MICRO FINANCE INSTITUTIONS CREDIT TERMS AND PERFORMANCE OF SMALL MEDIUM ENTERPRISES

CASE STUDY OF NATEETE MARKET - LUBAGA DIVISION ALONG KAMPALA-MASAKA ROAD

BY

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2012-B022-20034

A DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION AND MANAGEMENT OF UGANDA MARTYRS UNIVERSITY

2015

DEDICATION

This research is sincerely dedicated to my beloved parents Mr. Kawuma David and Mrs. Harriet Kawuma, my beloved children Dina and Desmond, my sisters Lillian and Dorothy and my brothers Mathias and George.

ACKNOWLEDGEMENT

I would love to thank the almighty God for all great and wonderful things he continuously grant me. However I am indebted to the following for their support and encouragement during the difficulty time when I carried out this research.

My supervisor Mr. Kimera Jude deserves special thanks for his guidance, insights, ideas, and the encouragement throughout this research. Undertaking work of this nature would have been impossible without his support, patience, time and energy.

Great thanks to my family for their love and enduring encouragement and support especially to lovely mum and dad who were there for me always. Not to forget my little sister Nakamatte Dorothy, all she deserves is countless gratitude for her help in so many different ways during this journey. For my lovely friends, Denis, Rhona, Hadijja , Arnold and those with whom we toiled up to this final level, for their ceasing encouragement through this course and the research process.

I also express my sincere gratitude to the members of various businesses who were very supportive and cooperative to me by availing the necessary information needed for the study.

MAY THE ALMIGHTY GOD BLESS YOU ABUNDANTLY!

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List of acronyms

MFIs: Microfinance institutions

SMEs: Small and Medium Enterprises

UGx: Uganda Shillings

SPSS: Statistical Package for Social Scientist

CAMCCUL: Cameroon Cooperative Credit Union League

NGOs: Non-Government Organizations

GDP: Gross Domestic Product

BDS: Business Development Services

UN: United Nations

ABSTRACT

The potential of small and medium enterprises (SMEs) in promoting economic growth in both developed and developing countries is widely accepted and documented by both scholars and policy makers. Lack of access to sufficient financing for these SMEs, especially in developing countries has been identified as a major bottleneck in realizing this potential. MFIs credit is the one of the major ways of addressing the challenge of inadequate findings that exists in the SMEs sector and this is done basing on the MFIs credit terms.

The purpose of the study was to examine the relationship between micro finance credit terms and performance of Small and medium enterprises, a case study of Natete market, located along Kampala-Masaka road in the heart of Natete trading center. The study had three objectives; to examine the effect of MFIs credit policies on performance of SMEs, to find out the effect of interest rate on performance of SMEs and to establish a relationship between collateral security and performance of SMEs in Natete market.

A case study design was used in the study that involved a sample of 63 respondents drawn from a study population of 75 respondents among the SMEs in Nateete. SPPS was used to analyze the quantitative data to develop tables and a figure. The study was also descriptive in nature and collected both primary and secondary data which was later used to establish the correlation between the two variables.

The findings from the study revealed that Micro finance institutions credit terms affect the performance of their businesses and the employees believed that MFIs should largely rely on standardized credit scoring techniques coupled with the terms and conditions that are perceived to protect their loans since at times they appear as burden to the borrowers. The study showed a highly positive relationship between MFIs credit terms and performance of SMEs which was evidenced by the Pearson correlation of 0.981* and significance level =0.003.

The recommendations include, MFIs should improve on their credit terms so as to enable them get more clients hence improving on their performance as well as performance of SMEs since they get both long and short term loans to increase on their working capital, the interest rates offered on each kind of a loan should be favorable so as to encourage the owners of SMEs to borrow more and collateral security on the loan amount should be affordable and appropriate to the loan amount so that people are not discouraged from borrowing.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This study is going to cover the role played by microfinance institutions credit terms on the performance of the small and medium enterprises. Prior researches have shown that microfinance institutions credit terms did increased firms' performances and operations efficiency. Access to credit facilities is the main constraint of SMEs in Uganda and limited access to capital to meet their operating working capital and long term investment. (Wanja, 2009).Thus, it is crucial for SMEs to adopt microfinance credit terms so as to enhance their business operations capability and efficiency.

1.1Background of the study

The concept of micro-financing arose out of the need to provide to the low-income earners who were left out by formal financial institutions. The practice of micro-credit dates back to as early as 1700 and can be traced to Irish Loan Fund System which provided small loans to rural poor with no collateral. Over the years, the concept of micro-finance spread to Latin America, then to Asia and later to Africa. The today use of the expression micro-financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the micro-finance pioneer Mohammad Yunus, were starting and shaping the modern industry of micro-financing (Mwangi, 2011).

Bran and Woller (2010) carried out a study to establish the effects of microfinance institutions in India. The study concluded that microfinance institutions have brought better psychological and social empowerment than economic empowerment. The study further recommended that the impact of microfinance is commendable in courage, self-confident, self-worthiness, skill development, awareness about environment, peace in the family, reduction of poverty improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate. As a result of participation in microfinance institutions, there is observed a significant improvement of managerial skills, psychological well-being and social empowerment.

Nilsson (2010) conducted a study to investigate the impact of micro finance institutions (MFIs) on the development of small and medium size businesses (SMEs) in Cameroon. The study adopted a case study approach that involved CAMCCUL – (Cameroon Cooperative Credit Union League). The study concluded that microfinance institution is an important asset to developing countries since it is able to cater for financing needs of the very poor in the society.

A number of studies have been conducted on microfinance institution services. Copstake, et.al (2000) did a study on the impact of microcredit on poverty in Zambia. The programme was not directed towards the poorest business operators but one third of the clients who were below national poverty line. Those who graduated from first to a second loan on average experienced significant higher growth in their profit and household income, as compared to other similar business operators. The borrowers also diversified their business activities more rapidly. However some borrowers were worse off especially among the 50% or so who left the programme after receiving only one loan.

Historically, microfinance institutions in Africa have developed in different stages across the region. Financial intermediaries such as cooperatives, rural and postal savings banks pioneered the industry in the 1970s, especially in West and East Africa. In the 1980s and 90s, the sector saw a number of donor-supported credit-only non-governmental organizations (NGOs) develop and sometimes transform into new types of non-bank financial institutions by the end of the 90s. Today West Africa is dominated by credit cooperatives, while regulated non-bank financial institutions stand out in East Africa, and Southern Africa is mainly served by a large**.** (Mokaddem L, 2009).

Alarape (2007) did a study to examine the impact of owners/managers of small business participating in entrepreneurship programs on operational efficiency and growth of small enterprises in Nigeria. The study was a cross-sectional analysis of impact of exposure of owners managers of small businesses on their performance of operational efficiency and growth rate. The data was collected from primary and secondary sources. Both descriptive and inferential statistics were employed for the analysis. The findings were that small business whose owners, managers had experience of participating in entrepreneurship programs exhibited superior managerial practice, had higher gross margin rate of growth than small businesses whose owner managers did not have superior experimental learning. This had a practical implication that there is need to improve managerial practice of small businesses through exposure of owners/managers to entrepreneurship programs in order to enhance their performance and transition to medium and large business.

MFIs in Kenya were established using either an NGO or a Savings and Credit Cooperative Society Framework. MFIs have been important sources of credit for a large number of low income households and SMEs in the rural and urban areas of Kenya. Wambugu(2007). MFIs gained prominence in Kenya due to the fact that the formal banking sector since independence up to late 2000 regarded the informal sector as risky and not commercially viable. Ogindo(2006). The MFIs developed and offered new, innovative and pro-poor modes of financing low-income households and SMEs based on sound operating principles. Since their inception, MFIs have greatly contributed to social economic empowerment to the beneficiaries and their dependants. Kamau (2010).

A small business is an enterprise that is independently owned and operated with a number of 800,000 SMEs operational in Uganda and Constitute at least 90% of Private Sector mainly in trade, agro-processing and small manufacturing. They contribute up to 75% of the GDP, employing approximately 2.5 million people (Wikipedia 2009).employees of less than 5 but with a maximum of 50 employees with the value of assets, excluding land, buildings and working capital of less than Ug Shs. 50 million and the annual turnover of between Ugx. 10-50 million. A medium sized enterprise is considered a firm, which employs between 50-100 workers (Kasekende and Opondo, 2003).It is estimated that there are about 800,000 SMEs operational in Uganda and Constitute at least 90% of Private Sector mainly in trade, agro-processing and small manufacturing. They contribute up to 75% of the GDP, employing approximately 2.5 million people (Wikipedia 2009).

In a country like Uganda, the economy is supported mainly by SMEs contributing about 90% of the private sector production. SMEs are the prime source of new jobs and play a crucial role in income generation, especially for the poor. However SMEs by the sheer limitation of their size and resources are highly dependent on Business Development Services (BDS) to provide capacity building and support their business growth in areas such a straining, advice, information, business planning, marketing, technology, communications and other services. (UIA 2008).

The sustainable growth of the Ugandan economy is directly related to the rate of enterprise creation and development. This in turn depends on the ease with which SMEs can be started and financed, given their large contribution to the national economy. Some of the critical constraints facing SMEs in Nateete market have been widely acknowledged to be a lack of access to enough credit (UN, 2002) that's to say when a lender fails to make a loan of any amount to a borrower even if the borrower is willing to pay a higher interest rate or when the lender is willing to make a loan but restricts the size of the loan to less than the borrower would like because credit rationing and harsh credit terms, conditions and standards which make the loan procedures long and difficult (Nahamya, 2009).

It is estimated that they are about 800,000 SMEs in Uganda. The majority of which are located in rural areas and on the outskirts of urban areas, producing goods and services consumed not of this middle class. In Kampala, these enterprises are located in Kasubi, Katwe, Ntebe, Wandegeya, Natete and Kibuye and they produces items such as steel windows, steel gates and funitures (Nahanya 2002).

Nateete Market is a market in Kampala, Uganda, located in Rubaga Division at the foot of it sells fresh food, textiles, shoes and cheap electronics. It stands as the oldest developed market in Uganda which was leased to the vendors and traders in July 2007 (Nahamya, 2009). Micro finance institutions have served a better avenue for providing microfinance services to the disadvantaged members of society and SMEs in Nateete market, than the well-established institutions (Parikh, 2006).

1.2 statement of the problem

Without finance, SMEs cannot acquire new technologies, compete in the global market or establish linkages with larger firms and insufficient domestic savings is often mentioned as contributing to the lack of financing for SMEs (UN, 2002). It is against this background therefore, that the researcher is trying to find out whether there is a relationship between micro finance institutions credit terms and the survival of SMEs in Nateete market. Despite various measures have been put in place by MFIs operations to overcome the challenges of SMEs in Nateete market, still vendors and traders lack collateral securities which MFIs need in order to give out loans and this in turn rises the interest rates charged on loans which scares away traders and vendors from borrowing (Nakaweesi, 2008). It is thus important to analyze the effect of microfinance institutions credit terms and performance of SMEs level in Uganda.

1.3 Purpose of the study

- To establish the relationship between MFIs credit terms and performance of SMEs in Natete market.

1.4 Specific objectives

- To examine the effect MFIs Credit terms on performance of SMEs in Natete market.
- To examine the effect of interest rate on performance of SMEs in Natete market.
- To establish the relationship between collateral security and performance of SMEs in Natete market.

1.5 Research questions

- What is the effect of interest rate on performance of SMEs in Natete market?
- What is the effect of MFIs credit policies on performance of SMEs in Natete market?
- Is there any relationship between collateral security and performance of SMEs in Natete market?

1.6 Scope of the study

1.6.1 Content scope

The study focused on microfinance institutions credit terms as the independent variable and performance of SMEs as the dependent variable. It aimed at establishing the relationship between the two variables. Under microfinance credit terms the study was restricted on collateral security, loan period and interest rate. On the other hand, SMEs performance was restricted on are return on capital employed, net profit margin and capital size.

1.6.2 Time scope

The study covered a period of 2014-2015 and it concentrated on the past information.

1.6.3 Geographical scope

The study will be carried out among the selected SMEs of Nateete market, located in Lubaga Division along Masaka road in Kampala District and the data is to be collected from the traders, vendors and loan officers of the different microfinance institutions operations around Nateete market.

1.7 Significance

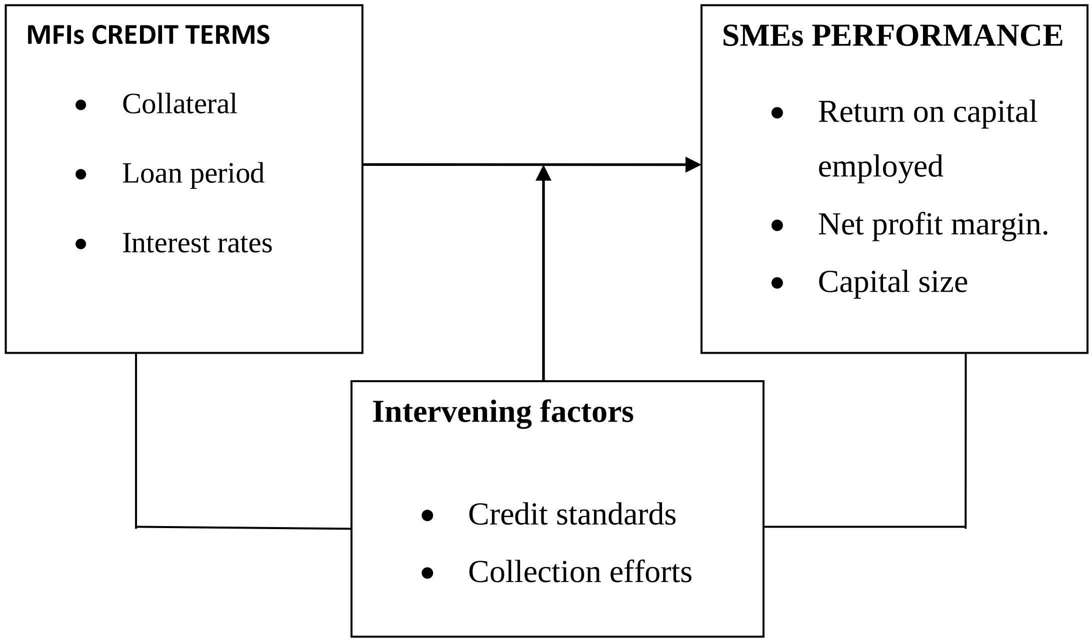
The findings of the study will highlight the areas of credit terms that may need to be modified by the policy makers of micro finance institutions.

The study will help owners of small and medium size enterprises to appreciate the relevance of microfinance in the survival of their businesses in terms of loan acquisitions, advisory and other opportunities

The findings of the study will help implementers of government programmes on SME development to design favorable policies for their survival.

The research will also benefit the future researchers who will carry out research about the same topic of micro finance credit terms and SMEs performance and will learn more about the relationship that exists between the two variables and the findings of the study will act as literature review for the future generation.

1.8 Conceptual framework



Source: Adopted from Pandey (1995) and modified

1.9 Definition of key terms

Collateral: this refers to an asset pledged by a borrower to lender usually in return of a loan. The lender has the right to seize the collateral if the borrower defaults on the obligation.

Interest rate: the annualized cost of credit or debt-capital computed as a percentage ratio of interest to the principle.

Credit terms: this refers to the standard or negotiated terms that control the monthly and total credit amount, maximum time allowed for payment, discount for cash or early payment and the amount of rate payment penalty**.**

Capital size: this refers to the net worth of the business that is to say the amount by which its assets exceed its liabilities.

Net profit margin: this is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends have been deducted from a company's total revenue.

Return on capital employed: this refers to profitability ratio that measures how efficiently a company can generate profits from its capital employed by company net operating profit to capital employed.

1.10 Conclusion

Micro finance institutions provide financial services to their clients such as savings and credit services to finance the informal sector in developing countries. They provide access to capital on smaller scale and enable poor people to engage in productive economic activities and thus contribute to the development in low income population strata. This section has provided an introduction, background, objectives, significance of the study, problem statement and well explained conceptual framework. The next chapter provides a deeper analysis of microfinance credit policies and performance of SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reveals major existing literature on MFIs credit terms and performance of SMEs. It is done mainly from the survey already conducted in the field of MFIs credit policies and performance of SMEs.The area of inquiry of this research is cross disciplinary, therefore the literature from each area is initially considered independently, prior to developing a conceptual framework for the research, and it also includes the necessary details about MFIs credit terms and performance of SMEs from a strategic perspective.

2.2 Theoretical review (Theories of Micro-Finance)

2.2.1 Women empowerment Theory

Cheston and Kuhn (2002) talk about the theory of empowerment. The theory indicates that women account for nearly 74% of the 19.3 million of the world's poorest people now being served by microfinance institutions. Most of these women have access to credit to invest in businesses that they own and operate themselves. The vast majority of them have excellent payment records in spite of the daily hardships they face. Contrary to conventional wisdom, they have shown that it is a very good idea to lend to the poor and to women. Financial self-sustainability paradigm: The main consideration in programme design is provision of financially self-sustainable microfinance services to large numbers of people particularly micro and small entrepreneurs. The focus is on setting of interest rates right to cover costs, to separate microfinance from other interventions, to enhance separate accounting, to expand programmes so as to capture economies of scale to use group to decrease cost of delivery. Gender lobbies argue that targeting women on grounds of high women repayment rate, it is assumed that increasing women access to microfinance services will in itself lead to individual economic empowerment, well being and social and political empowerment. Poverty alleviation paradigm: The main considerations are poverty reduction among the poorest, increased well-being and community development. The focus is on small savings and loans, provision for consumption and production, group formation, etc. This paradigm justifies some level of subsidy for working with particular clients group or in particular context. Some programmes have developed effective methodologies for poverty targeting and or operating in remote areas. Gender lobbies in this context have argued for that targeting woman because of women's responsibility for households well-being. Poverty alleviation and women empowerment are seen as two sides of the same coin. The assumption is that increasing women's access to microfinance will in itself increase household income which will then translate into improved well being and enable women to bring about wider change in gender inequality.The underlying concern is gender equality and women's human rights. Microfinance is promoted as an entry point in the context of a wider strategy for women's economic and social political empowerment. The focus here is gender awareness and feminist organization. Khan (2008).

2.2.2 Games Theory of Microfinance.

The microfinance games theory also supports the idea of group lending among micro finance institutions. Many of the new mechanisms rely on groups of borrowers to jointly monitor and enforce contracts themselves .It is based on Grameen lending model of microfinance which is based on group peer pressure whereby loans are made to individual groups of four to seven

Group members collectively guarantee loan repayments and access to subsequent loans is dependent on successful repayment by all group members. Payment is usually made weekly. The groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as Grameen Bank (Bangladesh) that use this type of microfinance model. The model has also contributed to broader social benefits because of their mutual trust arrangement at the heart of group guarantee system and the group itself often becomes the building block to a broader social network. Ledge wood (1999). However, group based mechanisms tend to be vulnerable to free riding and collusion. Inefficiencies are well known to emerge in similar contexts .Gruber (2005)

2.2.3 Uniting theory of microfinance

The uniting theory of micro finance emphasizes on joint liability. Ghatak and Guinnane (1999) reviewed the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit constrained borrowers. They established that all the theories have in common the idea that joint liability can help alleviate the major problems facing lenders i.e. screening, monitoring, auditing and enforcement by utilizing the local information and social capital that exists among borrowers under explicit joint liability, when one borrower cannot repay a loan, group members are contractually required to repay instead. Such repayments can be enforced through the threat of common punishment typically the denial of future credit to all members of the defaulting group or by drawing on a group savings fund that serves as collateral. Second, the perception of joint liability can be implicit. That is borrowers believe that if a group member defaults, the whole group will become ineligible for future loan even if the lending contract does not specify this punishment.

2.2.4 Financial sustainability theory

Long-term survival and sustainability is critical for an MFI in being able to reach its target clientele and cover administrative and other costs. While social goals of reaching the poorest and poverty alleviation are valid, sustainable standing on one's own feet is as true for low income households receiving microfinance as for microfinance itself. Sustainability for the microfinance has internal and external implications. Internal in terms of deposit and savings mobilization, financial performance, staff motivation, loan administrative costs etc. while external in terms of availability of funds for loan disbursement, grant for community organizing (Morduch 2002).

2.2.5 Poverty alleviation Theory

The pressing need for rural economy is to create jobs for a large unemployed and under employed labour force. It is customarily argued that jobs can be created either by generating wage employment or by promoting self-employment in nonfarm activities. Creation of employment requires investments in small working capital. Unfortunately income from other sources is so low that they cannot generate investible surplus on their own. Thus obtaining credit under certain circumstances can help the poor accumulate their own capital and thus improve their living standard through the income generated from investments. Wahid (1994).

2.3. Conceptual Review

2.3.1 MFIs credit terms

Robinson,(1998) defines microfinance as a development too that grants or provides financial services and products such as very small loans, savings, micro leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance.

The term microfinance can also be defined as provision of financial services to low income clients including the self-employed. Financial services generally include savings and credit; however some finance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence and training in financial literacy and management capabilities among members of a group (Ledgerwood (1999). not require ongoing subsidies. Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology. Social services that focus on advancing the welfare of micro entrepreneurs include education, health, nutrition, and literacy training. These services require ongoing subsidies and are always provided by NGOs or the state (Ngehnevu and Nembo, 2010).

Microfinance, loosely defined by Woller and Woodworth (2001) as programs that extend small loans to poor people for self-employment projects that will generate income. It was first attempted with the creation of the Grameen Bank in Bangladesh in 1983. Since that time the microfinance movement has gained both momentum and success, with thousands of MFIs operating in almost every county in the world (Woller and Woodworth 2001). Today, tens of millions of people have been on the receiving end of microfinance loans, with billions of dollars of outstanding loans at any given time.

Credit terms are considered as an important part of Microfinance lending programme. The loan terms affect the repayment schedule, the revenue to the MFIs, and the financing costs for the client and the ultimate suitability for the use of the loan. The closer an organization matches the loan terms to its clients' needs, the easier it is for the client to carry the loan and more likely that the repayment will be made on time and in full, (George, 2008).

According to Dumba (1997), MFIs refers to economic development approach intended to benefit the low income groups by providing financial services that are not obtained from other formal financial institutions, financial services generally include savings and credit facilitates. However, some microfinance institutions provide payment services and insurance in addition to financial services.

According to Graham et al (1990) microfinance refers to the provision of financial services to the low- income earners who do not earn or obtain their services from the formal financial institutions because their business saving levels and credit needs are very small.

According to the American Bankers' Association (0021 Booklet), credit refers to borrowed money. Typical forms of credit include credit cards, personal loans, overdrafts and home loans. These terms also refer to the debt repayment of your agreement with a creditor, such as 60 months, 48 months in form of duration.

Anderson (2002) contends that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. It is in the terms of MFIs that in order for the surplus funds to be invested, credit-issuing procedure must be adhered to, to achieve efficiency in institution's management hence the need for credit terms.

Organization for Economic Co-operation and Development (OECD), (2006) indicates that MFIs are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. Macroeconomic policies may lead to excess demand for available domestic savings, while government policy may favour industrialization and/or import substitution, which effectively gives large domestic firms privileged access to finance. On the contrary, these terms frustrate the SME sector firm accessing credit because all the efforts and policies favour large borrowers at the cost of the small operators

Edminster (1990) defined credit terms as an institutions' method of analyzing credit request and its decision criteria for accepting or rejecting applications. The objective of these terms is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. Microfinance institutions employee a combination of three decision variable measures as defined by Pandey I.M (1995) credit standards, credit terms and collection efforts. Credit standards (accessibility measures) are criteria to decide the types of customers for purpose of extending credit such as capital adequacy and asset quality. Credit terms are stipulations under which credit is granted, they specify the duration of credit and terms of payments by customers such as loan period and loan size. Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.

2.3.2 SMEs

The Uganda Investment Authority (2008) defines the small and medium enterprises according to the Ugandan standards as presented below:

A Small Enterprise is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan Shillings 360 million and total assets of maximum Ugandan Shillings 360 million.

A Medium Enterprise is defined as an enterprise employing more than 50 people, annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million.

Elaina (as cited by Albaladejo, 2002) defines small enterprises as firms that employ between five and nineteen workers while medium enterprises are firms that employ between twenty and ninety nine. Therefore an SME is a business with a head count ranging from five employees to ninety nine employees. This definition appears more realistic in the African context and for purpose of this study, it will be adopted.

SMEs are arbitrary and vary significantly according to different stages of economic development and economic structures, Castel-Branco, (2003).Some analyses define them in terms of total revenue, while others use the number of employees as an indicator (world business council for sustainable development, 2007).Although SMEs definition is individual country specific and is based on size and level of economic development, there is not yet an agreed definition for SMEs in Uganda. Attempts have been made to define SMEs in developing countries, for instance Elaina (as cited by Albaladejo, 2002) defines Small enterprises are firms that employ between 5 and 19 workers while medium enterprises are firms that employ between 20 and 29 workers therefore an SME is a business with a head count ranging from 5 employees to 99 employees.

According to Kasekende and Opondo, (2003) medium enterprises in Uganda employ 50 to 99 workers while small enterprises have a minimum number of 5 and a maximum of 50 workers with a value of assets including land, building and an annual income turnover of between Ugx 10 million to Ugx 50 million.

Small enterprises are defined as business units that employ a labour force not more than 9 persons (Mensah et al, 2007, Kwasi Bruks et al, 2005; OECD, 2005). This is so because they augment government efforts to achieve economic growth and reduce poverty in rural and urban areas through the promotion of competition and dynamism to enhance the development of low and middle income economies and individual.

2.3.3 Performance of SMEs

Firm performance is a multi-dimensional concept; it may be financial or non-financial. Firm's performance can be measured by sales growth and development of new markets and products, Tadlianvini etal, (2002).A sale is the pinnacle activity, involved in selling products or services in return for money or other compensation. It's an act of completion of a commercial activity. Sales growth is often used as a measure of performance. The assumption is often made that if sales increase, profits will eventually follow, Thomas and Mason, (2007).A key determinant of success in a firm's growth is sales provided of course, that the profits and cash flows generated from sales are adequate to cover the costs incurred in generation of the revenue.

According to Sudhir& Subrahmanya (2009) & Dalrymple (2004), growth over a period of time can be used for performance measurements of SMEs since this, rather than short term performance, will reflect the long-term strategy of the firm. The researchers (Sudhir &Subrahmanya) probed how far Indian SMEs carried out technological innovations as a result of technology and other related inputs acquired through subcontracting relationships and achieve growth using the case study approach covering two SMEs in Bangalore. It was established that customer requirements were the major causal factors while internal factors such as self-efforts and in-house technical capability along with external factors in the form of technical inputs, suggestions and initiative from Large Enterprises (LE) customers were the sources of innovations for these SMEs. Because of these innovations, SMEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of SMEs performance.

Covin and Slevin (1991) posit that SME performance is a fundamental feature for SME survival and sustainability where performance factors such as microfinance credit policies have been found to spur business expansion, technological progress, and wealth creation in both start-up and existing firms hence being a key aspect of management of the organization.

According to Brem et al (2008), Performance Measurement Systems (PMS) in Small- and SMEs shows that the main contributions focus on the development of theoretical models, but not on guidelines for practical implementation. In this context, Brem established an important neglected aspect as the general fitness or readiness of an SME to implement a PMS. In this aspect, a case study in a German Small Medium Enterprises was conducted and the findings indicate that the existence of specific contingency factors - Corporate Strategy, software based Enterprise Resource Planning (ERP) and Activity Based Costing (ABC) – strongly supports the successful implementation of a PMS and its later use.

2.4 Factors responsible for performance of SMEs

2.4.1 Informal sources of funds

Kasekende (2001) and Ego (2002), note that, informal sources are not enough to support the working capital and long term investment needs of SMEs because of high levels of poverty which limit the supply of funds in the informal economy. This makes demand for bank credit by some of SMEs a matter of necessity rather a matter of choice as they have no option but to rely on microfinance credit in order to supplement their pool of funds for working capital and growth needs. Credit for working capital requirement is generally required by most of the SMEs across the micro, small and medium spectrum of business.

2.4.2 Initial start-up capital

According to Mutesasira et al (2001), Uganda Bureau of Statistics (2003, Stevenson and St. Onge 2005) and Uganda Private Sector Foundation (2005) and all point out that initial startup capital for most SMEs in Nateete market is obtained from informal sources like; personal savings, reinvestment of profits, loans and grants from relatives and friends, liquidation of family assets and reciprocal asset usage agreements.

2.4.3 The packing order theory

According to this theory, the capital structure of the firm is based on the performance of the owners and managers in terms of sources of finance (Zoppa and Macmalion, 2002 and frank and Goyal 2003). According to Fama and French (2002), the packing order theory stipulates that firms prefer to use funds in a descending order of owners' equity, retained profits, debt and then external equity. As Moyer and Kishman (1996) and Adelrgaw (2002) argue, firms are expected to prioritize their sourcing of funds for assurance of last resort with internal self-financing sources being the most preferred.

2.4.4 Management practices

According to Ssempebwa (1992), the management problems of SMEs stem from factors such as record keeping, sufficient training, and decision making not informed by sound analysis. It is clear that vibrant SMEs can bring great benefit to developing countries (through these impacts are often overlooked due to the SMEs "missing middle" status).

2.5Actual review

2.5.1 MFIs credit terms and performance of SMEs

As Chowdhury (2002) emphasizes that favorable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help SMEs keep enough finances to run their working capital activities, it helps them improve their performance because they will always have an opportunity cost of reinvesting their proceeds in order to generate more revenues something that increases on their return on capital employed. In return, their (SME) net profit margin will raise something that lifts the capital size APEC (2003).

According to Omeke, M (2000), in order for MFIs to remain a float, they need to realign and reposition themselves at the market place. MFIs must adopt and come up with varied innovative market survival strategies to avoid being edged out by the big boys (Ruffing, 2001). This calls for diversification and differentiation of products offered, restructuring of the operational and management systems and structures to respond to the modern technological change to enhance quick decisions making, widen and deepen the outreach levels to target more than underserved and agricultural sector. (Hatego, 2007).

Ssendawula, (2002), says that, with the significant roles played by SMEs in Uganda. He also calls on SMEs to understand why banks are discouraged from lending to them. In a key note, address the symposium on modalities for financing SMEs in Uganda but he also requested banks to develop more positive attitude towards SMEs.

MFIs should capitalize on the already competitive advantage and long relationship they have had with the SMEs to have a cutting-edge over the other financial operations. All they need to do is streamline and improve on the speed and the quality of service delivery by providing demand driven and market response services and or products.

Omeke (2010) stressed that Microfinance Institutions provide a wide range of financial and non-financial services to small and medium entrepreneurs, loans, savings mobilization, micro-insurance, money transfer and financial education among others and that in Uganda, the microfinance industry has been recognized for its major contribution towards the fight against poverty and improvement of household welfare.

In addition to that several semi-urban and rural people have been able to participate in the livelihood activities through access to microfinance services. This however requires a great deal of cooperation between the clients and the lenders so as to ensure that there is a good working relationship.

A review of loan characteristics, most terms, condition and lending procedures applied by MFIs in Uganda are not appropriate to SME needs. It has been argued that some MFIs often charge high fees for their services and use complex intimidating process and procedures with little information exchange (Kasekende 2001 and Mugume 2003).It has also been pointed out that because of stringent lending requirements, MFIs often fail to offer the amount of loans that SMEs require and usually no explanations are given to the borrowers (Bank of Uganda, 2004) the likely outcome of such MFIs' practices is to create a category of discouraged borrowers who are afraid to approach them for fear that their loans applications will be turned down as argued by Orser et al. (1999).

MFIs are the main source of external finance for SMEs. There are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. Macroeconomic policies may lead to excess demand for available domestic savings, while government policy favour industrialization and/or import substitution, which effectively gives large domestic firms privileged access to finance. On the contrary, these terms frustrate the SME sector firm accessing credit because all the efforts and policies favour large borrowers at the cost of the small operators.

In their arguments, Ozkan and Ozkan (2004) maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing MFI relationships with SMEs reduces information asymmetry and agency problems, since valuable information about SME quality can be disclosed.

Establishing stable links with financial institutions can improve both the availability and the conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms, insofar as contact between the MFI and SME can improve the availability of funds and lower their costs.

Micro and medium businesses in Uganda do not leave to celebrate their first anniversary (Hatega, 2007). SMEs in Uganda have the most difficult in accessing finance. As in most developing countries, SMEs forms a significant part of the Ugandan economy. Never the less they face a number of problems, including accessing finance from formal sources, which is often considered to be the most important problem (UN, 2002). Over the past decades, microfinance has emerged as an effective vehicle for Small enterprises by offering financial services (Ruffing, 2001).

When assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because they (SMEs) do not have adequate or no collateral and their performance ends up being affected.

In a study by Fidrmuc et al (2009) about banks and SMEs in emerging market, it was established that there is a lot of uncertainty about the risks involved in lending. The study used a unique unbalanced panel of 700 short-term loans made to SMEs in Slovakia between January 2000 and June 2005. It was found out that of the loans granted, on average 6.0 per cent of the firms defaulted. This affected the relationship between the banks and SMEs hence deflecting the possibilities of accessing finances in future because the terms would change and become more stringent against the borrowers for fear of more defaults. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector.

Swope (2005) says that Microfinance is a relatively new concept that has grown exponentially in the last decade as investors, donors and banks realize the potential for capital that can be made by banking to the poor. He says that in the past, it was assumed that poor people were unable to obtain loans since they were only capable of taking out small loans and had no collateral. He continues that Grameen Bank in Bangladesh, the first to start banking to the poor, proved that not only are the poor bankable but microfinance in the informal sector can be quite profitable and since then microfinance institutions have sprung up all over the world and reached millions of poor people.

Microfinance institutions belong to a wider group of financial institutions regarded as semi-formal financial institutions. These are institutions which are registered as non-government organizations performing financial functions of lending and taking deposits (Microfinance Act 2003).

The importance of financial services to SMEs cannot be over emphasized. SMEs particularly those in developing countries need a range of enabling and sustainable financial services in order to enable them effectively exploit abundant resources in their areas and fulfill their productive potential(Nwanna, 2000). It has however been noted by scholars like Hogan (2001) that financial service sector focuses its success on the effective management of credit risk. This has therefore triggered financial services providers to put more emphasis on credit terms while lending to clients especially the SMEs borrowers. This is because MFIs consider lending to small businesses as profitable though a risky business. Providing financial services to large businesses is considered to be more costly and difficult. This leaves MFIs with no option but to lend to SMEs though at unfavorable credit terms.

2.5.2 Interest rates and performance of SMEs

The MFIs maintained a wider interest rate spread than that prevailing in the banking sector, (Nissanke and Aryeetey, 2004). Bhuyan, (2006) noted that one of the serious limitations of the traditional MFIs is their high interest rates. *Lehmann et al* (2004) while carrying out a comparative study about microfinance effect on performance of SMEs found out that the unfavorable MFIs loan terms of lending yield a lending gap given by higher loan prices. The MFIs sustainability comes from poor paying high interest rates- not out of income, but out of capital that erodes fast in proportion to the interest rate. The borrowers would go bankrupt over a period once the capital runs out, (Srinivasan, 2009).

Cohen (2002), show that the higher interest rates induce firms to undertake projects with lower probability of success but higher pay offs when they succeed. They further indicated that since the financial institution is not able to control all actions of borrowers due to imperfect and costly information, it will formulate terms of the loan contract to induce borrowers to take actions in the interest of the financial institution and to attract low risk borrowers.

Besley (2002), indicated that an increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. Aryeetey and Udry (2005), assert that in group lending, the financial intermediary reduces the recurrent transaction costs by replacing multiple small loans to individuals by a large loan to a group. This enables financial intermediaries to bank with the poor loan applicants who would not receive any loans under individual loan contract due to excessive unit transaction costs.

Rajan, (2002) indicated that Micro finance institutions (MFIs) have an element of business and therefore they can charge an interest on their money. Interest rates can either be charged on a declining balance method or a flat rate. In a declining balance method, the interest is charged on a flat balance rather than a declining balance. In such a case the client pays interest rate on the initial loan amount disbursed rather than the current outstanding balance.

The interest rate has an effect on the use, repayment of the loan and the overall performance of the business. When the interest rate charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest (Anderson, 2002).

In a declining balance method, the interest is charged against the outstanding loan balance. In the flat interest rate, interest is charged on a flat balance rather than a declining balance. In such a case the client pays interest rate on the initial loan amount disbursed rather than the current outstanding balance. The interest rate has an effect on the use and repayment of the loan, and the overall performance of the business. When the interest charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest. This affects the business performance since the borrowed funds are not actually used for the purpose they were meant for. Kabuchu (1999) noted that the Interest rate of MFI is not charged on a declining balance but on the overall loan amount. She further noted that the Interest charged by MFls is too high up to 28% per month. This interest rate is relatively high to be met by a number of small businesses such that small business owners pay the principal as an interest. This observation is in agreement with Rugasira (1999) who stated that the Interest rate of MFIs is 30% over the total amount borrowed which must be paid in 4-6 months with a grace period of one week. However, according to the World Development Report (1990) it was agreed that programs with high borrowing rates and strict terms stand a better chance of survival.

Despite its perceived importance in generating employment and production, the SMEs in Uganda have very inadequate access to credit. This is because of the high interest rates charged on amounts borrowed from banks and Financial Institutions. Most of their financing therefore comes from own savings and informal credit markets controlled by NGOs and community welfare groups. A few SMEs have also been able to obtain credit from some micro financing institutions and government initiated projects for poverty eradication, (Agaba, 2008).

The issue of high interest rates being charged on borrowers of funds has posed a great problem to owners who can only borrow in small amounts. This has led to either closure or stagnation of their business and those who have not begun the business end up not starting one because of lack of lack of capital.

SMEs in Uganda have been given low priority. Despite recent attempts to rectify the situation, our knowledge of SMEs is still rudimentary and incomplete. SMEs suffer from loss of profitability and lack of investments, which promote growth, due to poor credit offered to them and non-access to bank loans. This is due to high costs of borrowing from commercial banks and other FIs.

Until the 1960's many economists attributed the relatively small size businesses in the less developed countries to the scarcity of capital and administrative experience. It was often argued that with economic growth modern forms of large-scale production would in one sector after another supersede the small-enterprises. In order to ensure orderly transition small-enterprises were seen to deserve support. Small-enterprises as quasi-sponge for urban employment and provider of inexpensive consumer goods with little or no import contest serving an important pressure releasing and welfare-augmenting function, Kilby, (1969).

Small-enterprises also contribute to long-run industrial growth by producing an increasing number of businesses that prow up and out of the small sector. Thus the emergence of wholly modern small-enterprises Uganda industries is likely to be a presequite for any enduring industrialization in that country.

Credit markets are partly shaped by lenders' strategies for screening potential borrowers and for addressing opportunistic behavior encouraged by the inter-temporal nature of loan contracts. These problems are acute in the developing countries where information asymmetries are more pervasive especially among the resource base poor. Financial markets in such countries tend to be highly dualistic and fragmented with weak linkages between the formal and informal components. The formal segment of the markets tends to be characterized by the market imperfections demonstrated by high concentration ratios with only a small number of financial institutions exerting considerable market power. Attempts to protect depositors against corporate excesses often lead to share capital requirements that work against the need to encourage competition. On the demand side, firms choose between external and internal financial sources in consideration of the need to maximize profits, Dercon and Fafchamps, (2000).

Credit markets are peculiar as their transactions involve heterogeneous goods since the qualities of credit contracts vary due to differences in the creditworthiness of borrowers. Rather than being contemporaneous, debit transactions are also inter-temporal since credit is exchanged for a promise to repay later. Lending activities also tend to be transactions intensive and the information available to contract parties not always symmetric. The parties often possess different information on risks and profitability of projects. Intermediaries tend to have only subjective assessments of projects for which funds are sought. High transactions costs come on the way of attempts by intermediaries to procure adequate information from borrowers. These and other conditions mean that changes in the price of credit affect the quality of the debt contract and the intermediary's expected returns, Jennings (1994).

An important consequence of these peculiarities is that the outcomes of credit market equilibrium often embody some rationing, so that among seemingly homogeneous borrowers, some receive credit while others do not, even when they are willing to borrow on existing credit terms. Suppose lenders consider borrowers as homogeneous group even when they are unable to adequately determine the relative quality and risks of each borrower due to the cost of acquiring such information. Suppose further that borrowers are deficit spenders who borrow to finance expenditures in excess of initial resources schedules. Expected returns by intermediaries decline due to adverse selection and adverse incentive effects of high credit costs. One adverse selection increases loan portfolio risks. Aware of this, lenders tend to raise the price of credit to a level where expected returns are maximized. This level often excludes small, risky and costly borrowers who would have been drawn in had the price of credit been higher. To shield themselves against these effects, lenders insist on credit prices to maximize expected returns and then ration available credit accordingly, Maddalla, (1983).

In developing countries, informal credit arrangements enjoy less transaction costs and loan losses because they are restricted to close networks' that derive from kinship, neighborhoods, professions, workplaces, economic activities and other mechanisms that encourage regular interactions. They therefore offer solutions to the information and enforcement problems that formal arrangements often face. However, the volume of credit available through these informal arrangements ends to be highly limited, Mookherjee, (1999).

On the other hand, the consumption of credit tends to be inversely related not only to interest rates but also to collateral requirements. Micro businesses tend to have a poor collateral base and therefore get excluded from the credit market. Even when their asset base is rich, property rights problems reduce the collateral value of such assets. Where entrepreneurs can successfully seek out credit from formal sources, they may not bother to borrow because of limited ability to comprehend debt management and costs of borrowings, fear related to potential hidden costs, previously disastrous experiences with financial services, presence surrogates such as savings and credit associations, and cultural norms that discourage borrowing. The mere presence of financial services even within very close proximity does not therefore guarantee the demand for and use of credit. The credit seeking decision is a three-stage process, in the sense that enterprises have first to decide on whether or not they need credit. Once the decision at this level is in the affirmative an entrepreneur then decides on an appropriate source of approach. A decision has also to be made about the level of credit to seek out, Kimuyu and Omiti, (2000).

2.5.3Loan period and performance of SMEs

Pandey (1995) noted that credit period is the length of time for which credit is extended, generally stated in terms of net date. It is the period of time, which the entire loan must be repaid. The credit period affects the repayment schedule, the revenue to the MFI, and the financing costs of the client and the ultimate sustainability of the use of the loan. The closer the organization matches the loan term to its clients' needs, the easier it is for the client to carry the loan and the more likely that payment will be made on time and in full. If the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments. While a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows.

Woolcock (2002) observed that if the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows (Stiglitz and Weiss, 2007).

According to Anderson (2002), financial institutions initially focused on standard commercial loans to individuals and experienced a high volume of non-performing loans, but they later improved performance by adjusting the terms of the loans, generally to short-term (4-6 months), and retaining a compulsory up-front savings of 20 percent as a security. Jacobson (2003), indicated that the long repayment period depend on the amount of the loans since the banks have to calculate a number of objective and subjective factors of the national economy when forming the terms of credit and lending procedures.

2.5.4Collateral security and performance of SMEs

Security is also what the client offers as form of guarantee to acquire loans, and surrender in case of failure to pay. Lenders should consider security very important because it is an alternative payment in case the customer fails to pay. Rajan (2002) indicated that securities apart from land and building keep on losing value as to globalization where new technology keeps on developing therefore, credit institutions shouldn't emphasize more on collateral.

Most MFls do not insist on collateral. The group's guarantee in-group loans act as the collateral for group borrowers. The compulsory saving, which is a perquisite for borrowing, act partly as security. However, collateral is put in writing such that on default by a member, the group members can sell the given security to recover the loan. For individual loans, security is a requirement and the MFI takes security like land titles, vehicle logbooks are kept in custody.

According to Chan and Thakor (2000), security should be safe and easily marketable. The extent of the risk of primary sources of repayment failing will determine the extent to which security should be relied upon. Atieno (2009) shows that loan security is one of the important aspects of credit to the small and medium enterprises. Most lending to small – scale enterprises is security based, without any regard for potential cash flow. However, organizations lending to micro enterprises have devised alternative forms of collateral. These include group credit guarantee where institutions lend to individuals using groups as guarantors and personal guarantors where individuals are given loans based on a guarantor's pledge. Atieno (2009) further indicated that loan guarantee schemes are increasingly being implemented as a means of encouraging financial institutions to increase their lending to the risky sectors and those without the traditional formal security.

Micro credit is most often extended without traditional collateral (Wenner, 2006). He argues that if physical collateral were a requirement for borrowing, most MFIs clientele would be unable to participate due to their extreme poverty levels. Since borrowers do not have physical collateral, MFIs focus on using social collateral via group lending. Group lending encompasses a variety of Methodologies (Woolcock, 2002), but all are based on the principal of joint liability. In essence the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution.

Goldmark (2001) indicated that under joint liability each group member is made responsible for the loan of other group members. If one defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member's interest to ensure that the other members pay. Woolcock (2002), shows that social collateral also works through reputation effects on group members as necessary to maintain their social standing in the community.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter represented the set of approaches designed to gather primary data in order to explore the effect of MFIs credit terms on the performance of SMEs. This chapter focused on the description of the procedures that were employed in the study. In addition, to that, the research design, study population, sampling and sample size, data sources, tools used in data collection, measurement of variables, reliability and validation of instruments, the study area, sampling techniques, data analysis, the ethical issues challenges and study population.

3.1 Research design

The study adopted descriptive research design which involved an intensive descriptive analysis of a single entry where both qualitative and quantitative data was employed to gain an in-depth understanding of MFIs credit policy and performance of SMEs at Natete Market. Qualitative data helped to draw conclusions and recommendations; it further enabled the understanding of effectiveness and efficiency of the credit policy and performance of SMEs while quantitative design was used to evaluate facts from the field. This design was used because it excelled at bringing an understanding of complex issue, extended experience by adding strength to what was already known through previous research.

3.2 Study population

The study population comprised of all workers of SMEs in Nateete and from each business the employer and the employee were selected to provide response for the study. The population was 75derived using M.M (2005).

3.3 Area of study

The study was carried out on selected SMEs in Nateete market in Kampala, Uganda, located at the foot of Nateete trading centre. The researcher chose this area because it was convenient and had the information which was needed for the study.

3.4SampleSize and techniques

The sample size was 63 and this was generated from the table by R.V Krejcie and D.W Morgan (1970). Purposive sampling technique was used to select the sample because it allowed the researcher to acquire required information with respect to the objectives of the study. The subjects were handpicked because they possess the required information. Therefore respondents who possessed the required information were picked hence making the technique inexpensive and quick. The researcher also used simple random sampling technique. This technique was preferred because it eased the selection of a sample from a large population whereby each member of the population is given an equal opportunity to participate in the study

3.5 Data collection methods

3.5.1 Interview

The researcher held interviews with the respondents and this helped the researcher to acquire direct information which wouldn't have been acquired through the use of questionnaires. The researcher was also able to clarify unclear issues in the questionnaire to the respondents.

The respondents answered in much detail as they want. More valid information about the respondents' attitudes, values and opinions were obtained. The researcher faced a challenge of creating an appropriate atmosphere and this had to do with the place and the spirit that is to say an appealing place, relaxed atmosphere which was not easy to create.

3.5.2 Questionnaires

Semi-structured questionnaires with both open-ended and closed-ended questions about the relationship between microfinance credit terms and SME's in Nateete market were used to collect data. The questionnaires were self-administered and respondents were guided by the researcher. The questionnaire covered a wide range of areas of interest. Both attitudinal and quantitative questions were included.

3.6 Data collection instruments

The tools that the research used for collecting that included the following self-administered questionnaire and interview guide.

3.6.1 Questionnaire

The researcher used self-administered coded questionnaires on respondents from the sample. With regards to the types of the questions; the questionnaire consisted of a combination of open-ended questions and closed-ended questions. Open-ended questions were used in the first section of the questionnaire to obtain general information on the respondent. The last section of questionnaire used closed questions. The questionnaires were convenient and less time consuming. The questionnaires were piloted as and this helped refine the questionnaire so that respondents not to get problems in answering them.

3.6.2 Interview guide

An interview guide was also drafted with a set of questions that the researcher asked during the interview and these questions were structured in nature. The researcher personally recorded the provided responses as per the study respondents during the process of carrying out the interview.This instrument was useful for detailed information about the respondents' thought and helped to explore issues in depth. Interviews provide context to other data offering a more complete picture of what is happening and why.

3.7 Data source

The researcher used both primary and secondary data.

3.7.1 Primary data

Primary data was used and this was collected from the field by direct contact with the owners of SMEs. Data was collected using interviews and questionnaires with the aim of attaining data unique to the research such that until the research was published, no one else had access to it. In so doing, first hand data was collected.

3.7.2 Secondary data

The secondary data was got through the review of relevant literature from publications such as the municipal council financial reports, journal articles, textbooks and other related publications.

3.8 Data Processing and analysis

3.8.1 Data Processing

Data collected was sorted, checked for consistency and completeness at the end of each day. The data collected was coded so as to ensure proper classification of answers to questions administered. Open ended questions were categorized so as to enable easy qualitative analysis of the data collected. Quantitative data was entered and analyzed using SPSS Version 16 software (statistical package for Social Science)

3.8.2 Data analysis

Generally the analysis involved the use of special computer software packages to generate essential measures and statistics out of the data collected. This process also involved the uses of Microsoft excel and Ms Access software packages to enter analyze and tabulate data.

3.9 Ethical issues

Throughout the research process, the researcher put into consideration the ethics of observing the right to privacy, confidentiality and anonymity of research subjects and informed consent from all subjects used in the study by ensuring that the researcher only engaged respondents who were willing to take part in the study.

3.10 Limitations of the study

A number of limitations were anticipated during the collection and compilation of the report:

Some of the targeted population showed indifference and lack of willingness to respond to the questionnaires. The researcher however endeavoured to create a rapport and make appointments convenient to the respondents.

The time allowed to do this research was not enough to allow exhaustive study and obtain all the essential information for much more suitable conclusions. The problem was minimized by putting much effort on this research so as to meet the deadline.

The respondents did not want to divulge some information thinking that it was confidential. These however were assured of confidentiality and information availed to them that the research would not endanger them directly or indirectly.

Due to limited exposure and hands on experience in research, the researcher at times felt constrained. But with guidance from the supervisor hints he managed to progress.

However, despite of the above constraints, the researcher was determined and gathered enough efforts to produce quality work.

3.11 Conclusion

The purpose of this chapter is to present the philosophical assumptions underpinning this research, as well as to introduce the research strategy and the empirical techniques applied. The chapter defines the scope and limitations of the research design, sample size,area of the study, ethical consideration,data analysis and presentation and limitations.The main data collection techniques used in this research study were semi-structured interviews, and questionnaires.possible problems with data and how data was analysed were solved and finally the quality of the chosen research design was critised.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

The presentation in this chapter shows the results as tested according to the objectives of the study. The chapter begins with the sample characteristics of the respondents such as gender, age group, educational level, nature of business, period in business and numbers of employees were all presented using frequency tabulations.

4.1 Demographic features of respondents

4.1.1 Response rate

Questionnaires were issued and out of the total of 63 questionnaires issued, only 55 were filled and returned whereas 8 were not returned.

Table 1: Showing the response rate

Sub-Group	Actual no. of questionnaires	Not returned	Returned	Response rate
Employees and Employers	63	8	**55**	**87.30%**

Sources: Primary Data

Table 1 above shows that 87.30% of the respondents fully filled and returned the questionnaires and only 12.7%% never filled the questionnaires. Therefore, the data was reliable as it portrayed a higher and good percentage of response.

4.1.2 Gender characteristics of respondents

Respondents were given questionnaires to indicate the genders applicable to them that is to say male or female as stated on the self-administered questionnaire. The findings were summarized in Tables below:

Table 2: Showing gender of Respondents

Category of Respondents	No. of Actual Respondents	Gender		Total
		Male	Female	
Employees and employers	Frequency	32	23	55
	Percentage (%)	58.18	41.82	100

Sources: Primary Data (2015)

Table 2 revealed that out of the 55 actual respondents 58.2% of the respondents were male and 41.8 were female. Therefore the highest respondents of SMES male dominated compared to female and this implies that most of the SMEs in Natete market are dominated by more men than women.

4.1.3 Age brackets of respondents

Respondents were asked to show their age bracket and the following data was obtained.

Table 3: Showing age bracket of respondents

Category of respondents		Age bracket of respondents			Total
		Under 25	26-35	36& above	
Employees and employers	Frequency	17	22	16	55
	Percentage %	30.9%	40.0%	29.1%	100%

Sources: Primary Data (2015)

According to the table above, most of the respondents were in the age bracket of 26-35 years of age with 40% of the total number of respondents. Others were within the age bracket of less than25 years with a 30.9% of the total number of respondents. The least number of respondents were in the age bracket of 36 years and above making up 29.1%. The information presented above gave a clear picture of the kinds of respondents the researcher dealt with which helped her to know how to handle them respectively depending on the age bracket each one of them belonged to for purposes of effectiveness in the responses the researcher was expecting to get.

4.1.4 Marital status

Respondents were also asked to identify their educational levels and below are the responses and below are the responses:

Table 4: showing marital status of respondents

Category of respondents		**Marital status of respondents**				**Total**
		Married	Single	Widow	Divorced	
Employees and employers	Frequency	17	16	12	10	55
	Percentage %	30.90%	29.09%	21.81%	18.18%	100%

Sources: Primary Data

The table above shows that out of the 50 respondents, 17 were married making 30.90%, 16 were single making 29.09%, 12 were widows making 21.81% and 10 were divorced making 18.18% . The highest number of respondents were male were married followed by the single with 29.09%.

4.1.5 Level of education

Respondents were also asked to identify their educational levels and below are the responses

Table 5: showing education level of respondents

Category of respondents		Education level of respondents					Total
		primary	secondary	Certificate	Diploma	Degree	
Employees and employers	Frequency	5	12	12	9	17	55
	Percentage %	7.9	19.0	19.0	14.3	27.0	100%

Sources: Primary Data (2015)

Table 5 revealed that most SMEs are run by degree holders with a total percentage of 27, followed by those at certificate level and secondary level both at 19%. The others involved in the study where at primary level at 5% and diploma at 14.3%. The study reveals therefore that since most of them are educated this helped the researcher to acquire responses that are relevant and meaningful to the study.

4.1.6 Nature of the business

Respondents were also asked to identify the nature of their businesses and below are the responses and below are the responses.

Table 6: showing the nature of the business of respondents

Category of respondents		Nature of the business of respondents				Total
		Service	Product	Farming	others	
Employees and employers	Frequency	20	25	5	5	55
	Percentage %	30%	50%	10%	10%	100%

Sources: Primary Data

Table 6 reveals that the biggest number of SMEs deals in product like shoes, clothes, bags, mobile phones, home ware and so on buying and selling them. Such businesses take the biggest percentage of 50% followed by the service enterprise with 30%. Service SMEs deal in businesses such as credit extension, mobile money phone repairs and so on. Farming and others with 10 %. All the people under the umbrellas mentioned above were considered which indicates that the research made is cutting across various fields of SMEs.

4.1.7 Business longitivity

Table 7: Showing business longitivity

Category of respondents		Business longitivity			Total
		Less than 5 year	6-10 years	10 years& above	
Business longitivity	Frequency	21	19	15	55
	Percentage %	38.18	34.55	27.27	100%

Sources: Primary Data (2015)

Table 7 indicates the period various businesses have spent in operation and according to the results displayed; most of the businesses had lasted for less than 5 years of existence since those below take the highest percentage of 38.18% followed by those within the bracket of 6 – 10 years. The other groups of businesses include those in existence from 10 years and above with 27.27%. This study therefore implies that most SMEs set up do not last long enough to grow into bigger enterprises.

4.2 Findings from the objectives

4.2.1 MFIs credit terms and performance of SMEs

Table 8: showing the role played by MFIs credit terms on performance of SMEs

MFIs Credit terms	N	Mean	SD
MFIs has good customer care	55	2.56	1.239
MFIs are always concerned about how well my business is moving.	55	2.82	1.454
MFIs train us in business related skills.	55	1.84	1.032
In case of a complaint to our MFIs, they give us timely feedback.	55	2.87	1.528
MFIs inform us their new products.	55	1.96	1.138
The savings mobilized by MFIs boost the working capital of the business.	55	1.80	0.848
The benefits of the loan outweigh the costs associated with it.	55	2.53	1.526
The weekly savings affect the working capital of the business.	55	1.85	1.026
The loans as a whole have been helpful to the business.	55	1.91	1.059
The process of acquiring the loan is smooth.	55	2.80	1.471
Valid N (list wise)	55		

Source: Primary data (2015)

The findings in table 8 revealed that the respondents were in disagreement with the statement that MFIs have good customer care (M=2.56), they also disagreed that MFIs are always concerned about how well the business is moving (M=2.82), they disagreed that in case of a complaint to MFIs a timely feedback is given (M=2.87), MFIs inform their customers about their new products (M=1.96), the savings mobilized by MFIs boost the working capital of the business (M=1.80), the benefits of the loan outweigh the costs associated with it and the respondents disagreed upon this(M=2.53), they also agreed that the weekly savings affect the working capital of the business (M=1.85), the respondents also agreed that the loans as a whole have been helpful to the business (M=1.91) and the process of acquiring the loan is smooth (M=2.80). This implies that MFIs should improve on their credit terms so as to improve on the performance of SMEs given the fact that businesses get loans which enables them to increase on their working capital hence improving on their performance.

In support of quantitative research, the business owners revealed MFIs act as development tool that grants or provides financial services and products such as very small loans, savings, micro leasing, micro insurance and money transfer to assist them in expanding or establishing their businesses and this is in line with earlier revelations of Robinson,(1998) which states that MFIs provide financial services to the very or exceptionally poor in expanding or establishing their businesses.

The respondents most especially the business managers said that establishing stable links with financial institutions can improve both the availability and the conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms, insofar as contact between the MFI and SMEs can improve the availability of funds and lower their costs (Ozkan and Ozkan (2004).

On the other hand, one of the respondents revealed that" *MFIs focuses their success on the effective management of credit risk and has triggered financial services providers to put more emphasis on credit terms while lending to clients especially the SMEs borrowers*". This is line with the early revelations of Hogan (2001) which states that MFIs consider lending to small businesses as profitable though a risky business and providing financial services to large businesses is considered to be more costly and difficult which leaves MFIs with no option but to lend to SMEs though at unfavorable credit terms.

4.2.2 Interest rates in the performance of SMEs

Table 9: showing the relationship between interest rate and SMEs performance

Interest rates	N	Mean	SD
Interest rates are charged over time.	55	2.74	1.417
Interest rates are charged on flat line basis.	55	3.49	5.673
Clients are made aware of the interest rates prior taking the loan.	55	1.82	1.056
Interest rates are the same for all types of loans offered.	55	3.31	0.858
Interest rates positively affect performance of the business.	55	2.04	1.105
Interest rates charged by MFIs are favorable	55	1.62	0.913
Valid N (list wise)	55		

Source: primary data (2015)

According to the results in table 9 the finding revealed that the respondents disagreed that interest rates are charged over time (M=2.74), they also disagreed that interests rate are charge on flat line basis (M=3.49), the respondents were also in agreement that clients are made aware of the interest rates prior to taking the loan (M=1.82), they disagreed that interest rates are the same for all types of loans offered (M=3.31), the respondents agreed that interest rates positively affect performance of the business (M=2.04) and they were also in agreement that interest rates charged by MFIs are favorable (M=1.62). This implies that the interest rates charged by MFIs are favorable to all customers and are charged in respect to the loan type being requested for hence improving on the performance of SMEs in Natete market.

In addition, the respondents said that when the interest charged is high, there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest. This affects the business performance since the borrowed funds are not actually used for the purpose they were meant for. This is in line with the early revelations of Kabuchu (1999) who noted that the Interest charged by MFls is relatively high to be met by a number of small businesses such that small business owners pay the principal as an interest.

According to one of the business owner in Natete market "*the issue of high interest rates being charged on borrowers of funds has posed a great problem to owners who can only borrow in small amounts. This has led to either closure or stagnation of their business and those who have not began the business end up not starting one because of lack of lack of capital".* A few SMEs have also been able to obtain credit from some micro financing institutions and government initiated projects for poverty eradication, (Agaba, 2008).

4.2.3 The role of collateral security on the performance of SMEs

Table 10: showing of the role of collateral on the performance of SMEs

Collateral Security	N	Mean	SD
The MFIs that lends to me is very strict with collateral	55	2.36	1.238
The different securities required by Microfinance institutions to give out loan are clear.	55	2.29	1.048
The collateral security reduces default rate.	55	2.76	1.373
The necessary collateral to secure the loan amount is affordable.	55	2.98	1.472
The collateral security required affects business performance	55	1.82	0.945
I always have the necessary collateral to secure the loan needed.	55	3.18	1.467
The collateral security is appropriate to the amount of loan required	55	1.95	1.297
Valid N (list wise)	55		

Source: primary data

According to the result in table 10, the findings revealed that the respondents agreed that the MFIs that lend them are very strict with collateral security (M=2.36), they also agreed that the different securities required by MFIs to give out loans are clear(M=2.29), they were in disagreement that the collateral security reduces default rate (M=2.76), they also disagreed that the necessary collateral to secure the loan amount is affordable(M=2.98), the respondents were in agreement that the collateral security required affects business performance(M=1.82), they also disagreed that they always have the necessary collateral to secure the loan needed(M=3.18) and agreed that the collateral security is appropriate to the amount of loan required (M=1.95). This implies that MFIs are very strict with collateral security and this affects business performance since most of the borrowers lack the securities required to get the loan.

On the other hand, the respondents also said that the consumption of credit tends to be inversely related not only to interest rates but also to collateral requirements. Micro businesses tend to have a poor collateral base and therefore get excluded from the credit market. Even when their asset base is rich, property rights problems reduce the collateral value of such assets. Where entrepreneurs can successfully seek out credit from formal sources, they may not bother to borrow because of limited ability to comprehend debt management and costs of borrowings, fear related to potential hidden costs, previously disastrous experiences with financial services, presence surrogates such as savings and credit associations, and cultural norms that discourage borrowing. A decision has also to be made about the level of credit to seek out, Kimuyu and Omiti, (2000).

4.3 Correlation

Respondents were asked to indicate whether MFIs credit terms is the most important factor of SMEs performance and the following information was obtained.

Table 11: showing correlation between MFIs credit terms and performance of SMEs

		MFI	PF
MFI	Pearson Correlation	1	.981*
	Sig. (2-tailed)		.003
	N	55	55
PF	Pearson Correlation	.981*	1
	Sig. (2-tailed)	.003	
	N	55	55

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

Table 11 above shows the Pearson's correlation coefficient r = 0.981* between MFIs credit terms and performance of SMEs. Suggesting that the two variables were positively related. The Pearson's correlation coefficient r= 0.981* and P or sig. vale (P=0.003) shows that there was a high significant positive relationship between MFIs credit terms variables (MV) and SMEs performance (PF) at Natete. Therefore when MFIs improve on their credit terms there would be an increase in performance of SMEs.

The findings above were in line with the literature according to Fidrmuc et al (2009) who said that "when assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because SMEs do not have adequate or no collateral and their performance ends up being affected".

In support of qualitative data, the importance of financial services to SMEs cannot be over emphasized. SMEs particularly those in developing countries need a range of enabling and sustainable financial services in order to enable them effectively exploit abundant resources in their areas and fulfill their productive potential. Therefore the findings are in line with the early revelations made by Nwanna, (2000) that MFIs provide financial services to the SMEs which enables them to exploit the available resources effectively and efficiently hence improving on their performance.

Conclusively, interest rates is an important aspect in the performance of SMEs for instance about the effect of interest rate on business performance, respondents revealed that the high interest rates affect the performance of their businesses since the borrowed funds are not actually used for the purpose they were meant for.

Collateral securities were also viewed as a factor of utmost importance to the performance of the small and medium scale enterprises by the respondents. They complimented that SMEs tend to have a poor collateral base and this exclude them from credit market due to limited ability to comprehend debt management and costs of borrowing hence affecting their performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

In this chapter, a summary of findings of the study was carried out in accordance with the research questions, discussion of findings of the study; conclusion and recommendations arising out of the research findings were drawn and areas for further study were suggested.

5.1 Summary of findings

The study sought to investigate the effect of MFIs credit terms on performance of SMEs in Natete market. This was carried out by identifying and categorizing various motivation tools that is to say interest rates, collateral security and credit terms in relation to SMEs performance. Data was collected using self-administered questionnaire which was closed ended and interview guide which comprised of open ended questions. The data was analyzed using Statistical Package for Social Scientists which was used to present findings in tabulations of frequencies, item, mean and correlation.

5.1.1 Role played by MFIs credit terms on the performance of SMEs

The result on the role played by MFIs credit terms on performance of SMEs revealed that the credit terms of MFIs are fair and transparent since clients are informed about the new products and the loan amount as whole increase the working capital of the business and this improves on the performance of SMEs. This implies that MFIs should improve on their credit terms so as to improve on the performance of SMEs given the fact that businesses get loans which enables them to increase on their working capital hence improving on their performance. The results were supported by qualitative research which revealed that MFIs act as a development tool that grants financial services and products such as small loans and savings which assist them in expanding or establishing their business.

5.1.2 Relationship between interest rates on the performance of SMEs

According to the findings on the relationship between interest rates and performance of SMEs, respondents revealed that interest rates charged are high and there is a tendency for the borrowers to keep part of the borrowed money to pay the interest or to use the business capital to pay the interest. This affects the business performance since the borrowed funds are not actually used for the purpose they were meant for. These results were also supported qualitative research which showed that interest rates and performance evaluation are significantly related to perceived performance of SMEs.

5.1.3 Role played by collateral security on the performance of SMEs

According to the findings on the role played collateral security on the performance of SMEs, Collateral securities were viewed as a factor of utmost importance to the performance of the small and medium scale enterprises by the respondents. The results were also complimented by qualitative research which revealed that SMEs tend to have a poor collateral base and this exclude SMEs from credit market due to limited ability to comprehend debt management and costs of borrowing hence affecting their performance.

5.1.4 Relationship between MFIs credit terms and performance of SMEs

The findings revealed that MFIs credit terms makes SMEs to get access to finances so as to increase on their working capital do for better performance and that there is a direct strong and positive relationship between MFIs credit policies and the performance of SMEs. This is evidenced by the Pearson correlation which shows a very strong and positive relationship between MFIs credit terms and performance of SMEs at Natete market.

5.2 Conclusion

The conclusions were drawn in accordance with the study objectives as presented below;

MFIs credit terms play a greater role in SMEs performance. The business managers need to establish stable link with MFIs so as to improve on both the availability and conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms as contact between the MFI and SME hence on the availability of funds and lower their costs.

Interest rates vary on the kind of loan needed. The issue of high interest rates being charged on borrowers of funds has posed a great problem to owners who can only borrow in small amounts. This has led to either closure or stagnation of their business and those who have not begun the business end up not starting one because of lack of capital which in turn affects SMEs performance.

The consumption of credit tends to be inversely related not only to interest rates but also to collateral requirements. SMEs tend to have a poor collateral base and therefore get excluded from the credit market due to the inability to produce the collateral security required in order to get the loan. This discourages SMEs from borrowing yet MFIs are strict on loan security.

When assessing comparatively small and straightforward business credit applications, MFIs largely rely on standardized credit scoring techniques coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because

SMEs cannot withstand the terms and conditions of these MFIs their performance ends up being affected.

5.3 Recommendations

In light to the research findings, the recommendations below were made.

Micro finance institutions should improve on their credit terms so as to enable them get more clients hence improving on their performance as well as performance of SMEs since they get both long and short term loans to increase on their working capital. In case of any complaint MFIs should respond positively by giving timely feedbacks to the clients on any complaint raised. MFIs should also keep on providing business related skills to their clients so as to boast the performance of their businesses and in case of any new product, MFIs should let them know about it.

The interest rates offered on each kind of a loan should be favorable so as to encourage the owners of SMEs to borrow more since high interest rates discourages them from borrowing. Interest rates should be charged on a flat line basis that is to say the higher the loan amount, the higher the interest rate and the lower the loan amount, the higher the interest rate. This will encourage borrowing hence improving on business performance.

The collateral security on the loan amount should be affordable and appropriate to the loan amount so that people are not discouraged from borrowing because most the SMEs are not able to meet stringent collateral requirements. MFIs should also continue being strict on the collateral security so as to reduce on the default rates which can lead to their collapse.

5.4 Areas of further research

Further research should be on sustainability of the small and medium scale enterprises and their growth and development from small and medium enterprises into large scale enterprises.

Also the study may be carried out comprising of other variables to predict their impact on SMEs performance. Therefore further research should be carried out on other factors that affect performance of SMEs other than Micro finance institutions credit terms.

The impact of loan repayment schedule on performance of SMEs. The researcher also did not go deep into finding out the impact of loan repayment schedule on SMEs performance and therefore recommends it for future investigations.

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APPENDIX I
QUESTIONNAIRE

Dear respondent,

I am student of Uganda Martyrs University undertaking a Bachelor's Degree in Business Administration and Management. Currently am carrying out a study to establish the effect of Microfinance Institutions Credit Terms and Performance of SMES in Natete Market. This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided. (Please, tick the appropriate answers where options are given).

A. Personal Data

1. Gender (Tick where appropriate)

1. Female ☐

2. Male ☐

2. Marital Status (Tick where appropriate)

1. Married ☐

2. Single ☐

3. Widow ☐

4. Divorced ☐

3 **Ages**

1. Under 25 ☐
2. 26-35 ☐
3. 36-45 ☐
4. 46 and above ☐

4. Level of Education

1. Primary ☐
2. Secondary ☐
3. Certificate ☐
4. Diploma ☐
5. Degree ☐

Other (specify)……………………………..

5. Type of the business

1. Agriculture ☐
2. Manufacturing ☐
3. Trading ☐

Other (specify)……………………………..

6. How long has your business operated (Years)?

1. Less than 5 years ☐
2. 6-10 years ☐
3. 10 years and above ☐

7**. How long have you been borrowing?**

1. 0-1 years ☐
2. 2-3 years ☐
3. 4 years and above ☐

8. Have you ever applied for a loan?

1. Yes ☐
2. No ☐

B. <u>Micro Finance Institutions Credit terms</u>

1. Are customers comfortable with the loan period that Microfinance Institutions extends to them?

1	Strongly Agree	
2	Agree	
3	Not Sure	
4	Disagree	
5	Strongly Disagree	

2. The loan size that Microfinance Institutions extends to clients is good

1	Strongly Agree	
2	Agree	
3	Not Sure	
4	Disagree	
5	Strongly Disagree	

3. What is the length of the period?

Less than 1 year	
2 years	
3 years	
4 years	
5 years and above	

4. What is the loan amount that Micro Finance Institutions provide to SMEs?

1. Less than 100,000 ☐

2. Between 100,000-400,000 ☐

3. Between 400,000-700,000 ☐

4. Between 700,000-1,000,000 ☐

5. Above 1,000,000 ☐

5. How do you describe the interest rate charged by Micro Finance Institutions?

1. Very high ☐

2. High ☐

3. Fair ☐

4. Low ☐

5. Very Low ☐

6. There is adequate information provided before a loan is offered by the MFIs.

1	Strongly Agree	
2	Agree	
3	Not Sure	
4	Disagree	
5	Strongly Disagree	

C. Interest rate and performance of SMEs

Under the following sections, please tick according to your level of agreement

1. Strongly Agree

2. Agree

3. Not Sure

4. Disagree

5. Strongly Disagree

NO		**1**	**2**	**3**	**4**	**5**
1	Interest rates change over time.					
2	Interest rates are charged on flat line basis					
3	Clients are made aware of the Interest rates prior to taking the loan.					
4	Interest rates are the same for all the types of loans offered.					

5	Interest rates positively affect performance of the business					
6	Interest rates charged by MFIs are favourable					

D. Collateral security and performance of SMEs

Under the following sections, please tick according to your level of agreement

1. Strongly Agree

2. Agree

3. Not Sure

4. Disagree

5. Strongly Disagree

NO	**Item**	**1**	**2**	**3**	**4**	**5**
1	The MFIs that lends to me is very strict with collateral.					
2	The different securities required by Microfinance institutions to give out a loan are clear.					
3	The collateral security reduces default rate.					
4	The necessary collateral to secure the loan amount is affordable					
5	The collateral security required affects business performance					
6	I always have the necessary collateral to secure the loan needed					
7	The collateral security is appropriate to the amount of loan acquired.					

E. Micro Finance Institutions credit terms and performance of SMEs.

Under the following sections, please tick according to your level of agreement

1. Strongly Agree

2. Agree

3. Not Sure

4. Disagree

5. Strongly Disagree

NO		**1**	**2**	**3**	**4**	**5**
1	MFI has good customer care.					
2	MFIs are always concerned about how well my business is moving.					
3	MFIs train us in business related skills.					
4	In case of a complaint to our MFIs, they give us timely feedback.					
5	MFIs inform us their new products.					
6	The savings mobilized by MFIs boost the working capital of the business.					
7	The benefits of the loan outweigh the costs associated with it.					
8	The weekly savings affect the working capital of the business.					
9	The loans as a whole have been helpful to the business.					
10	The process of acquiring the loan is smooth					

F. SMEs Performance

Under the following sections, please tick according to your level of agreement

1. Strongly Agree

2. Agree

3. Not Sure

4. Disagree

5. Strongly Disagree

NO		**1**	**2**	**3**	**4**	**5**
1	The market share has increased for the last three years					
2	The number of the customer has increased					
3	All payments are made in full installments					
4	The business has capacity to fund capital investment					
5	Profit levels have increased over the last two years					
6	The working capital of the business has expanded					
7	The sales have increased than before.					
8	The business has been able to employ more workers.					
9	The business goals and targets have been met.					
10	There is always enough inventory					

Thanks for your positive participation

APPENDIX II

INTERVIEW GUIDE

1. What are some of the problems faced in repaying the loan?

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

2. What steps should MFI take in order to improve on their credit policies?

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

3. Apart from MFIs assistance, what are the other factors that contribute to survival of your business?

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

4. What are the effects of MFIs credit terms on the performance of SMEs in Natete market?

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

5. What are some of the factors that influence SMEs to obtain loan from MFIs?

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

Thanks for your positive participation

APPENDIX III

R.V. KREJCIE AND D. W. MORGAN (1970) SAMPLE SIZE ESTIMATION TABLE

*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

*N is the population

†S is the sample size