THE ROLE OF MICRO FINANCIAL SERVICES ON THE PERFORMANCE OF SMALL-MEDIUM ENTERPRISES IN UGANDA

CASE STUDY: ABIM TOWN COUNCIL.

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A Dissertation submitted to the Faculty of Business Administration and Management In partial fulfilment of the Requirements for the Award of Degree of Business Administration and Management of

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DEDICATION

I dedicate this report to my parents Mr. Abia Bernard and Mrs.Akello Lucy whose prayers and endless effort made me succeed in my education, my beloved brothers; Ogwang Moses Livingstone and AtonoEmannuel who gave me a conducive environment for my studies and also my sweet sisters; AwilliAgnessAmua, Aila Susan, Akech Florence and Mone Rose who were always at my side during my studies. And Mr Omara Mathew who acted as my role model.

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Firstly I thank the Almighty God for the great gift of life he has blessed me with since my birth. May his light keep on guiding me and shining upon people who made me finish this course. My Sincere appreciation goes to my supervisor Moses Kibraifor his precious time by going through my work and for guiding and encouraging me throughout my research. I am thankful to members of my discussion group; Lakade Simon Peter, Mugisha K. Amborose, Aliba Lydia, Adong Scovia Omwony, Auma Kevin, and Byaruanga Monica for the cooperation they offered me during our class work especially in discussions and the knowledge we shared during my research. I cannot forget to extend my sincere thanks to my friends; Alimo Leah Patricia, Apiny Irene Scovia, Taremwa Martine, Okello Christopher and ApajaSakas Ocuku for their prayers and words of wisdom they contributed during my studies and research. My sincere appreciation also goes to my family members; my sisters: Moses, Susan, Rose, Agness, Bernard, Lucy and Florence for the good moments we shared and the encouragement given to me during my studies. Lastly, I am highly thankful to my brother in law Mr Obonyo Cosmo Jawil and my brothers Moses and John Kalulewho's moral and financial support during my studies has been more than of a golden value. My apologies to those not mentioned.

May God bless you abundantly.

LIST OF ACROYMNS

SMEs .... Small and medium enterprise

MFI ....Micro finance institution

CiP ....competitiveness and innovation framework programme

ILO ....International labour organisation

NGO.................................... Non governmental organisation

UBOS .... Uganda bureau of statistics

UIA ....Uganda Investment authority

SACCO .... Saving and credit co-operative organisation

ROSCA .... Rotating saving and credit association

SASRA .... Sacco societies regulatory authority.

TABLE OF CONTENT

LIST OF TABLES

ABSTRACT.

This paper sought to investigate the role of micro finance services on the performance of SMEs in Uganda particularly Abim Town Council. The survey research design was used. A target population of 95 registered SMEs operating different types of businesses was used in this study. Probability sampling was used to select the 76 respondents from the population. A structured questionnaire and interview guide were used to collect primary data from owner-managers in SMEs. Interview responses were analyzed by content analysis and questionnaire responses were analyzed using Statistical Package for Social Sciences tool and Microsoft Office Excel software. The results indicated that the Micro financial services have positive impact to the performance of SMEs. The results also indicated that micro credit loans obtained from MFIs were involved in default. Much as there were few MFIs within the town council, most of the poor people preferred saving at home in clay piggy banks, inside bamboo sticks, tuck between roof sheets, buried in the earth or sewn in to pockets in petty coats because this home bag is too easy to withdraw from at no cost. The study also concluded that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology. The study recommended that SMEs should use venture capital rather than debt financing and SMEs should also form groups and make use of pooled negotiating power for borrowing purposes. Further, the study recommended the decentralization of operating of support institutions such as Centenary bank, Thur village bank in order to reach SMEs operating in small towns and remote areas of the country.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

There is consensus among policy makers, economists, and business experts that small and medium enterprises (SMEs) are drivers of economic growth (Edmore, 2011).Like other countries of the world, SMEs in Uganda have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. However, Uganda is one of the LDCs that is experiencing high failure rate of SMEs although it is ranked as one of the most entrepreneurial countries in the world (GEM, 2009 as cited by Nangoli et al, 2013).

Underscoring their contribution to economic development, SMEs create opportunities for income generation and distribution, capital accumulation, poverty reduction and empowerment of people especially women (Edmore, 2011; Babajide, 2012). SMEs advance the creation of a new class of small entrepreneurs leading to the expansion of the middle class and a wider distribution of income. At the rural level, SMEs have the potential to succeed owing to their location, flexibility, low infrastructure and technology requirement, and the capacity to serve small markets. Experiences at the rural communities reveal that SMEs can contribute to increase household incomes, diversify household income sources, and reduce household poverty and vulnerability levels.

Despite the potential of SMEs to facilitate and promote economic growth in Uganda, many studies have highlighted lack of access to finance as a major problem which impedes SMEs role in national development especially at the rural level (koffi Annan 2005 as cited by Quaye, 2010; Idowu, 2010).According toCork and Nisxon in Idowu (2010), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is because small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run.

However, Meijerink and Roza (2007) as cited by Anane (2013), explains that capital markets are often incomplete in rural areas, limiting the opportunity of rural households to access finance for investments. Without a sustainable rural financial system in place, most rural SMEs in Uganda will begin small and eventually die small, without ever having to see any expansion in terms of output and profits Nangoli et al (2013).This study therefore examines the role of MFIs services on the performance of SMEs in Abim town council of Uganda, the challenges facing SMEs and recommendations to ensure increased performance of these rural SMEs.

1.1 BACKGROUND TO THE STUDY

As businesses constantly seek out new and better ways of achieving competitive advantage over the others, the competence of every valuable area to improve organizational performance is under scrutiny. According to Executive Vice President and CEO IFC(2011),Small and medium enterprises (SMEs) are an essential focus of IFC's work, engines of job creation and growth in emerging markets that are central to the larger equation of development. Supporting them is one of the most important ways we achieve our over-arching goal: Creating opportunity where it's needed most. These go-ahead, fast-moving firms make a special contribution to local economies which can be measured in many ways for example levels of new business formation; job creation and retention; increased productivity, innovation, and value-added; or links with global value chains etc.

Globally, over the past few years, businesses and researchers like in Akisiimwe (2005) have displayed increased levels of enthusiasm for financial reporting practices. In particular, recent research suggests that financial reporting may be an excellent instrument used by a business in the pursuit of objectives to accomplish a set of out lined tasks. As at manufacturing firms in Australia, Hutchinson and Ray (2003) as cited by Akisiimwe (2005) produced evidence on the manner in which financial reporting system and practices appear to change in a small sample of SMEs investigated as a result of experiencing rapid growth.

Regionally, business practices could be one of the approaches used to study the performance of SMEs. Selected areas in South Africa such as Bloemfontein, Botshabelo and Thaba'Nchu revealed that business practices such as marketing practices, risk management, strategic planning, human resource management practices, performance management practices and teamwork have appositive and significant relationship with SMEs' performance (Neneh and Van Zyl 2007). This is evidenced by 97.1% of SMEs' optimal performance that implemented the six business practices and 2.9% mediocre performance of those SMEs that do not implement any. This is also in line with Elias (2005) who observed that poor business practices such as fraudulent ventures like (inflating figures and exploiting business partners), poor quality production, failure to honour supply commitment, adulteration of products among others continue to hamstring efforts to entrench SMEs sector in Uganda.

Nationally, (Odeng 2009) observed that managers' management competencies and attitudes towards accessing funds could be the best approach to study the performance of SMEs in Uganda. A case study taken in Hoima and Masindi Districts revealed that SMEs that have managers with high management competencies will result into high performance than those with managers who lack management competencies who will result into low performance and eventually failure of the business in the long run.

Despite of other scholars using different approaches to study the performance of SMEs globally, regionally and nationally, microfinance could also be one of the methods to be used to address the knowledge gap (performance of SMEs in Uganda).

1.2 PROBLEM STATEMENT OF THE STUDY

Most formal banking institutions do not cultivate the habit of doing business with individuals and small business customers, since they consider them to be high risk clients. SMEs are considered as high risk businesses because they lack the necessary collateral to serve as security for loans and it is costly because applicants from the informal sector tend to apply for small loans which require the same administrative procedure and oversight that are required for the relatively larger loan requests made by medium or large scale firms. Hence, the co-operate culture of banks and financial institutions are far removed from the informal world of the micro-entrepreneur. Microfinance institutions are therefore expected to fill this gap and provide financial and other business support to micro and small-scale businesses. However, most SMEs in Uganda grow rapidly at the start and collapse before its first birthday as a result of achieving dismal growth in their businesses (Sekyewa as cited by Odeng 2011). This dismal growth is due to poor performance and in the long run, leads to SMEs drop out from the business. This could be attributed to lack of access to; financial services from institutions (Jaramogi 2013), inadequate sources of business information and means of access used by SMEs, Okello-Obura, Minishi and Ikoja-Odong (2008) and incompetence and managers attitudes towards accessing funds (Odeng 2011). If these are left unchecked, will continue to constrain the Economy since the contribution of SMEs is earmarked as one of the promoters of economic growth.

1.3 BROAD OBJECTIVE OF THE STUDY

To examine the role of microfinance services on the performance of small-medium enterprises in Uganda.A case study of Abim district in north eastern Uganda.

1.4 SPECIFIC OBJECTIVE OF THE STUDY

1) To establish the relationship between micro-credit loan and the performance of SMEs.
2) To find out the relationship between saving mobilisation and the performance of SMEs.
3) To assess the relationship between micro-insurance and the performance of SMEs

1.5 RESEARCH QUESTIONS

1) What is the relationship between micro-credit loan and the performance of SMEs?
2) What is the relationship between savings and the performance of SMEs?
3) What is the relationship between micro-insurance and the performance of SMEs?

1.6 RESEARCH HYPOTHESIS

There is positive and significant relationship between micro finance products and the performance of SMEs.

1.7 SIGNIFICANCE OF THE STUDY

1) The study will add to the existing literature on microfinance and performance of SMEs in Uganda. Like any other research, the findings will be used as a reference as far as further studies are concern and spark off further research in microfinance and performance of SME sector.
2) The study will generate data and information on micro-finance services and their role on the performance of SMEs engaged in Uganda. The SMEs therefore can use the findings of this study as a ground to negotiate appropriate financial service terms that will not constrain their performance. The government can also use this research finding when setting up policies on businesses.

3) When analysed well, this study will broaden our level of thinking in sourcing equity/ capital through financial institutions and develop saving scheme skills for our businesses thereby broadening our scope and ability to fund our own businesses.

1.8 JUSTIFICATION OF THE STUDY

1) In the past, microfinance focused almost exclusively on credit; Brigit (2006), savings were the forgotten half of financial intermediation. It is now generally acknowledged that savings is one of the key elements that influence the performance of SMEs. (Chenuos, 2014). Hence there is need to investigate their relationship.
2) Like other countries of the world, SMEs in Uganda have the tendency to serve as sources of livelihood to the poor generate income, take children to school, create employment opportunities and contribute to the economic growth(BoU, 2009 report), this therefore sparks off the need to monitor their performance and competence of every valuable area to improve SMEs performance (microfinance).
3) Various surveys have been carried out in order to provide information about the nature, operation and goal of MFIs, but many have not provided in depth information about relationships between MFIs and performance of SMEs in Abim hence need to investigate.

1.9 SCOPE OF THE STUDY

1.9.1 Content and subject scope

The study was restricted on the role of microfinance services on the performance of SMEs in Uganda. Moderating variables are assumed to be constant in this study. Dimensions like micro-credit loan, savings mobilisation and micro-insurance was investigated and their role on the performance of SMEs formed the content scope of the study.

1.9.2 Geographical scope.

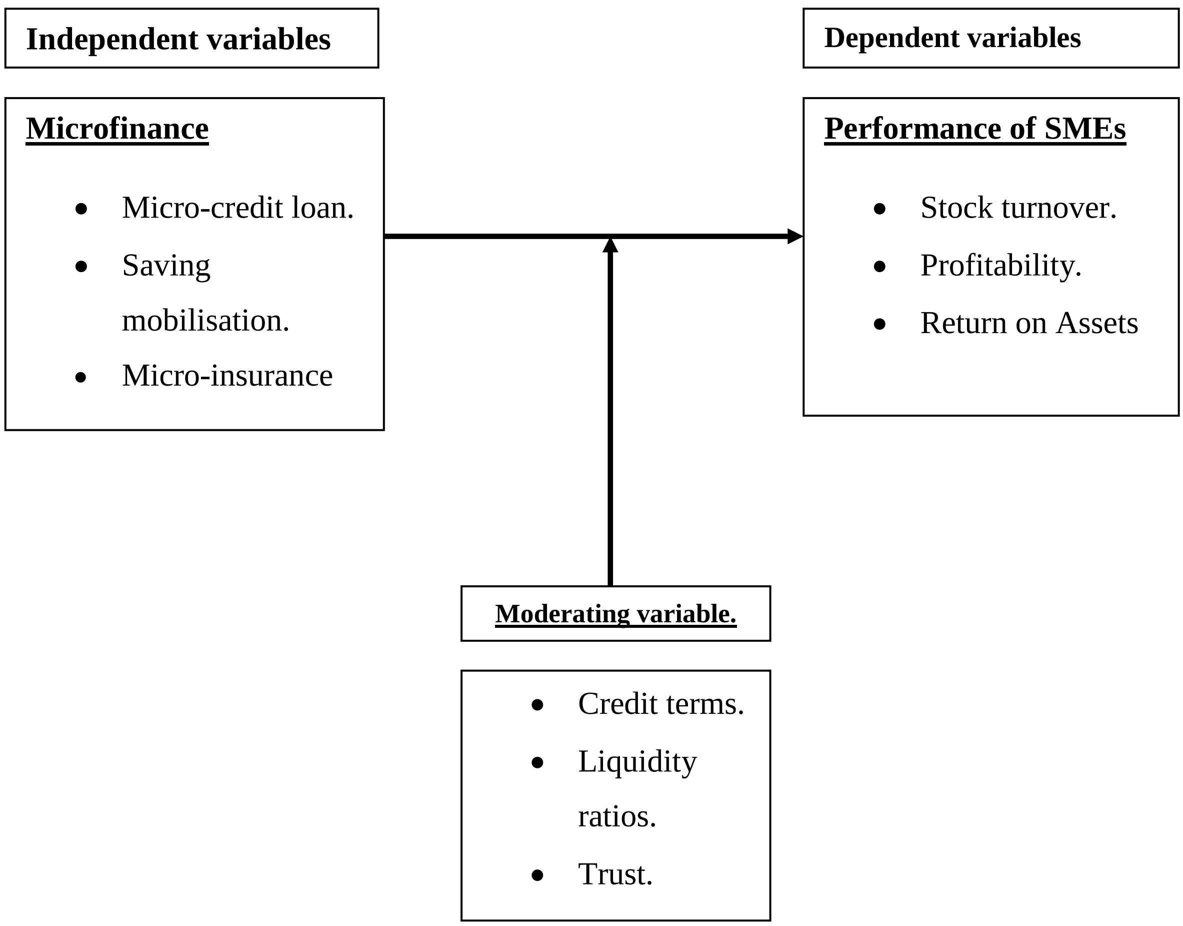
The study focused on the SMEs engaged in Abim district. The choice of this area is based on the fact that Abim district have both informal and formal businesses which can provide better data to be analysed.

1.9.3 Time scope

The study covered SMEs information ranging within a period of three years to date in order to capture some previous and latest statistics and trends to ensure reliability and validity for the presented findings.

1.10 CONCEPTUAL FRAME WORK

Figure 1.10.1 conceptual frame work



Source: Adopted from Akisimire (2010) and modified to suit this study.

1.10.1 Description of the frame work

All factors not included in the study are assumed to be constant in this study. The conceptual frame above depicts the role of microfinance micro-credit loan, savings mobilisation and micro-insurance on the performance of SMEs and the moderating variables such as credit term, liquid ratios and trust which as a strong contingent effect on the relationship between microfinance institution and the performance of SMEs.

1.11 DEFINATION OF KEY TERMS

Micro finance is the entire flexible structures and processes by which financial services such as micro credit, micro-insurance, credit transfer, and micro savings among others are delivered to micro entrepreneurs as well as poor and low income population on a suitable basis (Nakato, 2012).

Small-medium enterprises (SMEs) are every heterogeneous group of businesses usually operating in the services, trade, agri-businesses and manufacturing sectors (Lukacs, 2013). They include a wide variety of firms such as village handicrafts makers, small medicine shops and computer software firms those posses a wide range of sophistication and skills according to him. Some are dynamic, innovative and growth oriented while others are satisfied to remain small and perhaps family owned.

In Uganda, a small scale enterprise is an enterprise or a firm employing less than 5 but with the maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ugshs 50 million and annual income turnover of between Ugshs 10-50 million. A medium enterprise is considered a firm which employs between 50-100 workers. Other characteristics have not been fully developed (UIA, 2003).

To Chika in Dahiru (2011), Micro-credit is an aspect of microfinance designed to help individual’s families and communities of poverty by providing small loans for personal business and start-up capital for entrepreneurial projects, which will presumably help individual to generate income, build wealth and ultimately exist poverty.

According ILO (2011), Micro insurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. The difference between this definition and that of regular insurance is that micro insurance deals with low income people.

CHAPTER TWO

LITERATURE REVIEW

2.1 Micro-credit and performance

2.1.1 Overview of micro-credit

To Chika in Dahiru (2011), Micro-credit is an aspect of microfinance designed to help individual's families and communities of poverty by providing small loans for personal business and start-up capital for entrepreneurial projects, which will presumably help individual to generate income, build wealth and ultimately exist poverty. In most of the research findings, access to 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 (Idowu, 2010). This is in line with the former UN secretary general Kofi Annan during the launch of the international year of micro-credit (2005), who pointed out that "sustainable access to micro-finance helps alleviate poverty by generating income, creating jobs, allowing children go to school, enabling families to obtain health care and empowering people to make choices that best serve their needs" (Kofi Annan as cited by Quaye, 2011).

A number of private foundations and organizations have launched ambitious initiatives to support promising entrepreneurs in developing countries, on both a for-profit and not-for-profit basis (Leo, 2011). Many of these programs have focused exclusively on building business capacity. While these tailored programs play an important role in supporting small- and medium- sized enterprise (SME) development, their overall effectiveness remains hamstrung in part by continuing constraints on entrepreneurs' access to expansion and operating capital(Bukenya and Kinatta, 2011).

However, formal Banks are generally unwilling to enter a high-risk and possibly unprofitable business, so they require higher loan amounts, compensation for processing costs and risk-sharing arrangements. Other authors argue that foreign banks are detrimental to SMEs and micro-enterprises, because they tend to have a hierarchical organizational structure and treat collateral (which SMEs and micro-enterprises usually lack) as one of the most important factors in the lending decision (Ramón and Rodrigo, 2013).They also tend to be at a disadvantage in comparison of local banks when it comes to obtaining information (Beck, Demirgüç-Kunt and Martínez, as cited by Ramón and Rodrigo, 2013).

According to Ramon and Rodrigo (2013), due to the unwillingness or inability of commercial banks to provide financial services to the urban and rural poor, coupled with the unsustainability of government-sponsored development financial institutions and programs, most micro entrepreneurs still access financial services from informal sources, including savings and credit associations, traders, or moneylenders. Semi-formal and formal providers of microfinance are a small but rapidly growing part of the financial sector in Uganda with a handful of large, microcredit NGOs and locally-owned community banks providing the bulk of services.

2.1.2 SMEs and access to micro-credit

Many factors are believed to be responsible for the refusal of loans and equity fund to SMEs by formal banks. According to Ndife (2013) small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institution. Notably, Quaye (2011) argues that it is difficult for SMEs to access credit because they cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with micro and small enterprises.

To Tomola (2011), the lack of accessibility to finance by SME is attributable to both the supply and demand factors in lending. He noted that on the supply side, banks are reluctant to grant loans to SMEs because of lack of reliable information on borrowers, low transparency of operations and poor accounting standards, lack of discipline in the use of credit facilities, the perception of the SME sector as risky, and difficulties in enforcing loan contracts. On the demand side, borrowers are constrained by the absence of collateral, improper bookkeeping (Rafaelita, 2012), high rates of loan diversion and their inability to prepare feasibility studies. Shortage of information costs which have to do with the excessive administrative work involved in finding adequate documentation, and they affect a bank's decision on whether to assess the loan application at all. If the requesting firm has not compiled all the documents needed to obtain financing, the loan application review process drags on and increases the bank's costs in terms of the human resources monitoring and evaluating the project (Ramón and Rodrigo, 2013)

Mean while according to CiP (2013), the first and very decisive criterion in the credit application process is the distinction between an established enterprise and a start-up. Banks normally use annual turnover to define what a micro-enterprise is, which is not necessarily fully in line with the definition of a micro-enterprise. Banks evaluate loan applications based on experience of the applicant and on collateral for the specific project. For start-ups, the most important criteria were linked not to the size of the loan, but to its use and maturity (fixed investment or working capital; long- or short- term). To assess a loan application, an analysis would also look into the qualities of the entrepreneur and the merits of the project.

A Study conducted by Byaruhanga (2013) shows that improvement in rural credit encourages improved resource allocation. Loans also allow farmers to make better allowance for risks associated with the nature of the agricultural production such seasonality issues. They are also enabled to afford larger investments. In addition, access to credit is an important instrument for improving the welfare of the poor directly (consumption smoothing that reduces their vulnerability to short term income shocks) and for enhancing the productive capacity through financing investments.

According to Oppong et al (2014), they argued out that to gain access to finance, micro and small scale enterprises (MSEs) owner should learn to put up realistic business plan supported with financial projections, which highlight the profitability of the enterprises before they seek for funds. Such companies should be duly and legally registered with appropriate authorities maintain financial records and put in place strong internal control mechanism. Above all, the operators should be knowledgeable about the kind of business they want to venture into.

2.1.3 Loan repayment rate

A study was conducted by Tomola (2011) to compare the performance of loans granted to small and medium enterprises by banks with that of micro-credit institutions in Nigeria, using Ondo State as a case study. However, his study reveals that the average repayment rate of 92.93% for banks was higher than the 34.06% for the micro-credit schemes. That is, the banks performed at much higher levels than micro- credit schemes. He therefore recommended that there should be stern efforts by the micro-credit institutions in screening of loan applications, monitoring of approved loans and enforcing loan contract.

MPRA (2013) found out that group loan repayment performance was positively influenced by experience in group borrowing, number of visits by loan officer, peer pressure, meeting attendance index and heterogeneity index while gender, household size, distance to the nearest financial institution and density of membership had a negative effect household loan repayment performance. According to the study, attention must be given to the group internal factors and other factors, in the design of development strategies that target the poor households' access to credit and repayment performance through micro-credit groups. The study concludes that social capital dimensions are crucial if group lending has to grow to reach a large proportion of the rural inhabitants and improve loan repayment performance.

2.1.4 Empirical evidence on the Performance of SMEs

In an attempt to empirically ascertain the effect of MFIs on SMEs, Idowu(2010) found out that there exist Positive and significant relationship between MFIs loans and SMEs performance towards promoting SMEs market share, production efficiencies and competitiveness. According to him, although MFIs in Nigeria are faced with insufficient funds problems which militate against their efforts to grant sufficient loans to SMEs, their tendencies to augment the financial needs of SMEs is considerably acknowledge. Furthermore, his study unveiled that Government policies and programs designed to develop SMEs in Nigeria are ineffective and thereby need to be re-conceptualized.

According to Oladejo; Njiwakale and Bwisa (2013), SMEs face challenges in accessing credit from their MFIs including reluctance for fear of timely repayment and charging higher rate than obtainable elsewhere. SMEs have the desire to get credit to boost the business but every time they try to apply, their applications are either rejected or they are discouraged by the unattractive credit terms or lending policies (Byaruhanga, 2013). In the end the capital used is self-generated which minimizes their ability to invest/venture into business opportunities and adapt to changing and uncertain environments, hence lowering the performance of SMEs. To Njiwakale and Bwisa (2013), the amount of loan significantly positively is related with performance of SMEs in Kitale Municipality.

Contrary to the above finding, Opong et al (2014) found out that the phenomenal growth (increase in performance) of micro and small scale enterprise is mainly due to the people's quest to be self-employed and not because it is easy to establish or manage. According to them, the increasing demand for consumer products creates a large market for SMEs and this added to improving business environment and government commitment to promoting small and medium business enterprises and provided bright future prospects for small and medium enterprise.

To Obasan and Soyebo (2012), SMEs require limited capital, relatively stable business environment, supporting infrastructure and appropriate technology to effectively discharge its function in any economy. According to them, finance is not the only problem of SMEs as its arrangement in term of availability and accessibility is insufficient while there is the awful need for the provision of good infrastructural facilities such as roads, electricity, and water supply and telephone amenities. Furthermore, they found out that most of the SMEs operate under an unfavourable environment conditions by a number of constraints emanating from lack of access to credit, poor infrastructures, and shortage of raw materials among others. Hence, solving the problem of finance is not the required enchantment solution that will single-handedly solve the problem of SMEs in Nigeria as enabling environment and favourable political climate is also essential in the attainment of meaningful SME contributions to the Nigeria economy.

Much as the above finding argues that finance is not the only problem of SMEs, a study conducted by Oniovosa (2013) to evaluate the impact of sources of funds on the performance of selected micro enterprises in Effurun environment in Delta state revealed that a positive and strategically significant relationship exists between performance of an enterprise and availability of fund. Moreover, in the overall financial performance, the surveyed micro-enterprises were revealed to be doing very poorly according to him and the conclusion was reached on the grounds that they were recording low profits in the three preceding years of the study because they were poorly capitalized.

It can be concluded according to the study of Akande (2012) that though micro-finance banks impacted positively on the economic conditions of the citizenry in many parts of the world, the high interest rates and short repayment periods have made the banks ineffective on the performance of women owned enterprises in Oyo state. This is because of the shortness of the repayment period which gives no room for the loan to generate future income.

In Uganda, a study conducted by Odongo (2014) found out that on overall average, SMES are generally performing poorly because the actual sales and assets was low giving rise to a big negative variance, so less capital is tied up in form of current assets like debtors and cash and bank balances. On the relationship, when lending terms reduces, the financial performance of SMEs tremendously improves. This shows that SMES needs better loan packages designed by financial institutions and also understand the nature and operations of SMEs in order to propelled their growth potential in creating more jobs, wealth accumulation and long term sustainability of their businesses according to him. He suggested that financial institutions when providing loans to SMEs also consider the size of the loan since SMES interest to get more loans to improve on their growth and performance. The findings meant that due to lack of agricultural lending to SMEs by the financial institutions to allow more SMEs to have access to funding to improve on the loan period given to them at lower interest rates to increase their performance in the long run affected the growth and development of SMEs sector in Uganda to expand and move to acquire better technologies of doing business and add value to their products and services according to him.

Quaye (2010) while studying the effects of Micro credit Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs), examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, reveals that Micro credit institutions has a positive effect on the growth SMEs. According to his study, he suggested that in order to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product-oriented and proper and extensive monitoring activities should be provided for clients who are granted loans

SMEs in Uganda according to Bukenya and Kinatta (2011) suffer from constraints that lower their resilience to risk and prevent them from growing. Findings of their study indicated that the soundness of the various internal controls was a significant predictor for access to commercial loan financing. More specifically firms with sound asset control and an independent review stood a better chance of accessing funding. It was thus recommended that; SMEs work on setting up or improving their preventive and detective internal controls and risk management systems while ensuring that the installed systems are appropriate to their size and organizational complexity in order to improve their chances of accessing the much desired capital.

Carpenter and Petersen cited by Wananbisi and Bwisa (2013) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. They added that insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of micro and small business failure in developing economies. It is from this perspective, the micro credits are considered to be an appropriate solution because the amount of money needed to start a micro or small business is generally quite minimal.

The study further found that larger loans enabled Small scale business to graduate to medium enterprises. This argument is supported by (Kangogo, 2013) in his study which indicated that those SMEs that received large loans frequently had larger labour force than those SMEs that received smaller loans. Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to the sustainability of micro and small enterprises.

A study by Wasihum and Paul (2010) in Gichuki, and Kinuthia (2014) carried out in Addis Ababa Ethiopia reported that to some extent, entrepreneurs with higher education levels are able to make wise and rational decisions on management of enterprises. Kangogo (2013) further pointed out that, household income, loan size, distance to the nearest financial institution interest rate significantly affect the performance of SMEs. He added that entrepreneurs with a higher level of formal education are poised to have better chances of success. This is attributable to having visionary strategies, capacity to employ technical entrepreneurial skills, access to stock of information and willingness to take risk.

Similarly, Olusola (2012) found out that the high interest rates and short repayment periods have made the banks effect on the performance of women owned enterprises in Oyo state. This is because of the shortness of the repayment period which gives no room for the loan to generate future income. In as much as accessibility of women entrepreneurs to micro-finance banks is very easy, the provision of collateral or guarantor is not considered important in deciding on a loan application. However, in order to achieve the objectives of micro-finance policy and make it accessible to all and sundry, the following recommendations were made: Micro-finance policy should be further publicized so that members of the low income group will be aware of what micro-finance banks have to offer them and how they can obtain financial services to improve their performance. Regulatory and other statutory bodies should monitor the interest rates on loans and advances and make it accessible to micro-entrepreneurs; the repayment period should include a grace period and reasonable schedule instead of weekly payment that is commonly found amongst the micro-finance banks.

In the study of Anane et al, (2013), Access to sustainable financial services enables SMEs to increase incomes, build assets and reduce their vulnerability to external shocks. Microfinance allows small business owners to move from everyday survival to planning for the future, expanding and investing in other businesses, seeking improved living conditions and in their children's health and education.

Most of the SMEs operate under an unfavourable environment bedevil by a number of constraints emanating from lack of access to credit, poor infrastructures, lack of raw materials and expansion Obasan and Soyebo (2012). According to them, finance is not the only problem of SMEs in Nigeria as its arrangement in term of availability and accessibility is insufficient while there is the terrible need for the provision of good infrastructural facilities such as roads, electricity, water supply and telephone amenities Hence a need for a policy measure as well as concerted effort from stakeholders to address this anomalies among others. They concluded that solving the problem of finance is not the required magic solution that will single-handedly solve the problem of SMEs in Nigeria as enabling environment and favourable political climate is also essential in the attainment of meaningful SME contributions to the Nigeria economy.

Similarly, Oppong, Owiredu and Churchill (2014) agree with the above finding arguing that small and medium scale enterprises growth in Ghana has been prevented by structural and environmental challenges. The same source cited Fatai (2011) who posits that, small and medium scale enterprises in Ghana have performed at very terrible level when compared with other countries. According to him, low performance further exacerbates poverty, hunger unemployment and low standard of living of people in a country whose economics is not at their best.

To Uwonda, Okello and Nicholas (2013), failures in many SMEs have been linked to inadequate cash flow management, which compromises their sustainability by denying them the revenue stream needed to grow. Their study further highlighted limitations in utilization of cash flow in SMEs especially in areas like cash flow projection; tax planning; and budgetary control; determination and interpreting financial statements. Furthermore, utilization of redundant fixed assets, inability to offer cash and early discounts, failure to prepare bank reconciliation and poor credit policies were other concerns for SMEs. However, they recommended that for SMEs to reach their potentials, they must design business plan, prepare cash flow projections and cash budgeting; ensure budgetary control, internal control system and control their spending habits; and improve on their credit policies.

While the loan size can have some impact on the SMEs performance but it is minimal compared with those of big loan size in the same sector and its relationship to create good performance is insignificant to this kind of businesses (Cane, 2009) cited by Odong (2014). Micro enterprises activities are short term in nature and financial assistance which tend to meet business operational needs in the short period leading to low wealth accumulation and financial performance of SMEs. However, the study conducted by Odong (2014) also showed that the rate of poor financial health state and failure of businesses in Uganda was also one of the highest in the world, citing that for every business that was started nearly one other closed mostly, these are micro enterprises

2.2 Saving mobilization and performance of SMEs

According to (Ndife, 2013), microfinance is a good way of supporting entrepreneurs. It provides poor borrowers with access to sustainable livelihood through zero or very low interest loans. However, Jegede (2011) cited by Oladejo (2013) who observed that entrepreneurs prefer personal saving and cooperative credits to microfinance banks and commercial banks fund citing reasons of non accessibility, prohibitive collaterals and high interest rates barriers. The dismal performance of the conventional finance sectors triggered the avocation of micro financing by policy makers, practitioners, and international organizations as a tool for poverty reduction according to Mejeha and Nwachuckwu (2008).

According to Banking the poor (2009), entrepreneurs prefer to save outside the home to avoid the temptation to spend and diversion of funds by other family members for less urgent need.

They argued that most business especially SMEs collapse or poorly perform as many women come home from business only to find their husbands have spent their hard-earned savings on alcohol. Furthermore, his findings reveal that most business women complain that there are complicated bank procedures implying that the cost of getting to the bank can be expensive for those with small income.

In addition to banking the poor report, Brigit (2006) also noted that poor people want to save and many of them do save: But they are constrained by the multiple demands on their incomes and luck of available deposit services. Often known as the “forgotten half” of microfinance. He further stressed that savings allow small businesses to access funds for starting up, and to expand their businesses from financial institutions.

According to Jagong (2012) whose study was to examine internal factors that affect savings mobilization for growth of women- owned SMEs, he found out that many women- owned SMEs have received financial and other assistance from various donors to start their business, but their inability to reduce reliance on external sources to grow had remained unexplained. However, the study hypothesized that the main constraints to savings mobilization for growth of women owned SMEs arose from internal factors and the characteristics of the women entrepreneurs such as commitment to culture and religion, level of dependency, management skills, financial commitments and responsibilities, etc. He argues that this factor have a strong impedimental relationship with women-owned SMEs savings mobilization for growth.

To Kosgei et al. (2014), Savings mobilization services provided by the micro finance institutions aims at alleviating the deficiency of savings facilities which create problems at three levels: at the individual level, at the level of the financial institution; and at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor. Micro finance programmes play a significant role to foster savings mobilization for the micro entrepreneurs.

According to the study of Wasike (2012), good corporate governance is necessary in order to attract investors both local and foreign to save and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient companies and business enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources. From the study, the size of the board had an impact on the quality of corporate governance and a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards since they may be plagued with free rider and monitoring problems. Further, it was indicated that larger boards are found to be slow in decision making because the monitoring expenses and poor communication in a larger board give a reason for the support of small board.

This fining was supported by Wanyoike (2013) whose study revealed that Sacco staff competence as required by SASRA regulations had a strong influence on the financial performance of the Sacco in the area. The study also determined that half of Sacco's staffs in the area were somehow involved in decision making at a higher level within their Sacco as about two thirds of them had relevant co-operative management skills since the Sacco managements in the area encouraged staff development. Finally, they identified corporate governance as a the most significant effect of SASRA regulations on the Sacco financial performance in the study area, hence, needed to be emphasized in order to strengthen the operations of the Sacco in the area. Hence, based on these findings, the study concludes that all variables of the study needed to be addressed beginning with the most crucial which was in this case corporate governance.

According to Abubakr (2012), the major proposed saving institutions were banks, cooperatives and local money funds he also found out that both institutions and farmers had low rates of savings. No specialized savings institutions exist in the area of his study. Therefore, growers resorted to traditional savings mechanism. Although, farmers have good awareness to savings procedure but their savings were very low which had a positive effect on wheat yield. Farmers had positive attitudes towards savings activities, but they had not surpluses, and if any, there were no savings institutions.

In Uganda, a study conducted by Karuma(2011) on small savings and credit schemes and financial accessibility in rural areas: a case study of Mitaanasacco in Rukungiri district revealed that small savings and credit scheme under Mitaana SACCO was of importance to the rural people of Nyakagyeme as it had helped people in mobilizing funds for loans, supporting low income groups to build savings, supporting small scale enterprises with subsidized loans to the extent that many people were now self employed, financing socio-economic projects, giving business views and skills like book keeping skills, numerical skills project identification skills and communication skills to its members, offering affordable loans and offering financial advisory services to its members.

Similarly, Muzinduki (2008), saving as a requirement appears good for any institution that deals with credit. He contends that savings helped to tell a client who was serious and it indicated a possibility of quick recovery of a loan and savings were also used as security to the client loan. He added that as a condition, a client was not supposed to acquire a loan which was more than twice of the amount of savings which appears a good strategy for sustainability and guaranteeing repayment, but it was not in the interest of the poor according to him. However, he found out that money borrowed in small sums by community members was met by already glittering and biting societal and individual demands and usually used for consumption or investment in non profit making ventures like paying school fees and purchasing fixed assets like land and housing.

In support of the above finding, a study conducted by Atemba (2014) found out that the majority of the respondents (78.9%) strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO. This indicates that the majority of the customers strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO. The study also found out that most of the respondents (51.3%) were not sure whether their deposits are as a result of the loans they have taken pro rata, 42.1% agreed, 3.9% disagreed, 2.6% strongly disagreed while 2.6% strongly agreed. This indicates that most of the customers were not sure whether their deposits are as a result of the loans they have taken pro rata.

Women are more reliable borrowers than men, and they use the profit of their businesses for their families rather than for themselves and their businesses (Malcolm, 2001), he found out that women's businesses tend to remain small or do not grow and create jobs for others as successful men's businesses do, however because their owners have other commitments. Accordingly most microfinance institutions focus mainly on women and they use various forms of group intermediations which are more acceptable for women than men. (Malcolm 2001). In Uganda currently, most people especially women want to be employed, not to be self employed. Implying that the current focus on women clients is likely to delay the emergence of larger businesses which will create sustainable jobs for others.

A study was conducted by Nathaniel (2010) to examine the extent to which member based financial cooperatives mobilize demand deposits from their members in Moshi District, Kilimanjaro region. The study revealed that demand deposits are relatively low compared to share capital and other forms of savings from members which constraints the capital requirements needed for credit services to members. More so, he found out that in urban areas, SACCOS face competition from commercial banks which provide more convenient services. It was further shown that members training and participation in social events are the only techniques used to mobilize demand deposits. While SACCOS members expressed mistrust to the management and staff as reasons for low demand deposits, on the other hand the SACCOS staffs were found to have low work morale and lacks motivation to mobilize demand deposits, on account of lacking incentive packages.

2.3 Micro-insurance and performance of SMEs

2.3.1 Overview of micro-insurance

All households in developing countries, whether better or worse off, are exposed to a variety of risks, such as illness, disability, death, unemployment, crop failure, natural catastrophes, or crime (Mubashiru and Musah, 2014). Low-income households, however, are less able to prevent and mitigate risks than others; and in the case of shocks, they are less able to cope with the consequences (Chodokufa and Chiliya, 2014).

When exposed to financial shocks, poor households may be forced to make harsh choices, such as reducing food consumption, withdrawing children from school or depleting productive assets to cover the expenses related to the risk event (CARE, 2010). These strategies put at risk economic and human development prospects, and leave those who have to make such choices stuck in a poverty trap. With no risk management strategy, the poor react by avoiding any risky situation and thus are reluctant to engage in higher return activities due to the potential risks (Azende, 2012). Micro insurance provides a good answer to this situation providing the poor with a mechanism to retain the financial gain they make.

According ILO (2011), Micro insurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. The difference between this definition and that of regular insurance is that micro insurance deals with low income people.

Low income persons live in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses and disasters of both the natural and manmade varieties (Akoteyand Adjasi, 2014). The poor are more vulnerable to many of these risks than the rest of the population and they are the list able to cope when a crisis does occur.

Although several risk management strategies exist, such as savings and emergency loans, micro insurance is quickly gaining popularity as it is becoming apparent that, for microfinance projects, it is not enough to just increase economic growth, this growth needs to be insured incase a disaster or event occurs (CARE, 2010).

According to (Chodokufa and Chiliya, 2014), There are two main varieties of micro insurance, one focused on extending social protection to the poor in the absence of appropriate government schemes and the other offering a vital financial service to low income households by developing an appropriate business model that enables the poor to be profitable or sustainable market segment for commercial or cooperative insurers. For both the social protection, and market perspective, insurance schemes for the poor have to find a way of balancing three competing objectives i.e. Providing coverage to meet the needs to the target population; Minimizing operating costs for the insurer; Minimizing the price, (including the transaction costs for the clients) in order to enhance affordability and accessibility.

Although insurance provide compensation for losses, choosing to insure against risk or not and choosing what to insure are decisions that need carefully consideration from management (Duong, 2009). The cost from insurance premium might turn to be too costly, even larger than the expected revenue because Perceived risk does not correspond to actual risk, and this has implications for product design (ILO, 2014). Consumers often overestimate frequent risks (and underestimate infrequent risks) because they are more familiar with the impact frequent risks have on loss of assets or income. Low income earners may be more familiar with loss of assets to theft than to fire, even though fire has the potential to be more costly.

2.3.2 Key issues facing micro-insurance that need to be addressed

In adequate information about micro-insurance products and how they work among the low income earners is one of the major challenges facing the micro-insurance sector (Hendrisman et al, 2013). Due to inadequate information about the benefits of insurance, poor people are often suspicious of, and view micro-insurance in a negative way. They prefer to rely on traditional and past informal insurance mechanisms such as selling assets, exchanging gifts, cash transfers and diversifying crops (Chakib, 2012). This view point means that few people in low income families would consider taking out insurance which in turn leads to a lack of demand.

Njuguna and Abigael (2012) cited (Patel, 2002; Prud'Homme & Traoré, 2007; McCord & Roth, 2006) whose study found out that Products offered by micro-insurance often may not be want low income earners need. Micro-insurance providers are required to tailor their products to the need of their low income target market because standardized products often do not meet these needs (Hendrisman, 2014). By providing additional service information such as preventative consultations with doctors or weather forecasts/ advice on crops, insurers could encourage people to view insurance in a more positive light which might lead to increased demand

Relative cost and complications. Micro-insurance applying standardized methods find that the operating costs are very high due to different circumstances they face in target markets including trying to reach a spread out population over a large area. Many large insurers do not have experience of selling to people of low incomes which can be a barrier to entry.

Inadequate knowledge of quality date of risk due to mismatched information of quality date which makes it difficult to assess and price the risk. Products need to be reasonably priced to attract consumers but they also need to be profitable. In order to persuade people to buy insurance, it is necessary to demonstrate that the insurers understand the risk they face, such as the risks faced by farmers in a particular rural area. If they can tailor the insurance to their needs this also means they will be more likely to sell it.

Regulations. Insurance regulations aimed at large insurance companies could hinder the growth of micro-insurance. Barriers such as extensive compliance which create a draining administrative burden can deter insurers from entering the sector and limits its growth. Government need to use a focused approach towards micro-insurance and simplify regulations that may encourage its growth in the sector.

2.3 3 Empirical evidence on the Performance of SMEs

The success of the SMEs sector can be aided if a relationship between SMEs and other service providers such as insurance providers is established (Chodokufa and Chiliya, 2014). In the event that an SME faces a catastrophe like a fire, strike or that its employees are injured at work, they need to have insurance to cover such eventualities as such disasters may leave them vulnerable if they do not have insurance. The occurrence of natural disasters in most cases results in the loss of workers, along with key talent and organizational knowledge, from low morale, fear, physical relocation or death. The owners of SMEs need to develop recovery plans. These strategies should address the safety, health and welfare of employees before, during and after an emergency.

A study conducted by Okotey and Adjasi (2014) on the link between micro-insurance services and households' asset accumulation in Ghana found out that micro-insurance has a positive welfare impact in terms of household asset accumulation. This suggests that micro-insurance prevents asset pawning and liquidation of essential household assets at "give away" prices. By absorbing the risk of low-income households, insurance equips them to cope effectively with risk, empowers them to escape poverty and sustains the welfare gains achieved.

Tsola (2015) argued that providing SMEs with the necessary insurance protection they need, at an affordable cost enables them to run their businesses with peace of mind. However, he recommended that series of awareness campaigns in major open markets across the nation should be done to enable SME managers to be trained on insurance. Insurance providers can therefore, hold frequent workshops and training sessions with SME managers so that they can have an understanding of the type of insurance policy covers that their businesses need , the premiums and how insurance claims can work for them.

A study was conducted by Mubashiru and Musah (2014) to identify the best form of risk protection to ensure rural SMEs' sustainability from the perspective of SMEs owners. It was found out that though comparatively, micro-insurance was identified to be superior to traditional coping mechanisms especially in the area of reliability and sufficiency, SMEs still preferred the latter. This preference was attributed to most SMEs distrust for financial institutions and the perception of the complexity of insurance payments in general. It is therefore ideal for micro-insurance providers to adopt the identified superior features of traditional coping mechanisms so as to roll out more acceptable micro-insurance policies, thereby increasing micro-insurance demand, which would further result in a long run break in the poverty cycle.

According to Azende (2011b) in Azende (2012), uncontrollable or inappropriate risk avoidance may lead to organizational avoidance, resulting in missed opportunities and an increase in the significance of other risk. However, he suggested that SMEs should visit insurance outfits and then hand over all insurable risk to them even if there are some that are not readily insurable, SMEs mangers can approach an insurance agent to help them access the impact of a foreseeable loss on the type of business they do. It is with the agent's expertise and experience that will aid this analysis hence impossible to overlook any exposures.

However, Savings and credit facilities can assist the poor to overcome unforeseen losses though their benefits are limited to the capacity of individuals to save or make repayments (Chakib, 2012).

One of the major reasons for the low uptake in insurance is that many of the Zambians have a shallow understanding of insurance (CARE, 2010). According to the study, majority of participants actually express ignorance. Additionally, the low income market, particularly the illiterate or uneducated persons have a social bias against insurance. Their experience has indicated that beliefs play a role in the demand for certain types of insurance. For example, paying for life insurance may be taboo, as if one is preparing for death. Insurers pointed out that the general public was not generally accepting of risk pooling as a preventative strategy, although it was common to share the burden when crises actually occur.

Similarly, Hendrisman et al (2013) found out that one major obstacle in the micro-insurance business is the relatively low level of experience of the target group with formal insurance. Insurance providers may be a good source of funds for SMEs but most of the poor people have little or no knowledge about insurance services. In Uganda, Households and businesses buy insurance to transfer risk from themselves to the insurance company. The insurance company accepts the risk in return for a series of payments, called premiums. In the insurance industry, underwriting is the process used by insurance providers to determine whom to insure and what to charge. During atypical year, insurance providers collect more in premiums than they pay in claims.

In Uganda, a bid to increase insurance uptake within the east African region, players have been urged to design products that suit the demand of the market (Wanyenya, 2015). She noted that Uganda is still grappling with the low uptake, compared to her peers in the region. According to her, Uganda has the lowest penetration levels in the east African region at 0.8%; Kenya is the highest with 3.2%while Rwanda and Tanzania are 2.0% and 2.8% respectively. The blame of low penetration was on the complexity of products offered in market, lack of awareness and untapped ICT usage within the sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section comprises of approaches to be used to make the study successful. It consist of research designs that are to be used by the researcher and the reasons for their choice, study area, study population, sample size and sampling techniques to be used during the study, data sources and data collection instruments, quality assurance, measurements of variables, data analysis and presentation, ethical issues and study limitations.

3.2 Research Design

The researcher used survey research design. The researcher used this design because it provides numeric description of some part of the population and also describes and explains events as they are, as they were and as they will be. It also considers issues such as economy of the design, rapid data collection and also suitable for extensive research. It is also simple and easier to collect information from the sampled population over a short period of time and the researcher was able to get new ideas about the subject.

The study basically used quantitative and qualitative researcher approaches. For quantitative method, data was collected using questionnaires which was later tallied and coded.

Under qualitative method, the researcher used interview guide and the information is availed as given by the respondents. The researcher used qualitative approach because it is open and calls for communication and interaction between the researcher and respondents. Besides, it is flexible and can adjust the research instruments according to changing circumstances and context.

Cross sectional survey was also used in this study where data was collected on the variable of interest from the selected samples.

3.3. Study population

The targeted population consisted of 95 people (primary data, 2015) within the men and women engaged in business in Abim town council. Abim district is one of the towns in Uganda which has been in business for a long period of time. It is therefore considered appropriate for providing a focal point for the study of micro finance services and the performance of SMEs.

3.4 Area of study

The study was mainly carried out in Abim Town Council in Karamoja sub-region which is located approximately 140 kilometers (87 miles), by road, northwest of Moroto, the largest town in the sub-region. This location lies approximately 360 kilometers (220miles), by road, northeast of Kampala, the capital of Uganda and the largest city of that country (UBOS, 2008). The selection of this area is based on the fact that it has large numbers of people with access to microfinance services and who are using the services and large numbers of people with access to microfinance services and who are using the services and a large number of micro and small entrepreneurs engaged in different entrepreneurship activities are located in this area.

3.5 Sample size

The sample size was 76 respondents among business men and women who were actively involved in carrying out business in Abim town council. The sample size was taken from the population of 95 respondents according to Krejice and Morgan table.

3.6 Sampling techniques/strategies/approaches

This study used random sampling technique to obtain its sample size. The researcher grouped the population into a separate homogenous sub sets that share similar characteristics so as to ensure equitable representation of the population in the sample. It is in the sub-set (groups) where the researcher prepared an exhaustive list of all members to be investigated and the sample was drawn. The researcher put the names of those in the population on the slips and drew as many as he needed for the sample. This method is chosen because each person from the study population has same chance as any other of being selected into the sample and forms a standard unit of inquiry.

Data sources

The researcher used both primary and secondary sources of data collection. Secondary data were got from reports, documents and internet which are in line with the study objectives. While for the case of primary source of data collection, pre-tested self-administered structured questionnaires were used in order to obtain data from the selected number of respondents.

3.7 Methods of Data collection

3.7.1 Questionnaires

The researcher used questionnaire for data collection. Questionnaires were used as a key tool for data collection. The fact that the most of the study population was large, literate and the information needed can easily be described in writing, it gave opportunity for the researcher to collect large volume of data as more participants were covered. In addition, questionnaires allowed participants to respond to questions at their own time of convenience and pace and also enabled them to remain anonymous and to be honest in their response.

3.7.2 Interviews

Use of questionnaires was reinforced by interviews which provided more understanding of the issues under investigation. The advantage of using this method is that the respondents were able to expand on areas of interest and use of non verbal communication such as facial expressions to emphasize their responses

3.8 Data analysis and presentation

3.8.1 Quantitative analysis and presentations

This study presents the data collected from respondents in frequencies and percentages. Each research objectives was answered according to the several items contained in the instrument and the responds were therefore tallied and then coded. Coding involved the researcher converting the raw data to numerical codes, in order to represent measurements of variables in form of frequency counts in tabular form.

The coded data was therefore analyzed using mean and standard deviation produced by SPSS 16 package so as to establish the relationship of variables. This enabled the researcher to determine if there is any difference in the number of business women and man who prefer using microfinance to improve on their businesses. Mean and standard deviation analysis was done in order to test some of the assertions raised. Coefficient was used to quantify the strength of association between the variables as well as testing the significance of relationships.

3.8.2 Qualitative analysis and presentation

Data collected using qualitative approach was categorized and presented in descriptive or narrative form**.**

3.9 Quality control

3.9.1 Reliability

In this study, reliability was put into consideration by pre-testing the questionnaires with selected samples from one of the departments which was not to be included in the actual data collection. Piloting was done on 10 SMEs found in the main street of Abim town council. The information collected during piloting was checked for reliability. This was done by randomly selecting sample 5 business men and 5 business women and administering questionnaires on them. The random sample ensured that all the respondents get equal opportunities in participating in the pilot study

3.9.2 Validity

To ensure validity, the instruments to be used to collect the data (questionnaire) were given to two experts to evaluate the relevance of each item in the instruments to the objectives. The experts rated each item on the scale; very relevant (4), quiet relevant (3), somewhat relevant (2), and not relevant (1). Validity was therefore determined using content validity index. 20 research instruments were given out with each expert given to rate 10 questionnaires. Items rated (3), or (4) by both judges were 15 which was later divided by the total number of questionnaire (20) to calculate the percentage validity coefficient of 75% which is accepted as valid and reliable according to Kathuri (1993) in Oso and Onen (2008).

3.10 Measurement of variable

The researcher used Likert scale for measuring the relationships between the variable he is to study. Each question in the questionnaire were rate as strongly disagree (1), disagree(2), not sure(3) agree(4), and strongly agree(5) in order for the respondents to give different views as far as the questions were concern.

3.11 Ethical issues

Before carrying out the study, the researcher ensured that all the applicable research ethics are adhered to specifically;

The respondents' right to privacy and confidentiality. To ensure privacy, the researcher was very well aware that the participants have a right to keep from any public certain information about themselves and carefully controlled their information from the intruders.

And to ensure confidentiality, the researcher made sure that the data collected was in agreement between him and the respondents that limit other's access to private information.

Informed consent. The respondents were asked to make their decisions to participate in the study based on the adequate knowledge of the study. The researcher adequately informed the respondents about the procedures of the study in which they have been asked to participate stating the purpose of the research, the expected duration of participation and the procedures to be followed, benefits to the subject of participants, the extent to privacy and confidentiality. Voluntary participation and right to withdraw while in process and avoiding embarrassment, stress and discomfort to the respondents. In this regard, the respondents had the freedom to ignore items that they do not wish to respond to.

The researcher also asked and got permission from the authority introducing him to the organization he studied.

The researcher collected data from the rightful people that he intended to consult and brought to their notice arrival time, duration to be taken in collecting data and departure.

3.12 Study Limitations

The major limitations to this study are;

Illiteracy among the respondents. Despite the fact that questionnaire research tool enabled huge collection of data, some of the respondents did not know how to read and write. In this regard most of the questions were left unfilled, some of them did not return the questionnaires because they did not have knowledge of how to fill and this lowered the validity and reliability of the study.

A possible limitation to the finding of the study also came from scoring errors. Scoring errors emanated from open-ended responses because divergent responses were given and the researcher used his discretion to edit and this affected the real intentions of respondents.

Another limitation came from insincerity of respondents, that is, information given was not reliable and also led to inconsistency that fed into wrong generalizations to the total population of the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction.

This chapter presents the results of the study beginning with the back ground information, followed by three objectives used to identify the role of Micro finance services on the performance of SMEs. The objectives are; micro-credit and the performance of SMEs, saving mobilization and the performance of SMEs and Micro-insurance and the performance of SMEs.

Table: 4.0.1 structure of chapter four.

Items	**Issues discussed**
Background information	Gender, Age, education level, and duration in business
Objective one	Microcredit and performance of SMEs
Objective two	Saving mobilization and performance of SMEs
Objective three	Micro-insurance and performance of SMEs

Source: Developed to suit the study.

The study set out to examine the contribution of Micro finance services and the performance of SMEs in Uganda with a specific focus on Abim Town council. To get the concrete picture on the contribution of Micro finance services on the performance of SMEs, three research objectives and research question were established in chapter one to guide this study.

4.1 Gender of the respondents

As regards, the age of the respondents, data is presented on table below.

Table 4.1.1. Gender of the respondents

	Frequency	Percentage
Male	40	58.8
Female	28	41.2
Total	68	100.0

Source; primary data, 2015

Table 4.2 above depicts the gender of the respondents. From the table, it can be deduced that a total of 68 people participated in the exercise with the majority of the respondents being male (40 respondents) represented by 58.8% and the rest were female (28) scoring 41.2%. Giving reasons for most of the females not participating in business compared to men, one of the respondents say "Most of our times are taken away by garden work, domestic work and taking care of the family." Another explains that "my husband does not allow me to do business because it is for those who don't have respect for their husbands."

4.2 Age of the respondents

Table 4.2.1 Age of the respondents

	Frequency	Percent
18-24 years	3	4.4
25-30 years	29	42.6
31-34 years	5	7.4
35 years and above	31	45.6
Total	68	100.0

Source; primary data, 2015

Table 4.3 above shows the age distribution of the respondents. The majority of those involved in carrying out business were in the age bracket of 35 years and above (31 respondents) represented by 45.6% followed by people in the age bracket of 25-30(29 respondents)represented by 42.6%.

The least age group according to the table is 18-24 (3 respondents) taking 4.4% followed by age bracket of 31-34 years with 5 respondents represented by 7.4%.

4.3. Education back ground

Table 4.3.1 Education background of the respondents

	Frequency	Percent
certificate or diploma	30	44.1
Degree	11	16.2
post graduate	7	10.3
Others (PLE, UCE,UACE)	20	29.4
Total	68	100.0

Source; primary data, 2015

Table 4.3.1. above shows that the majority of the respondents were those who either completed certificate or diploma level of education (30 respondents) taking the percentage of 44.1 followed by primary and secondary drop outs with 20 respondents represented by 29.4%. These together accounts for 73.5% of the total respondents. The least number of the respondents were the post graduates with 10.3% followed by the degree holders with the percentage of 16.2%.

Investigating the reasons for variation in the number of people doing business and the level of education, one of the respondents says “office work is for educated people and business is for those who did not go to school.” Interestingly, it has become a common say that “Academic failures do business while academic successors do office work.”

4.4 Duration in business

Table 4.4.1 Duration in business

	Frequency	Percent
less than a year	21	38.2
two years	21	30.9
over three years	26	30.9
Total	68	100.0

Source; primary data, 2015

It can be concluded from table 4.5 above that the majority of the respondents had taken more than 3years represented by 38.2% and the other respondents had taken either less than a year or 2 year carrying out business.

4.5 Micro credit and performance of SMEs

Table 4.5.1 Micro credit and performance of SMEs

	N	Min	Max	Mean	Std. Dev
Access to micro-credit	68	1	5	4.1029	1.09462
Borrowed fund support business growth	68	1	5	3.9265	1.11055
Monitoring of loans and political will to enforce loan contracts	68	1	5	3.8676	.99107
Most of the loans are collaterised	68	1	5	3.8824	1.31046
Most loans are involved in a default	68	1	5	3.6324	1.00602
Loan defaults depend on internal factors	68	1	5	3.8824	.90652
MFI offer loan on short term basis	68	1	5	4.1029	.93265
Credit should be client oriented and not product oriented	68	1	5	3.7059	1.15976
Loan size impact on performance of SMEs	68	1	5	3.7941	1.07285
Imperfect contract enforcement generate loan defaults	68	1	5	3.9559	1.20241

Source: primary data, 2015

4.5.1.1Access to micro credit

Table 4.6 above indicates that there was heterogeneity in the responses of SMEs business owners regarding whether SMEs have easy access to micro credit (obtaining loan) as shown by the standard deviation of 1.09462. However, majority of the respondents were in agreement that they have easy access to micro credit especially from village banks, SACCO and credit cooperatives as shown by the mean of 4.1029. this study seems to disagree with the findings of Quaye (2011) who argues that it is difficult for SMEs to access credit because they cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firm and in addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with micro and small enterprises.

According to a 35 year old respondent, to access capital from MFIs, SMEs needed to satisfy the following conditions; be account holder of the MFIs, must be in the MFIs catchment area, and must have saved with the MFIs for a minimum of six months. These conditions, however, affect SMEs negatively by delaying credit disbursement to beneficiaries to carry out their business activities and killing local initiatives.

4.5.1.2 Borrowed fund support business growth

The results of the study show a statistical significant difference in the opinion of the business men and women of Abim town council on whether borrowed fund supports business growth or not. Most of the respondents agree that loan borrowed from financial institutions is used in the expansion of business as shown by mean of 3.9265 and standard deviation of 1.11055.

The above finding agree with the study conducted by Obwori (2012) who found out that borrowed funds support growth of the soapstone industry and that a large number of the respondents indicated that any borrowed funds are used in expanding the business much as he noticed that large families affects the growth of soapstone business as most of the income goes into meeting basic needs of the people. Most respondents indicated that most SMEs use technologies and skills handed over from generation to generation through the informal training and self training while only a few had received any formal training

4.5.1.3 Monitoring of loans

Despite the fact that there were variation in responses on whether the loans are being monitored after approval as represented by the standard deviation of 0.99107, most of the respondents were in agreement with the statement that most MFIs monitor their loans after approval as indicated by the mean of 3.8676. This finding is in disagreement with the study conducted by Tomola (2011), whose findings recommended that there should be stern efforts by the credit institutions in screening of loan applications, monitoring of approved loans and enforcing loan contract. Implying he noticed that most of the MFIs do not screen or monitor the loans after disbursement.

4.5.1.4 Most of the loans are collaterized

As regard to the question of whether the loans that SMEs obtain from MFIs are collaterised, most of the respondents affirm that the loans are collaterized represented by mean of 3.8824. "One of the first things that MFIs ask if you go to obtain loan is collateral security. Basically land, animals and house" one of the respondents added during the interview.

This finding is in agreement with Quaye (2011) argues that it is difficult for SMEs to access credit because they cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with micro and small enterprises.

4.5.1.5 Most loans are involved in a default.

In spite of this overwhelming interest in finding out whether loan borrowers default payment of loans, most of the respondents agreed that they have ever defaulted payment as represented by 3.3624 mean. Interestingly, it was found out that most of the people who default payments of loans are those who obtain it for starting the business because they invest it in businesses that take long to reap profits.

A study conducted by Tomola (2011) to Compare Loan Performance in Banks and Micro-Credit Institutions in Nigeria reveals that the average repayment rate of 92.93% for banks was higher than the 34.06% for the micro-credit schemes. That is, the banks performed at much higher levels than microcredit schemes. This implies that there is loan default among Micro financial institutions than commercial bank that confirms the finding above.

4.5.1.6 Loan defaults depend on internal factors

About the question of whether loan default depend on internal factors like management quality, accounting system, credit policy, different views were given by the respondents in support of the question and disagreement. However, most of the respondents agreed that loan default depends on internal factors of the business such as incompetent management, poor accounting system used in the business, misappropriation of fund etc as shown by the mean of 3.8824 and the standard deviation of 0.90652. A study conducted by Odeng (2011) also found out that, internal factors such as incompetence and managers attitudes towards managing business can cause loan default. While Jagong (2012) found out that internal factor and the characteristics of the women entrepreneurs such as commitment to culture and religion, level of dependency, management skills, financial commitments and responsibilities affects saving and loan repayment.

Mean while MPRA (2013) found out that group loan repayment performance was positively influenced by experience in group borrowing, number of visits by loan officer, peer pressure, meeting attendance index and heterogeneity index while gender, household size, distance to the nearest financial institution and density of membership had a negative effect household loan repayment performance. According to the study, attention must be given to the group internal factors and other factors, in the design of development strategies that target the poor households' access to credit and repayment performance through micro-credit groups. The study concludes that social capital dimensions are crucial if group lending has to grow to reach a large proportion of the rural inhabitants and improve loan repayment performance.

4.5.1.7 MFI offers short term loans

As regard to the question asked about the type of loans being offered by MFIs, majority of the respondents agreed that MFIs offer short term loans as indicated in the findings by mean of 4.1029 and the standard deviation of 0.933. However, this finding is in agreement with the study conducted by Olusola (2012) who found out that the high interest rates and short repayment periods have made the banks and micro credit institutions to effect on the performance of women owned enterprises in Oyo state. In his study, he found out that because of the shortness in the repayment period, it will give no room for the loan to generate future income and to repay their loans in a shorter period possible.

4.5.1.8 Credit should be client oriented and not product oriented

Concerning the question directed toward finding out whether credit should be client oriented and not product oriented in order to enhance sustainability of SMEs and accelerate growth, most of the respondents agreed with the statement as shown by the mean of 3. 7059. However, responses were varying from one respondent to another as observed by standard mean deviation of 1.160. Quaye (2010) while studying the effects of Micro credit Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs), examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, reveals that Micro credit institutions has a positive effect on the growth SMEs. His study conforms to the above finding when he suggested that in order to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product-oriented and proper and extensive monitoring activities should be provided for clients who are granted loans

4.5.1.9 Loan size affects the performance of SMEs

As regard to the question on if loan size has any effect on the performance of SMEs, majority also agreed that the bigger the loan the higher the impact on the performance of SMEs holding other factors constant. This is represented by the mean of 3.7941 in spite of variation in responses by shown by the standard deviation of 1.07285. In agreement with the above finding,

Odong (2014) cited Cane (2009) who found out that small loan size can have some impact on the SMEs performance but it is minimal compared with those of big loan size in the same sector and its relationship to create good performance is insignificant to this kind of businesses.

4.5.1.10 Imperfect contract enforcement generate loan defaults

Interestingly question was raised to find out whether incomplete information or imperfect contracts enforcement generates possibility of loan default and eventually problems of credit rationing. Table above showed that in the responses, majority of the respondents agreed with the question as represented by 3.9559 though there were also varying responses on the matter.

4.5.2 Challenges and solutions associated with loan for business growth

This sub section focuses on small enterprises growth' challenges and solutions thatis associated with dealing with finance. In this section the respondents were asked what they face as challenges when using the loan obtained from the micro finance institutions in expanding business and carrying out business activities. The sub section also looked at the solutions that the SMEs owners in Abim Town council suggested so as to deal with challenges that are faced concerning accessing and use of loan obtained from financial institution for expanding business.

4.5.1 Challenges

It was observed and found that there were similar constraints for access and use of fund in expanding business that were finance oriented in the studied small and medium enterprises. One was a small amount of loan that was provided. The amount was not enough to make an investment on innovation. As one of the responded quoted saying

"investing in improving of product is very expensive and sometimes very risky, I rather invest the fund I obtained from MFIs in buying more raw materials and adding some more machines so that I increase quantity of what I produce, that is more profitable and it is the one thing applicable considering the amount of loan we get from the Financial institution."

Also the findings revealed that the monthly returns of the part of loan amount were a constraint to the SMEs owners. The policy of these micro finance institution is that the borrowers are suppose to report monthly to MFIs and to return some portion of the loan as terms and conditions agreed upon when obtaining the loan. This made them to waste a lot of time away from their businesses. Also the amount that was supposed to be returned on monthly basis was too much depending on the amount borrowed. Other constraint that came about included high interest rates that were charged, that is 10 percent of the total sum borrowed.

The most common constraint that was spoken by almost all the respondents was the loan repayment period. It was found that these small and medium enterprises saw that there was a very short loan repayment period until the starting of paying back the loan. One of the respondents was quoted saying, “The banks should give us even a year before starting to collect their debts so as the loan taken by a year would have been invested and already generated enough profits to enable me to return the loan without interrupting with the cash flow in my business.”

Also another respondent was quoted saying,

“In my view I see there is not any problem in using the loans for carrying out business activities given that draw a good plan on the amount of loan obtained and the terms and conditions in obtaining the loan not forgetting good finance management skills and hardworking.”

4.5.2 Solutions

The findings showed that small and medium enterprise owners realized that the size of the loan that can be taken is fundamental to effective use for the expansion of business purposes. One of the respondents was quoted saying;

“Investing in technology or innovation activity is not a short time thing, the profits from these activities takes time to be seen. Now if you are given a loan that has to be paid back after fourteen months, what good does it do if you put the entire loan taken into something that will not be even half done by fourteen months.”

Also it was suggested that the terms and procedure of payments needed to be evaluated and changed according to kind or type of an enterprise. The monthly payback should be reconsidered depending on the type of the enterprise and the product produced not the amount of the loan that was taken. Furthermore, the monthly paybacks should be flexible because not all months are the same in terms of business performance. This way maturity of profits of the loan could have been captured.

Other solution that was put forward asserted that Loan should be directed to production and not other personal consumption. This is due to the fact that sometimes the loans that are obtained from these micro credit institutions end up being used in other social activities and just a few of the loan that remained is investment into the enterprise.

The common solution that was so stressed was concerned with reduction in interest rate. The SMEs owners suggested that reduction in interest rate will have a more effects on business expansion and carrying out other business related activities because the entrepreneurs can now afford to take bigger loan and the payback will be easier and also it is effective because the amount invested will be bigger enough to realize increase in productivity and hence profits.

4.6 Saving mobilization and performance of SMEs

Table 4.7.1 Saving mobilization and performance of SMEs

	N	Min	Max	Mean	Std. Dev
Savings act as a collateral security to acquiring loans	68	1	5	3.4706	1.12596
Safe savings facilities increase self-financing capacity	68	1	5	4.2647	.90797
Shortage of frequent access to formal saving facilities	68	1	5	3.7353	1.25327
Voluntary savings, safety impact on business	68	1	5	4.0294	.96151
MFIs demonstrates good governance and professional mgt	68	1	5	2.5588	2.02771

Source: primary data, 2015

4.6.1.1 Savings act as a collateral security for acquiring loan

Concerning the question asked to find out whether savings act as a collateral security for acquiring loan, the result showed a statistical difference in the opinion of the business men and women in Abim town council as represented by a standard deviation of 1.12595.

However, most of the respondents were in the support that to obtain loan from MFIs then you must have an account with them as depicted by the mean of 3.4706.

The finding agrees with Atemba (2014) who found out that the majority of the respondents (78.9%) strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO much as majority of the respondents (51.3%) were not sure whether their deposits are as a result of the loans they have taken pro rata.

This finding seem to disagree with Kosgei et al. (2014) who found out that home saving due to shortage of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. According to him, these alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor.

4.6.1.2 Safe saving facilities increase self- financing capacity

As regard to the question of whether availability of safe savings facilities increase self-financing capacity and reduces the need of borrowing with its inherent risk, majority of the respondents agreed that safe saving facilitates their capacity to fund their business as indicated by mean of 4.2647 though there were differences in the responses as shown by the standard deviation of 0.90797. However, one of the respondents told the researcher that though savings help to fund business, it is not safe to save with micro credit institution especially SACCO because most of the managers misuses their fund and if they go to withdraw, they find little or nothing at all.

4.6.1.3 Access to good formal saving facilities.

A question was raised by the researcher to find out whether households do not save because of shortage of frequent access to good formal saving facilities. There were heterogeneous responses as reflected by the standard deviation of 1.25327 much as most of the respondents agreed that they don't save because of few formal saving facilities as depicted by the mean of 3.7353. there were few formal saving institutions, the researcher found out from one of the respondents that most of SMEs owners especially women try to save at home in clay piggy banks, inside bamboo sticks, tuck between roof sheets, buried in the earth or sewn in to pockets in petty coats, "these is because the home bag is too easy to withdraw from at no cost" she explained. But these forms of savings are risky because the house may easily catch fire and you lose the all money. One of the respondents narrated and said" I went to the garden and came back late only to fine that the children burnt the house where I kept my money to a tune of 5,000,000shs."

This finding is in disagreement with the report from Banking the poor (2009), which found out that entrepreneurs prefer to save outside the home to avoid the temptation to spend and diversion of funds by other family members for less urgent need. They argued that most business especially SMEs collapse or poorly perform as many women come home from business only to find their husbands have spent their hard-earned savings on alcohol.

4.6.1.4 Voluntary savings and accessibility impact on the business

Table 4.7.1 above Indicate that there was homogeneity in the responses of the respondents regarding whether voluntary savings, ensuring safety, flexibility and accessibility can impact on the business though few respondents disagreed with the statement showing a variation of 0.96151.

4.6.1.5 MFIs demonstrate good governance and professional management

An inquiry on whether MFIs demonstrate good governance and professional management, strength and reliability that guarantee that deposits and savings are not used to cover their operational expenses and records of strong loan portfolio quality management, 2.5588 mean from the respondents data disagreed with the statement although some of the respondents were in agreement with the statement. According to the study of Wasike (2012), good corporate governance is necessary in order to attract investors both local and foreign to save and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient companies and business enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources.

4.8 Factors Contributing to Constraints to saving Mobilization

As per the question raised to find out the major constraints to saving mobilization, it was found out that most of the respondents save their money with Sacco and the following responses were given by the respondents;

Most of the respondents say there is Poor Cash Management because most SACCOs are run by those with little or no basic knowledge in finance management demonstrated in the failure to adhere to rules and regulations governing the issuance of loans, slow adoption of the modern technological, financial applications has also been blamed on the inefficient managers. Furthermore, most of the respondents noticed that since these are voluntary work, members elect anybody they like who may not necessarily have the skills to run the Co-operatives.

Another problem they noticed was high loan defaulting rate. According to the respondents, the rate in most cases has been below 30 percent as opposed to the recommended 70 percent repayment rate. Non remittance and delayed remittance of cooperative dues by borrowers has led to inconveniences and loss of income by the societies. However, they said that new rules provided by village banks have however provided stiff penalties for misbehaving borrowers.

Declaration of Inappropriate Dividends. They also noted that Sacco Board of Directors falsifies reports to declare high dividends even if the Sacco has not made profit to prove high performance and please members in order to remain in office. This forces them to source for external funds to pay the declared dividends

The respondents also noted that there is a distinctive Challenges Facing SME finance especially potential providers of external debts to SMEs have always wanted to monitor them after the issuance of the loans to determine whether they are still fulfilling the initial clauses contained in the loan contract. The upholding of the stringent requirements has proved problematic to SMEs since failure to implement some of the clauses makes their access to additional financing a challenge as formal financial institutions are likely to advance credit rationing to them.

4.7 Micro-insurance and performance of SMEs

Table 4.7.1 micro-insurance and performance of SMEs

	N	Min	Max	Mean	Std. Deviation
Access to micro insurance impact on SMEs	68	1	5	3.7500	.90397
Micro-insurance products	68	1	5.	4.2059	.93934
Training on micro-insurance products	68	1	5	4.3971	1.03865
Risks greatly impact on SMEs performance	68	1	5	4.2794	.89519
Risks are mostly insured by SMEs	68	1	5	3.7500	1.01298

Source, primary data 2015

4.7.1.1 Access to micro-insurance

In an attempt in investigate whether access to micro-insurance services by SMEs have any impact on their business, there was heterogeneous response although majority of the respondents agreed that micro-insurance positively affect their businesses as observed in table 4.8.1 by mean of 3.75. the researcher went ahead to find out why other people do not agree with the statement and it was found out that most of the SMEs owners are not well informed about the services provided by micro-insurance. They preferred traditional mechanism of solving risk like sell off assets to recover part of the lost items.

The finding agrees with (CARE, 2010) who found out that one of the major reasons for the low uptake in insurance is that many of the Zambians have a shallow understanding of insurance According to the study, majority of participants actually express ignorance. Additionally, the low income market, particularly the illiterate or uneducated persons have a social bias against insurance. Their experience has indicated that beliefs play a role in the demand for certain types of insurance. For example, paying for life insurance may be taboo, as if one is preparing for death. Insurers pointed out that the general public was not generally accepting of risk pooling as a preventative strategy, although it was common to share the burden when crises actually occur.

Similarly, Hendrisman et al (2013) found out that one major obstacle in the micro-insurance business is the relatively low level of experience of the target group with formal insurance. Insurance providers may be a good source of funds for SMEs but most of the poor people have little or no knowledge about insurance services.

Much as some SMEs owners disregard the services provided by micro-insurance, chodokufa and chiliya (2014) suggest that the success of the SMEs sector can be aided if a relationship between SMEs and other service providers such as insurance providers is established In the event that an SME faces a catastrophe like a fire, strike or that its employees are injured at work, they need to have insurance to cover such eventualities as such disasters may leave them vulnerable if they do not have insurance. The occurrence of natural disasters in most cases results in the loss of workers, along with key talent and organizational knowledge, from low morale, fear, physical relocation or death. The owners of SMEs need to develop recovery plans. These strategies should address the safety, health and welfare of employees before, during and after an emergency.

4.7.1.2 Micro-insurance products

Majority of the respondents disagreed with the question raised to find out whether micro-insurance offer products of their interest as represented by the mean of 4.2059. They contended that microfinance provides mostly life insurance and yet they want agriculture insurance to cover them form droughts, floods, pest and diseases among others that seasonally destroy their crops resulting to poor harvest.

This study agrees with Patel (2002); Prud'Homme & Traoré (2007); McCord & Roth(2006) cited by Njuguna and Abigael (2012) whose study found out that Products offered by micro-insurance often may not be wanted by low income earners need. Micro-insurance providers are required to tailor their products to the need of their low income target market because standardized products often do not meet these needs (Hendrisman, 2014). By providing additional service information such as preventative consultations with doctors or weather forecasts/ advice on crops, insurers could encourage people to view insurance in a more positive light which might lead to increased demand.

4.7.1.3 Training on micro-insurance services

A question was asked to find out whether micro finance institutions do not train their beneficiaries on how to deal with micro-insurance. Majority of the respondents agreed that micro finance institutions do not provide training as far as the use of micro-insurance is concern as shown by mean of 4.3971. This is in line with the findings of chodokufa and chiliya (2014) whose main objective of the research was to determine which factors have the most influence on relationship building between SMEs and insurance providers. The conclusion reached through the results is that factors such as the reliability of an insurer, staff knowledge and brand name of the insurer have a great impact on the decision made by SME to build a relationship with insurance providers. Furthermore, they found out that only 16.7 % of SME owners had any form of training on short term insurance and most of them (72.1%) want to be trained in this field. The training of SME owners is crucial for the relationship building process between SMEs and insurance providers according to him.

Similarly, Tsola (2015) argued that providing SMEs with the necessary insurance protection they need, at an affordable cost enables them to run their businesses with peace of mind. However, he recommended that series of awareness campaigns in major open markets across the nation should be done to enable SME managers to be trained on insurance. Insurance providers can therefore, hold frequent workshops and training sessions with SME managersso that they can have an understanding of the type of insurance policy covers that their businesses need , the premiums and how insurance claims can work for them.

4.7.1.4. Risks and SMEs performance

An investigation was made to find out whether risks affect the performance of SMEs. 4.2795 mean was reflected in the finding. Implying the majority of the respondents agree with the statement that risks negatively impact on the business performance. The study was in line with Azende (2011b) in Azende (2012) who found out that uncontrollable or inappropriate risk avoidance may lead to organizational avoidance, resulting in missed opportunities and an increase in the significance of other risk. However, he suggested that SMEs should visit insurance outfits and then hand over all insurable risk to them even if there are some that are not readily insurable, SMEs mangers can approach an insurance agent to help them access the impact of a foreseeable loss on the type of business they do.

4.7.1.5 Insurance of risk

A question was asked by the researcher to find out whether micro finance institutions insure risks especially life insurance risk, business risk and environmental risk and the responses were varying though majority of the respondents agreed that micro-insurance insure risk but they are not interested in the type of risk they offer especially life risk. This is reflected by the mean of 3.75 although the responses were heterogeneous.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The previous chapter presented the findings of the field research. This chapter shall cover summaries and conclusions made from this research based on the research objectives, research questions and analysis of the findings. It shall also suggest recommendations based on literature, researcher's experience and research field practical cases where micro finance is seen as a pillar to SMEs growth. The major objective was to examine the role of micro finance products on the performance of SMEs in Uganda specifically Abim town council.

5.1 Summary of the key findings

5.1.1 Micro credit and the performance of SMEs

The first objective was to find out the role of micro credit on the performance of SMEs in Uganda, Abim town council in particular. The findings of the study showed that micro credit have positive impact on the performance of SMEs in Abim town council.

According to table 4.1, it was observed that SMEs obtain loan for either starting or expanding the business as shown by the mean of 4.1029.

Much as there was a positive impact of micro credit loan on the performance of SMEs, it was also noted that most of the loans were involved in a default. The default was mainly among SMEs who obtain loans to start business. This implies that the poor does not need only micro credit but also non financial services like training of the entrepreneurs on book keeping, how to identify viable business opportunities etc. This enables creating better skilled entrepreneurs and small business entrepreneurs who apply the acquired skills to foster enterprise development and building stronger, more productive and competitive business (Kobusingye, 2012)

The finding also revealed that most MFIs give loan to the borrowers on short term basis with high interest rate. However, because of the shortness in the repayment period, it will give no room for SMEs who acquired loan to generate future income and to repay their loans in a shorter period possible.

5.1.2 Saving mobilization and performance of SMEs

The second objective was to find out the role of savings on the performance of SMEs.

According to the findings, the researcher observed that SACCOs do not differ much from other microfinance institutions in terms of credit management. They charge interest to member's equivalent to 5% per month, give a repayment period of 6 months and in some cases require collateral securities (mostly land, animals, and other assets). The difference emerges on the management where the board and management comes from members and set their own decisions as a group. Members are able to guarantee loans for each other and the group is able to meet on monthly basis to deliberate on issues that affect the SACCO unlike other microfinance institutions where every decision comes from the top and clients get loans and payback after fulfilling the loan requirement like able to pay and offering a collateral security.

The finding also revealed that savings rates were very low (5%) per month, and tenants stated that it had a positive effect on their businesses. However, much as Farmers had positive attitudes towards savings activities, but they hadn't enough financial surplus, and if found there were few savings institutions in the area. Small number of farmers was engaged in the savings activities and saved some money. It was found out that due to few micro finance institutions within the town council, most poor people do not save money in formal financial institutions but rather most of them especially women try to save at home in clay piggy banks, inside bamboo sticks, tuck between roof sheets, buried in the earth or sewn in to pockets in petty coats, “these is because this home bag is too easy to withdraw from at no cost.

Finding of the study also revealed that micro financial institutions did not demonstrate good governance and professional management, strength and reliability that guarantee that deposits and savings are not used to cover their operational expenses and records of strong loan portfolio quality management as indicted by the mean of 2.5588.

5.1.3 Micro-insurance and performance of SMEs

The finding revealed although there were limited micro-insurance products offered by micro finance (life and health are the most common micro-insurance product offered) but this products are not the interest of the poor. However, there exist a positive relationship between micro-insurance and the performance of SMEs.

The study also found out that risk is one of the major factors among SMEs that greatly impact on their performance as reflected by the mean of 4.2794 though there were some people who disagreed

5.2 Conclusion

The main objective of the study was to examine the role of micro finance and performance of SMEs in Uganda, specifically Abim town council. This study has been able to show the positive relationships that exist between micro finance products and SMEs performance in Abim town council. The result of the empirical analysis goes to prove that small and medium scale enterprises growth in Abim town council has been prevented by structural and environmental challenge.

It can also be concluded from the study that the context of poverty where poor are living does not allow them to join business. Poverty statistics always bring a category of people who fall below the poverty line and these same people are excluded from benefiting because poor people lack information, lack business skills, credit from money lenders used for consumption as their immediate need, which make them not to actively participate in business more so, they are excluded by the social networks in the community. The poor have no assets and sustainable income which can guarantee repayment when the enterprise does not generate profits and it becomes difficult for the poor to access credits from financial institutions.

The requirements for accessing credit are not affordable to the poor. Compulsory savings concept that is done either on weekly or monthly level appears irrelevant for the poor. These poor people have no source of income and they are faced with the immediate need of satisfying household demands like consumption, health and education. No effort made to first make the poor generate income so that they are able to afford compulsory savings. In addition to compulsory savings, one has to be a member by subscribing and paying membership fee as well as stationery which are all good for ownership and sustainability but not convincing to individuals with less resources, they find it difficult to open an account with micro credit institutions and also to become members and as a result they don't benefit from government funds channelled through SACCOS.

5.3 Recommendations

The study recommends that there should be strict efforts by the credit institutions in screening of loan applications, monitoring of approved loans and enforcing loan contract. Policy makers should ensure conducive environment necessary for improved performance and growth of SMEs. This might involve providing the basic infrastructural facilities, which unnecessarily increase the cost of doing business in the country.

Government should create a system of support for entrepreneurship promotion and SMEs development. In this endeavour, the objective of government should be to increase the number of people who are actively pursuing entrepreneurial and SMEs ventures and providing them with conducive environment in which new and existing entrepreneurs can take hold, grow and flourish.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear sir/ madam;

I am OWINY Ambrose, student of Uganda Martyrs University pursuing Bachelor of Business Administration and Management.

As one of the requirements for the award of degree, I intend to carry out a research to find out the role of Micro finance services on the performance of SMEs in ABIM town council. You have been chosen as a respondent because you own a business within the area of the study. I therefore request that you spare your valuable time and answer these questions. I promise as a researcher that the information you provide will be treated with utmost confidentiality and anonymity and shall be used for strictly academic purpose.

SECTION A: Background Information

1. Gender

a) Male ☐ b) Female ☐

2. Age group (years)

a) 18 -24 ☐ b) 25-30 ☐ c) 31-34 ☐

d) 35-40 ☐ e) 41 and above ☐

3. Education level

a) Certificate or Diploma ☐ **b)** Degree ☐

C) Postgraduate ☐ **d)** others, specify ☐

4. Duration you have been in business

a) Less than a year ☐ b) 1- 2years ☐ c) over 3 years ☐

SECTION B: Micro credit and the performance of SMEs

Please tick your appropriate choice in the space provided using the keys given below;

1. S.D- Strongly Disagree **2. D**- Disagree **3. N.S**- Not Sure **4. A-** Agree **5. S.A-** Strongly Agree

STATEMENT	SD	D	NS	A	SA
1. There is easy access to micro credit loans for micro finance banks					
2. Do borrowed fund support business growth?					
3. Loans are properly monitored after approval and there is political will of to enforce loan contracts					
4. Most of the loans are collaterized					
5. There is a tendency for most of the loans to be involved in a default					
6. Loan defaults depends on the internal factors like mgt quality, accounting system used, credit policy etc					
7. Most MFIs offers loans on short term basis which hardly improve on the performance of SMEs					
8. In order to enhance sustained and accelerated growth of SMEs, credits should be client oriented and not product oriented					
9. Loan size significantly impact on the performance of SMEs					
10. Incomplete information or imperfect contracts enforcement generates possibility of loan default and eventually problems of credit rationing					

SECTION C, Saving mobilization and the performance of SMEs.

STATEMENT	SD	D	NS	A	SA
1. Savings act as a collateral security for the savers to acquire more and bigger loan from MFIs					
2. Better availability of safe savings facilities increases self-financing capacity and thus reduces the need of borrowing with its inherent risk					
3. Households don’t save because of shortage of frequent access to good formal saving facilities					
4. Voluntary savings, ensuring safety, flexibility and accessibility can impact on the business					
5. Savings help households to smoothen consumption and undertake investment risk					

SECTION D; Micro insurance and the performance of SMEs

STATEMENT	SD	D	NS	A	SA
1. Access to micro insurance significantly impact on how participants deal with unexpected shock, smoothen their income					
2. Do micro finance banks offer insurance products of your interest?					
3. Micro finance institutions do not train beneficiaries on micro-insurance products and how it works.					
4. Risk is one of the major issues among SMEs that greatly impact on their performance					
5. The most important risk insured by MFI are life cycle risk, business risk and environmental risk					

Thank you very much for your active participation.

APPENDIX II: INTERVIEW GUIDE

1. Do micro financial institutions give enough loans to expand your business and invest in innovation?
2. Are there strict procedures followed before and after acquiring loan? What procedures do they follow?
3. What problems do you face in using borrowed fund? Any possible solutions?
4. Do you think interest rate from micro finance institution have any effect on your business? What is the current rate?
5. Are your money safely saved in the microfinance institutions?
6. What are the factors affecting your saving rate?
7. Have you ever insured your business against risk?
8. Does insurance have any effect on your business?