**MICROFINANCE SERVICES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES.**

**CASE STUDY: MPIGI TRADING CENTRE**


**SUBMITTED BY:**

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**A RESEARCH DISERTATION SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION AND MANAGEMENT OF UGANDA MARTYRS UNIVERSITY**

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## Dedication

I dedicate this dissertation to my parents Mr. & Mrs. Mugalu, my dear sisters and brothers without whose inspiration and moral guidance, I would not be what I am today.

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I would like to express my sincere gratitude to the following individuals and organizations; my dear parents Mr. and Mrs. Mugalu for the financial support and guidance throughout the entire course. My supervisor, Mr. Kimera Jude for the encouragement, support and guidance throughout the course of writing this dissertation.

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**Abbreviations**

| | |
|---|---|
| BAM: | Business Administration and Management |
| BOU: | Bank of Uganda |
| DI: | Dividend Yield |
| EPS: | Earnings per Share |
| IFAC: | International Federation of Accountants |
| IMF: | International Monetary Fund |
| LDCs: | Low Developing Countries |
| Max: | Maximum |
| MFIs: | Micro Finance Institutions |
| MFPED: | Ministry of Finance Planning and Economic Development |
| Min: | Minimum |
| NGOs: | Non-Government Organizations |
| RI: | Residual Income |
| ROI: | Return on Investment |
| SD: | Standard Deviation |
| SPSS: | Social Package for Social Scientists |
| UGX: | Ugandan Shilling |
| UIA: | Uganda Investment Authority |
| UMU: | Uganda Martyrs University |
| USD: | United States Dollar |

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**Abstract**

The study was focused on establishing the effect of microfinance services on the performance of SMEs within Mpigi trading center.. The research objectives were examine the relationship between technical assistance and SMEs, to establish a relationship between Credit Facilities and performance of SMEs and also to determine the relationship between Saving Schemes and performance of SMEs.

A cross sectional survey design with both qualitative and quantitative approaches e was employed for the first-time on respondents that owned small and medium sized enterprises within Mpigi. The study also employed a self-administered questionnaire as a research instrument and it comprised of both open and close ended questions relating microfinance services covering areas of Technical assistance, credit facilities and saving schemes as well as questions relating to SME performance in terms of profit growth, sales growth and liquidity.

The population considered for the study was160 respondents from which a sample size of 118 was chosen basing on the krejcie and Morgan table of sample size selection criteria.

Data that was collected from the respondents was analyzed and coded using the social package for social scientists with the help of data computations elements so as to generate tables showing means, percentages, standard deviations as well as charts including pie charts, and bar graphs that were clearly explained.

Descriptive statistics were also generated for all the dimensions under both the dependent and independent variable and were explained using a scale ranging from strongly disagree to strongly agree as well as the rate at which responses were deviating from the mean figure.

The results generated from the study showed that there was a positive and significant relationship between technical assistance and performance (r= 0.973) and significant and positive relationship between credit facilities and performance (r = 0.994) as well a positive relationship between saving schemes and performance (r= 0.674), meaning that the research questions were answered as anticipated.

The main challenges experienced in accessing microfinance included; increasing stress levels, high interest rates offered by microfinance institutions, difficulty in adapting to new rules and regulations governing microfinance lending, lack of collateral security, inflation, depreciation of the shilling, lack of proper training by microfinance institutions.

The recommendations were to set clear goals and objectives, improving governance and management structures, concentrating on planning and preparation, and investment in more training of employees.

## Definition of Key Terms

**Technical Assistance:** According to Schumacher (2011), when looking across the attempts to define technical assistance it is important to define it across a range of entities e.g. the World Bank and International Monetary Fund. It may be defined as the transfer of new knowledge along with new technology to others who do not know about it. Anthony (2013) defines it as the development of individual skills and the conditions to ensure that skills are used productively and also entails the development of effective organizations within which individuals can work through provision of advice, assistance, and training pertaining effective performance.

**Credit Facilities:** Credit facilities are types of loans made in business or in corporate finance context, including revolving credit, term loans, committed facilities, letters of credit and most retail credit accounts. Firms frequently implement credit facilities in conjunction with closing a round of equity financing or raising funds through selling shares (Amarty, 2012).

**Saving Schemes:** These are programs designed to encourage savings through small but regular deposits or automatic deductions from salaries or wages. It is also defined as an investment in which individuals contribute funds on a regular basis in order to reach a financial goal on a short or long term basis. It is a scheme designed to encourage savings by making small deposits automatically into a special savings account.

**Small and Medium Enterprises:** SMEs have been defined in various ways, but the most commonly used criterion is the number of employees in the enterprise (Quartey, 2000). Government of Uganda classifies SMEs as business firms employing 5-50 people (small scale) and 51-500 people(medium scale) .Other scholars argue that, SMEs are enterprises that employ between 1 to 50 people with an annual turnover of up to UGX 360 million (MFPED, 2011).

**Performance of SMEs**: This refers to the ability of the SMEs to accomplish given tasks and objectives measured against present known standards of accuracy, completeness, cost and speed. It is also deemed to comprise the actual output or results of a business as measured against its intended outputs.

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Introduction

According to Hulme (2012), microfinance services entail the provision of innovative financial solutions to empower people, create jobs and build vibrant communities through offering products, services and training enabling clients to develop businesses, to save and to insure against an uncertain future. The issue of microfinance focuses on strengthening and influencing value chains to benefit clients and connect them to viable markets as well as drive economic progress through creating innovative partnerships to provide complementary services (Park, 2013). Microfinance services were the independent variable for this study with selected dimensions such as; technical assistance, credit facilities and saving schemes. On the other hand, Performance of SMEs is the dependent variable and is characterised by Profit growth, Sales growth and Liquidity. However, the relationship is also affected by an intervening variable, which has dimensions such as; Rules and Procedures governing lending. This chapter specifically covers the background to the study, statement of the problem, purpose of the study, research objectives, research questions, scope of the study, significance of the study, justification, definition of key terms and the conceptual frame work.

### 1.2 Background of the Study

The microfinance industry worldwide has been recognized as instrumental tool for poverty alleviation and economic growth. Therefore, socio-economic transformation efforts of low-income and poor community have been possible through accessing semi-formal and informal financial products/ services. The pivotal role of the microfinance has helped foster the growth and development of small and medium enterprise in the world by providing start-up and business expansion capital among other financial services. Microfinance institutions target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Sharma, 2008).

Microfinance is the provision of micro credit or loans to business people with good and profitable ideas. In addition, Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Mwaniki, 2010). These improvements are in a nutshell to alleviate poverty, boost production and according to this project, it will be seen from the point of the development of small and medium size enterprises (SMEs) and focusing mostly in the rural areas. This concept of microfinance was introduced by Grameen Bank in 1985s, basing on their entrepreneurial skills. Usually firms use small loans to enhance their economic activities and help them to attain firm growth. It provides individuals the opportunity to improve their status by investing money in self-employment projects (Hulme and Mosley, 2010). Microfinance has existed for a century and even longer in the world, mostly in Asia, as reflected in modern history, where formal lending and borrowing stretches for several thousand years for example the Microfinance practices in the 18th and 19th centuries through the Irish Funds in Ireland (Jonathan, 2009).

Microfinance in East Africa with particular focus on schemes engaged in the production and processing of agribusiness such as coffee in Uganda and Kenya explains the role and importance of microfinance for financial growth of SMEs businesses. Emphasis and reviews in the current trends explains reasons for the limited coverage by micro credit hence suggestions were made policy makers to increase accessibility of micro credit to foster, financial growth of SMEs businesses (Omunuk, 2010). Since pre-colonial and after colonial, Rwanda efforts have been directed towards the poverty eradication, economic growth and development, through agriculture commercialization, tourism and industrialization. In relation to this and through the Private Sector Foundation the country has focused on sustainable development through small business development (RDB, 2014).

Microfinance Institutions in Uganda consist of moneylenders, micro-finance agencies, Non-Government Organizations (NGOs), rural farmers' schemes and savings societies that provide savings and/or credit facilities to micro and small-scale business people who have experienced difficulties in obtaining such services from the formal financial institutions. Their range of activities include; deposit taking, savings schemes, small-scale enterprises, agriculture, real estate, group lending, retail financial services, giving advice on financial matters and training in business management.

Small and medium enterprises (SMEs) play a major role in economic development in every country, including African countries. Studies indicate that in both advanced economies and developing countries SMEs contribute on average of 60 percent of total formal employment in the manufacturing sector (Ayyagari et. al., 2007). The authors argue that for African economies, the contribution of the SME sector to job opportunities is even more important. Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated growth and rapid industrialization have been achieved (Koech, 2011). Small and Medium Enterprises have been recognized as socioeconomic and political development catalysts in both developed and developing economies. Maalu, et. al. (2009) discussed the role of SMEs in the economy of Uganda and noted the important role it has played and continues to play. In addition to the employment creation and income generation, the study noted other important roles in the economy such as production of goods and services and development skills.

### 1.3 Problem Statement

Microfinance industry has become increasingly important world over as a major strategy in the development agenda for poverty reduction and in the promotion of Small and Medium Enterprises. The industry is seen as paramount in augmenting private sector-led growth through supporting the SME sector. The MFI's resource base can provide a platform for the growth of SMEs, and contribute to the fight against poverty. Some studies (Holcombe, 2005, Otero and Rhyne, 2010) argue that microfinance has indeed many positive impacts.

Though there is improved access to credit and microfinance services by SMEs overtime in Africa, SMEs have continued to suffer financial challenges.The SMEs have registered a low return on capital employed, low net profit margin and kept a small capital size and some of them fail to run their daily operations because they do not have the capacity to maintain adequate liquidity levels Chowdhury (2012). As such, the relationship between the MFIs and SMEs keeps on deteriorating due to failure to fulfill their loan obligations O'brien (2013). This could be due to the stringent credit terms to include interest rates, collateral securities, and loan repayment schedules among others which seem to frustrate businesses financially.

However, there is no adequate empirical evidence available to vindicate the contribution of microfinance services in bridging the growth of SMEs. This study therefore is geared towards establishing the impact of Microfinance services on the performance and continous growth of SMEs in Uganda.

### 1.4 General Objective

The main objective of this research study is to ascertain the relationship between microfinance services and performance of SMEs.

### 1.5 Specific Objectives

i. To examine the relationship between Technical Assistance and performance of SMEs.

ii. To establish a relationship between Credit Facilities and performance of SMEs.

iii. To determine the relationship between Saving Schemes and performance of SMEs.

### 1.6 Research Questions/ Hypothesis

i. What is the relationship between Technical Assistance and perfomance of SME

ii. Is there a relationship between Credit Facilities and performance of SMEs?

iii. What is the relationship between Saving Schemes and performance of SMEs?

### 1.7 Scope of the Study

The scope of the study takes into consideration; the content scope, time scope and the geographical scope.

#### 1.7.1 Content Scope

The study mainly focused on establishing a relationship between microfinance services and perfomance of SMEs. Under microfinance services which was the independent variable,the study explored dimensions such as; Technical assistance, Credit facilities and Saving schemes. On the other hand, Profit growth, Sales growth and Liquidity were some of the dimensions considered under the dependent variable which is performance of SMEs. The intervening variable was characterized by Rules and Procedures governing lending. The study was also guided by specific objectives that focussed on establishing relationships between Technical assistance, Credit facilities and Saving schemes in relation to performance of SMEs.

### 1.7.2 Time Scope

The time scope for the study will be from 2012 to 2017. The study will actually be conducted in February to March 2017.

### 1.7.3 Geographical Scope

The study will be carried out in Mpigi trading centre which is located along the Kampala - Masaka road. This scope was chosen because of the increasing number of microfinance institutions within this area.

## 1.8 Justification of the Study

Though there is improved access to credit by SMEs overtime in Africa, SMEs have continued to suffer financial challenges. For this, existing research indicates that 50% of the SMEs operate in a financial deficit and some of the SME owners are still uncomfortable with such credit extended to them (Auren, 2014). The SMEs have registered a low return on capital employed, low net profit margin and kept a small capital size and some of them fail to run their daily operations because they do not have the capacity to maintain adequate liquidity levels Chowdhury (2013). The key reasons for non-performance include; lack of capital, incompetent managers, scarce market information lack of government support and obsolete technology all of which can be adequately serviced through microfinance activities. It is true to a greater extent that these factors contribute greatly to the poor performance of SMEs (Salim, 2013). The study hence seeks to ascertain and justify the claims of the above researchers.

Not many studies are available locally about the performance of small enterprises in developed economies but we do not expect them to face similar problems as those in developing countries or most specifically Uganda. The study has been conducted to elaborate more on SME performance in developing economies so as to compare and contrast with those in developed economies, in order to borrow a leaf for improved performance. The research may stimulate the interest in microfinance services and knowledge of SME managers so as to ensure that viable firms continue competitively improving their operations. The essence of this research report is to provide an opportunity to bridge this gap.

### 1.9 Significance of the Study

The study may help other researchers in further research into all aspects of microfinance services.The study is also intended to help the researcher get to discover answers to the question through the application of procedures, and to gain familiarity about microfinance services and performance of SMEs.

The study findings can help in guiding formulation of policies and strategies to facilitate the growth of SMEs. It will help MFIs design and refine their range of products tailored to the needs and demands of SMEs. Policy makers are always interested in quantifying program outcomes and thus such impact study will help future program design of microfinance institutions in the provision of services to SMEs.

The research may be of great importance to the researcher because he may acquire research skills which can be applied to conduct research in other subjects and will also act as a requirement for the attainment of a bachelor's degree in Business administration and Management.

The study is also likely to improve on the sales cycle of a number of SMEs through advising them on how to work smarter and less hard. Working smarter, not harder on issues concerning microfinance may make it possible to close on deals using a proper microfinance system.

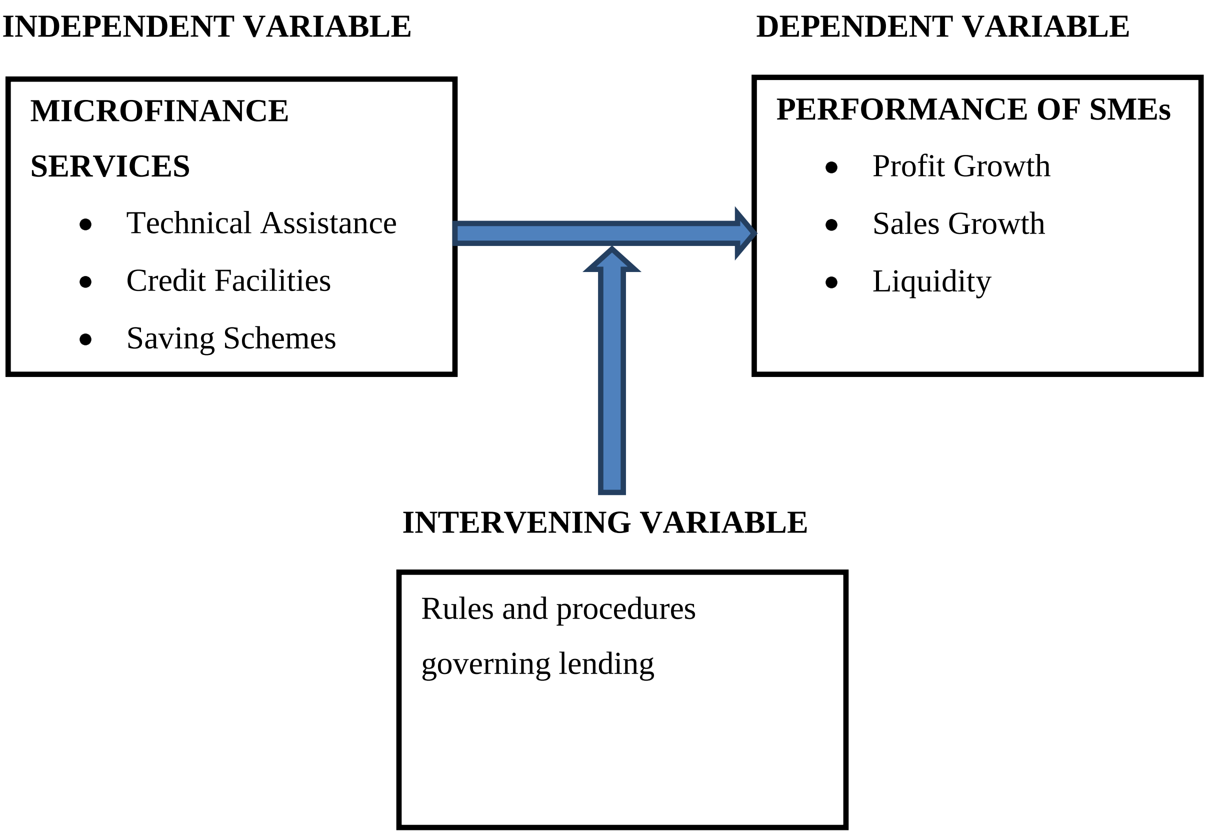
The results generated from this study may also be helpful to the users on proper minimization of risks associated with microfinance practices. It is normal for employees and teams to feel stressed as they try to capture all of the information in their microfinance documents accurately hence making errors almost inevitable. Availing information on proper microfinance ensures that sales teams can not only focus on closing deals and spending face-time with customers, but also save the firm funds that would otherwise be spent on re-work and lost on missed opportunities.

Lastly the study may be beneficial in availing knowledge to relevant stakeholders on how to build good working relationships in business. Information gathered will show how to strengthen and maintain proper working relations between microfinance service providers and their clients. Microfinance management is essential, in ways that the controlling and tracking of microfinance information shows that the service provider is committed to maintaining a relationship with the customer.

## 1.10 Conceptual Frame work

Sekeran (2005) states that, a conceptual framework helps to postulate or hypothesize and test certain relationships which improve the understanding of a situation. The Conceptual framework provides connections and relationships between concepts and should be sufficiently specific so as to help answering the research questions (Fisher, 2010).

**Figure 1: The conceptual frame work**




***Source: Adopted and modified from journal on the impact of microfinance service delivery on growth of SMEs in Uganda by (Ajanga et. al., 2013).***

The above conceptual framework explains the different possible relationships that exist between the three different variables. The independent variable considered for this study is microfinance services which were characterized by dimensions such as technical assistance, credit facilities and saving schemes. The dependent variable adopted was performance of SMEs which was characterized by dimensions such as profit growth, sales growth and liquidity. The other intervening variable that acted as a moderator between the main independent and dependent relationship comprised of dimensions such as rules and procedures governing lending.

Through offering technical assistance in the form of training and improved technology, a firm may be put in a position to operate more effectively as a result of improved operations, which may result in better performance in the form of profit and sales growth. Similarly a firm that is under capacitated in terms of technically may lack the required attributes to register better performance hence poor performance is inevitable.

The other dimension considered under the independent variable was credit facilities. A firm that is in a strong position to access credit facilities in form of loans and letters of credit is in a much better position to register strong performance in terms of attaining liquidity hence good performance. On the other hand a firm that lacks access to credit facilities is in a poor position to register strong performance since such a firm is constrained in terms of finances.

The independent variable presented another dimension in the form of saving schemes. When firms adopt proper schemes of saving the encourage development and firm growth then good performance is inevitable. Similarly poorly designed saving schemes may deny an enterprise a chance to develop its financial resources which may lead to poor performance.

Lastly the intervening variable that affected the main relationship constituted of rules and procedures that govern lending to SMEs within the microfinance industry. If correct and well adopted rules are in place a form is in a much better position to attain good performance. On the other hand stringent procedures that govern lending which may be usually bureaucratic and red tape may inhibit proper lending to SMEs which may then be constrained with financial resources hence poor performance.

### 1.11 Limitations

A cross sectional study will be employed for the first time, and within a very short period of time. This means that a comprehensive survey may not be conducted due to this limitation. However the study shall strive to generate significant information that will be examined for potential relationships between the variables.

There may be a limitation in finances, as the researcher will have to source for funds to cover up various expenses such as printing and photocopying, welfare of researcher and assistant, transport expenses, and binding expenditures. However the scarce finances that are available will be planned and budgeted for so as to be used in the most optimal way hence generate a comprehensive research project.

The results from the study cannot be over generalized due to the fact that the geographical scope will only be limited to a specific area of Mpigi Trading Centre unlike other areas in Uganda. Studies in future can extend to other parts of the country, because the results may vary.

There may also be a limitation of language barrier, as some of the participants may not be well conversant with the English language that will be strictly used throughout the entire research process. In order to overcome this challenge, the researcher will hire a research assistant and also used a guide so as to translate specific information to ensure understandability of all questions.

Lastly most of the respondents may be hesitant in giving out some specific information because of fear of such information being leaked to relevant authorities. This limitation will be handled through assurance of confidentiality and privacy of all responses.

### 1.12 Conclusion

Chapter one introduced the researchable area and revealed the main purpose of carrying out the study. Notably it reveals the problem that the study intends to examine as well as the need that justified the study. Specific terms have been defined and a well explained conceptual frame work has been shown so as to establish the different relationships between the variables. The next chapter will look at the relevant literature that is already in existence on the topic of study.

# CHAPTER TWO

## 2.0 LITERATURE REVIEW

### 2.1 Introduction

This chapter presents the already existing theoretical literature by other scholars on microfinance services and performance of SMEs in terms of profit growth, sales growth, and liquidity. This section gives literature review on empirical studies made outside Uganda and within the country related to the topic objectives and questions. The aim of this chapter is to explore what have been found by other researchers on the same topic. Another aim is to highlight on the research gap which can be filled by this research.

### 2.2 Theoretical Framework

Economic theories have discussed various theories of microfinance that influence the performance and growth of SMEs. Theories which are going to be discussed in this part of review include Harrod-Dolmar model of growth, Neo-classical economic models and Perking order theory of financial gearing.

The theory of neoclassical growth (Solow, 2015) explains that, the growth process of SMEs is normally resolved prior to distribution. However, this can happen if per capita income across countries converges as they approach respective steady states. Also, (2014) in his work The General Theory, investment is one of the determinants of aggregate demand and that aggregate demand is linked to output (or aggregate supply) via the multiplier. The model has the following implication to this study, first we see the need of investment, if an SME has to grow, and this idea corresponds to the loans given by MFIs to enable more investment by SMEs. The implication is that, despite of the effort made to lend the SMEs, their business prosperity is limited by the national and the global economic performance. As national economic performance grows the SMEs and members also perform well because there will be more business opportunities.

Neo-classical economic theorists like Jevons (1861), Menger (1871), Walras, (1874-7) have different view on the main factor for greater performance of SMEs. They believe that to raise the economy in long term requires an increase in labor supply and an improvement in productivity of labor and capital. Their model treats productivity improvement as an exogenous variable which means it is assumed to be independent from capital investment (Ntando, 2016). The implication of this theory to this study is that the development of SMEs depends on how the owners work harder, utilizing their entrepreneurial skills to discover the business niches, effective marketing strategies and efficient business management rather than relying on addition capital from outside business.

Perking order theory states that companies prioritize their sources of financing from internal financing to equity, according to the law of least effort, or of least resistance, preferring to raise equity as financing means of last resort (Breadly, 2015). Myers (2014) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally by external equity. Initially the theory was observed to explain financing practices of large firms. However, it was recognized that it may also apply to SMEs (Sherr et al. 2013). Its application to SMEs implies that external financial aids may be inappropriate as that may dilute the ownership interest because these form of financing surrenders the enterprise to the source of finance (Norton, 1991). The implication of the theory to Uganda is that SMEs should not always rely on loans from microfinance banks as these are expensive due high interest rates. Alternatively, they should try to rely on the capital which is generated from the profit and mobilize the member to serve their income to build the capital base. According to Holcumbe (2013), the concept of microfinance services 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 (William, 2011). The today use of the expression microfinance services has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh were starting and shaping the modern industry of microfinance services (Mwangi, 2013).

In Uganda several studies have been done on microfinance services and performance of SMEs, one of the researcher who have done research on MFI service is Mushi (2016) who examined the ‘’Role of Credit in Generating Entrepreneurial Activities’’. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Ugandan government financial source. The findings reveal that, the output of enterprises increased following the access to the credit. It was further observed that those enterprises whose owners received business training and advice performed better than those who did not receive training. This observation is in line with neo- classical theorists who advocate productivity of labor. He further recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses. However, the study did not consider how clients were improved in their economic performance. Hence this study intends to bridge that gap. It was further observed that MFIs in Uganda lack participatory ownership and are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Uganda, still MFIs activities remain in and around urban areas. Their operational performance demonstrated low loan repayment rates. the author pointed to low population density, poor infrastructures and low house hold income levels as constraints to the performance of SMEs. Also the study did not say the benefits in terms of development to clients towards their economic status (William, 2014).

Another study on microfinance in Uganda were carried out by Rweyemanu et al. (2013), they evaluated the performance and constrains facing semi-formal microfinance institutions in providing credit within SMEs in Uganda. In the analysis of their study the interest rates were found to be a significant barrier to the borrowing decision. Also the borrowers cited other problems like lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, Mbeya and Mwanza credit programme experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-repayment (Ogilo, 2014).

The findings and recommendations given by the studies above made in different parts of the world are different. Some of the findings have shown that there is an economic and social progress to both institutions and members, but, even those who said so, they only talk about progress of the borrowers regardless of the proportion of the entire population concerned. It could be just a few people out of the big population who show that progress whose change has no significant change to the entire population. Most of the researchers focused on general development of SMEs but this study also considered the development of both household and at enterprise level.

Interest in microfinance has soared in the recent decade and the instrument is now seen as one of the most promising tools to tackle poverty in the developing world. The fascination with microfinance derives from the fact that the provision of financial services can contribute to poverty reduction and pass the test of sustainability at the same time (Otero, 2011). For donors, microfinance is especially attractive as it can be delivered in an institutional and financially sustainable manner that permits them to withdraw after making relatively modest investments. However, microfinance has sometimes disappointed its supporters. Only few of the hundreds of microfinance programs inaugurated in the last decade have proven their sustainability (William, 2010). On the other hand, some other literature review show that, most of the research on this topic have been conducted in urban and sub-urban areas where the big SACCOs are well formed and forget that there are forms of microfinance available in the rural areas. This study intends to cover this gap and focuses on the forms of MFIs in remote areas and examines their impacts on microfinance services on the performance of SMEs within Uganda.

### 2.2.1 Microfinance Services

According to Holcumbe (2013), the concept of microfinance services 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 (William, 2011). The today use of the expression microfinance services has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh were starting and shaping the modern industry of microfinance services (Mwangi, 2013).

Microfinance refers to small-scale financial services for both credits and deposits that are provided to people who are running certain businesses; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas. Microfinance programs also offer skill-based training to augment productivity and organization support and consciousness-raising training to empower the poor (Domodor, 2012).

Interest in microfinance has soared in the recent decade and the instrument is now seen as one of the most promising tools to tackle poverty in the developing world. The fascination with microfinance derives from the fact that the provision of financial services can contribute to poverty reduction and pass the test of sustainability at the same time (Otero, 2011). For donors, microfinance is especially attractive as it can be delivered in an institutional and financially sustainable manner that permits them to withdraw after making relatively modest investments. However, microfinance has sometimes disappointed its supporters. Only few of the hundreds of microfinance programs inaugurated in the last decade have proven their sustainability (William, 2010).

A growing body of evidence indicates that the instrument does not meet the high expectations initially placed on it in terms of client impact. Few microenterprises experience sustained growth, while a majority grows only a little or maintain their operations at a constant level. It is also unusual for credit to trigger a continuous increase in technical sophistication, output or employment. It is much more common for each of these variables to reach a plateau after one or two loans and remain in a steady state. As far as empowerment is concerned, microfinance services have shown little potential to thoroughly change existing inequalities in power relations or the role of women in society. (Buckley 2015; Goetz and Gupta 2015; Hulme and Mosley 2014).

Micro finance has been defined as a development tool that grants or provides financial services and products such as small loans, savings opportunities, micro leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. Micro finance is popular in developing economies where majority of the population does not have access to affordable sources of financial assistance (Robinson, 2012). Ledgerwood (2011) indicates that other than financial intermediation, some microfinance organizations provide social intermediation services such as the formation of groups, development of self-confidence and training of members in that group on financial literacy and management. He further argues that there are different providers of microfinance services and some of them are nongovernmental organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions.

Bennet (2013) adds that the target groups of microfinance services are self-employed low income entrepreneurs who are traders, street vendors, small farmers, hair dressers, rickshaw drivers, artisans and blacksmiths among others. Microfinance institutions can offer their clients who are mostly men and women slightly below or above the poverty line a variety of products and services. The most prominent of these services is financial that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterate (Christabell, 2013). Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterate and cannot express themselves or because of the difficulties to assess their collateral security due to distance (Feder, 2012).

### 2.2.2 Performance of SMEs

Moullin (2013) defines performance as how well the firm is able to manage its operations through delivery to clients and shareholders. Achrol and Etzel (2015) concur with Moullin (2013) by defining performance as the extent to which an organization can accomplish its goals. Performance is normally used in tracking and reviewing the progress of SMEs and their strategic goals and plans. The definition from the two authors' perspectives examines the manner in which SMEs should appear to their customers to attain their visions. The definition identifies market and customer segments where the entity would compete, as well as the expected performance in the targeted segment (Daniels, 2012).

According to Romer (2013), the attainment of the goals, missions and objectives of any SME is dependent on constant evaluation and assessment to determine whether its operations are on the right course. There are various methods that can be used to measure performance of an SME. Different SMEs have different structures and goals and so differences in methods used to measure their performances. Among the measures include profitability, liquidity, operating and financial ratios. Profitability is measured as return on investment or return on assets. Operating and financial ratios are normally employed in measuring the financial condition and performance of an organization (Ogilo, 2013). Hermann (2011) asserts that when determining an organization's profitability, the analysis should concentrate on evaluating its earnings with respect to its assets, owner's investment or share values.

There are other various tools used to measure the financial performance of business. These include Return on Investment (ROI), Residual Income (RI), Earning per Share (EPS), Dividend yield (DI), Earning Ratio, growth in sales, market capitalization and others (Louri, 2015). Unger and Rosenbusch (2016) support performance of a firm as essential dependent variable in an organization. In this research, the financial performance of the selected SMEs will be determined using liquidity, sales growth and profit growth. This is because profit growth considers the Return on Investment (ROI) and illustrates the efficiency of an SME in making profits based on its investments and assets (Hermann, 2012). According to Caudle (2011), this perspective examines the processes in which the business entity should excel so as to satisfy the customers and shareholders.

### 2.2.3 Small and Medium Enterprises

To date there is no globally accepted definition of small and medium enterprises (IFAC, 2011). SMEs definition ranges across many sectors and economies. Particularly in Uganda, Small and Medium Enterprises are mainly defined on the basis of both the number of people employed and the annual turnover of the enterprise (Ernst and Young, 2011).

According to the Ministry of Finance, Planning and Economic Development, a small enterprise is one that employs a minimum of 5 people and a maximum of 50 people; and also has an annual sales/revenue turnover of a maximum of Ugandan Shillings 360 million and total assets of a maximum of Ugandan Shillings 360 million, while a medium enterprise is defined as an enterprise employing between 50 and 100 people; and/or has an annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million (MFPED, 2008).

The contribution of SMEs to Uganda economy cannot be over emphasized since SMEs contribute over 90% of total non-firm private sector employment, constitute approximately 20% of the national GDP, contribute over 20% of incomes of the labor force, and have great potential for reducing poverty levels (UIA, 2012).

This implies that SMEs are the biggest employers in the Ugandan private sector, estimated to have created employment for over 2.5 million people, improving standards of living and ensuring political stability (Hatega, 2015). Small and medium size Enterprises (SMEs) are the key drivers of economic growth in LDCs. Therefore efforts directed towards enhancing their survival and growth directly impact on the economic development of LDCs.

The range of businesses operated by SMEs in Uganda include setting up and managing carpentry workshops, boutiques, general merchandise shops, operating health clinics, selling fresh foods, riding motor cycles (commonly known as boda-bodas), selling telecoms Airtime and vending cooked food among others. Namatovu et al. (2013) notices that majority of the enterprises are found in restaurants and food processing, garages for motorcars and motorcycles, retail and whole sale trade, metal fabrication, furniture assembling, schools and transport services. The recently enacted SME policy is meant to enhance the performance of SMEs (Balunywa et al 2013).

In studies done by Liedholm and Mead (2012), it was observed that the number of small and medium enterprises was increasing annually with a birth rate of about 20% per annum. However, the studies did not note that the death rate was also increasingly high. Recently in Uganda, traders found to smuggle in un taxed goods were fined, However URA issued a new directive to arrest all those found to smuggle in untaxed goods, prompting traders , under their Umbrella body KACITA to protest, by closing all their shops , amid tight police patrol, in down town Kampala (Akol, 2015). Traders claimed that most times it is not their fault to default taxes but rather, the problem originates from the shippers, whom they purchase their commodities. The traders asserted that the shippers who do the packing and delivery of consignments, at times pack untaxed goods. However the main challenge remains that majority of SMEs operate informally, which has been identified by experts as one of the drivers of poor performance in microfinance industry (Opondo, 2012).

## 2.3 Actual Review (Objective by Objective)

### 2.3.1 Technical assistance and Performance of SMEs

Technical assistance assists firms develop more effective institutions, legal frameworks, and policies to promote economic stability and inclusive growth. Training through practical policy-oriented courses, hands-on workshops, and seminars strengthens the firms' capacity to analyze economic developments and formulate and implement effective policies (Mosley

2014). In the area of Small and Medium Enterprise development , technical assistance focuses on four broad issues that the firm considers as fundamental to successful SME growth including; policy and regulatory reforms, enterprise development services, business information and access to finance (Ntando, 2013).

Under the policy and regulatory reform the firm is focusing on practical implementation of systems that can greatly benefit the SME, including protection of property rights, or moveable collateral registry. The enterprise development services practice addresses the questions of building and implementing sustainable high quality business services, ensuring that SMEs recognize an internal need for and have sufficient resources to pay for these services. Business information is typically difficult to come by and is often fragmented and disaggregated (Ntando 2013). Massawe (2012) adds that technical assistance undertakes initiatives that allow SMEs to obtain the required business information and develop internal mechanism for market data gathering, evaluation and implementation. The assisters also assist enterprises in developing effective systems for relatively easy information aggregation, management and dissemination. According to Zeller (2015), even though a number of transitioning economies have numerous government and donor loan programs and efficient banking system, SMEs access to finance remains insufficient. He further asserts that, technical assistance should focus on both the administrators of the loan programs and SMEs to design and implement processes and programs that increase SMEs access to finance. In the end, all technical assistance programs are designed to improve the overall SME competitiveness both domestically and internationally.

Consultancy and support are an important component of the service that development finance institutions provide to businesses in emerging and developing countries, particularly in Africa. Small and medium sized enterprises (SMEs) are deficient in these areas, especially in governance and financial management, and this hinders their growth as well as their ability to contribute to development (Cook, 2012). To support them more and encourage them to change, in recent years the universal development banks have been co-financing consultancy programs to help them improve their information systems, develop new products and break into new markets. This approach, a combination of private investment and financial incentive, enhances both the stability and economic impact of the companies on the receiving end (Buckley, 2013).

But the legitimacy of providing grants to support private-sector development is questioned in many circles since it difficult to justify donation of funds to profitable companies. Grants provided by development finance institutions may be justified when they contribute to the long-term survival of companies and boost their economic impact (Christabell, 2013). But to ensure that this new tool is effective, fills a genuine lack and avoids distorting competition, the impact of funding provided for such projects needs to be measured. This is something to look at again in the future because the variety of different systems of measurement currently in place makes it difficult to evaluate and compare programs between institutions (Buckley, 2013). Several Organizations including business associations, voluntary organizations and other NGOs have set up programs to enhance the factors that influence development of SMEs especially as it relates to enterprise growth and development (World Bank, 2013). Despite the large number of technical assistance programs, the growth and development of SMEs has not been satisfactory. Ventures have collapsed as soon as assisting organizations pull out of the project and remaining ones have remained small (Memba, et. al, 2012)

According to Cook (2012), the experience built up over several projects nonetheless provides some lessons. With a strong commitment and ownership of the project on the part of the beneficiary company, and monitoring by the lender, a technical assistance program increases the chances of success. In addition, technical assistance in support of the private sector can become a valuable development tool, available to public development agencies to increase the leverage of their financial input. The technical assistance facility will ensure investee companies receive management assistance, business building and value-add services that are critical for the growth and sustainability of the investee companies, while contributing to economic development and providing a return for the investors (Berger, 2014).

### 2.3.2 Credit facilities and Performance of SMEs

Access to credit enables Small and Medium enterprises to enhance their financial performance. The main objective of microcredit is to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions. It is argued that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare (Kamau, 2012).

According to Gujarati (2013), the potential and ability of small businesses to contribute to poverty reduction objectives are largely vested in the capacity of the SME financial credit facilities to provide the needed education, incentives, employment and capital.

Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral security due to distance (Lisa, 2012). It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory. The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan (World Bank, 2013). The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts (Kasekende, 2012).

According to Otero (2014), credit facilities comprise of financial sustainability, outreach to the poor, and institutional impact in a triangular manner. There are costs to be incurred when reaching out to the poor and most especially with small loans. The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases. The provision of financial services to the poor is expensive and as argued by Pischke (2012) making financial institutions sustainable requires patience and attention to avoid excessive cost and risks.

Credit facilities are considered to be an important factor in increasing the growth of Small and Medium Enterprises. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 2015). The main objective of credit facilities according to Navajas et al, (2010) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Access to credit facilities further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor. Accessing credit facilities has been a potential key for SMEs to fight against poverty and build productive capacity, to compete to create job opportunity and alleviation of poverty among poor people (Ntando, 2014). Without financing, SMEs cannot compete favorably and alleviate poverty. A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Cook, 2013). However, small businesses especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2013).

### 2.3.3 Saving schemes and Performance of SMEs

Morduch (2015) asserts that, initially, microfinance was called microcredit and lending was their main focus. The transition from microcredit to microfinance has brought a change of outlook, a growing realization that the low income households can profit trough a broader set of financial services than just credit. Notably, new initiatives are underway to create deposit accounts with terms and features that appeal to the low income customers.

Savings schemes have long been a controversial issue in microfinance. In recent years, there has been increasing awareness among policy makers and practitioners that there is a vast number of informal savings schemes and MFIs around the world (in particular, credit union organizations) have been very successful in mobilizing savings. These developments attest to the fact that low-income clients can and do save (Buckley, 2013).

The World Bank‘s Worldwide Inventory of Microfinance Institutions found that many of the largest, most suitable institutions in microfinance rely heavily on savings schemes. In 1995, over $19 billion are held in the surveyed microfinance institutions in more than 45 million savings schemes accounts compared to nearly $7 billion in 14 million active loan accounts (World Bank, 2013). Often neglected in microfinance, deposits provide a highly valued service to the world's poor who seldom have reliable places to save their money or the possibility to earn a return on savings (Ledgerwood, 2012).

Over the years, following numerous studies and models, it has become clear that the poor are actually bankable. They are able to save and repay loans; thus the microfinance industry today forms an integral part of the formal financial sector in many countries around the world. By 2006, there were more than 133 million saving scheme clients, 60% of whom were among the world's poorest people (Campion et al., 2012).

A strong culture of savings has meant that MFI outreach to depositors has far outweighed outreach to borrowers, although overall loan portfolio and total deposits have both increased steadily. High product-line diversification has allowed MFIs to evolve to meet customer needs, although growth has primarily targeted an urban clientele (World Bank, 2013). Deposits account for nearly 70% of the funding base for the sector, with the savings of micro-depositors contributing the majority of these funds. Ugandan microfinance also benefits from the confidence of many international lenders, although the largest national source of microfinance credit is Uganda itself (BOU, 2012).

According to Opondo (2014), the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives, friends, and moneylenders. Statistics further show that almost all the funds came from personal savings (66.4%) with about 3% from the informal sector and 0.21% from the formal financial institutions. This trend is further established by a 2010/11 study findings show that in developing economies about 63% respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions (Feder, 2012).

## 2.4 Conclusion

This chapter presented existing literature in relation to other studies on microfinance services and performance of SMEs. Literature has been presented in line with the specific objectives.

# CHAPTER THREE

## 3.0 RESEARCH METHODOLOGY

### 3.1 Introduction

Research methodology refers to the techniques used to structure a study and gather and analyze information in a systematic way (Polit, 2011). The methodology describes the research design, the census, data collection procedures and the measuring instrument (Strydo, 2012). This chapter covers the research design that was employed, area of the study, study population, sampling procedure, sample size, sampling techniques, as well as data collection methods and instruments.

### 3.2 Research design

According to Saunders (2010) a research design may be defined as a framework on which the study can be conducted. A research design refers to the overall plan aimed at addressing a research question along with specifications to enhance the study's integrity. A plan specifically conceived and implemented to bring realistic evidence to bear on a research problem, question, or hypothesis. It refers to the overall approach to or outline of the study that details all major components of the research (Houser 2012).

A cross sectional survey design that is both quantitative and qualitative will be employed for the study. This is because a cross sectional design is likely to yield the maximum results from the survey. Quantitatively the study is intended to generate descriptive statistics through calculation of means, frequencies, percentages and standard deviations. Qualitatively data will be grouped into themes so as to analyze all responses and the study will employ the interview guides to get as much information from the respondents.

## 3.3 Study Population

A population refers to the entire aggregate of cases (individuals or elements) that meet a designated set of criteria (Walters 2010). The target population refers to a set of cases about which the researcher would make generalizations, while the accessible population refers to one that meets the criteria and would be available for a study (Everitt 2011).

The study will be carried out amongst SMEs that are situated within Mpigi trading Centre. The study will involve managers, proprietors and staff that are employed at the different SMEs under study. The study population consisted of SMEs in Mpigi trading Centre that are estimated to be about 160 from sectors of trade, service and manufacturing (Uganda Bureau of Statistics, 2014/2015).

## 3.4 Area of study

The data will be collected from Mpigi trading Centre which is situated along the Kampala – Masaka road. This area was chosen because of an increasing number of microfinance institutions within the area.

## 3.5 Sample size and Selection

Basing on the Krejcie and Morgan (1970), sample size determination criteria, a sample size of 113 SMEs is appropriate for the population of 160 SMEs. The researcher will use stratified sampling to divide the population into strata according to the different business sectors of trade, service and manufacturing. Simple random sampling will also be used to select respondents from each stratum. Owners/managers will specifically be interviewed. The researcher therefore will consider a sample of 113 SMEs in order to make it possible to randomly sample the population.

| SME Category | Population | Sample Size | Sampling Method |
|---|---|---|---|
| Mobile money shops | 35 | 28 | Simple Random Sampling |
| Saloons | 10 | 06 | Purposive Sampling |
| Restaurants | 25 | 18 | Stratified Sampling |
| Metal fabricators | 10 | 06 | Simple Random Sampling |
| Carpentry shops | 15 | 10 | Purposive Sampling |
| Retail and Wholesale shops | 50 | 35 | Simple Random Sampling |
| Hard wares | 15 | 10 | Purposive Sampling |
| **Total** | **160** | **113** | |

***Source: Primary data (2017)***

### 3.6 Sampling Techniques

Without basing on any characteristics, SMEs will be given a fair chance of being selected through employing simple random technique on the entire population. SMEs will be listed in ascending order from the top most SME to the least most SME and after a particular enterprise is chosen the researcher will skip 2 more SMEs and select the next enterprise. The researcher will also use purposive sampling on the proprietors and managers of the firms since these are the individuals who may be directly involved in microfinance activities of the firm and will therefore be useful in providing specific information on the area of micro financing.

### 3.7 Methods of data collection

The researcher will employ both the questionnaire and interview guide as data collection tools

#### 3.7.1 Questionnaires

The researcher will use structured self-administered questionnaires to gather data from respondents and the questionnaire will comprise of both closed and open ended questions so as to collect both qualitative and quantitative data. The questions will be answered using a 5 point scale ranging from 1- strongly disagree to 5- strongly agree.

### 3.7.2 Interview guide

The researcher will also use the interview guide to collect data for the study. The researcher will pose questions to Proprietors and mangers for this particular exercise. The purpose of doing so is to get firsthand information. The instrument will be used because it is one of the quickest techniques of collecting data and questions will be repeated clearly for the respondents since some of them may not be quite conversant with issues concerning microfinance and hence require assistance and aid their understandability.

## 3.8 Data Management and Analysis

Data will be managed and analyzed using both quantitative and qualitative methods of data analysis. Quantitatively, data obtained from the respondents will be inputted into a computer for computation of descriptive statistics. Descriptive statistical methods will be used to generate means, frequencies, maximum and minimum figure, percentages and standard deviations. These will be interpreted together with the bar graphs, tables and pie charts that will be generated from the study results. The results obtained will then compared with those of other past academicians so as to measure their consistency.

Data analysis will also be done using the social package for social scientists so as to generate frequencies, percentages, means, standard deviations, pie charts, bar graphs and tables. SPPS will be used to analyze correlations that exist among the different variables using spearman's rank correlation coefficient. Data analysis will also put into consideration theme analysis, where the data will be organized into themes for proper analysis. In addition, qualitatively an interview guide will be used so as to gain an understanding of the underlying opinions of respondents.

The researcher will use both theme and content analysis where the responses will be grouped into themes and shall be analyzed, interpreted and discussed in relation to descriptive statistics. Data will be analyzed using the social package for social scientists and with the help of a research assistant and will also be managed by use of Microsoft excel that includes data entry, tabulation, generation of charts and presentation of results. Collected data from the respondents will be edited and coded in clear pictures so as to gain a more thorough analysis of the results from the survey. The data collected will be arranged in order to obtain accurate, clear and uniform data. During final editing of the research work, the researcher will ensure that errors and omissions are identified and deleted.

## 3.9 Quality Control Methods

### 3.9.1 Validity of the instrument

According to Kothari (2010), validity refers to the extent to which a test measures what we actually wish to measure. Validity is concerned with whether the findings are really about what they appear to be about (Saunders et al, 2012). The instrument will be given to two experts who will give their opinions using a 5 point scale. It will be further pretested by administering it to probable respondents so as to test their understandability of the items. Items that are found to be irrelevant will be eliminated and those not well understood will be adjusted for understandability.

### 3.9.2 Reliability of the instrument

Reliability has to do with the accuracy and precision of a measurement procedure. Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings (Saunders et al, 2002). Reliability will be ensured through giving the questionnaire to a particular section of respondents who will give their first time opinions. After a reasonable lapse of time, the same research instrument will be administered on the same respondents. If responses are quite consistent the questionnaire will be considered reliable.

### 3.10 Ethical considerations

The researcher will obtain an introductory letter from the faculty of Business Administration and Management. This letter will be intended to introduce the researcher to probable respondents who will be managers, proprietors and employees of SMEs. The potential participants will be informed of the nature and purpose of the research.

The researcher will ensure confidentiality and safety of all the data collected from the respondents through not exposing filled in questionnaires to an unauthorized individuals who may wish to inquire about the responses offered by participants.

Respondents will not coerced in fill in questionnaires rather they will be given ample time and space to fill in the questionnaires on a voluntary basis and at the optimal time frame. This will enable respondents to fill in what best represents their choices rather than being influenced by external pressure.

The researcher has acknowledged use of literature by other scholars and any documentation that was already in existence. The study put in significant effort to cite all authors that have written similar topics on contract management.

### 3.11 Limitations to the study

A cross sectional study will be employed for the first time, and within a very short period of time. This means that a comprehensive survey may not be conducted due to this limitation.

However the study shall strive to generate significant information that will be examined for potential relationships between the variables.

There may be a limitation in finances, as the researcher will have to source for funds to cover up various expenses such as printing and photocopying, welfare of researcher and assistant, transport expenses, and binding expenditures. However the scarce finances that are available will be planned and budgeted for so as to be used in the most optimal way hence generate a comprehensive research project.

The results from the study cannot be over generalized due to the fact that the geographical scope will only be limited to a specific area of Mpigi Trading Centre unlike other areas in Uganda. Studies in future can extend to other parts of the country, because the results may vary.

There may also be a limitation of language barrier, as some of the participants may not be well conversant with the English language that will be strictly used throughout the entire research process. In order to overcome this challenge, the researcher will hire a research assistant and also used a guide so as to translate specific information to ensure understandability of all questions.

Lastly most of the respondents may be hesitant in giving out some specific information because of fear of such information being leaked to relevant authorities. This limitation will be handled through assurance of confidentiality and privacy of all responses.

### 3.12 Conclusion

The main purpose of this chapter was to briefly reveal the data sampling techniques that will be used in the study. Data obtained from field research through use of questionnaires will be analyzed, coded and presented in the next chapter.

## CHAPTER FOUR

# 4.0 DATA PRESENTATIONS AND DISCUSSION

## 4.1 Introduction

This chapter presents result findings from the field survey for the study entitled microfinance services and performance of Small and Medium sized enterprises. The study objectives were to establish different relationships between dimensions of microfinance which constituted of technical assistance, credit facilities and saving schemes with performance of SMEs.

Data from findings was presented in the form of pie charts, tables and bar graphs. Correlations have been computed in order to establish relationships between the different variables.

**Response rate:**

118 questionnaires were distributed and only 113 questionnaires were received back giving a response rate of 95.7%. According to Campion (2012), a response rate above 85% is considered adequate and appropriate.

## 4.1 Demographic characteristics of respondents:

The following demographic aspects of the respondents were analyzed: the gender, age bracket, level of formal education, reason behind business startup, longevity in the business and subscription to microfinance institutions.

### 4.1.1 Gender of Respondents

Respondents were required to either answer whether they were male or female. Presented below are the frequencies and percentages of their response.

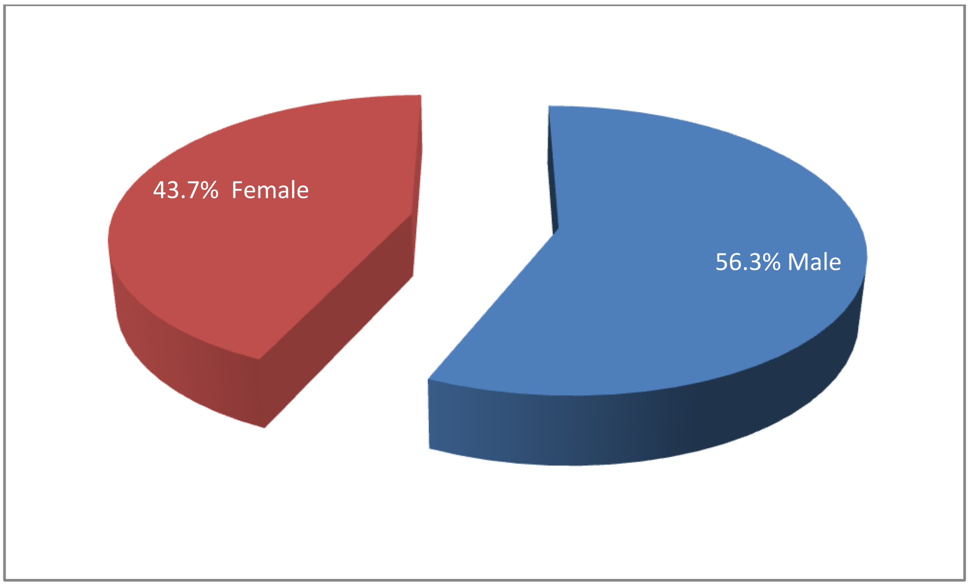
**Table 4.1: Gender of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Male | 64 | 56.6 | 56.6 | 56.6 |
| | Female | 49 | 43.4 | 43.4 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

From the above table, majority of respondents were male and were 64 in number represented by 56.6% of all respondents. Female respondents were 49 in number accounting for 43.4% of participants. Males could have been more may be because the SME industry is mainly dominated by males and female respondents were just embracing the SMEs. However it's important to note that the difference in numbers is not so wide which could possibly mean that the SME sector is one that is fairly balanced in terms of gender. The above data is further illustrated in the figure below.

**Figure 2: Pie Chart showing Gender of Respondents**




***Source: Field Survey (2017)***

### 4.1.2 Age bracket of Respondents

Respondents were placed in age brackets ranging from 25 years and below, 26 -35 years, 36 – 45 years and 46 years and above. Presented below are the responses in relation to the age of respondents.

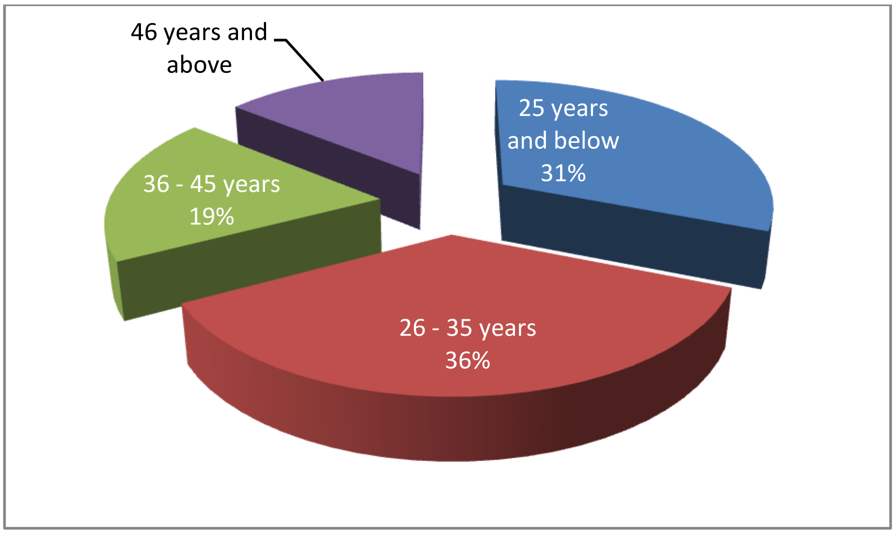
**Table 4.2: Age bracket of Respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 25 years and below | 35 | 31.0 | 31.0 | 31.0 |
| | 26-35 years | 41 | 36.3 | 36.3 | 67.3 |
| | 36-45 years | 21 | 18.6 | 18.6 | 85.8 |
| | 46 years and above | 16 | 14.2 | 14.2 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

From the information above 41 respondents were between 26 - 35 years (36.3%). These were followed by another 35 respondents who were below 25 years (31.0%). 21 respondents (18.6%) were between 36 – 45 years while the least number of respondents were above 46 years and these were only 16 in number (14.2%). Majority were between the ages of 26 – 35 years probably because they occupied positions that require individuals within that age bracket. Respondents above the age of 46 years and above were the lowest probably because the SME sector is a delicate one and requires individuals with a youthful mindset and high energy levels which is very hard to find in individuals of advanced age. The data can best be shown in the bar graph shown below.

**Figure 3: Pie Chart showing Age Bracket of Respondents**




***Source: Field Survey (2017)***

### 4.1.3 Level of Formal Education of Respondents

Respondents were required to fill in on whether they had attained a tertiary education, vocational education, secondary level, primary level, no formal education and other forms of education. Presented below are the responses from the field survey on formal education of respondents.

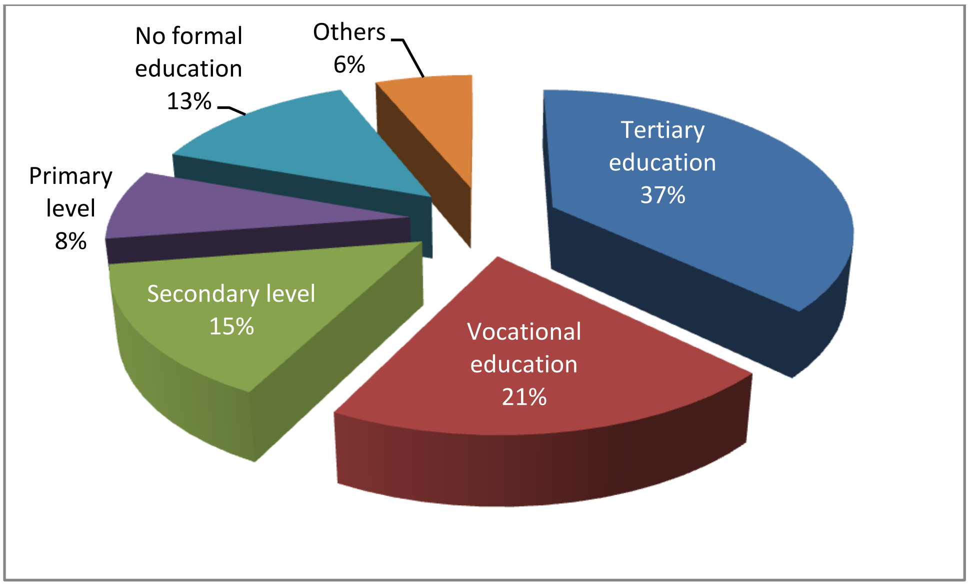
**Table 4.3: Level of formal education of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Tertiary education | 42 | 37.2 | 37.2 | 37.2 |
| | Vocational | 23 | 20.4 | 20.4 | 57.5 |
| | Secondary level | 17 | 15.0 | 15.0 | 72.6 |
| | Primary level | 9 | 8.0 | 8.0 | 80.5 |
| | No formal education | 15 | 13.3 | 13.3 | 93.8 |
| | Others | 7 | 6.2 | 6.2 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

From the above dataset, majority of the respondents had attained tertiary education. These were 42 in number with a percentage 37.2%. 23 respondents had attained vocational education (20.4%). 17 respondents 15.0%) had attained secondary level while 15 had no formal education (13.3%), 9 respondents had attained primary level (8.0%). 7 respondents (6.2%) responded by claiming that they had attained other forms of education other than those expressed in the questionnaire. Majority of the respondents were degree holders probably because they had the ability to understand the questions being asked. Another probable reason could be that most of them were occupied in positions that required them to possess at least a university degree. Vocational certificate holders came second maybe because they could also be employed in those positions since they could also easily understand the question. Formal education of respondents is further represented in the bar graph show below.

**Figure 4: Pie Chart showing Formal Education of Respondents**




***Source: Field Survey (2017)***

### 4.1.4 Reason for business startup

Respondents were asked whether they had started the business enterprises because of either unemployment, diversification of resources, gain skills and experience, inheritance from family or had other reasons for business startup. Presented in the table below are some of the responses.

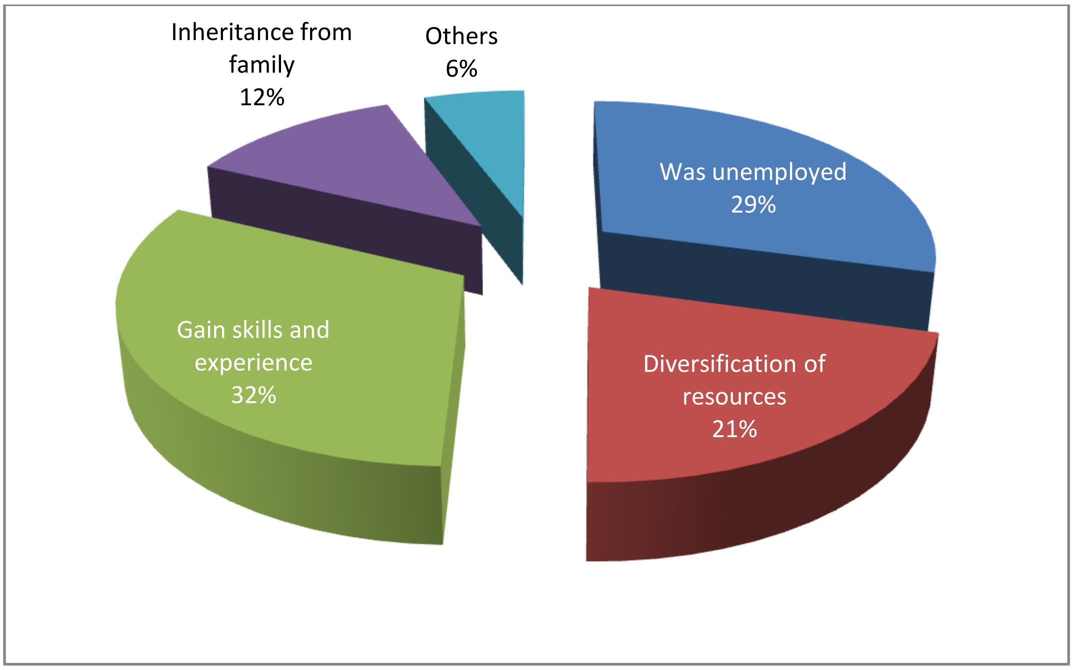
**Table 4.4: Reason for Business startup**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Was unemployed | 36 | 31.9 | 31.9 | 31.9 |
| | Diversification of resources | 26 | 23.0 | 23.0 | 54.9 |
| | Gain skills and experience | 29 | 25.7 | 25.7 | 80.5 |
| | Inheritance from family | 15 | 13.3 | 13.3 | 93.8 |
| | Others | 7 | 6.2 | 6.2 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

The data above shows that most respondents started the business because they were unemployed. They were 36 in total accounting for 31.9% of total respondents. They were closely followed by respondents who started in order to gain skills and experience and these were 29 in number (25.7%). 26 respondents (23.0%) started because they needed to diversify their resources, while another 15 (13.3%) simply inherited the business .The least number of respondents had other reasons for business startup and these were only 7 in number accounting for only 6.2% of the total respondents. Majority expressed a reason of unemployment as a major motive behind business startup simply because the high rate of unemployment is forcing many individuals to venture in self-employment through starting up their own businesses in order to gain employment. Skills and experience are highly required if an individual is to get meaningful formal employment. This serves to explain the high figure as one of the reasons why respondents started up their businesses. The information given above can be best represented in the figure below.

**Figure 5: Pie Chart showing Business startup objective**




***Source: Field Survey (2017)***

### 4.1.5 Longevity within the business

Respondents were also required to reveal how long they had operated in their business. They were required to select whether they had been operating for less than a year, 1 – 5 years, 6 - 10 years and 11 years and above. Below are the responses from the study findings.

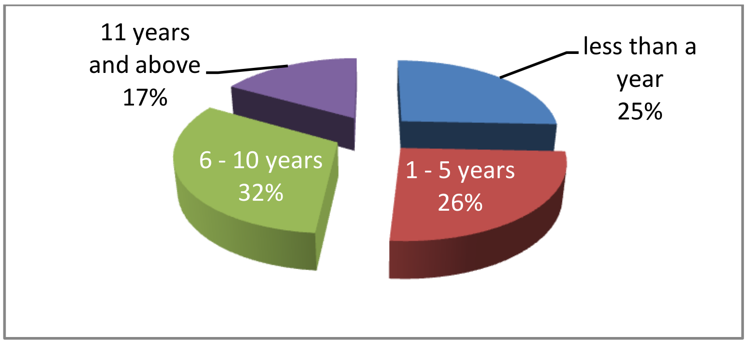
**Table 4.5: Longevity within the business of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | less than a year | 29 | 25.7 | 25.7 | 25.7 |
| | 1-5 years | 29 | 25.7 | 25.7 | 51.3 |
| | 6-10 years | 36 | 31.9 | 31.9 | 83.2 |
| | 11 years and above | 19 | 16.8 | 16.8 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

From the above table, 36 respondents had worked in the business for a period between 6 – 10 years (31.9%). 29 respondents had been establish for less than a year as well as another 29 had been around between 1 – 5 years (25.7%). The least number of respondents had operated for more than 11 years. These were only 19 respondents and were represented by 16.8%. The above information can also be represented in the bar graph below.

**Figure 6: Pie Chart showing longevity of respondents**




***Source: Field Survey (2017)***

### 4.1.6 Subscription to a Microfinance Institution

Respondents were required to reveal whether they belonged to any microfinance institution. They were simply required to answer with a Yes or No answer. Presented below are their responses.

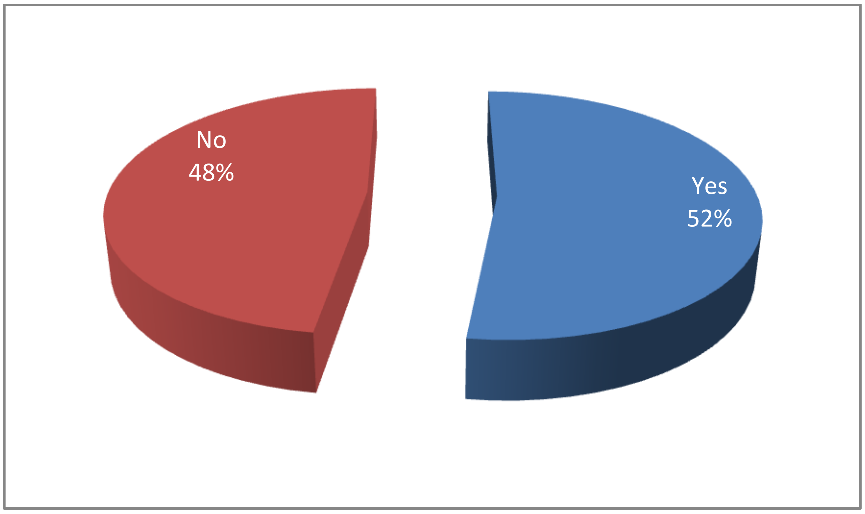
**Table 4.6: Subscription to a microfinance institution**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 59 | 52.2 | 52.2 | 52.2 |
| | No | 54 | 47.8 | 47.8 | 100.0 |
| | Total | 113 | 100.0 | 100.0 | |

***Source: Field Survey (2017)***

From the above statistics 59 respondents (52.2%) claimed that their business enterprise receives microfinance services from microfinance institutions, while 54 respondents (47.8%) claimed that they were not clients to any microfinance institution. This can further be illustrated in the chart below.

**Figure 7: Pie Chart showing subscription to microfinance institutions**




***Source: Field Survey (2017)***

## 4.2 Descriptive Statistics of Variables

This section specifically handles descriptive statistics on both the independent and dependent variable. Under the independent variable descriptive statistics on technical assistance, credit facilities and saving schemes have been presented. Descriptive statistics on performance have also been computed. The main aim of computing descriptive statistics is to assess the degree or extent to which responses deviate from the mean values. . The standard deviation values have been explained in regards to their deviation from the mean value with a high standard deviation meaning that the responses were deviating highly from the generated mean value while a lower standard deviation implying that the responses were deviating lowly but were close to the mean figure. From descriptive statics correlation analysis between the different variables will be computed. Below are the frequencies, minimum and maximum figures, means and standard deviations of the different variables. Under descriptive statistics, the mean values of the different statements, under the different variables have been explained using a 5 point scale as follows: **1.0-1.9**-strongly disagree, **2.0-2.9**-disagree, **3.0-3.9**-neutral, **4.0-4.4**-agree, and **4.5-5.0**-strongly agree.

### 4.2.1 Descriptive Statistics of Technical assistance

The study findings in the table below show the minimum and maximum values, frequencies, means and standard deviations of the different statements under technical assistance in relation to performance.

**Table 4.7: Descriptive statistics of technical assistance**

| | N | Min | Max | Mean | S. D |
|---|---|---|---|---|---|
| My microfinance institution has given assistance to my business enterprise | 113 | 1.00 | 5.00 | 4.3849 | 1.28709 |
| My microfinance institution has enabled me to understand the local, legal and economic environment | 113 | 1.00 | 5.00 | 2.6558 | 1.19813 |
| Microfinance institutions provide satisfactory technical assistance to SME's. | 113 | 1.00 | 5.00 | 3.7168 | .64978 |
| Microfinance institutions' technical assistance has improved the employee skills in my firm. | 113 | 1.00 | 5.00 | 2.7646 | .80215 |
| The information provided by the microfinance institution to the firm is relevant and can easily be applied within the firm's operations and activities | 113 | 1.00 | 5.00 | 4.1480 | 1.25841 |
| The level of complexity of the presentations and technical information given by the microfinance institution to the firm is containable. | 113 | 1.00 | 5.00 | 3.4646 | .70215 |
| The timeliness of materials, assistance and skills provided to the firm by the microfinance institution is satisfactory for the enterprise. | 113 | 1.00 | 5.00 | 2.7168 | 1.26399 |
| The resulting effects in terms of improved employee skill levels and understanding is as a result of assistance provided by the microfinance institution. | 113 | 1.00 | 5.00 | 4.3558 | .79813 |
| Valid N (list wise) | 113 | | | | |

***Source: Field Survey (2017)***

From the above descriptive statistics most of the respondents were in agreement that their microfinance institution has given them assistance. The mean value for this statement was 4.38 and standard deviation was 1.29. The high value of the standard deviation means that there was a high deviation in the responses given by participants. Most respondents were in agreement probably because they had actually been approached and given assistance by microfinance institutions. Microfinance had now turned into an industry according to Robinson (2011). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of technical assistance and other financial services such as savings and pensions (microfinance) when it became clear that SMEs had a demand for these other services (Ledgerwood, 2013).

Majority of the respondents disagreed that microfinance institution had enabled them to understand the local, legal and economic environment. The mean value and standard deviation was 2.66 and 1.20 respectively. The standard deviation was also very high implying that deviation from the mean figure was slightly high. This is true to some extent and explains the disagreement expressed by respondents because one of the challenges experienced when trying to access credit from microfinance institutions relate to failure to understand the new rules and regulations governing lending within these institutions. This is in line with Robinson (2011) who says that even though most microfinance institutions are striving to assist their local clientele, many of them still fall short of provision of financial services that aim to improve and protect the livelihoods of active economic agents who have limited access to information concerning their legal and political framework or are denied access to normal financial services as provided by banks and other formal financial sector institutions because of the small nature of their operations, geographical location, limited sources and volumes of their income base.

Majority of the respondents were neutral on the matter that Microfinance institutions provide satisfactory technical assistance to SME's. The mean value was 3.72 and standard deviation was 0.65 which showed slight deviation in the responses. Neutrality in responses could be explained probably because respondents were not aware how these institutions affect other similar businesses since these enterprises differ in their operations. According to Mosley (2014), Technical assistance assists firms develop more effective institutions, legal frameworks, and policies to promote economic stability and inclusive growth. Training through practical policy-oriented courses, hands-on workshops, and seminars strengthens the firms' capacity to analyze economic developments and formulate and implement effective policies. (Massawe (2012) adds that technical assistance undertakes initiatives that allow SMEs to obtain the required business information and develop internal mechanism for market data gathering, evaluation and implementation. The assisters also assist enterprises in developing effective systems for relatively easy information aggregation, management and dissemination.

Respondents were in disagreement on the statement that Microfinance institutions' technical assistance has improved the employee skills in their firm with an average value 2.76 and standard deviation of 0.80 which shows that there was a lower deviation in responses from the participants. Most of the respondents could have disagreed on this aspect because probably microfinance institutions had not majorly impacted positively on improvement of employee skills and there for there is more need for these institutions to provide more technical support through training the employees of these firms. Several Organizations including business associations, voluntary organizations and other NGOs have set up programs to enhance the factors that influence development of employee skills especially as it relates to enterprise growth and development (World Bank, 2013). Despite the large number of technical assistance and training programs, the growth and development of employee skills has not been satisfactory. Ventures have collapsed as soon as assisting organizations that assist employees through provision of rigorous training pull out of the project and remaining ones have remained small (Memba, et. al, 2012)

Most of the respondents were in agreement that information provided by the microfinance institution to the firm is relevant to the firm's operations. The mean value generated from responses was 4.15 and standard deviation was 1.26 which shows that deviation from the average value was very high. This agreement could be true to a large extent since microfinance institutions are known to provide a wide range of assistance to business enterprises which assistance is meant to improve on operational effectiveness and efficiency so as to enhance performance, growth and overall sustainability. The microfinance sector consistently focuses on understanding the needs of SMEs and on devising better ways of delivering services in line with their requirements, developing the most efficient and effective mechanisms to deliver finance to SMEs. Continuous efforts towards automation of operations are steady improving in efficiency. The automated systems have also helped accelerate the growth rate of the microfinance sector. (Robinson, 2013).

Participants were neutral on the matter that complexity of the presentations and technical information given by the microfinance institution to the firm is containable. The mean value of the responses on this statement was 3.46 and the standard deviation was 0.70 which implies that the deviation from the mean figure was slightly lower as respondents had similar views on this statement. The neutrality on this matter could be probably because the respondents were not sure about the statement relating to complexity of presentations and technical information and therefore could not come up with a conclusive answer. In a relatively poor country like Uganda, the cost of staying competitive can be enormous. Wangwe (2009) points out that the growth and development of SMEs is constrained by economics, poor infrastructure, poor technology, inadequate finance, and unfavorable and complex legal framework. Technological issues two broad rationales are usually advanced for supporting small firm activities through the traditional technology policy methods. The first is the perceived market failure in the labor and technology markets, and the second is the incidence of weak or absent markets and institutions in developing countries.

Most of the respondents were in disagreement that timeliness of materials, assistance and skills provided to the firm by the microfinance institution is satisfactory for the enterprise. The mean value generated from responses was 2.72 and standard deviation was 1.26 which shows that deviation from the average value was very high. This disagreement could be true to a large extent since microfinance institutions may under normal circumstances fails to provide the best quality assistance and in a timely manner since most SMEs operate informally and most of them are located in rural areas and therefore cannot be easily accessed and assisted. In addition these institutions aim at minimizing costs while trying to provide assistance to firms. According to Bhattacharya (2011) identifies that formal financial institutions are reluctant to lend to SMEs and in most cases offer help in a less timely and effective manner since investing in SME activities is considered by MFIs to be very risky. They find it risky in the sense that if invested in, and in an event of unfavorable business conditions, they have low financial power, assets, and easily go bankrupt. Similar views are shared by Meagher (2010) who argues that the cost of borrowing from MFIs is very high and so much time consuming and this prevents SMEs to borrow from this institution even though the costs to borrow are sometimes subsidized by the government.

Respondents were in agreement that improved employee skill levels and understanding is as a result of assistance provided by the microfinance institution. The mean value of the responses on this statement was 4.36 and the standard deviation was 0.80 which implies that the deviation from the mean figure was slightly lower as respondents had similar views on this statement. The agreement on this matter could be probably because through provision of technical assistance especially in form of training during presentations employees' skills may be enhanced and their overall performance may as well increase. Employee skill levels have been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without improvement in the employee skills, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (CGAP, 2011). This is why most organizations focus on MFIs in order to improve their employee skills. The effect of microfinance services on the growth of employees needs to be understood in terms of business capital and stock growth (Barrow, 2011).

### 4.2.2 Descriptive statistics of Credit facilities

Presented below are descriptive statistics of statements on credit facilities in relation to performance. Minimum and maximum values, frequencies, means and percentages have been generated from the responses given on the different statements as shown in the table below.

**Table 4.8: Descriptive statistics of credit facilities**

**Descriptive Statistics**

| | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| I was requested to hand in collateral security prior to getting credit. | 113 | 1.00 | 5.00 | 4.4646 | 1.18720 |
| Regular reviews on credit have been done for credit that is accessed. | 113 | 1.00 | 5.00 | 3.7168 | 1.26399 |
| Credit committees were involved in making decisions regarding loans. | 113 | 1.00 | 5.00 | 4.3558 | 1.19813 |
| Interest rates charged on credit borrowed from microfinance institutions is containable and realistic. | 113 | 1.00 | 5.00 | 2.7168 | .84978 |
| I accessed a loan from a microfinance institution | 113 | 1.00 | 5.00 | 4.1646 | 1.20215 |
| My business was visited prior to granting me the credit. | 113 | 1.00 | 5.00 | 2.7080 | .75841 |
| My microfinance institution offered me free business consultancy prior to getting the loan. | 113 | 1.00 | 5.00 | 4.3646 | .78720 |
| The credit facilities provided to me by my microfinance institution have led to creation of employment. | 113 | 1.00 | 5.00 | 2.6168 | 1.26399 |
| Valid N (list wise) | 113 | | | | |

***Source: Field Survey (2017)***

From the above results on descriptive statistics, most of the respondents agreed that they were requested to hand in collateral security prior to getting credit from microfinance institutions. The mean value was 4.46 and a standard deviation of 1.19 meaning that there was a high deviation from the mean value.  This agreement from responses is true to some degree, because usually before any money lending institutions avails credit support, a thorough credit worthiness is accrued out which includes ability to pay back the loan and in most cases the borrower has to attach a collateral security that the lending institutions keeps in case the individual fails top honor the loan obligation. The above finding is in line with ( Wangwe, 2010) who maintains that borrowers are always requested by their financial institutions to provide some form of security in terms of collateral, before these loans are advanced to them

Most of the respondents were neutral on the matter that regular reviews are done on all credit that is accessed by the firm. They had an average value of 3.72 and a standard deviation of 1.26 which means that the deviation between responses was very wide. The neutrality expressed by respondents could probably they may have feared consequences from the firm authorities, or they may not be involved in the actual review and therefore could not come up with a final answer on this statement. According to Edward (2012), Effective loan portfolio management is crucial to controlling credit risk. In order to control risk, the microfinance institution must know the types and levels of credit risk in its portfolio. Credit review is an important tool which can help MFIs identify this risk. A loan review provides an assessment of the overall quality of a loan portfolio. Specifically, a loan review: Assesses individual loans, including repayment risks, Determines compliance with lending procedures and policies, Identifies lapses in documentation as well as providing credit risk management priority findings (Massawe, 2013).

Majority of the respondents were in agreement that Credit committees were involved in making decisions regarding loans. The average value for the responses was is 4.36 and standard deviation for the responses was 1.20 meaning that there was a high variance and deviation from the mean figure. The respondents may have been in agreement probably because within their business enterprises there are credit committees that are tasked in making decisions regarding loans. These committees usually comprise of individuals in top management that are usually involved in the strategic decision making process that usually involves long term decisions such as borrowing from microfinance institutions. MFIs use credit committees to identify issues, and learn what modifications can be made to lending procedures, policies, and practices to address those issues. Institutions that fail to address problems early are prone to suffering from systemic weaknesses which can lead to deterioration in portfolio quality, thus reducing profitability and sustainability. If accredit committee grades are used to determine its loan loss reserve, another important element of a loan review is the evaluation of the risk grades of individual loans (Alexis, 2012). This is in line with Valetta (2011) who adds that if the loan review is conducted by an independent committee of professionals, it can be particularly helpful in assessing incidences of fraud and theft that can directly affect the MFI.

Respondents expressed disagreement on the matter that Interest rates charged on credit borrowed from microfinance institutions is containable and realistic. The mean value for this statement was 2.72 and a standard deviation of 0.85 which shows that there was a slight but lower deviation from the mean value. This is true to some extent because most microfinance institutions may charge higher interest rates on the loans they give to SMEs which in most cases prompts these firms not to borrow from such institutions. MFIs that claim to be helping SMEs nevertheless charge them interest rates that are substantially higher than the rates richer borrowers pay at banks. No wonder this seems wrong to observers who do not understand, or do not agree with, the argument that MFIs can usually serve their poor customers best by operating sustainably, rather than by generating losses that require constant infusions of subsidies (Navajas, 2013).

Most respondents also agreed that they had accessed a loan from a microfinance institution before. The mean value for this statement was 4.16 and standard deviation was 1.20 which shows that the responses were widely deviating from the mean value. This is true to some degree since it is almost impossible in this era for most businesses to operate without access to microfinance credit. This is because the economic environment is to competitive and most business enterprises are adopting more costly means of surviving and these means may involve accessing credit from microfinance institutions. SMEs have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore MFIs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness. The clients also need to be trained so as to have the skills for specific production and business management as well as better access to loans so as to make profitable use of the financial resource they receive (Bennett, 2014)

Respondents were in disagreement that microfinance institutions visited their business prior to granting the business enterprise credit. These accounted for a mean value of 2.71 and a standard deviation of 0.76 which shows a lower deviation from the average value. The respondents disagreed to this claim probably most microfinance institutions try to minimize costs when trying to extend microfinance services to SMEs that are especially found in rural areas which can’t be accessed easily. So sometimes microfinance institutions and other lending institutions may only assess the collateral security presented but may not actually make actual site visit to business premises of the borrower. Scott (2013) argues that MFIs rarely visit their clients who re situated in remote and hard to reach area. It is for this reason that most MFIs find difficulty in investing in SMEs especially those in developing economies because the cost of operation exceeds the benefits derived from these firms. The savings mobilization has recently been recognized as a major force in microfinance. The importance of savings mobilization has been highlighted in several papers in the context of micro finance. Microenterprise programs can play a significant role to foster savings among the poor populations, with considerable benefits both for the savings and for the programs (Buckley, 2013).

Majority of the respondents agreed that microfinance institution offered the business free business consultancy prior to getting the loan. These were represented by a mean value of 4.36 and a standard deviation of 0.79 which shows that responses were lowly deviating from the mean value. Most of the respondents agreed on this statement probably because lending institutions before granting credit to the borrower usually offer terms and conditions for the loan or credit access and take the borrower through rigorous steps on how to effectively cover up the loan without negatively impacting on business sustainability. Microfinance institutions basically do this to maintain customer relationships while at the same time safe guard their resources and funds from going to waste in form of bad loans. Accessing free financial and consultancy services is considered to be an important factor in increasing the growth of Small and Medium Enterprises. It is thought that free credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 2009). The main objective of microcredit according to Navajas et al, (2010) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Most respondents were in disagreement that credit facilities provided by microfinance institutions have led to creation of employment. These had an average value of 2.62 and standard deviation of 1.26 which shows that responses were highly deviating from the mean value. To explain the disagreement, respondents may have disagreed because of the high rates of unemployment that still persist and continue to surge up in the economy. It is however notable to applause these institutions for training individuals and SMEs through providing technical assistance that can help in job creation hence minimization of unemployment. Buckley (2014) argues that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability do not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism". Carrying out research in three countries; Kenya, Malawi and Ghana, he came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment.

### 4.2.3 Descriptive Statistics of saving schemes

Under saving schemes different statements have been discussed basing on the standard deviation and mean values that were generated from the study findings and have been presented as shown in the table below.

**Table 4.9: Descriptive statistics of saving schemes**

**Descriptive Statistics**

| | N | Min | Max | Mean | S. D |
|---|---|---|---|---|---|
| The firm mainly saves because of need to consistently meet gradually increasing expenditure and maintain stable growth | 113 | 1.00 | 5.00 | 4.2558 | .89813 |
| Credit policies of microfinance institutions influence the firm's decision to engage in saving | 113 | 1.00 | 5.00 | 2.7168 | .74978 |
| The firm feels that the saving incentives provided by microfinance institutions are favorable | 113 | 1.00 | 5.00 | 3.9646 | 1.20215 |
| A well drafted scheme is crucial in reducing tax while maintaining a regular return on investment | 113 | 1.00 | 5.00 | 4.5080 | 1.25841 |
| It is critical for a firm to adopt a saving scheme that focuses on small savings securities. | 113 | 1.00 | 5.00 | 3.4646 | .78720 |
| The firm regularly reviews its saving scheme in order to keep updated of current changes. | 113 | 1.00 | 5.00 | 2.7168 | 1.26399 |
| Microfinance institutions play an effective role in mobilizing small savings particularly from the SMEs. | 113 | 1.00 | 5.00 | 4.1558 | .79813 |
| Range of portfolio of saving schemes need to be increased so as to maximize return on the firm's investments. | 113 | 1.00 | 5.00 | 3.7168 | 1.24978 |
| Valid N (list wise) | 113 | | | | |

***Source: Field Survey (2017)***

Majority of the respondents agreed that the firm mainly saves because of need to consistently meet gradually increasing expenditure and maintain stable growth. These were represented by a mean value of 4.26 and a standard deviation of 0.90 which shows that responses were slightly highly deviating from the mean value. Most of the respondents agreed on this statement probably because they savings are increasingly becoming a major source of funding within the business community and most firms are now actively engaged in ore savings in order to cover up future and uncertain expenditure. Mauri (2015) deduced that the traditional rural finance system has overlooked the saving potential of SMEs in developing countries and therefore, concentrate on the needs to supply farmers with public and foreign funds on a concessional basis through institutional channels. According to him such underestimation is mainly pillared on the well-known models called vicious circle of poverty and statistical figure on per capita income of developing countries that inhibits growth of these SMEs.

Most respondents also disagreed that Credit policies of microfinance institutions influence the firm’s decision to engage in saving. These had an average value of 2.72 and standard deviation of 0.75 which shows that responses were lowly deviating from the mean value. The disagreement could have resulted since many business enterprises adopt different saving culture that are different from those offered by lending institutions. Most firms develop different strategies that are centered on profit maximization in contrast with what microfinance institutions offer these business enterprises. In addition the low interest rates offered buy these lending institutions often discourage firms to undertake different saving ventures within these institutions. For microfinance institutions, savings can be a key to growth and profitability. CGAP (2012) expounded that mobilizing voluntary saving helps microfinance institutions to deepen their outreach among the poor clients, though it is sometimes it also provides cheaper sources of funds than the interbank market, and it promotes a strong demand-orientation and thriftiness among the MFIs. It is on this basis that other academicians came up with theories that link microfinance institutions in the decision making process of SMEs, since these MFIs transfer this same mindset to these institutions.

Most respondents also expressed neutrality on the statement that their firm feels that the saving incentives provided by microfinance institutions are favorable. The mean value generated for this statement was 3.96 and standard deviation of 1.20 which shows that the responses were highly deviating from the mean value. The neutrality in responses could be true to some extent firms may not have tried out the saving incentives offered by these microfinance institutions and therefore could not ascertain whether indeed the incentives offered by these institutions are favorable for the firms operations. In addition these individual respondents could have feared the consequences from management and therefore could not come up with a clear and conclusive answer on this statement. The cost of savings mobilization depends not only on internal factors such as operational efficiency, but also on external factors such as minimum reserve requirements, tax rates and general market conditions. Determining both internal and external costs helps to establish what rate to pay on different savings products (Ledgerwood, 2011). On the other hand, Klaehn et al (2012) has identified that numerous non-financial costs related to designing, marketing and protecting saving deposits products are incurred while offering the service and suggests a functional costing mechanism for accurately determine the financial and non-financial costs associated with providing the service making such services seem unfavorable.

Majority of the respondents also expressed agreement on the matter that a well drafted scheme is crucial in reducing tax while maintaining a regular return on investment. The mean value that was computed on this statement was 4.51 and a standard deviation of 1.26 which shows a very wide deviation from the average value. Most of the respondents could have been in agreement on this matter probably because once management drafts a clear scheme governing savings of the business enterprise then all employees are well educated on how to handle firm savings and therefore will always come up with proper saving cultures that govern proper operational efficiency. Dauber (et al, 2014) has expounded that relying on saving mobilization as a source of fund will guarantee independence from donors, increased feeling of ownership among clients, and empower the institution in terms of powerful information about client payment and saving habits. However, unless managed carefully mobilizing saving has its own repercussions on the deposit taking microfinance institution. Dauber (2014) cited that when clients save frequently and in small amounts, it is most likely that the institution incur high administrative cost in form of reduced tax liability.

Most of the respondents were in neutrality that it is critical for a firm to adopt a saving scheme that focuses on small savings securities with a mean value 3.46 and a standard deviation of 0.79 which shows that there was a slightly lower deviation from the mean value among responses. The neutrality expressed from the respondents could have resulted from the fact that sometimes workers of a given business enterprise may fear being reprimanded by management during such surveys and therefore may not freely and openly express their true choice on the statements presented to them. In addition the respondents may not have adequately understood the statement and therefore could not come up with a conclusive assertion. It has been argued that small amount deposits are stable due to the frequency of transaction and good for financing medium and long term loans. However, Bald (2009) has conducted a test on four microfinance institutions that deposit from poor client can form the conventional theory of core deposit. The study has concluded that poor depositors saving exhibit same behavior as the conventional deposit does in terms of stability.

Most respondents disagreed that their firm regularly reviews its saving scheme in order to keep updated of current changes with a mean value of 2.72 and a standard deviation of 1.26 which means that there was high deviation in responses from the average value. Respondents disagreed on this matter probably because most SMEs do not actually review their saving schemes as well as those provided by microfinance institutions and therefore there is need for more improvement in this matter. Review of savings schemes is important because the economic environment is dynamic and different economic situations require different saving schemes. According to Zeller (2011), a regular review assists SMEs save tax, check that you’re on track to meet your goals and even reach their goals sooner. Setting a regular review date, at least once a year that allows SMEs enough time to make the most of tax allowances as well as go for at least two months before the end of the tax year, but ideally sooner.

Majority of respondents were in agreement on the matter that Microfinance institutions play an effective role in mobilizing small savings particularly from the SMEs. The average value on this statement was 4.16 and standard deviation was 0.80 which shows that there was a slightly lower variance with most responses in agreement with the mean value. Most respondents were in agreement on this matter probably because microfinance institutions play a critical role in educating different business enterprise in savings schemes and provide technical assistance in form of training in order to enhance individual performance and skills level. Microfinance institutions also provide schemes where clients are free to save with these institutions at a relatively favorable interest. Savings mobilization can help MFIs to expand and deepen their outreach. A larger number of poor households choose to use savings services instead of credit services. In particular, poorest households may rely on savings before they have an effective demand for credit. Moreover, deposits from the public are a less volatile source of funds than alternative sources, such as rediscount lines from the Central Bank or funds from donor agencies (Campion, 2011).

Most of the respondents also expressed neutrality on the statement that the Range of portfolio of saving schemes need to be increased so as to maximize return on the firm’s investments These were represented by a mean figure of 3.72 and a standard deviation of 1.25 which shows that the responses were highly defying from the mean value. Most respondents could have expressed neutrality on this matter over fear of their job security. Employees could also not have been sure on this matter maybe because of the terms used in this statement that could not have been easily understood by the study participants. According to Opondo (2014), the sources of investment finance for SMEs include owner’s savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives, friends, and moneylenders. Statistics further show that almost all the funds came from personal savings (66.4%) with about 3% from the informal sector and 0.21% from the formal financial institutions. This trend is further established by a 2010/11 study findings show that in developing economies about 63% respondents raised their funds from personal savings.

### 4.2.4 Descriptive Statistics of Performance

The last section on descriptive statistics focuses on statements that are relating to performance of the business enterprise. Minimum, maximum values, frequencies, standard deviations and mean values have been generated in the table below from the responses obtained from the study findings.

**Table 4.10: Descriptive statistics of performance**

**Descriptive Statistics**

| | N | Min | Max | Mean | S. D |
|---|---|---|---|---|---|
| Frequency of access to loans from institutions has enabled growth of the firm's business | 113 | 1.00 | 5.00 | 2.8646 | 1.20215 |
| Presence of collateral assets in this firm helps in easy access to credit and business growth | 113 | 1.00 | 5.00 | 2.7080 | 1.25841 |
| There is need for more human capital so as to enhance growth in a number of operations of the firm | 113 | 1.00 | 5.00 | 4.4646 | 1.18720 |
| I am quite convinced about the profitability and liquidity profile of each of my enterprise's products and services | 113 | 1.00 | 5.00 | 2.7168 | .86399 |
| The firm has the right and adequate customer base to ensure that sales are consistently grown overtime, thereby increasing profits | 113 | 1.00 | 5.00 | 2.8558 | .79813 |
| My firm always takes the necessary steps to ensure that all activities and operations remain consistently profitable | 113 | 1.00 | 5.00 | 4.4168 | 1.24978 |
| Products and services offered by the firm to a greater extent meet the needs of consumers which ensures sales growth | 113 | 1.00 | 5.00 | 4.3646 | .70215 |
| Most firms are fully aware that Government provides adequate assistance and information so as to enable business growth | 113 | 1.00 | 5.00 | 3.7168 | 1.24978 |
| The length of relationship between this firm and microfinance institutions is important in business growth | 113 | 1.00 | 5.00 | 4.3558 | .79813 |
| Valid N (list wise) | 113 | | | | |

***Source: Field Survey (2017)***

The above descriptive statistics show that most respondents were in disagreement that the frequency of access to loans from institutions has enabled growth of the firm's business These were represented by an average value of 2.86 and a standard deviation of 1.20 indicating that there was a high deviation from the mean value with majority of the responses varying widely from the mean value. The disagreement could have resulted probably because the frequency of borrowing is not directly related to business growth and sustainability. This implies that a firm may borrow as many times as possible but it does not necessarily mean that the funds that are borrowed are put to good use by the business enterprise. In addition the interest rates provided by the business enterprise may be highly exorbitant and may not allow favor the firm's growth. Webster and Fidler (2015) advocate that in many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds. Micro enterprise investment training mainly addresses capital investment decisions, general business management and risk management. They further stresses that SMEs may be without capacity even though they have access to credit from financial institutions and this is mainly attributed to the legal and economic business environment that these SMEs operate in.

Majority of respondents were in disagreement that the Presence of collateral assets in this firm helps in easy access to credit and business growth. The average value on this statement was 2.71and standard deviation was 1.26 which shows that there was high variance with most responses defying from the mean value generated. Most respondents were in disagreement probably because they the collateral security in possession is not adequate to effectively cover up loan access in order to maintain sustainable growth development. Collateral security is essential in accessing loans and if a business enterprise does not have adequate collateral, then it is hard to access credit. In the presence of contract incompleteness, Weiss (2011) and Hart and Moore (2014) point out that collateral pledging enhances a firm's debt capacity.

Providing outside investors with the option to liquidate pledged assets ex post acts as a strong disciplining device on borrowers. This, in turn, eases financing and asset liquidation values thus play a key role in the determination of a firm's financing capacity. This simple observation has important macroeconomic consequences: as noted by Bernanke and Gertler (2009) and Moore (2015), business downturns will deteriorate assets values, thus reducing debt capacity and depressing investment, which will amplify the downturn.

Most of the respondents expressed agreement on the statement that there is need for more human capital so as to enhance growth in a number of operations. These were represented by a mean figure of 4.46 and a standard deviation of 1.19 which shows that the responses were highly deviating from the mean value. Most respondents could have expressed agreement on this matter probably because human capital is one of the most important aspects of growth of any business enterprise since human resources are essential in operation of all other resources. Human capital just needs to be equipped with the right skills through technical assistance in the form of training in order to improve on the skills levels and overall efficiency and performance. According to Hassan (2012), human capital corresponds to any stock of knowledge or characteristics the worker has (either innate or acquired) that contributes to his or her "productivity". This definition is broad, and this has both advantages and disadvantages. The advantages are clear: it enables us to think of not only the years of schooling, but also of a variety of other characteristics as part of human capital investments. At some level, we can push this notion of human capital too far, and think of every difference in remuneration that we observe in the labor market as due to human capital (Zeller, 2013)

On the matter of whether respondents are quite convinced about the profitability and liquidity profile of each of their enterprise's products and services they expressed disagreement on this statement with a mean value of 2.72 and a standard deviation of 0.86 which shows that responses were in low deviation from the mean value. Respondents could have disagreed probably because they were not satisfied with the profitability and liquidity offered by the enterprise's products and services and therefore could not agree on this statement. Another probable reason for this disagreement could have been because of the stiff competition offered by other products and the economic environment which makes it quiet hard to maintain stable liquidity positions as the firm has to engage in rigorous expenditure at the expense of saving and maintaining liquidity. A decision to hold short-term debt, for instance, is different to holding long-term debt as its repayment falls due much sooner. Preference stock holders require a non-negotiable periodic payment compared to a subjective yet generous payment required by common stock holders. Secondly, corporations do not invest all their resources in profitable long-term projects. They also invest in less profitable liquid assets that are held on their balance sheets (Klein, 2012). Also, rather than hoarding liquidity themselves, corporations may secure lines of credit from financial institutions. It follows therefore that, if there is value in effectively managing firm working capital then working capital management is important for shareholder value creation. Past studies have supported this view which links efficient liquidity management with firm profitability (Mallor, 2012).

Respondents also expressed disagreement on the statement that the firm has the right and adequate customer base to ensure that sales are consistently grown overtime, thereby increasing profits. The mean value on this statement was 2.86 and standard deviation that showed low deviation from the average value was 0.80. Respondents were in disagreement on this statement probably because the current customer base was slightly low and therefore could not support the firm's products and services so as to ensure stable and consistent growth overtime. According to Sanchez (2011), customers are the sole purpose for establishment of a business enterprise and a business without a strong customer base cannot adequately register stronger performance since the sales generated form the business enterprise are not adequate. Every business finds that some customers are more valuable than others. This can be for a range of reasons, from the size of their purchases to the relative ease of managing their account. Successful businesses are generally those that identify these customers, build relationships with them and work to bring in new customers with a similar profile (Mwangi, 2012).

Participants were in agreement that the firm always takes the necessary steps to ensure that all activities and operations remain consistently profitable. The mean value and standard deviation was 4.42 and 1.25 respectively. The standard deviation indicates that responses were highly deviating from the mean value. To some extent the respondents are true since one of the main objectives of the business enterprise is to maximize profits and an organization will take all the necessary steps to ensure that all activities remain profitable as possible. According to William (2011), ensuring that each customer and job you undertake is profitable will inevitably lead to your business being profitable. When an SME starts analyzing each customer and job carefully it may realize that some customers are simply not profitable. These customers will need to be either turned into profitable ones or let go. One way to make sure you have profitable customers is to make sure your pricing is correct and be careful what discounts you give them and when looking at your pricing you need to take three things into consideration: Make sure you know your costs for each piece of work you are doing, Review the market and your competition to make sure you are competitive but not undercharging and consider the value your customer places on your product what are they willing to pay (Christabell, 2011).

Respondents were also in agreement the Products and services offered by the firm to a greater extent meet the needs of consumers which ensure sales growth. The mean value on this statement was 4.36 and standard deviation was 0.70 which shows that are responses were lowly deviated from the mean figure generated from responses. This is true to some extent because the respondents were probably afraid of the consequences of being reprimanded by management and therefore could not disagree on this statement. In addition another probable reason could be to market the products and services of the organization. The quality of the customer service is almost wholly determined by the ability of the firm to meet customer expectations. SMEs can have the greatest service team, but if customers perceive their needs are not being met, then the product or service reputation suffers. By the same token, SMEs that don't spend much time worrying about customer service but manage to meet customer expectations consistently are perceived as offering good customer service. Service quality is largely determined by customer's perception, which is why meeting customer expectations is an essential part of the process (Feder, 2011).

Respondents were neutral on the matter that most firms are fully aware that Government provides adequate assistance and information so as to enable business growth with a mean value of 3.72 and standard deviation of 1.25 which means that responses were highly deviated from the average value. Most could have expressed neutrality probably because they may not have been aware that indeed government provides support such as technical assistance to SMEs and therefore could not come up with a conclusive statement. The government has an immense role to play in the development of Small and Medium Enterprises (SMEs). Government assistance goes a long way in boosting the growth and sustainability of these enterprises in order to ensure that they play their meaningfully role in contributing to the country's economy, job creation and alleviation of poverty (Romer, 2012).

Respondents also expressed agreement on the matter that  the length of relationship between this firm and microfinance institutions is important in business growth with an average value of 4.36 and standard deviation of 0.80 which shows that there was a slight low deviation from the mean value. Respondents could have expressed agreement probably because the longer an SME is in a relationship with a microfinance institution, the more it is likely to access more credit in form of loans at a favorable rate from these microfinance institutions. It is therefore important to maintain strong and healthy relationships with microfinance institutions. With a strong commitment and ownership of the project on the part of the beneficiary company, and monitoring by the lender, an MFI increases the chances of success. In addition, if the firm maintains lengthy and healthy relationship with the MFI, then it is in position of acquiring cheaper credit in future which in turn spurs growth and development of the firm. The institution ensures investee firms receive management assistance, business building and value-add services that are critical for the growth and sustainability of the investee firms, while contributing to economic development and providing a return for the investors (Berger, 2014).

### 4.3 Correlation Analysis

The main aim of the study was to establish a relationship between microfinance services and performance of SMEs, through assessing different sub relationships between technical assistance, credit facilities and saving schemes with performance. In order to establish these relationships in line with the specific objective, Pearson's correlation coefficient has been computed as shown below.

### 4.3.1 Correlation analysis between technical assistance and performance

In line with the first specific objective and basing from the research findings, Pearson's correlation coefficient has been generated in order to establish a relationship between technical assistance and performance.

**Correlations**

| | | Technical assistance | Performance |
|---|---|---|---|
| Technical assistance | Pearson Correlation | 1 | .973** |
| | Sig. (2-tailed) | | .145 |
| | N | 113 | 113 |
| Performance | Pearson Correlation | .973** | 1 |
| | Sig. (2-tailed) | .145 | |
| | N | 113 | 113 |

**. Correlation is significant at the 0.01 level (2-tailed).

Research findings show that there was a significant relationship between technical assistance and performance. This was represented by a correlation coefficient of r = 0.973. The positive correlation figure implies that as technical assistance increases, performance of SMEs also increases. Technical assistance undertakes initiatives that allow SMEs to obtain the required business information and develop internal mechanism for market data gathering, evaluation and implementation. The assisters also assist enterprises in developing effective systems for relatively easy information aggregation, management and dissemination thereby enhancing on their performance (Massawe, 2012). The technical assistance facility ensures that firms receive management assistance, business building and value-add services that are critical for the growth and sustainability of the business enterprise while contributing to economic development and providing a return on investment (Berger, 2014).

### 4.3.2 Correlation analysis between credit facilities and performance

The second objective that was sought was the establishment of a relationship between credit facilities and performance. Pearson's correlation coefficient was computed in order to establish this relation basing on the responses derived from the study.

**Correlations**

| | | Credit facilities | Performance |
|---|---|---|---|
| Credit facilities | Pearson Correlation | 1 | .994** |
| | Sig. (2-tailed) | | .254 |
| | N | 113 | 113 |
| Performance | Pearson Correlation | .994** | 1 |
| | Sig. (2-tailed) | .254 | |
| | N | 113 | 113 |

**. Correlation is significant at the 0.01 level (2-tailed).

The research findings show that there was a significant relationship between credit facilities and performance. The Pearson's correlation coefficient computed was r = 0.994. This means that an SME accesses more credit facilities then its performance also increases in the same direction. According to Gujarati (2013), the institutional framework within which firms, in this case SMEs, interact with Microfinance Institutions (MFIs), government, NGOs and other service providers, and each other, can have a profound influence on a SMEs economic and noneconomic performance. Mnenwa (2015) reports that education, motivation, sources of initial capital and technology are some of the socio-economic factors that have a positive influence on profit margins and economic performance of SMEs. According to Otero (2014), credit facilities comprise of financial sustainability, outreach to the poor, and institutional impact in a triangular manner. There are costs to be incurred when reaching out to the poor and most especially with small loans. The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases.

### 4.3.3 Correlation analysis between saving schemes and performance

The third objective that was met for the study was establishing a relation between saving schemes and performance. Person's coefficient was computed in order to assess the relationship in accordance to the responses received from the study.

**Correlations**

| | | Saving schemes | Performance |
|---|---|---|---|
| Saving schemes | Pearson Correlation | 1 | .674** |
| | Sig. (2-tailed) | | .123 |
| | N | 113 | 113 |
| Performance | Pearson Correlation | .674** | 1 |
| | Sig. (2-tailed) | .123 | |
| | N | 113 | 113 |

**. Correlation is significant at the 0.01 level (2-tailed).

The above results indicate that there was a significant positive relationship between saving schemes and performance. The findings revealed a correlation coefficient of r = 0.674, which means that as a firm engages in more saving schemes that its performance also increases and is enhanced in the same direction. According to Opondo (2014), the sources of investment finance for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives, friends, and moneylenders. In recent years, there has been increasing awareness among policy makers and practitioners of SMEs that there is a vast number of informal savings schemes and MFIs around the world (in particular, credit union organizations) have been very successful in mobilizing savings and enhancing firm performance (Buckley, 2013).

**Multiple Regression Model**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .943[a] | .890 | .887 | .40420 |

a. Predictors: (Constant), Technical assistance, Credit facilities, Saving schemes.

The multiple regression model table contains R square representing the proportion of the variability in one series that can be explained by the variability of one or more series in a regression model. The table illustrates the R value for the model.

The adjusted R square also called the coefficient of multiple determinations is the percent of variance in the dependent explained uniquely or jointly by the dependent variable.

The findings further indicate that adjusted overall R-squared was 0.887 meaning that the regression line explains 88.7% of performance (dependent variable). The changes are caused by the independent variable included in the regression line. Therefore error term or the residual account for the other factors is 11.3%.This means that there is a relationship between performance and technical assistance, credit facilities, and saving schemes. The balance of 11.3% shows factors that were not studied in this research.

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.073 | .184 | | -.395 | .693 |
| | Technical assistance. | .046 | .030 | .049 | 1.533 | .128 |
| | Credit facilities | .222 | .063 | .219 | 3.520 | .001 |
| | Saving schemes | .756 | .063 | .753 | 12.033 | .000 |

a. Dependent Variable: Frequency of access to loans from institutions has enabled growth of the firm's business

The results from the coefficients summary indicate that significance of coefficients of technical assistance, credit facilities and savings schemes are 0.46, 0.222 and 0.756 respectively.

The significance of coefficients range is 0.1 to 0.9, whereby the coefficients closer to 0.1 indicate less impact and those close to 0.9 indicate greater impact. It therefore implies that both the coefficients are significant though have an impact at different significance.

### 4.4 Challenges encountered in accessing microfinance

Respondents expressed challenges that they had encountered in the business while accessing microfinance services. The main challenges that were experienced include, increasing stress levels, high interest rates offered by microfinance institutions, difficulty in adapting to new rules and regulations governing microfinance lending, lack of collateral security, inflation, depreciation of the shilling, lack of proper training by microfinance institutions. Respondents were also asked to give any appropriate mitigation or recommendations to avert challenges experienced and among the solutions notably expressed by employees included careful scrutiny of borrowers to assess ability to pay back loans, training of employees, reduction of lending rates and more support from the government.

### 4.5 Conclusion

Chapter four basically focused on the findings from the field survey. Significant effort has been taken to present and discuss these findings in relation to the available findings on a similar topic. Descriptive statistics have been discussed on all study variables in order to generate Pearson’s correlation coefficients. The correlation coefficients generated were intended to establish the different relationships between the study variables. The findings from the field survey represent the responses of the chosen sample of study and therefore may not be conclusive, pending future research on a similar area. The next chapter summarizes and concludes all research findings.

# CHAPTER FIVE

## 5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This chapter presents a summary of the research findings. The findings have been discussed in relation to literature review as well as those from the field survey. Conclusions from the research findings have been presented as well as key recommendations that will serve as a roadmap to assist future researchers, government officials and prospective microfinance personnel. The study concludes by suggesting areas for further research.

### 5.2 Summary of findings and conclusions

The main objective of the study was to establish a relationship between microfinance services and performance of SMEs. Under this section findings have been summarized in two forms. Firstly a summary of findings from literature review has been discussed followed by a summary of findings from the field survey.

#### 5.2.1 Findings from literature review.

In respect to literature review findings revealed that microfinance is characterized by a number of dimensions. However the study focused on three dimensions of microfinance services including; technical assistance, credit facilities and saving schemes. Literature also shows that the dimensions under performance can be both financial and non-financial. The study adopted dimensions of performance such as Profit growth, Sales growth and Liquidity. Literature review also avails information on other factors that acted as moderating variables that intervene to affect the independent and dependent variable relationships. Factors adopted for the study included Rules and Procedures governing lending.

### 5.2.2 Findings from the field

The following findings have been summarized from the field survey results:

**Technical assistance and performance**

The first research question that the study sought to answer related to establishing a relationship between job technical assistance and performance of SMEs. From the research findings it was noted that there was a significant and positive relationship between technical assistance and performance. The correlation coefficient that was generated between technical assistance and performance was 0.973. The positive relationship implies that as one of the variables was increasing the other variable was also increasing in the same direction. This means that as technical assistance practices are increasingly adopted performance of the SME may also increase in the same direction.

This may be true to some extent since technical assistance programs are designed to improve the overall SME competitiveness both domestically and internationally. Technical assistance enables enterprises to develop effective systems for relatively easy information aggregation, management and dissemination hence improvement of performance of these firms. However most researchers argue that technical assistance should focus on both the administrators of the loan programs and SMEs to design and implement processes and programs that increase SMEs access to finance so as to improve the financial performance of these firms.

**Credit facilities and performance**

The next question asked in relation to the research was whether there was any relationship between credit facilities and performance of SMEs. According to the findings, it was established that there was a positive and significant relationship between credit facilities and performance. The correlation coefficient that was generated between credit facilities and performance was 0.994. The positive sign serves to explain that as a firm has more access to credit facilities then its performance is likely to increase. Similarly one that as poor access to credit facilities may likely perform poorly especially financially.

The research findings may be justified since microcredit is meant to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions. Credit facilities are considered to be an important factor in increasing the growth of Small and Medium Enterprises. It is thought that credit facilities increase income levels, employment and thereby alleviate SMEs to perform better. It is believed that access to credit enables SMEs to overcome their liquidity constraints and undertake some investments such as the improvement of better technology.

**Saving Schemes and performance**

The last research question that was answered was in relation to saving schemes and performance. Findings from the field revealed a positive and significant relationship between the saving schemes and performance. The correlation coefficient that was generated between saving schemes and performance was 0.674. Like in the above cases this means that as saving scheme practices are enhanced then performance of SMEs also increases in the same direction.

This is true to some extent since In recent years, there has been increasing awareness among policy makers and practitioners of SMEs that there is a vast number of informal savings schemes and MFIs around the world in particular, credit union organizations have been very successful in mobilizing savings and enhancing firm performance.

### 5.2.3 Conclusions

Technical assistance and performance generated a significant and positive relationship which can simply be explained since Consultancy and support are an important component of the service that development finance institutions provide to businesses in emerging and developing countries, particularly in Africa. Small and medium sized enterprises (SMEs) are deficient in these areas, especially in governance and financial management, and this hinders their growth as well as their ability to contribute to development. To support them more and enable them register stronger performance and encourage them to change, in recent years the universal development banks have been co-financing consultancy programs to help them improve their information systems, develop new products and break into new markets.

Credit facilities and performance also generated a positive and significant correlation figure meaning that as a firm has more access to credit facilities then its performance may as well be enhanced. This can be explained since access to credit facilities further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of SMEs. Accessing credit facilities has been a potential key for SMEs to build productive capacity, to compete to create job opportunity and alleviation of performance.

Lastly, savings schemes and performance also generated a significant and positive correlation figure which simply meant that as more saving schemes are employed performance of the business enterprise also increases. A strong culture of savings has meant that SMEs outreach to depositors has far outweighed outreach to borrowers, although overall loan portfolio and total deposits have both increased steadily. High product-line diversification has allowed SMEs to evolve to meet customer needs. Notably, new saving initiatives are underway to create deposit accounts with terms and features that appeal to the low income customers.

## 5.3 Recommendations

The study reveals key recommendation that may act as guidelines to relevant officials especially government officials, microfinance personnel, as well as future academicians that may delve further in the field of microfinance services and performance. It is important to note that these recommendations have been adopted by the study and only serve as a road map intended to improve microfinance services so as to enhance performance of SMEs.

### Recommendation 1

Set clear goals and objectives. A firm should be in position to set clear and realistic goals and objectives to enable it succeed a competitive business environment. Once a firm sets clear goals and objectives then it is position to be guided throughout all its operations. A firm may for example set an objective of minimum credit financing or may also have an objective of accessing technical assistance programs on a regular basis.

### Recommendation 2

Improve governance and management structures. Management is the top most function that is responsible for ensuring that the firm adopts the proper microfinance services. It is critical for the board of governors to select proper techniques governing accessibility to credit, savings and also adopt the right technical assistance programs that fit the organizational profile.

### Recommendation 3

Concentrate on planning and preparation. It is important for a firm to plan for all its activities relating to micro financing in the most prudent manner. This is because the area of micro financing is a delicate one and firms need to handle their micro financing services in the most effective manner if a firm is to achieve its desired objectives.

**Recommendation 4**

Invest more in training and employee development. Training of workers so as to improve on their skills and abilities as well as enhancing their personal development is crucial in employee career development. Workers need to be trained in their new jobs concerning microfinance services. This can be achieved through rigorous technical assistance programs where workers are oriented and supported in their different roles. Employees should be availed with skills variety necessary to complete the job since the more an individual is required to use a wide range of skills at the job, the more satisfaction is derived from the job.

**Recommendation 5**

Risk management should be a continuous process when handling issues concerning microfinance services. This is very essential since some risks are unforeseen and arise during the process of micro financing. Such risks can only be mitigated through conducting a thorough risk management planning process as well as managing risks as soon as they arise.

**Recommendation 6**

Management should ensure that it maintains healthy relationships with all relevant stakeholders in the field of micro finance especially microfinance institutions and other technical assisters. It should ensure that it improves on its relationship management with both micro financers and technical assisters especially ensuring timely settlement of credit so as to ensure better performance.

**Recommendation 7**

Workers should be availed with more autonomy in the field of microfinance where the amount of individual choice and discretion is adequate in employee job tasks. When employees are given, more autonomy, they feel more satisfaction for instance; a job is likely to be more satisfying if individuals are involved in making decisions concerning technical assistance, credit facilities and saving schemes. In this way individuals feel a part of the decision making process instead of simply being told to follow instructions.

### 5.4 Suggestions for further research

The field survey encountered a number of challenges. The lack of a thorough and comprehensive sampling framework indicated that the sample size generated from the population could not have been wholly representative. Secondly, the limited resources and time acted as a predicament to cover a wider survey area within the organization. Lastly the study was cross-sectional in design meaning that findings ought to be applied and used objectively so as to establish a relevant and significant relationship between microfinance services and performance since most of the previous dataset on this topic could have become outdated and thus newer data could be on ground. Further research should therefore take a more longitudinal style of study design to avert this inconsistence. Overtime the Government of Uganda has been making strides towards improving performance of SMEs through ensuring that appropriate microfinance services are in place therefore a more comprehensive study needs to be done on more SMEs as well as micro finance institutions so as to determine the extent these microfinance services affect the overall performance of SMEs.

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**Appendices**

**Questionnaire**

**MICROFINANCE SERVICES AND PERFORMANCE OF SME's**

**SURVEY QUESTIONNAIRE**

Dear Respondent,

I am a Business Administration and Management student of Uganda Martyrs University. As a pre requisite for an award of a degree, am conducting a study on Microfinance Services and Performance of Small and Medium Enterprises within Mpigi trading Centre. I am therefore kindly requesting for your time and cooperation through filling in this questionnaire. Your contribution will lead to the successful completion of this study. All information will be treated confidentially and is for strictly academic purposes.

**INSTRUCTION:**

Please simply **tick** or **circle** the appropriate option where responses are given and provide your answer in the spaces provided where responses are not given.

**SECTION A: DEMOGRAPHIC INFORMATION OF RESPONDENTS**

1. Your Gender:

   a) Male ☐ b) Female ☐

2. Age bracket:

   a) 25 years and below ☐ c) 36 – 45 years ☐

   b) 26 - 35 years ☐ d) 46 years and above ☐

3. What is the highest level of formal education you have attained?

   a) Tertiary Education ☐ d) Primary level ☐

   b) Vocational/Technical ☐ e) No Formal Education ☐

   c) Secondary level ☐ f) Other (Specify)…………………….

4. Why did you enter into this business?

(a) Was unemployed ☐ d) Inheritance from family ☐

(b) Diversification of resources ☐ e) Others (specify)…………………….

(c) Gain skills and experience

5. How long have you worked in this business enterprise?

a) Less than a year ☐ c) 6 to 10 years ☐

b) 1 to 5 years ☐ d) 11 years and above ☐

6. Are you a customer of any microfinance institution?

a) Yes ☐ b) No ☐

7. If you are, please specify…………………

**SECTION B: Effects of Technical Assistance on Performance of SMEs.**

Please give your answer on any of the following statements on the choice that best represents your opinion. There is no right or wrong answer, simply indicate in the provided space the most appropriate answer using the scale below.

**1 – Strongly disagree 2 – Disagree 3 – Neutral 4 – Agree 5 - Strongly agree**

| Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| My microfinance institution has given assistance to my business enterprise. | | | | | |
| My microfinance institution has enabled me to understand the local, legal and economic environment. | | | | | |
| Microfinance institutions provide satisfactory technical assistance to SME's. | | | | | |
| Microfinance institutions' technical assistance has improved the employee skills in my firm. | | | | | |
| The information provided by the microfinance institution to the firm is relevant and can easily be applied within the firm's operations and activities. | | | | | |
| The level of complexity by the of the presentations and technical information given by the microfinance institution to the firm is containable. | | | | | |
| The timeliness of materials, assistance and skills provided to the firm by the microfinance institution is satisfactory for the enterprise. | | | | | |
| The resulting effects in terms of improved employee skill levels and understanding is as a result of assistance provided by the microfinance institution. | | | | | |

a) What are some of the forms of technical assistance that your business enterprise receives from microfinance institutions?

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

b) Do you have any recommendations that you would propose to management of microfinance institutions so as to improve on the technical assistance programs?

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

**SECTION C: Effects of Credit facilities on Performance of SMEs Performance.**

Using the scale below simply indicate in the spaces provided below the choice that best represents your view on the statements provided on how credit facilities have affected the performance of SMEs.

**1 – Strongly disagree 2 – Disagree 3 – Neutral 4 – Agree 5 - Strongly agree**

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| I was requested to hand in collateral security prior to getting credit. | | | | | |
| Regular reviews on credit have been done for credit that is accessed. | | | | | |
| Credit committees were involved in making decisions regarding loans. | | | | | |
| Interest rates charged on credit borrowed from microfinance institutions is containable and realistic. | | | | | |
| I accessed a loan from a microfinance institution. | | | | | |
| My business was visited prior to granting me the credit. | | | | | |
| My microfinance institution offered me free business consultancy prior to getting the loan. | | | | | |
| The credit facilities provided to me by my microfinance institution have lead to creation of employment. | | | | | |

c) What are some of the challenges that your business enterprise usually encounters when accessing credit facilities from microfinance institutions?

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

**SECTION D: Effects of Saving Schemes on the Performance of SMEs.**

In your opinion, how do saving schemes offered by microfinance institutions contribute to the growth of your business over time? Respond to the following statements based on your perception by ticking Strongly disagree (**1**), Disagree (**2**), Neutral (**3**), Agree (**4**) and Strongly agree (**5**)

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| My business enterprise saves because of need to consistently meet gradually increasing expenditure and maintain stable growth. | | | | | |
| Credit policies of microfinance institutions influence the firm's decision to get engage in saving. | | | | | |
| The firm feels that the saving incentives provided by microfinance institutions are favorable. | | | | | |
| A well drafted scheme is crucial in reducing tax while maintaining a regular return on investment. | | | | | |
| It is critical for my microfinance institution to adopt a saving scheme that focuses on small savings securities. | | | | | |
| My microfinance institution regularly reviews its saving scheme in order to keep updated of current changes. | | | | | |
| Microfinance institutions play an effective role in mobilizing small savings particularly from the SMEs. | | | | | |
| Range of portfolio of saving schemes need to be increased so as to maximize return on my firm's investments. | | | | | |

d) Are employees in your firm fully aware of their responsibilities in mobilizing savings within the enterprise if not, what measures have been taken to ensure that there is a proper savings scheme?

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

**SECTION E: PERFORMANCE OF SMES IN TERMS OF PROFIT GROWTH, SALES GROWTH AND LIQUIDITY.**

This section evaluates some of the measures of performance that have been adopted for this study including profit growth, sales growth and liquidity. Like in the above section simply indicate your perceptions on the statements below that relate to performance of SMEs.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Frequency of access to loans from my microfinance institution has enabled growth of the firm’s business. | | | | | |
| Presence of collateral assets in my business enterprise helps in easy access to credit and business growth. | | | | | |
| There is need for more human capital so as to enhance growth in a number of operations of my business enterprise. | | | | | |
| I am quite convinced about the profitability and liquidity profile of each of my enterprise’s products and services | | | | | |
| The firm has the right and an adequate customer base to ensure that sales are consistently grown overtime, thereby increasing profits | | | | | |
| My firm  always takes the necessary steps to ensure that all activities and operations remain consistently profitable | | | | | |
| Products and services offered by the firm to a greater extent meet the needs of consumers which ensures sales growth | | | | | |
| Most firms are fully aware that Government provides adequate assistance and information so as to enable business growth | | | | | |
| The length of relationship between this firm and microfinance institutions is important in business growth. | | | | | |

***Thank you so much for your time, information and cooperation***