEs) in Uganda. The chapter also included the recommendations and areas identified for further research.

5.1. Summary of the findings

The study focused on examining the effect of credit facilities that is bank overdrafts, trade credit and bank loans on financial performance of SMEs in Uganda. The findings showed that most of the traders in Kibuye Market advocate using credit services, and this were spread over for all the traders.

Further findings showed that SMEs noted that those obtained loans reported their sales had increased in volume. In addition, a large number of loan beneficiaries revealed that the terms and conditions were affordable although the loans by value were considered not adequate. The time frame given as rather affordable. The findings established that there is a significant positive relationship between bank loans and financial performance ($p=.003<0.01$ at $r=.402$) implying that SMEs that receive bank loans have high levels of financial performance and vice versa.

More so, credit facilities being provided were trade credits and these were being used by a number of traders. Most of the respondents as indicated in Table 4.8 were aware of terms and conditions and paid their credit in time. However, a large number of business persons did not qualify for more trade credit in one year, and trade credit was vital in improving the capital levels. It was further observed that there is also a significant positive relationship between trade credit and financial performance (p=.008<0.01 at r=.365) implying that SMEs that receive trade credit have high financial performance and vice versa.

Finally, the study established that a few traders obtained bank overdraft and never used bank overdrafts to finance their business. A few who used bank overdrafts reported that these overdrafts have increased their working capital. The results also showed that there is no significant relationship between bank overdrafts and financial performance (p=.887>0.01 at r=.020) implying that SMEs financial performance is not necessarily influenced by bank overdrafts. It was recommended that SMEs should improve their management of bank loans so as to avoid the fall in their financial performance and banks are expected to be socially responsible, support local communities and ensure adequate supply of credit.

5.2. Conclusions

According to the findings, the study concluded that bank loans as a form of credit facility positively affect financial performance of SMEs, trade credit also positively affected the financial performance of SMEs most especially through widening sales and customer flow. However, it was concluded that bank overdraft were not commonly used to finance SMEs. For a few SMEs who which received bank overdrafts, there was no significant effect on the financial performance of the SMEs. The study finally concluded that credit facilities affected financial performance of SMEs differently.

5.3. Recommendations

The bank loans analysis revealed a positive relationship with financial performance therefore it is recommended that SMEs should improve their management of bank loans so as to avoid the fall in their financial performance.

Bank loans management plays a major role in the SMEs to maintain the financial performance. Bank are expected to be socially responsible, support local communities and ensure adequate supply of credit to all legitimate businesses and consumers to price those loan reasonable in line with market determined rates without jeopardizing the viability of the institution.

From above findings, it is recommended that management of SMEs should enhance their capacity in credit analysis, appraisals and loan administration. Clear credit and loans policies for SMEs should be established. Management also is required to make sure that the terms and conditions are adhered to in loans approval by the management.

5.4. Further Areas of Research

The study identified the following areas for further research:

- Investigating the effect of credit facilities on business growth among traders in Kibuye market
- The role of SACCOs in providing financial services to SMEs in Kibuye Market
- The other factors that influence the financial performance of SMEs.
- The other credit facilities needed by Small and Medium Enterprises in Uganda.
- Lastly there is need to examine the effect of the nature of business type on financial performance of SMEs.

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APPENDICES

Appendix I: Sample size determination using Krejice Morgan table

Table 3.1

Table for Determining Sample Size of a Known Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*

Appendix II: Questionnaire

Introduction

I am Nalugya Pamela Lydia a student from Uganda Martyrs University pursuing a degree in Business Administration and Management. I am conducting research on **credit facilities and financial performance of SMEs"**. You have been chosen to participate in this research and the information you provide will be used for academic purposes only. The highest level of confidentiality and anonymity will be used to protect the information given

SECTION A: Demographic Characteristics

Tick / fill in the most appropriate answer.

1. Gender:

a) Female ☐ b) Male ☐

2. Highest level of education qualification attained

a) Primary level ☐ b) secondary ☐

c) Degree ☐ d) diploma ☐

3) Age

a) Below 25years ☐

b) 25-35years ☐

c) 40-50 years ☐

d) 50years and above ☐

4) How long have you been in business?

a) 1-5years ☐

b) 6-10 years ☐

c) 10 years and above ☐

5: State whether you are an employee or owner of the business

Employee ☐ Owner ☐

6) 5: What category of business do you deal in?

Retail business	Garments	Restaurants	Tailoring	Agricultural products

In section B and c, please indicate the extent to which you agree or disagree to the following statements' by ticking the appropriate space provided.

Strongly disagree	**Disagree**	**Not Sure**	**Agree**	**Strongly agree**
1	**2**	**3**	**4**	**5**

SECTION B: Bank loans

Statements	**SD**	**D**	**NS**	**A**	**SA**
Bank loans have increased my sale volumes					
I can afford the terms and conditions of the bank loans					
The timeframe given for the bank loan is enough					
The bank loan size I get is adequate					

SECTION B: Trade Credits

Statements	**SD**	**D**	**NS**	**A**	**SA**
I always use trade credit facilities into my business					
I am aware of the terms and conditions attached to trade credit					
I always pay trade credit on time					
I always qualify for more trade credit facilities to run my business					
My capital would be small without trade credits					

Bank Overdraft

Statements	SD	D	NS	A	SA
I have all the qualifications to be given a bank overdraft					
I use bank overdraft to finance my business					
Bank overdrafts have increased my working capital					
Bank overdraft has helped me in keeping track records of my business					
Bank overdraft has ensured that timely payments are made					

SECTION C: Financial performance

Statements	SD	D	NS	A	SA
The profit levels of my business are increasing					
Has liquidity increased					
Sales volume of my business has increased					
My business has continuously expanded					
I always get excess on my income					

Appendix III: Interview Guide

The Interview I am conducting is basically aimed at obtaining qualitative information to compliment the quantitative information. Information given will be treated with utmost confidentiality.

1. What credit facilities have you used for your business?

………………………………………………………………………………………………………
……………………………………………………………………………………………………

2. How have the credit facilities helped in your business?

………………………………………………………………………………………………………
……………………………………………………………………………………………………

3. What challenges have you faced in using credit facilities?

………………………………………………………………………………………………………
……………………………………………………………………………………………………

4. What are the methods used by the credit institutions in relation to small and micro enterprises?

……………………………………………………………………………………………………
…………………………………………………………………………..……………………

5. Are credit facilities important in the financial performance of your business?

………………………………………………………………………………………………………
……………………………………………………………………………..……………………………
……

THANKS FOR YOUR TIME