GROUP LOANS AND THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

CASE STUDY: CENTENARY BANK KIREKA BRANCH

LULE MICHAEL

2013-B021-10085

UGANDA MARTYRS UNIVERSITY NKOZI

APRIL 2016

GROUP LOANS AND THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

CASE STUDY: CENTENARY BANK KIREKA BRANCH

An undergraduate dissertation presented to Faculty of Business Administration and Management in partial fulfillment of the requirement for the award of the degree Business Administration and Management

Uganda Martyrs University

LULE MICHAEL

2013-B021-10085

APRIL 2016

DEDICATION

I dedicate this work to my parents Mr. Joseph MugerwaMujjumba and Ms. Jane Nakinga, my beloved sisters,Namutebi Stella Maris, NakawukiBibian, Namugerwa Christine and my Uncle Rev Fr. Vincent Mulumba for the contribution and inspiration they have offered during my education. I would also like to acknowledge my beloved friends in Uganda Martyrs University and also the lecturers who guided me throughout the research. Enzama Brian Badduspecial thanks go on to you for all the words of encouragement you have always given to me. Thank you very much for everything all of you.

Special thanks to my supervisor Rev. Fr. Edward Anselm Ssemwogerere for enabling me write this research, it would not have been possible without your help, and may God continue to bless you.

I LOVE YOU ALL.

May God bless you abundantly.

ACKNOWLEDGEMENT

Obtaining a BBAM is a pursuit that one undertakes over a period of time. In the course of the project, one meets and interacts with a number of people, who in different ways contribute to the final success of the project. In the premises I would like to thank the following people for their invaluable contributions.

My supervisor, Rev Fr Edward Anselm Ssemwogerere, whose official role was that of supervisor which involves providing guidance and encouragement. In practice he performed far beyond these typical roles.

I am also indebted to my family that has tirelessly provided support throughout the endeavor. Nsubuga Henry who introduced me to Uganda Martyrs University and encouraged me throughout the whole course.

I also thank all my friends especially Enzama Brian, Tumusiime Nicholas, Namazzi Priscilla, Namuli Joan, Mukyala Claire, Kunsa Paul, Luwambya Asaad, Musiime Linnet, Mujoobe Samuel, Namwanje Ritah, Uwera Josephine, Arinaitwe Benet, Obura Simon, Mugalu Kizito, Nakuya Linda Claire, Ssemakula Constatine, Lwanga Felix and Kunihira Esther not forgetting my lovely brother Ssonko Charles for their support, love, encouragement and prayers that have been a key to my success.

I am further obliged to the entire Bachelors of Business Administration faculty of Uganda Martyrs University Nkozi especially my lecturers for the contribution towards my academic growth.

The management of Centenary bank Kireka and the staff who offered me all the required assistance and gave me the required data needed for my study.

TABLE OF CONTENT

LIST OF TABLES

- **Table 21**: There are five stages of small business growth
- **Table 22:** Productivity refers to how efficiently the factors of production are being used
- **Table 23**: There are two basic ways in which productivity can be measured: output per worker and output per hour worked.
- **Table 24**: The level of productivity is dependent on factors like level of skills and technology
- **Table 25**: Growth in productivity can come from increasing outputs while maintaining the same level of inputs.
- **Table 26**: Productivity reflects a range of concepts such as efficiency and technological change
- **Table 27**: When managers plan they reduce on costs which increases the firm's profitability
- **Table 28:** When an enterprise makes profit it is an indication that it is doing well.
- **Table 29**: Profitability is the primary goal of all business ventures
- **Table 30**: Profitability is measured with income and expenses

Table 31: Profitability determines whether a company stays in business or not

LIST OF FIGURES

LIST OF ACRONYMS

1. SME'S	Small and Medium Enterprises
2. SPSS	Social Package for Social Scientists
3. IMF	International Monetary Fund
4. GDP	Gross Domestic Product
5. O.E.C.D	Organization for Economic Cooperation and Development.
6. SMACK	St Mary's College Kisubi**.**
7. MFI	Microfinance Instutions.
8. EBIT	Earnings Before Interest and Tax.
9**. UGX**	Uganda Shillings

ABSTRACT

Small and Medium Enterprises are the catalyst for economic growth in most economies thus, the fundamental objective of this study was to investigate the impact of group loanson the performance of Small and Medium Enterprises (SMEs) in Uganda in line with the following objectives of the study; to investigate the relationship between group size and the performance of SME'S, to find out the relationship between loan size on the performance of SME'S and lastly to examine the relationship between social ties and the performance of SME's so that the ability of SMEs to develop positively and drive economic growth in the Uganda becomes real.

Stratified random sampling technique was employed in selecting the 80 respondents that constituted the sample size of the research. Structured questionnaires were designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics from the SPSS package which involved simple percentage, frequencies, graphical charts and illustrations were tactically applied in data presentations and analysis. The findings of the study revealed that although capital is key for the sustainability and growth of SME's, it must be raised in the right way basing on the necessary documentation for instance you cannot claim for a loan of as much as one hundred million UGX if your monthly cash inflows say are two million UGX and yet you are expected to pay back within one year.

It is recommended that banks and microfinance institutions review their interest rate downwards and also share best practices with their SME customers especially on the efficient use of loans; to productivity and support SMEs in Uganda.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

The understanding of the relationship between Group loans and Performance of Small and Medium Enterprises is the core of this study. The study seeks to establish the extent to which Group loans contribute to the general performance of Small and medium enterprises, a case study of Centenary bank Kireka. In this chapter, the researcher will address a number of issues, which include: the background to the study, problem statement, broad objective, specific objectives, the research questions, the hypothesis, the scope of the study, the significance of the study, justification of the study and the conceptual framework.

1.1 Background to the Study

Different authors or writers internally, regionally, and nationally have different views about Small and Medium Enterprises and this can further be seen or viewed as follows;

According to Agboza and Yeboah (2012) the ultimate hope for developing countries is that by protecting property rights, entrepreneurs can be brought out to the black market and into the open. De Soto (source) advocates for the poor businessmen for developing nations and considers them the key to change. Furthermore he argues that in order to create productive, successful economy, you need to get rid of beneficiaries, politicians and bureaucrats that protect the status quo and resist change.

Capital is one of the most significant factors that is required for small and medium enterprises to operate smoothly. It is acquired in various ways one of them being group loans especially for groups of people that lack the necessary collateral or security to acquire loans to startup businesses. Historically microcredit initially began with the principle of lending to individuals.

The use of group lending was motivated by economics of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Lehner (2009) defines group loans as a practice where small groups borrow collectively and group members encourage one another to repay. Pam et al (2013) assert that SME's are often thought to be an important source of employment, innovation and economic growth. In many small countries they make up a large share of registered businesses but a much smaller share of GDP. One reason being that unlike large businesses SME's have limited access to credit, preventing them from making larger investments to improve their operations, upgrade to new technologies or expand.

According to the Uganda bureau of statistics (2010) survey of the informal sector out of the estimated 6.2 million households covered 1.2million (21%) had an informal business. This included those households undertaking agriculture on a commercial basis where at least 50% of the produce was sold. Furthermore analysis was conducted on a regional basis which revealed that the highest number of informal businesses were in the central (36%), followed by the western region (26%), the eastern region (24%) and the northern region (14%).

Winborg and Landstrom (2000) capitalize on the lack of information as a constraint that tends to block the flow of credit to small and medium enterprises. Small business owners find it difficult to articulate and give detailed information about the business as the financiers want. Additionally some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of their business since they believe that in one way or the other information about their business may leak through to competitors or worse still they would be taxed more.

Arrorio and Scerri (2009) in their article Small fish in a big pond which brings to mind an image of numerous dispersed and heterogeneous small fish swimming confusedly in an oversized inadequate and dangerous pond, ideally corresponds to the experience faced by millions of micro and small firms spread throughout the developing countries and yet the firms have the potential and flexibility required to capitalize on emerging technology and other opportunities for growth. This ideally means that there are too many SME'S that pop up every other day but do not live to see the next day because of poor management.

Tarinyeba (2010) describes two methods of group lending. Credit can be extended to the group as an entity or to individual members of a group. The former is not commonly used as the latter. If it is extended to the group as an entity, it will either be formally or informally established as an association, and its members are usually engaged in a joint activity such as making crafts, processing milk or honey products. The income is jointly distributed and the members are jointly liable for repaying the loan. The loan repayment period for group loans varies from one institution to another. At FINCA bank its four to six months; at PRIDEMDI its 25 to 50 weeks.

1.2 Problem Statement

Group loans are some of the most used financial means in Uganda. In the midst of using the group loans, the members are faced with rising tendency of dwindling the money or misusing it. The new groups that are being formed today in the country at large are finding it hard to get the loans to aid their performance thus proving to be a problem to the point of leaders of the groups having no one's trust who is member when it comes to financial issues.

The challenges in the group loans achievement are as a result of poor performance by other groups that accessed loans and failed to perform to the satisfaction of every small and medium enterprises owner. Therefore it is for these reasons that the researcher wishes to examine group loans and the performance of small and medium enterprises.

1.3 Broad Objective

To investigate the relationship between Group Loans and the performance of Small and Medium Enterprises.

1.4 Specific Objectives

To investigate the relationship between group size and the performance of small and medium enterprises.

To find out the relationship between loan size on the performance of small and medium enterprises.

To examine the relationship between social ties and the performance of small and medium enterprises.

1.5 Research Questions

What is the relationship between group size and the performance of small and medium enterprises?

How does loan size affect the performance of small and medium enterprises?

To what extent do social ties affect the performance of small and medium enterprises?

1.6 Scope of the Study

1.6.1 Geographical Scope

The scope of the study will focus on Centenary bank Plot number 1653, Kireka branch Jinja road. Kireka is the name of a township in Central Uganda. It is one of the six townships or *Wards* that constitute Kira Municipality in Wakiso District. The town is bordered by

Kyaliwajjala to the north, Bweyogerere to the east, Kirinnya to the south, Banda to the west, Kyambogo and Naalya to the northwest.

Kireka is situated on the Kampala-Jinja Highway, approximately 11 kilometers (6.8 mi), east of Kampala, Uganda's capital and largest city.

1.6.2 Time Scope

The research study was conducted from September to April 2016. The research considered data for a period of 3 years from 2012-2015.

This was considered an appropriate period from which data would be collected reliably, as the targeted organization has been in operation ever since.

1.6.3 Content Scope

The study focused on establishing the relationship between group loans and the performance of small and medium enterprises. Group loans were the independent variable in the study and was examined through loan size, group size and social ties. Small and medium enterprises were the dependent variable was measured through the level of productivity, profitability and business growth. The researcher assumed that the un- surveyed financial institutions were to be represented by the aforementioned institution**.**

1.7 Significance of the Study

Capital is a key element that is needed either for the startup of businesses or to facilitate the business operations. It can be raised in a number of ways which include family and friend, Angels, venture capital, banks, grants among others. Field (2007).

It is therefore, hoped that the following parties may benefit from the findings and recommendations of this study:

Researchers and the community to know how group loans affect the performance of small and medium enterprises. That is for instance the general public can benefit, especially those individuals that are willing to start up small businesses but may be fear to access financial services.

To contribute and also add to useful information to that which already exists in regards to group loans and Small and medium enterprises.

The information from this study opts to help the managers of financial institutions to identify areas of weaknesses whereby they could concentrate to strengthen the functioning of the institutions especially in areas of financial management.

To help policy makers on the prominent issues required to fight the poor performance of small and medium enterprises. These policy makers may include loan agents, governors of different banks say who set interest rates so that when they are doing so they have a certain basis.

Financial institutions that are giving out loans to know their target market. That is to say for instance it is very common for women to borrow collectively because of their limited access to security that they can offer to financial institutions. The criteria for giving out loans could also be another point to put into consideration that is when the interest rates are high the banks are more willing to give out loans than when the rates are low.

To help people or say entrepreneurs in the same line of business. That is to use the loans for the right purpose as stipulated when they were fetching them and also it creates awareness about the existence of these funds so that they can fetch them and put them to proper use.

1.8 Justification of the Study

There is need for the study in order to establish the relationship between group loans and the performance of small and medium enterprises due to the presence of knowledge gaps. The research is of paramount importance to both SME'S and financial institutions in Uganda. The study also aids the management team of financial institutions to understand the effect of group loans on performance of SME'S. The findings and the conclusions will act as a means to bridge the gaps which could have been created due to poor financial management of SME'S and introduce stringent measures on internal controls and procedures on how to rectify the loopholes.

The research provides a foundation on which further research on the similar topic may be conducted.

This study after the collection of data wishes to dwell more on the relationship between group loans and the performance of small and medium enterprises.

1.9 Conceptual Framework

The conceptual framework will give a framework of the study in terms of the studied variables and the dimensions of the variables (group loans and the performance of small and medium enterprises) thus creating and showing the relationship between the dimension of the independent variables and the dependent Variable.

IDEPENDENT VARIABLE **DEPEDENT VARIABLE**

GROUP LOANS (IVs) **PERFORMANCE OF SME's**

- Loan size
- Group size
- Social ties

- Level of productivity
- Profitability
- Business growth

INTERVENING FACTORS

- Duration
- Gender
- Loan size

SOURCE: Attanasio et al (2011), Brown et al (2014).

The model shows the relationship between group loans and the performance of small and medium enterprises.

From the conceptual framework above, the model is underpinned by group loans and the performance of small and medium enterprises. Group loans play a key role in the effective and efficient performance of small and medium enterprises. The key factors related to the performance of small and medium enterprises are synthesized to form this presented conceptual framework. The dependent variable was performance of small and medium enterprises whereas, the independent variable comprised of group loans which was measured according to loan size, group size and social ties. On the other hand, the performance of small and medium enterprises was measured according to level of productivity, profitability and business growth.

In conclusion this chapter presents the introduction of the study, which includes the problem statement, objectives which led to the next chapter of the study literature review on group loans and the performance of small and medium enterprises.

The next chapter provides a deeper synthesis into related works or studies on group loans and the performance of SME’s.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The study aimed at establishing the relationship between group loans and the performance of Small and Medium Enterprises. The key concepts were group loans and the performance of small and medium enterprises.

2.1 Group Loans

Group loans is a situation where small groups of individuals ranging from a minimum of 6 members and a maximum of 50 members borrow collectively and group members encourage one another to repay. They are normally used to deliver microcredit to poor people since they do not normally offer collateral security. It lowers the costs related to assessing, managing and collecting the loans.

According to Bwisa (2013) Microfinance traces its origin to 1976, when Dr. Mohammed Yunus started a small microfinance scheme as an experiment in the rural areas of Bangladesh. The experiment evolved from its initial success into the Grameen bank, the world's first microfinance institution, which popularized group lending in which loans were issued to individual members of small homogeneous groups, who collectively guarantee loans issued to their members. All members were barred from further access to credit in case of default by one group member, which provided strong incentives for the group to ensure repayment by each individual borrower.

Bryan et al, (2013) clearly states that limited access to credit is commonly identified as a key constraint to SME'S growth, but little evidence exists of the direct and indirect effects of loans on small firms in a given market. Additionally small businesses are often thought to be an important source of employment, innovation and economic growth. In many countries, small and medium enterprises make up a large share of registered businesses, but a much smaller share of Gross Domestic Product. Data from several countries suggests that few SME'S grow to become larger businesses. A good example is one of our home baked car the KIIRA EV SMACK which uses a configuration of two power sources and can achieve maximum speed of 80 kphr and 140kph in electric and hybrid modes respectively. The idea of the car assembling plant was initially heard of in Kenya with the popular car project the NYAYO pioneer in 1986 but to the disappointment of many not even a single unit was sold as the weight of lack of funds ensured its collapse by 1990.

Holscher Jones and Webster (2015) adds that it is evident that finance often has a more powerful effect on the performance of SME'S than larger firms. This is particularly because access to finance is more important for funding investment in order to ensure that small businesses reach their full growth potential and for facilitating new business startups. A recent study by the World bank (2014) revealed that more than 50% of SME'S in emerging markets are credit constrained, 70% do not use external financing from formal financial institutions and out of 30% who receive credit, 15% are underfinanced from formal sources which gives more room for group loans.

Kota and Harper (2007) highlight the fact that microfinance institutions offer individual contracts if clients are in need for larger loans. In contrast Gine and Karlan (2006) advocate precisely for the reverse correlation. Armendariz and Gollier (2000) deduce that even though borrowers do not know each other group lending is more feasible due to factors like lower interest and peer monitoring among the group members. Group loans are more feasible even if borrowers do not know each other that is true but you have to put in mind that its money we are talking about. Different people's characters change especially after receiving money for instance their spending patterns change so microfinance institutions cannot risk lending to groups that do not know each other. First and foremost monitoring such individuals would be very difficult and there are high chances of misappropriation of funds hence low performance of small and medium enterprises.

Mbithe (2010) comprehends that one cannot talk about business and forget about the growth of SME'S. He clearly explains growth in line with Gibrat's law or the law of proportionate effects which states that firm growth rate is independent of firm size. He further categorizes business in three categories small, medium and large.

Prior to the microfinance revolution, poor people's opportunities to take up loans had been severely limited for several reasons. First, poor households could not offer collateral to back up their loans, because they own too few substantial possessions. Second, the potential addressees of small loans in less developed countries often live in remote rural villages beyond the reach of the traditional banking system. Third, although loans needed for individual projects are small, their myriad nature makes monitoring and enforcement costs prohibitively high. Poor villagers' only access to credit had been through non-commercial development programs that provided subsidized credit. However, because these schemes faced the same monitoring difficulties as traditional banks, they often suffered from poor repayment rates and high costs and were typically doomed to failure for that reason.

MFIs use innovative means to overcome these problems. Though the individual schemes differ vastly in their concrete implementations, most of them share some main characteristics, the most prominent of which is that of group lending. In a typical microfinance scheme, borrowers with individual risky projects form groups that apply for loans together. The whole group is liable if one or more group members default. Thus, joint liability provides an assurance against individual risks. Even if an individual project fails and some of the borrowers are unable to repay, the group as a whole might still be able to do so. In this sense, joint liability serves as a substitute for collateral. Unless the individual risks are perfectly correlated, the overall risk of involuntary non-repayment can be substantially lower than with individual borrowing.

Whereas Armendariz and Morduch (2000) believe that group meetings' facilitate education and training useful for clients with small experience to improve on the financial performances of their businesses. Other researchers such as Madajewicz (2011) argue that group lending helps to mitigate the risks associated with information asymmetry because group borrowers are linked by joint liability, so if one of them switches from safe to risky project (moral hazard), the probability that his or her partner will have to pay the liability rises, which gives group members an incentive to monitor each other hence success in their projects. However Maria (2009) believes that group monitoring may be rendered ineffective where socialites are loose and the cost of monitoring each other are high, meaning that they are living in different geographical areas. Human beings behave just like animals they need to be watched over all the time so that the money given to them is used for its rightful purpose hence the performance of small and medium enterprises.

Ghatak and Guinnae (2009) argue that joint liability lending promotes screening, monitoring, state verification and enforcement of repayment. To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings. This simply means that banking can be done by the poor through grouping them, for instance into associations like farmers cooperatives and then you provide them with finances. In addition they give two distinct but complementary reasons for the success of group loans. First these microfinance institutions ask borrowers to form groups on grounds that they are liable for each other's loans. Secondly but most importantly is that microfinance lenders engage in intensive monitoring of clients and rely heavily on the promise of repeat loans for borrowers who perform well.

In line with the above Conning(2000)also emphasizes that when monitoring is costless, joint liability loans in fact offer no advantage over individual liability loans, unless borrowers are better informed than outsiders. However when monitoring is a costly and imperfect activity joint liability loans can provide an advantage over individual liability loans even when group peer-monitors have the same or even a less effective technology than outside lenders or their delegated monitors.

In conclusion loans are the major sources of funds for so many commercial banks if not all, so they cannot rule out issues like screening, monitoring of the borrowers to rule out adverse effects of moral hazard and information asymmetry which might lead to banks to losing such huge amounts of money.

2.1.1Social ties

This involves connections among people that are used for sharing information, knowledge, feelings and experiences.

According to Postelnicu et al (2013) social ties help asset-poor individuals to replace physical collateral with social collateral. One of most the important features of social ties is that it stresses the impact of network configuration on the amount of social collateral pledged. Furthermore they stress that group lending works better in rural areas namely because rural social networks are typically denser than urban ones which results in higher social collateral hence the performance of small and medium enterprises.

More to the above Cassar (2006) recommends that personal trust between group members and peer homogeneity are more important to group loan repayment than general societal trust or acquaintanceship between members.

Hernes et al (2014) find support for the fact that peer monitoring by social ties of group leaders do help to reduce moral hazard behavior of group members. In contrast peer monitoring by social ties of other group members are not related to reducing the occurrence of moral hazard within groups.

Kiprotich et al (2015) indicate that the increasing use of networks for SME'S has been reported as a factor influential in the developmental process of entrepreneurial activity. They further state the network types which are; institutional networks, business networks, social networks, informational networks, scientific and technical networks, profession networks, user networks, friendship networks and recreation networks.

Furthermore according to the global entrepreneurship monitor, people that start businesses are more likely to know and interact with other entrepreneurs than those that do not. Entrepreneurs have ideas to test, some knowledge and competence to run the business but they also need complementary resources to produce and deliver their goods and services which they can get access to through social ties.

Stam, Arzlanian and Efring (2014) argue that social ties enable entrepreneurs to obtain resources below the market price and secure the legitimacy from external stakeholders.

It is therefore evident that peer homogeneity as Cassar (2006) states is more important between group members than societal trust because ideally ones trust cannot be measured. Therefore financial institutions cannot give out credit on such terms.

In conclusion it is clearly evident that social ties are key for the success of any group because they help in shaping of different peoples characters, attainment of resources below the market price, peer monitoring, they also help entrepreneurs to interact with others and they end up thinking in the same direction which makes it easy and possible for them to achieve their desired goals. For example a person from a country like Libya would find it difficult to be associated with a group dealing in say piggery or a pork joint simply because of his or her societal norms and beliefs.

2.1.2 Loan size

Loan size is the maximum amount that a borrower can borrow. The maximum loan amount is based on a combination of different factors involving specific loan programs, the value of the property that secures the loan and the borrowers qualifying ratios and credit history.

According to Lehner (2009) microfinance institutions offer group loans when the loan size is rather larger which simply means that the larger the group the larger chances of such a group getting finances and vice versa hence the performance of SME'S in terms of profitability and productivity. He further explains that for a small loan size refinancing costs are high and competition between microfinance institutions is low.

According to Khodakivska (2013) the size of loans is a reasonable proxy for the size of the recipient enterprise in terms of employees, sales and assets. This simply means that small and medium enterprises mainly opt for small size loans since they do not have a stable market, so they are not sure of making sales. As some people may argue that it's better to borrow for an already existing business because then you are able to estimate your cash flows. According to

Ardic et al (2011) small firms find it difficult to obtain commercial bank financing especially long-term loans for a number of reasons like lack of collateral, difficulties in providing creditworthiness, small cash flows, inadequate credit history, high risk premium, underdeveloped bank borrower relationships and high transaction costs.

According to Greuning (2008) he proposes various reasons for the distorted credit culture of microfinance institutions. He capitalizes on the poor selection of risks that is to say where the banks financed share of the total cost of the project is large relative to the equity investment of the owners. Therefore the loan size should be based on the borrower's credit worthiness in terms of collateral security, prior complete credit information about the borrower rather than ones large deposits in a bank.

Rose and Marquis (2009) claim that the volume of credit that banks extend to businesses is enormous. For example by March 2007 commercial and industrial loans extended by banks operating in the United States totaled nearly 1.2trillion dollars, which was about 20 percent of all United States bank loans at the time. Furthermore they say that the bigger the loan the higher the interest rates due to the great default risk associated with longer maturity loans. Moreover the larger and longer term a business loan is the more likely its interest rate will float with the market conditions. Therefore the microfinance institutions are more determined to protect themselves against unexpected inflation and other adverse developments through floating interest rates as the maturity and size of a business loan increase.

2.1.3 Group Size

There normally exist two opposite tendencies with regard the number of people in a group. The larger the group, the greater the pool of talent and experience available for solving problems. On the other hand the smaller the group, the greater the likelihood of close relationships, full participation and consonance aims.

According to Khaitan and Prathap (2010) the popularity of joint liability group loans is attributable to its ability to deliver credit to households that lack collateral while achieving near to zero default rates. In contrast however, they state that the repayment presents an incomplete picture in assessing whether joint liability group loans help actually members to achieve their original goals or to improve their financial situation. For example smallholder farmer's account for a larger customer segment for group loans whose income is often volatile and dependent upon external factors such as the price of harvested crops. Therefore repayment of such loans by farmers may be only possible by making sacrifices such as eating less or lower quality food and working more hours a day among others.

In conclusion therefore the size of the group cannot be solely depended on to assess the performance of small and medium enterprises because even with a large group say with wrong elements they can end up misusing the funds hence the poor performance of SME's.

2.2 Performance of Small and Medium Enterprises

Small and Medium Enterprises play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next

15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are with SMEs, which also create 4 out of 5 new positions. However, access to finance is a key constraint to SME growth; without it, many SMEs languish and stagnate.

SMEs are less likely to be able to secure bank loans than large firms; instead, they rely on internal or personal funds to launch and initially run their enterprises. Fifty percent of formal SMEs don't have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account. Overall, approximately 70 percent of all MSMEs in emerging markets lack access to credit. While the gap varies considerably between regions, it's particularly wide in Africa and Asia. The current credit gap for formal SMEs is estimated to be US$1.2 trillion; the total credit gap for both formal and informal SMEs is as high as US$2.6 trillion.

A World Bank Group study suggests there are between 365-445 million micro, small and medium enterprises (MSMEs) in emerging markets: 25-30 million are formal SMEs; 55-70 million are formal micro enterprises; and 285-345 million are informal enterprises. Moving informal SMEs into the formal sector can have considerable advantages for the SME (for example, better access to credit and government services) and to the overall economy (for example, higher tax revenues, better regulation). Also, improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow and provide the needed jobs.

According to Nahamya (2010) it is estimated that there are about 800,000 Micro and Small scale Enterprises in Uganda, the majority of which are located in rural areas and on the outskirts of urban areas, producing goods and services consumed not only by low income class but also some sections of the middle class. In Kampala, these enterprises are located in Katwe, Nakawa, Wandegeya and Ndeeba and produce items such as steel windows, steel gates and furniture. This clearly shows that small and medium enterprises are the backbone to Uganda's economy.

Small and Medium Enterprises are usually defined as firms that employ fewer than 500 employees.

According to Gibson and Van de Vaart (2008) they note that the inadequacies in current conventions in defining Small and Medium Enterprises can lead to serious distortions in allocation of donor spending for private sector development, volume of turnover of a business which is a more appropriate measure of its relative size than either number of employees or value of the assets.

It is quite evident that Small and Medium Enterprises are of a special importance to private sector growth and they are often referred to as backbone of the economy of different countries but before concluding one ought to put such questions into consideration such as Where do big firms come from?, The other claim is that they are more efficient at creating quality jobs, are more innovative or grow faster than large firms have been questioned in line with company registrations.

In conclusion just like they say everything has its humble beginnings and if a country like Uganda is to develop to become one of the first world countries then they ought to invest in SME'S because it has been proved beyond reasonable doubt that they are the backbone of the economy.

2.2.1 Business growth

According to Ssebikari (2014) business growth is the process of achieving the set entrepreneurial goals. In addition he argues that entrepreneurial performance utilizes the available opportunities to grow the business idea.

Entrepreneurial performance however can be measured subjectively and objectively that is absolute performance measures objective values using quantitative data for instance financial statements while subjective values uses qualitative data by asking perspective views about performance. It employees tools like the use of questionnaire guide.

Small and medium enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are thus potential sources of employment and income in many developing countries. Furthermore (Kayanula and Quartey 2000) in addition states that small and medium enterprises seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexibility in nature.

According to the business growth Agenda 2015, it is business that drives economic growth and builds a more successful economy with more jobs. Growing competitive businesses creates jobs and increases exports to the world. Nothing creates sustainable, high paying jobs and boosts our standard of living better than business confidence and growth. There are six key inputs that businesses need to succeed and grow that is investment, export markets, innovation, infrastructure, natural resources and skilled and safe workplaces.

Allow me dwell more on the issue of export markets which is one of the key inputs. According to the Uganda Coffee Development Authority (UCDA).Robusta coffee (kiboko) is selling at sh2, 100 up from sh 1,900 per kilo but if you compare for instance a small tin of Nescafe the smallest size is roughly at six thousand shillings in all supermarkets yet we sell to them the coffee so it leaves one wondering. Therefore for a country like Uganda to benefit from its produce it must encourage more processing units to be set up.

Burns (2012) clearly points out that entrepreneurship is increasingly recognized around the world as a critical force in creating a strong, stable economy and society. This is true in the United States, where entrepreneurship is an important component of economic development, and where small businesses are the primary source of new job creation. However, exactly which U.S. small businesses create jobs is less well understood.

The actual economic context for the United States is quite different than what is commonly believed. Despite the prominence of large corporations, the vast majority of companies that comprise the U.S. economy are small and medium-size businesses. In fact, less than 1% of the 28 million firms in the U.S. have more than 500 employees.

Moving the argument along Alhyari et al (2013) proposes four different dimensions for measuring business growth being the rate of return on investment meaning the higher the rate of return on investment the more business growth that the organization attains and the reverse is true. Market share is also another key dimension that they focus on. That is the company or organization that absorbs majority of the customers in a given field attains the majority business growth. Profitability and sales growth are the other key variables that is every businesses dream is to make profits and attain majority sales growth hence any business that achieves this attains business growth.

2.2.2 Level of Productivity

According to Van Ste (2009) economic growth is decomposed into two components employment growth and growth of labor productivity. Employment growth rate however is dependent on the size of the labor force. That is a country for instance cannot boost of high employment growth rate with 83% of its active labor the youth being unemployed.

Ayyagari et al (2011) Small and Medium Enterprises make a significant contribution to the economic performance of the private sector, they account for more than half of all formal employment worldwide and an estimated 67% of permanent full-time employment in developing countries.

De Clercq et al (2008) Small firms it is evident benefit from the higher productivity of larger firms for example foreign enterprises like Coca-Cola through the use of their superior technology like use of the automatic vending food machines may stimulate the productivity of small local firms when such knowledge spills over into the local economy.

In contrast Fritsch and Mueller (2008) believe that large enterprises may also benefit from labor productivity in Small and Medium Enterprises through knowledge spillovers and competition effects for example supplying high quality intermediate goods and services, small firms positively influence the productivity of large firms.

Krugman (1994) in his article the age of diminishing expectations states that productivity is not everything but in the long run it is almost everything. A country's ability to raise its standard of living over time depends entirely on its output per worker. Additionally he goes ahead to define productivity as a ratio between the output volume and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. The economic growth of a country is usually measured by its increase in production or the gross domestic product (GDP), which comes from two sources: a larger quantity of production factors used (inputs) and/or an increase in productivity. Productivity is therefore considered to be a component of growth.

There is an increase in productivity if the quantity of inputs decreases while the quantity of goods and services produced remains constant, or the quantity of goods and services produced increases with the same quantity of inputs. There is also productivity growth if the price of goods and services produced decreases while the price of inputs remains constant.

2.2.3 The level of Profitability

This is what is left of the revenue a business generates after it pays all expenses which are directly related to the production of the product. It is the primary goal of all business ventures. It is often measured by the price to earnings ratio.

Peck et al (2006) note that profits are essential for the survival of Small and Medium Enterprises in the long run in a competitive environment, Long-term profitability derives from the relations between cost and revenue. It is a necessary but not sufficient condition for growth. Revenue which is in terms of group loans in this sense they argue that it may be held up by entry barriers say where the group fails to provide the necessary information to the Microfinance institutions to be able to obtain revenue and costs pushed down by management ingenuity.

Olutunla and Obamunyi (2008) Small and Medium Enterprises have a big potential to bring about social and economic development by contributing significantly in income generation, employment generation and catalyzing development in urban and rural areas. In many of the newly industrialized nations, more than 98% of all the industrial enterprises belong to the Small and Medium Enterprises sector and account for the bulk of the labor force.

Profitability at microeconomic level has been studied depending also on indicators such as current ratio, liquid ratio, receivables turnover ratio and working capital to total asset (Singh and Pandey, 2008) other studies consider performance assessment expressed by earnings before Interests and taxes (EBIT) and the associated risk resulted from the influence of using a certain financing structure.

In conclusion group loans is recognized to be relatively a new approach in financing SME’s which are the backbone of very many economies in developing countries. One of the reasons for the failure of SME’s in Uganda are mainly due to limited finances but one cannot really rule out the possibility that capital which comes from the Latin word carpus meaning head. This means that capital is not necessarily the only factor that is not essential for the success of SME’s meaning capital comes from ones mindset. However much someone gives you one hundred million without its plan your business is bound to fail.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives a presentation of the research methodology that was used by the researcher in the study. It consists of the research design, the population study, sample size, the data collection methods, the instruments that were used in the data collection, data analysis, reliability and validity, procedure of data collection and ethical issues. In short it gave the framework within which data was collected and analyzed.

3.1 Research Design

This is a series of advanced decisions that, taken together, make up a master plan or model for a research study Amin (2005). In addition Burns and Grove (2001), state that a research design guides the researcher in planning and implementing the study with the aim of solving the research problem.

The researcher adopted a cross sectional survey with a combination of both the qualitative and quantitative techniques since some data was anticipated to be in numerical form and there after the data was condensed into figures, tables and other graphical techniques for easy interpretation.

This means that a research design is the overall strategy that i choose to integrate the different components of the study in a coherent and logical way, thereby ensuring that it effectively addresses the poor performance of SME'S.

Quantitative research design refers to a type of research oriented towards quantification and applied in order to describe current conditions. It is more objective. Under quantitative research design, the researcher used the descriptive cross-sectional research and it explored the relationship between the dependent and independent variable while under qualitative research mainly focused on naturally occurring situations and was more subjective, the researcher used the case study design because it provided an in-depth understanding of the study.

The research design aided the researcher to find information on the sources of capital for SME'S and the number of customers received in a particular day.

The sources of data that were used include financial statements, budgets, documents and other materials that are used in financial management of SME'S.

3.2 Study Population

The study was drawn using the purposive sample. The target group include farmers associations, trade unions, teachers associations, mothers union, and fathers unions. This summed up to approximately 100 respondents

The study was conducted in Centenary bank Kireka branch and it consisted of mainly Small and Medium Enterprises that borrow collectively, cooperatives among others.

The selection of the above key respondents was done for purposes of obtaining objective information about the effect of group loans on performance of Small and Medium Enterprises.

3.3 Area of study

The study was carried out in Centenary bank Kireka branch. Kireka is the name of a township in Central Uganda. It is one of the six townships that constitute Kira Municipality in Wakiso district.

The town is bordered by Kyaliwajjala to the north, Bweyogerere to the east, Kirinnya to the south, Banda to the west, Kyambogo and Naalya to the northwest. Kireka is situated on the Kampala-Jinja highway, approximately 11 kilometers, east of Kampala, Uganda's capital and largest city.

During the 2002 national census, Kireka, at about 54,000 people, comprised 38.4% of the population of Kira Municipality. In 2011, the Uganda Bureau of Statistics (UBOS), estimated the population of Kira Municipality of which Kireka is a part, at 179,800. Therefore, it is estimated that in 2011, the population of Kireka Township was approximately 68,000.

3.4 Sample Size

Amin (2005) defines a sample size as the number of elements in a portion of the population whose results can be generalized to the entire population.

Sample size is an important aspect in any empirical study in which the goal is to make inferences about a population from a sample. In practice a sample size used is determined based on the used unit of analysis. In the table below, the population size is represented by (N) and the sample size (n).

Sample size

CATEGORY	POPULATION (N)	SAMPLE SIZE(n)
Team leaders	20	15
Relationship managers	30	25
Customers	30	25
Teller staff	20	15
Total	100	80

3.5 Sampling Techniques

Sampling refers to the method used to select a given number of people or things from the population Mertens,(1988) it is the selection of some part of an aggregate or totality on the basis of which judgment is made Kothari,(1987).

The researcher used the probability sampling designs this is because they are purposive or judgmental for example the convenience sampling technique. The sampling designs are categorized into two; the probability sampling design and the non-probability sampling designs (Amin, 2005). Probability sampling design refers to the sampling procedure where all elements in the population have a known chance of being chosen as subjects in the sample.). A stratified random sampling procedure was used. The respondents were grouped according to the nature of their work and qualification and or their roles in SME'S. All these respondents were chosen to participate in the study because they are directly involved in the daily running of the SME'S as financial management is concerned. The researcher also used the theoretical sampling technique using the general research questions formulated on the study topic to collect and generate the relevant information needed.

3.6 Data Sources

Data was mainly collected from two major sources that is the primary and secondary sources. Primary data dealt mainly with the provision of first-hand information while secondary data dealt with reviewing literature from past records like journals, magazines, newspapers among others.

3.6.1 Primary Sources

This refers to first-hand information. The primary data was collected from the respondents selected from Centenary bank Kireka Kampala district using questionnaires especially cooperatives that borrow jointly to startup businesses. It is rare that secondary data is adequate as it usually supplements primary data. Primary data is data developed specifically for the project.

3.6.2 Secondary Sources

This refers to information reviewed from past records. Secondary data was obtained from textbooks, internet journals, electronic documents and magazines.

Secondary data was obtained through the review of the records, and documents prepared by the SME'S like work plans, annual budgets and financial reports. The literature review was done with the help of relevant textbooks in the university library. These methods helped in the verification of the existence of internal control system.

3.7 Methods of Data Collection

This refers to the mechanism through which data can be collected. Tools refer to the instruments used in data collection. The study used two types of empirical data that is primary and secondary data sources to answer the research questions and to achieve the objective of the study. This data helped to explain the contribution of group loans on performance of SME'S in Uganda (centenary bank Kireka branch) in Wakiso district. The researcher also employed different instruments or tools for collecting data like; interview guide, self-administered questionnaires, and direct observation. Primary data was collected using interviews and questionnaires while the secondary data was obtained by reviewing records especially work plans, financial statements and financial manuals among others.

3.7.1 Questionnaires

This is one of the major instruments that were used while collecting data. They were phrased in simple language for the respondents.

Here the researcher used a face to face interview whereby the researcher used first-hand information from the respondents interviews were held for respondents especially to the clients who cannot read and understand English yet they posed important information which was relevant to the study.

3.7.2 Interview

This is defined as any form of direct and indirect contact with respondents where the objective is to acquire data or information which can be used in the whole or part of the research. It involved the interaction between the interviewee and the interviewer.

3.8 Data Analysis and Presentation

The relationship between the variables was analyzed comparing the objectives of the study and then the possible conclusions drawn from the study using SPSS. Data was summarized and presented using tables and charts.

3.9 Quality Control

Validity

The researcher carried out a pilot study to test and pretest the appropriateness of the tools and the understandability of questionnaires. For any information that was not clear, itwas further simplified to make easier understanding in order to get required information during the collection of data. Truthfulness was measured by the use of face validity where the researcher concluded. Face to face interactions were used on different respondents. The researcher also used key informants and experts to generate valid information and answers.

Inconsistencies that arose due to language barrier were addressed by translating the questionnaires to Luganda back to English and presented to the interviewees preferred language. The research assistants was trained to accurately explain the questions to the respondents.

Reliability

The researcher improved the reliability using the probability-based sampling techniques (systematic random-sampling) so as the have a sample that is representing the cooperatives in Kireka Kampala district. The data collection tools were then tested for reliability.

3.10 Measurement of Variables

The researcher used the Likert scale of strongly disagree, disagree, not sure, agree, strongly agree and not applicable. This is because it clearly brings out the various respondents views by providing room for each and every question.

3.11 Ethical Considerations

All reference works of people used during the research by the researcher were cited and acknowledged by the researcher

The researcher understood the problem data collected, edited, summarized and tabulated then finally analyzed using statistical package for social scientists.

There was formal introduction from the university that authorized the data collection from the place the researcher conducted his research.

The results were interpreted and discussed after which conclusions and recommendations were made.

3.12 Study Limitations

The sample size of 100 respondents was small making it difficult to find significant relationship from the data as statistical tests require a larger sample size to ensure a representative distribution of the population.

The absence of enough available and reliable data made the limitation of the scope of the analysis and an obstacle in finding a trend and a meaningful relationship.

The time allocated to collect research and compile the findings was not adequate enough so this made the data collected insufficient and this affected the accuracy of the compiled data in the research report.

The study was also carried out in a single organization, which is Centenary bank kireka; therefore the generalizability of its findings was limited. If all factors were constant, the researcher should have conducted the study in as many organizations as possible.

Last but not least it was not possible to generalize the findings of this research.

Conclusion

The chapter discussed in depth the methodology and the design that were used to collect data. The instruments used, the way of presentation analysis and discussions form the basis on which chapter four will base. Even though there are limitations, the methods of data collection, analysis, and interpretation, will generally result in reliable conclusions. Therefore, the next chapter, the findings from the field, and records based on objectives and questions are presented and analyzed. The main aim of this chapter was to clarify the tools that were used forcollection of data and how sampling was done in order to present data or the findings in chapter four.

CHAPTER FOUR

DATAPRESENTATION AND DISCUSSION

4.0 Introduction

This chapter presents and analyses the findings of the study and relates the findings, data analysis and the interpretation of the findings to group loans and the performance of small and medium enterprises to the research questions presented in the earlier chapters.

The study was guided by three specific research objectives namely;

To investigate the relationship between group size and the performance of small and medium enterprises.

To find out the relationship between loan size on the performance of small and medium enterprises and lastly to examine the relationship between social ties and the performance of small and medium enterprises. This chapter therefore presents the findings of the study in line with these specific research objectives.

The sample size was 80 and therefore 80 questionnaires were run and of which only 42 questionnaires were returned which is roughly 52.5% of the total number of questionnaires run. This was mainly because of the long distance were the questionnaires were to be picked so some lost them and some you find did not bother to answer.

4.1 Demographic characteristics of the respondents

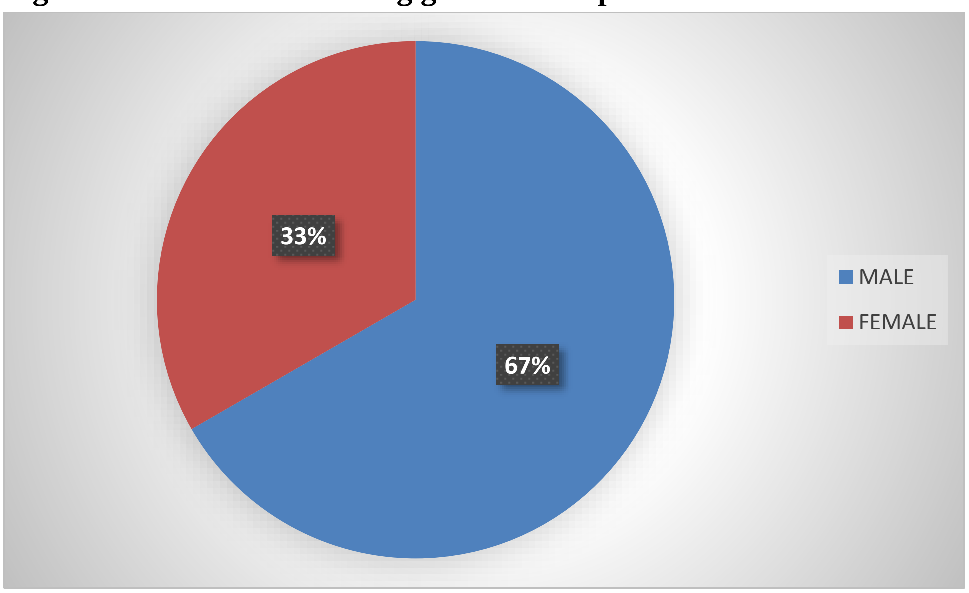
The respondents were categorized according to gender, marital status, age, level of education and the period of usage of banking services.

4.1.1 Gender of the respondents

From table 1 above, 66.7% of the respondents were male as compared to their female counterparts who took on only 33.3%. This showed that majority of the people that use banking services are mainly males.

Orcer et al (2006) argue that access to finance is perceived to be crucial. Some researchers have therefore suggested that the financial aspects of business startup and development are by far the biggest obstacles for female entrepreneurs as opposed to their male counterparts which clearly explains the results from the field data about gender.

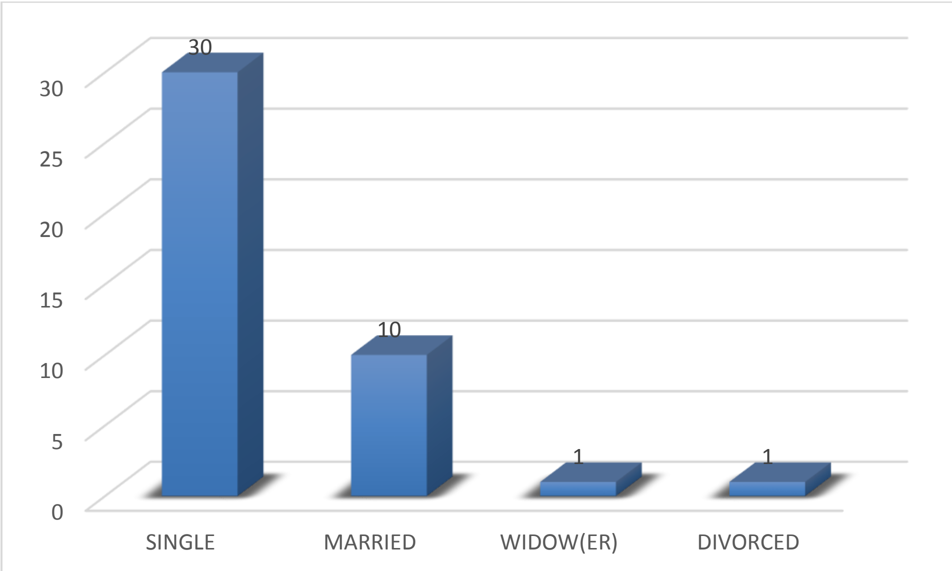
Figure 1: A Pie chart showing gender of respondents



4.1.2 Marital status of the respondents

On the question of marital status figure 1 above, it is clearly shown that the majority of the people that use banking services were single taking up 30(71.4%),10(23.8%) were married,1(2.4 %)widow(er) and1(2.4%) divorced out of the 42 respondents.

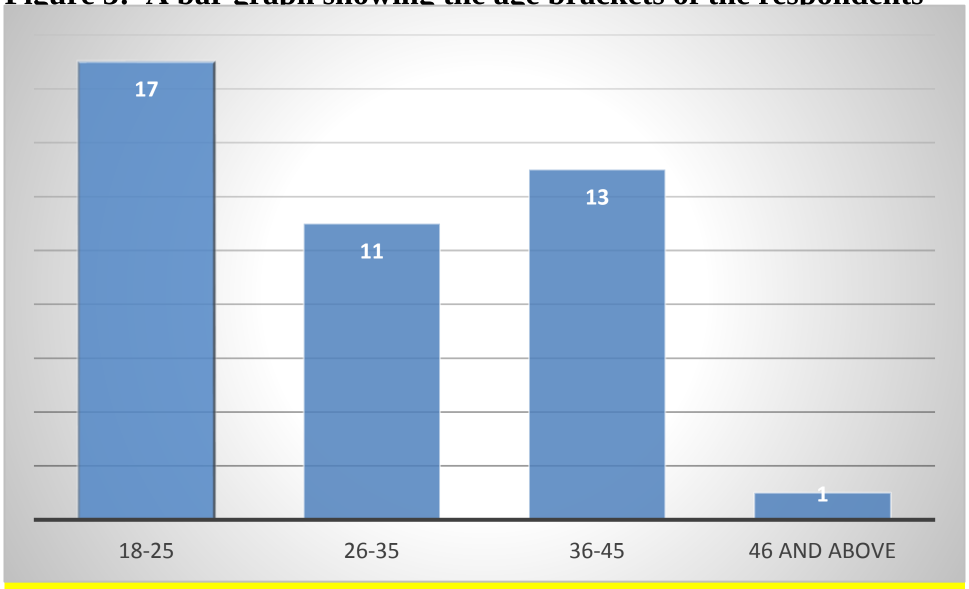
Figure 2: A bar graph showing the marital status of the respondents in frequency



4.1.3 Age brackets of the respondents

From figure 2 above, out of a total number of 42 respondents, 17(40.5%) were between the age bracket of 18-25, 11(26.2%) were between 26-35, 13(31%) and only 1(2.4%) were between the age bracket of 46 years and above. This clearly shows that the age bracket 18-25 is a productive age which financial institutions should consider while giving out group loans.

Figure 3: A bar graph showing the age brackets of the respondents

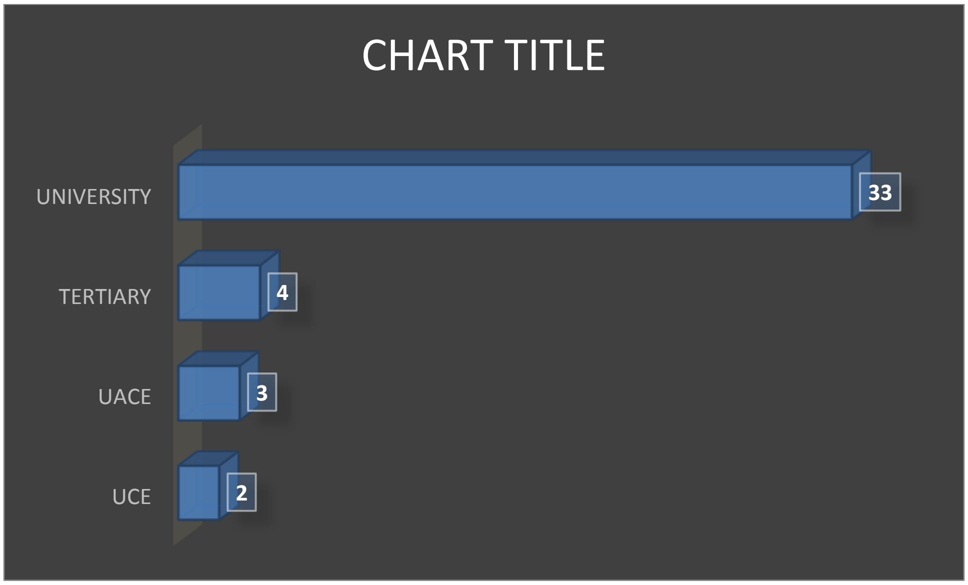


4.1.4 Education levels of the respondents

From the bar graph above, majority of the respondents 33(78.6%) had attained university level of education, 4(9.5%) had gone through tertiary institutions, 3(7.1%) had UACE certificates that is they had studied up to advanced level while those with UCE certificates were only 2(4.8%) of the respondents.

Furthermore the researcher found out that most of the staff had undergone through training in various fields like computer literacy skills.

Figure 4:A bar graph showing the education background of the respondents.



The above bar graph clearly illustrate that Centenary bank has well educated staff which are a key factor given the fact that it is a financial institution. The statistics showed that most of the staff that is the tellers, supervisors, and branch managers are at least degree holders. Given the nature of their work and qualifications depicted, it gives an assurance that the financial institution is most likely to offer quality banking services to the society. The researcher was able to get adequate information because the questionnaires were properly answered. This enabled the researcher to come up with un- biased results used in drawing up the conclusion and the way forward on group loans and performance of small and medium enterprises.

4.1.5 Period of usage of banking services

Also from the table 1 below, 23(54.8%) have been using banking services for a period of more than 3, 11(26.2%) had used banking services for not more than 3 years, 4(9.5%) for two years and lastly 4(9.5%) for 1 year only.

This clearly shows that for any financial institution to give you a loan or a group a loan they first review the clients credit history and it could be quiet hard for instance to give you a loan if you have banked with them for only one year.

Table 1: showing period of usage of banking services

Period (Years)	Frequency(No.)	Percentage (%)
1	4	9.5
2	4	9.5
3	11	26.2
4 and >	23	54.8
Total	42	100.0

Source: Primary data 2016

4.2 Presentation and Discussion

Loan size and the performance of SME'S

The researcher established the relationship between loan size and the performance of small and medium enterprises in respect of the set goals and objectives at Centenary bank Kireka branch.

4.2.1 Table 2: Microfinance institutions can give you any amount as long as you provide security

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	10	23.8
	NOT SURE	7	16.7
	AGREE	14	33.3
	STRONGLY AGREE	9	21.4
	Total	42	100.0

Source: Primary data 2016

It was observed from the study findings that Centenary bank can give you any amount as long as you provide the necessary collateral security as indicated in table 3 above, were only 2(4.8%) strongly disagreed to the matter, 10(23.8%) disagreed, 7(16.7%) were not sure, 14(33.3%) agreed to the discussion at hand, 9(21.4%) strongly agreed and it was applicable to all the 42 respondents.

Collateral according to the field findings was found to be an important aspect in order for one to receive a loan but it is not material enough meaning other aspects like credit information about the person seeking the loan, duration of repayment are also key.

Bunea-Bontas et al (2009) believe that an important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. Institutions are expected to develop their own limit structure while remaining within the exposure limits set by the Central bank. The size of the limits should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institution's risk tolerance.

4.2.2 Table 3: The purpose of the loan does not matter

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	14	33.3
	DISAGREE	13	31.0
	NOT SURE	5	11.9
	AGREE	9	21.4
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

According to the field data about whether the purpose of the loan one is getting does actually matter, it was observed that 14(33.3%) strongly disagreed, 13(31%) disagreed, 5(11.9%) were not sure, 9(21.4%) agreed that the purpose of the loan does not really matter and 1(2.4%) strongly agreed.

In line with the issue at hand I would think that the purpose of the loan does actually matter, that is for instance we have what we call development banks like world bank, African development bank that do offer credit facilities to better society for example they can give out a loan for the construction of a road say the Northern bypass in Uganda. At the end of the day meaning the accountability is in terms of the tangible assets which is for instance the road (Northern bypass)

According to Anon (n.d.) generally the purpose of the loan will determine the term the lender will be prepared to lend over. For example if the purpose is stated as a holiday or Christmas, some lenders will not offer a loan for more than a 12 month term. Their logic is that these are yearly occurrences and therefore the loan should be cleared within a year. A wedding, car or home improvements will generally be offered over a 3-5 year term and a consolidation loan will be over 5 years and above. I am not saying these are hard and fast rules for all lenders but this should give you some idea why the purpose of the loan is needed on application.

4.2.3 Table 4: One cannot get a loan without collateral security

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	1	2.4
	NOT SURE	6	14.3
	AGREE	16	38.1
	STRONGLY AGREE	15	35.7
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

According to the statistics from table 4 above, 3(7.1%) strongly disagree, 1(2.4%) disagrees, 6(14.3%) were not sure, 16(38.1%) agree with the statement, 15(35.7%) strongly agree and 1(2.4%) thought that the question was not applicable.

From my own point of view I would not divert so much from what is given by the statistics because those who agree and those that strongly agree take up majority share of the percentage which clearly emphasizes the point that it is very hard to get a loan from a financial institution without collateral security.

Ardic et al (2011) say small firms find it difficult to obtain commercial bank financing especially long-term loans for a number of reasons like lack of collateral security, difficulties in providing creditworthiness, small cash flows, inadequate credit history, high risk premium, underdeveloped bank borrower relationships and high transaction costs.

4.2.4 Table 5: Background information for the group asking for a loan is important

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	1	2.4
	DISAGREE	1	2.4
	NOT SURE	5	11.9
	AGREE	17	40.5
	STRONGLY AGREE	17	40.5
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

It is clearly illustrated as shown in table five, 1(2.4%) strongly disagreed and disagreed with exactly the same percentage while 5(11.9%) were not sure, 17(40.5%) agreed and strongly agreed with the same figures with the statement while 1 (2.4%) thought that the question was irrelevant. This according to the findings clearly shows that background information is very important because for instance the MFI's needs to know whether you are going to use their money for a productive venture and not just your own selfish interests, so that at the end of the loan period you can be in position to pay back.

4.2.5 Table 6: The interest rate is dependent on the loan size

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	1	2.4
	NOT SURE	5	11.9
	AGREE	15	35.7
	STRONGLY AGREE	17	40.5
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

According to the field data it is clearly shown that the interest rate is dependent on the loan size with 3(7.1%) strongly disagreeing, 1(2.4%) disagreeing, 5(11.9%) not sure, 15(35.7%) and 17(40.5%), 1(2.4%) agreeing, strongly agreeing and not applicable respectively. This clearly sums it up all because majority agreed and strongly agreed hence the interest rate is dependent on

4.3Group size and the performance of SME'S

4.3.1 Table 7: Bigger groups tend to make very good use of borrowed funds

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	1	2.4
	NOT SURE	12	28.6
	AGREE	18	42.9
	STRONGLY AGREE	9	21.4
	Total	42	100.0

Source: Primary data 2016

The findings showed that majority of the respondents agreed with the statement with 18(42.9%), followed by those that were not sure 12(28.6%), 9(21.4%) strongly agreed, 2(4.8%) strongly disagreed and only 1(2.4%) disagreed. In my own view I think I would be part of the 18(42.9%) that agreed to the statement because the bigger the group the greater the degree of self-monitoring where by members are held responsible for their group members actions.

Conning(2005), has a different kind of approach, he states that groups that are too large may not be able to enforce the cooperative agreements necessary for group repayment.

4.3.2Table 8: Cooperation in a group is vital for its success.

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	2	4.8
	NOT SURE	3	7.1
	AGREE	18	42.9
	STRONGLY AGREE	16	38.1
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

According to the results from table 8 above, 18(42.9) agreed, 16(38.1%), strongly agreed, 3(7.1%), were not sure, 2(4.8%) both strongly disagreed and disagreed with the same figures and 1(2.4%) found that the question was not applicable.

Cooperation in a group is vital for its success because groups get loans to solve a common problem take an example of farmers' cooperative group loans if ideally they go to the bank to get a loan to grow say tomatoes then all of a sudden some members want to grow bananas this lack of cooperation can lead to the misuse of borrowed funds yet the bank wants its money at the end of the day.

4.3.3 Table 9: Idea generation is much easier with a bigger group.

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	5	11.9
	NOT SURE	9	21.4
	AGREE	15	35.7
	STRONGLY AGREE	11	26.2
	Total	42	100.0

Source: Primary data 2016

Out of a total number of 42 respondents, 2 (4.8%) strongly disagreed, 5(11.9%) disagreed, 9(21.4%) were not sure, 15(35.7%) agreed to the matter and 11(26.2%) strongly agreed.

Idea generation is much easier with a bigger group, just like the saying goes two heads are better than one, this is in line with the field findings were majority agreed with the statement 15(35.7%) meaning with a bigger group there is greater diversity so members can come up with new and better ideas.

4.3.4 Table 10: The performance of the group depends upon the leader it takes on

		Frequency	Percent (%)
Valid	DISAGREE	2	4.8
	NOT SURE	9	21.4
	AGREE	19	45.2
	STRONGLY AGREE	11	26.2
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

According to the field findings, 19(45.2%) agreed that the performance of the group is dependent upon the kind of leader that it takes on, 11(26.2%) strongly agreed, 9(21.4%) were not sure, 2(4.8%) disagreed and 1(2.4%) did not find the question applicable.

Leadership is a key aspect when it comes to groups because different people have different characters, so the group needs someone to guide, monitor and unite the members to the achievement of a common goal which clearly explains why those that agreed take up the majority share of 19(45.2%) almost half of the total number of respondents.

4.3.5 Table 11: Group size has a direct impact on group productivity and function

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	8	19.0
	NOT SURE	8	19.0
	AGREE	12	28.6
	STRONGLY AGREE	10	23.8
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

The findings as presented in the table above, showed that the figures were quiet similar for instance those that agreed to the statement were 12(28.6%) ,10(23.8%) strongly agreed as compared to those that were not sure and those that disagreed taking on 8(19%) both, 3(7.1%) strongly disagreed and 1(2.4%) found that the question was not applicable.

Group size to a greater extent has a direct impact on group productivity and function.

4.4 Social ties and the performance of SME'S

4.4.1 Table 12: Social ties are connections among people that are used for sharing information and knowledge

		Frequency	Percent (%)
Valid	DISAGREE	2	4.8
	NOT SURE	5	11.9
	AGREE	19	45.2
	STRONGLY AGREE	14	33.3
	NOT APPLICABLE	2	4.8
	Total	42	100.0

Source: Primary data 2016

From table 12 above, 19(45.2%) were not sure which is almost half of the number of respondents that answered, 14(33.3%) agreed, 5(11.9%) disagreed, 2(4.8%) both strongly disagreed and strongly agreed at the same time meaning that the question might have been quiet obscure or unclear so most of the respondents according to the statistics majority might have not understood the question.

4.4.2 Table 13: Social ties provide incentives for members in a group to repay.

		Frequency	Percent (%)
Valid	DISAGREE	9	21.4
	NOT SURE	14	33.3
	AGREE	13	31.0
	STRONGLY AGREE	6	14.3
	Total	42	100.0

Source: Primary data 2016

The results showed that 14(33.3%) were not sure, 13(31%) agreed, 9(21.4%) disagreed and only 6(14.3%) strongly agreed. In my own approach I think social ties provide incentives for members in a group to repay because if there is cohesion and members are in good terms then the issue of repaying becomes quiet simple.

4.4.3 Table 14:Social ties are elusive to quantify

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	4	9.5
	NOT SURE	9	21.4
	AGREE	13	31.0
	STRONGLY AGREE	11	26.2
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

The results from the field data from members in centenary bank kireka showed that 13(31%) agreed to the statement, 11(26.2%) strongly two when added make up entirely half of the total number of respondents which is 42 meaning that ideally social ties are hard to quantify, in simple terms they are hard to measure, 9(21.4%) were not sure, 4(9.5%) disagreed, 3(7.1%) strongly disagreed and 3(7.1%) found that the question was not applicable.

It is therefore evident that peer homogeneity as Cassar (2006) states is more important between group members than societal trust because ideally ones trust cannot be measured. Therefore financial institutions cannot give out credit on such terms.

4.4.4 Table 15: Personal trust and peer homogeneity in a group are more important.

		Frequency	Percent (%)
Valid	DISAGREE	7	16.7
	NOT SURE	5	11.9
	AGREE	14	33.3
	STRONGLY AGREE	14	33.3
	NOT APPLICABLE	2	4.8
	Total	42	100.0

Source: Primary data 2016

The study results found out that most respondents believed that personal trust and peer homogeneity are more important in a group taking up 14(33.3%) both for those that strongly agreed and those that agreed while 7(16.7%) disagreed and 2(4.8%) found the question not applicable which clearly proves the magnitude of the statement that personal trust and peer homogeneity are very vital for the success of the group for instance for repayment purposes trust is key.

More to the above Cassar (2006) also believes that personal trust between group members and peer homogeneity are more important to group loan repayment than general societal trust or acquaintanceship between members.

4.4.5 Table 16: Social ties create an incentive for internal monitoring

		Frequency	Percent (%)
Valid	DISAGREE	9	21.4
	NOT SURE	7	16.7
	AGREE	12	28.6
	STRONGLY AGREE	13	31.0
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

The findings as concerns social ties creates an incentive for internal monitoring were as follows, 13(31%) strongly agreed, 12(28.6%) agreed, 9(21.4%) disagreed, 7(16.7%) were not sure and 1(2.4%) found the question not applicable.

Hence it is clearly shown from the results of the field data that monitoring is dependent on social ties or cohesion in a given group although other factors like leadership the group takes on are also key for monitoring in a group hence its success.

Hernes et al (2014) find support for the fact that peer monitoring by social ties of group leaders do help to reduce moral hazard behavior of group members. In contrast peer monitoring by social ties of other group members are not related to reducing the occurrence of moral hazard within groups.

4.5 Business growth and the performance of SME'S

4.5.1 Table 17: Business growth is the process of improving some measure of the enterprises success.

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	1	2.4
	DISAGREE	1	2.4
	NOT SURE	5	11.9
	AGREE	22	52.4
	STRONGLY AGREE	12	28.6
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

In reference to the field data in table 17 above, 22(52.4%) agree with the statement, 12(28.6%) strongly agree and only 1(2.4%) do strongly disagree, disagree and of that one1 (2.4%)do still believe that the statement is irrelevant.

This simply means in my own view that business growth, its true as in accordance with the field findings is the process of improving some measure of the enterprises success.

4.5.2 Table 18: The small business owners monitor their progress towards meeting goals and objectives by using reports for analysis.

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	1	2.4
	NOT SURE	10	23.8
	AGREE	18	42.9
	STRONGLY AGREE	10	23.8
	Total	42	100.0

Source: Primary data 2016

The findings showed that small business owners monitor their progress towards meeting goals and objectives by using reports for analysis as follows 3(7.1%) strongly disagreed, 1(2.4%)disagreed,10(23.8%) were not sure, the majority which is 18(42.9%) agreed in line with the statement and 10(23.8%) strongly agreed with the statement.

This clearly brings out the factor or issue that record keeping is key for report analysis which in turn leads to small business owners to monitor their progress towards meeting goals and objectives.

4.5.3 Table 19: Small business owners do carry out bookkeeping

		Frequency	Percent
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	4	9.5
	NOT SURE	11	26.2
	AGREE	13	31.0
	STRONGLY AGREE	11	26.2
	Total	42	100.0

Source: Primary data 2016

From the field analysis 13(31%) respondents agreed with the statement, 11(26.2%) were not sure and the same number strongly agreed to the issue at hand, those that strongly disagreed and disagreed were 3(7.1%) and 4(9.5%) respectively.

The statistics for those that agreed were only 13(31%) meaning that its true most small business owners especially in low developed countries do not want to keep records which explains the failure of many small businesses in Uganda.

4.5.4 Table 20: Small and medium enterprises can expand without borrowing

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	15	35.7
	DISAGREE	2	4.8
	NOT SURE	9	21.4
	AGREE	15	35.7
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

A total number of 42 respondents, this statements findings were quiet interesting because if you compare the figures for those that strongly disagreed and those that agreed they leave you confused, they were 15(35.7%) for both aspects, 9(21.4%) were not sure, 2(4.8%) disagreed and only 1(2.4%) strongly agreed.

Small and medium enterprises can expand without borrowing to a greater extent I agree with the statement but it is quiet hard because of the following issues like debt is a non-tax deductible expense. In other words when a company borrows it enjoys the benefit of the tax shield as opposed to one that does not borrow.

4.5.5 Table 21: There are five stages of small business growth

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	3	7.1
	DISAGREE	6	14.3
	NOT SURE	10	23.8
	AGREE	11	26.2
	STRONGLY AGREE	9	21.4
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

From the findings in table 21 above, the results are quiet similar and where they deflect they do by a small margin as shown, 3(7.1%) strongly disagreed, 6(14.3%) disagreed, 10(23.8%) were not sure, 11(26.2%), 9(21.4%) agreed and only 3(7.1) thought that the question was not applicable.

The findings were quiet similar because the question was a little bit confusing for one who did not know the various stages of small business growth hence the findings.

4.6 The level of productivity and the performance of SME'S

4.6.1 Table 22: Productivity refers to how efficiently the factors of production are being used.

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	1	2.4
	NOT SURE	7	16.7
	AGREE	15	35.7
	STRONGLY AGREE	16	38.1
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

The field data showed that half of the number of the respondents which is 22(52.4%) agreed with the statement, 12(28.6%) strongly agreed, 5(11.9%) were not sure and the rest shared the remaining 3 with each sharing 1(2.4%) respectively for those that strongly disagreed, disagreed and those that thought the question was not applicable.

This clearly explains the magnitude of the statement that productivity is how efficiently the factors of production like labor, technology and the rest are being used, that is the more efficient the factors of production are used in production the more the levels of productivity.

4.6.2 Table 23: There are two basic ways in which productivity can be measured: output per worker and output per hour worked.

		Frequency	Percent (%)
Valid	DISAGREE	2	4.8
	NOT SURE	4	9.5
	AGREE	21	50.0
	STRONGLY AGREE	12	28.6
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

The results from centenary bank kireka showed that 22(52.4%) which is half of the population agreed that there are two basic ways of measuring productivity which is output per worker and output per hour worked, furthermore the results showed that those that agreed were 7(16.7%), 8(19%) were not sure, 3(7.1%) thought the question was inapplicable and 1(2.4%) disagreed and strongly disagreed with the same figure.

This basically means that in line with the field findings it is true that their two basic ways of measuring productivity I strongly agree with the findings that is output per worker and output per hour worked.

Krugman (1994) in his article the age of diminishing expectations states that productivity is not everything but in the long run it is almost everything. A country's ability to raise its standard of living over time depends entirely on its output per worker.

4.6.3 Table 24: The level of productivity is dependent on factors like level of skills and technology

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	2	4.8
	DISAGREE	2	4.8
	NOT SURE	6	14.3
	AGREE	15	35.7
	STRONGLY AGREE	14	33.3
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

According to the primary data it is shown that the level of productivity is highly dependent on factors like the level of skills and technology although we should not rule out other factors like experience as shown in the table 24 above, 22(52.4%) strongly agreed, 15(35.7%) agreed these two who make up the majority share of 22(52.4%) combined together which completely brings out the magnitude of the statement, 4(9.5%) were not sure and 1(2.4%) found the question was not applicable.

De Clercq et al (2008) argue that Small firms benefit from the higher productivity of larger firms for example foreign enterprises like Coca-Cola through the use of their superior technology like use of the automatic vending food machines may stimulate the productivity of small local firms when such knowledge spills over into the local economy.

4.6.4 Table 25: Growth in productivity can come from increasing outputs while maintaining the same level of inputs.

		Frequency	Percent (%)
Valid	DISAGREE	6	14.3
	NOT SURE	2	4.8
	AGREE	21	50.0
	STRONGLY AGREE	9	21.4
	NOT APPLICABLE	4	9.5
	Total	42	100.0

Source: Primary data 2016

In reference to the field findings both 17(40.5%) respondents agreed and strongly agreed that growth in productivity can come from increasing outputs while maintaining the same level of inputs, 6(14.3%) were not sure while only 1(2.4%) thought that the question was not applicable.

I strongly agree that growth in productivity can come from increasing outputs while maintaining the same level of inputs although you cannot underestimate the fact that you can increase the number of inputs while maintaining the same level of outputs.

4.6.5 Table 26: Productivity reflects a range of concepts such as efficiency and technological change

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	1	2.4
	DISAGREE	4	9.5
	NOT SURE	3	7.1
	AGREE	24	57.1
	STRONGLY AGREE	8	19.0
	NOT APPLICABLE	2	4.8
	Total	42	100.0

Source: Primary data 2016

In line with the findings, 5(11.9%) disagree, 10(23.8%) were not sure, 11(26.2%) agree with the statement, 12(28.2%) strongly agree and only 3(7.1%) found out that the question was not applicable.

In my own view productivity reflects a range of concepts such as efficiency and technological change and hence i strongly agree with the statement in line with what most of the respondents think.

4.7 The level of profitability and the performance of SME'S

4.7.1 Table 27: When managers plan they reduce on costs which increases the firm's profitability

		Frequency	Percent
Valid	DISAGREE	1	2.4
	NOT SURE	3	7.1
	AGREE	22	52.4
	STRONGLY AGREE	13	31.0
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

Planning is key for any organizations success, as the saying goes he who does not plan, plans to fail. This is clearly shown by the field data where majority strongly agreed and agreed with the statement with 16(38.1%) and 15(35.7%) respectively, 7(16.7%) were not sure, 1(2.4%) strongly disagreed and only 3(7.1%) thought that the question was not applicable.

In my own opinion planning is at the center stage of any organizations success because the competition is too stiff for SME'S and more so in developing countries where every Tom, Dick and Harry can open up a business as long as you have capital.

4.7.2 Table 28: When an enterprise makes profit it is an indication that it is doing well.

		Frequency	Percent
Valid	STRONGLY DISAGREE	1	2.4
	DISAGREE	1	2.4
	NOT SURE	8	19.0
	AGREE	22	52.4
	STRONGLY AGREE	7	16.7
	NOT APPLICABLE	3	7.1
	Total	42	100.0

Source: Primary data 2016

Business people do open up to make profits unless their charity or nonprofit making organizations like Non-Government Organizations of which in this scenario there is no SME that I ever heard of that operates on charity or nonprofit. Therefore the field findings clearly brought out the issue with 21(50%) taking the majority share followed by those that strongly agreed 12(28.6%), 4(9.5%) were not sure, 2(4.8%) disagreed and 3(7.1%) thought it was not applicable.

4.7.3 Table 29: Profitability is the primary goal of all business ventures

		Frequency	Percent (%)
Valid	NOT SURE	4	9.5
	AGREE	15	35.7
	STRONGLY AGREE	22	52.4
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

To a greater extent profitability is the primary goal of all business ventures but you cannot rule out the fact their organizations whose major aim is not profit maximization but service delivery for example organizations like the Red Cross their major aim is to save lives at the expense of profitability.

The field findings though do not seem to agree with this because those that agreed take up majority share of 21(50%), 11(26.2%) strongly disagreed, 11(26.2%) thought that the question was not applicable, 4(9.5%) were not sure and only 2(4.8%) disagreed with the statement.

4.7.4 Table 30: Profitability is measured with income and expenses

		Frequency	Percent (%)
Valid	STRONGLY DISAGREE	1	2.4
	NOT SURE	6	14.3
	AGREE	17	40.5
	STRONGLY AGREE	17	40.5
	NOT APPLICABLE	1	2.4
	Total	42	100.0

Source: Primary data 2016

Profitability is what remains after expenses are deducted from gross incomes therefore it is true profitability is measured in line with income and expenses.

Field data showed that 24(57.1) being the majority agreed with the statement, 8(19%) strongly agreed, 4(9.5%) both were not sure and disagreed, 2(4.8%) thought that the question was not applicable and only 1(2.4%) strongly disagreed.

4.7.5 Table 31: Profitability determines whether a company stays in business or not

		Frequency	Percent (%)
Valid	DISAGREE	5	11.9
	NOT SURE	10	23.8
	AGREE	11	26.2
	STRONGLY AGREE	12	28.6
	NOT APPLICABLE	3	7.1
	Total	41	97.6
Missing	System	1	2.4
Total		42	100.0

Source: Primary data 2016

Profitability determines whether a company stays in business or not, to a greater extent I agree with the statement because if the companies expenses are greater than its incomes then it means it is in a situation of financial distress where it cannot meet its financial obligations say like paying off creditors among others. Unless it has other sources of finances or if it is a charity based organization.

The results showed that 15(35.7%) agreed to the statement, 14(33.3%) strongly agreed, 6(14.3%) were not sure, 2(4.8%) both disagreed and strongly disagreed and only 3(7.1%) thought that the question was not applicable.

Peck et al (2006) note that profits are essential for the survival of Small and Medium Enterprises in the long run in a competitive environment, Long-term profitability derives from the relations between cost and revenue. It is a necessary but not sufficient condition for growth.

4.8 Conclusion

In conclusion therefore, this chapter has displayed the findings of this research and if carefully analyzed, they could be of importance to all Small and Medium Enterprises in Uganda.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0Introduction

This chapter gives a complete summary of information from the literature review, findings, conclusions made upon findings and the recommendations in line with the objectives of the study. The references and appendences follow after.

5.1Summary of the findings

This dissertation set out to investigate whether group loans have had an impact on the performance of SME'S.

The study established a number of findings, a summary based on the objectives as below.

5.1.1 Group size and the performance of SME's

The researcher found out that there normally exist two opposite tendencies with regard the number of people in a group. The larger the group, the greater the pool of talent and experience available for solving problems. On the other hand the smaller the group, the greater the likelihood of close relationships, full participation and consonance aims.

The findings from the study, deduced that even though borrowers do not know each other group lending is more feasible due to factors like lower interest and peer monitoring among the group members.

In line with Laux (2001) the researcher found out that formal models can be used by large groups to improve efficiency ,and even a symptotically attain the first-best, again due to elimination of group-level risk. Conning (2005), had a different kind of approach, he comprehended that groups that are too large may not be able to enforce the cooperative agreements necessary for group repayment.

5.1.2 Loan size and the performance of SME's

From the study findings**,** it is established that loan size is the maximum amount that a borrower can borrow. The maximum loan amount based on a combination of different factors involving specific loan programs, the value of the property that secures the loan and the borrowers qualifying ratios and credit history.

The study findings also showed that thatborrowerswhotakeloansfrommorethanoneMFIaremorelikelytodefault on their loans repayment and drops to 50% for households with membership in three or more MFIs because of the small loan size borrowed from one MFI(Martin etal,2002).

5.1.3 Social ties and the performance of SME's

It was also established in line with Postelnicu et al (2013) social ties help asset-poor individuals to replace physical collateral by social collateral. It was further stressed that group lending works better in rural areas namely because rural social networks are typically denser than urban ones. More to the above Cassar (2006) also believed that personal trust between group members and peer homogeneity are more important to group loan repayment than general societal trust or acquaintanceship between members.

The researcher also found out that people that start businesses are more likely to know and interact with other entrepreneurs than those that do not. Entrepreneurs have ideas to test, some knowledge and competence to run the business but they also need complementary resources to produce and deliver their goods and services which they can get access to through social ties.

The other general findings of the study were as follows;

It is quite clear that group loans have had an upper hand in the development of SME'S in Uganda due to the benefits that are packaged with them for instance, the microfinance institutions do not usually ask for collateral security for group loans whereby each member in the group is the others security and in other words has to make sure that the loan is repaid.

In addition also the study also found out that microfinance institutions prefer giving out group loans as opposed to individual loans because of the low administrative costs like the assessing, managing and collecting the loans. For example if say assessing the loan if you give loans to a group of farmers for instance they would clearly inform their fellow farmers who might be in need of the same service and hence easy access.

The study also found out that limited access to finance is one of the key constraint for the underdevelopment of SME'S. Additionally small businesses are often thought to be an important source of employment, innovation and economic growth. In many countries, small and medium enterprises make up a large share of registered businesses, but a much smaller share of Gross Domestic Product. Data from several countries suggests that few SME'S grow to become larger businesses. A good example is one of our home baked car the KIIRA EV SMACK version that is run on electric energy.

From the study also, it is evident that finance often has a more powerful effect on the performance of SME'S than larger firms. This is particularly because access to finance is more important for funding investment in order to ensure that small businesses reach their full growth potential and for facilitating new business startups.

The study also found out that most people would ideally want to have access to finances for their development but they are constrained by factors like lack of necessary collateral to back up their loans since they own a few substantial possessions, then the potential addresses of small loans in less developed countries often live in remote rural villages beyond the reach of the traditional banking system.

5.2 Conclusions

Objective one of the study which was to establish the relationship between group size and the performance of small and medium enterprises it was established that for a larger group there is a great likelihood that the group can repay its loan which in turn leads to efficiency, hence it is a win-win situation where both parties benefit.

Basing on the findings of the study, the second objective which was to find out the relationship between loan size on the performance of SME's. It was clearly indicated that the bank can give you any amount on condition that it does not surpass the limit that is established by the central bank and that he or she that seeks the loan qualifies for one. He or she must have the necessary collateral, provide the necessary credit information among other things.

Social ties and the performance of small and medium enterprises was the last objective and it was found out that personal trust between group members and peer homogeneity are more important for group loan repayment than general societal trust or acquaintanceship between members.

Generally, the research results indicated that group size, loan size and social ties positively affect the performance of SME's and their performance is inversely influenced by the high levels of profitability, productivity and business growth which are indicators of the good performance of SME's.

5.3 Recommendations

The findings presented above raised a number of issues that guided in the making of the following recommendations;

Microfinance institutions should continue with the use of five 5C's that is, character capital, capacity, condition and collateral security when assessing the credit worthiness of their clients.

There should also be more sensitization and publicity on how to use banking services and in particular the group loans and on the objectives for which the loan money is to be used so that it is put to proper use. Education in this case should aim at increasing entrepreneurial capacity.

The staff of the microfinance institutions should also be well qualified and be able to do the following; listen to the clients, establish good relationships with them, have ability to be analytical and maintain objectivity in dealing with clients.

The loan size also should be on the basis of the business. A longer loan period should be given from the time the loan is given to the time the borrower starts paying the loan.

5.4 Suggestions for further research

There are other chances for further research that would give more insight into the areas of group loans and performance of SME's, some of these includes:

1. Credit policies' and the performance of Small and Medium Enterprises.
2. Impact of working capital management on the performance of Small and Medium Enterprises.
3. The impact of financial support on the performance of Small and Medium Enterprises.

REFERENCE LIST

TEXT BOOKS

Amin (2005).Social science research: Conception, methodology and analysis. Kampala: Makerere University Printery.

Begg, D.B., 2008, Economics.11th ed.Maidenhead Berkshire: Mc Grawhill Education.

Brue, M.B., 2005, Principles, problems and policies. 16th ed. New York: Burke.

Colander, D.C, 2004, Economics. 5th ed. New York: Burke

Dessler, G. (2008). Human Resource Management .11th ed.New Delhi, Prentice Hall of India Private Ltd

Floyd, J and Fowler, Jr., 2009; Survey Research Methods: New Delhi; Sage publication Inc.

Frank, R.H.F and Bernanke, B.S.B., 2009, Principles of Economics. 4th ed.

.

Kironde, A. 2007. Budgeting process and perceived budget performance. BA, Makerere Business School.

Krejice, R.V & Morgan, D.W., (1974). Determining Sample Size for Research Activities. Educational and Psychological Measurement, Sage publications.

Mugenda, O.M., and Mugenda, A.G. 1999.Research methods: quatitative and qualitative approaches. Acts press, Nairobi.

Oxford Advanced Learners Dictionary of Current English. 6th ed, 2000. Oxford University Press, New York.

Sloman, J.S., 2003, Economics. 5th ed. Harlow: University of the west England with the collaboration of Mark Sutclife.

Tarinyeba-Kiryabwire, W 2010, Design of Micro Credit Contracts and Micro Enterprise Finance in Uganda, Law Africa Publishing Ltd, Nairobi, KEN. Available from: ProQuest ebrary. [9 September 2015].

Wangusa, T., 2007; Essentials of Research Methodology in Human and social Sciences: Kampala; Bow and Arrow publishers Ltd.

PERIODICALS

Uganda Bureau of Statistics, 2012. Statistical Abstract.

Stam, W., Arzlanian, S. &Elfring, T., 2014. Social capital of entrepreneurs and small firm performance: A meta-analysis of contextual and methodological moderators. *Journal of Business Venturing*, 29(1), pp.152–173.

Ministry of Finance, Planning and Economic Development, 2014, Performance of the economy, Monthly Report July. Ministry of Finance, Planning and Economic Development.

Cassar, A., Crowley, L. &Wydick, B., 2007a. The effect of social capital on group loan repayment: Evidence from field experiments*. *The Economic Journal*, 117(517), pp.F85–F106.

Ghatak, M. &Guinnane, T.W., 1999. The economics of lending with joint liability: theory and practice. *Journal of development economics*, 60(1), pp.195–228

Abbink, K., Irlenbusch, B. & Renner, E., 2006. Group Size and Social Ties in Microfinance

Institutions. *Economic Inquiry*, 44(4), pp.614–628.

Ministry of Finance Planning and Economic Development. 2013. Budget speech (financial year 2013/14). Government of Uganda

Neil, G.N, and Besharov, D.B., 2011.Welfare states and economic turmoil: Adjusting work oriented policy, 39(3), pp. 295-308.

ELECTRONIC DOCUMENTS

[Online] http://www.diva-portal.se/smash/get/diva2:829462/FULLTEXT01.pdf(accessed on 13 march 2016)

[Online] http://www.ieri.org.za/sites/default/files/MSCV15.pdf (accessed on 23rd January 2016)

[Online] http://www.oeconomica.uab.ro/upload/lucrari/1320112/03.pd(accessed on 13th 04 2016)

[Online]http://www.edinburghgroup.org/media/2776/edinburgh_group_research__growing_the_global_economy_through_smes.pdf (accessed on 2nd 04 2016)

[Online]http://www.ifc.org/wps/wcm/connect/635f64804efbe2b18ef5cf3eac88a2f8/IFC_Factsheet_SME_Loan+Size+Proxy_Brief.pdf?MOD=AJPERES (accessed on 15th march 2016)

[Online]http://www.sfbtr15.de/uploads/media/299.pdf (accessed on 21st February 2016)

[Online]https://www.msu.edu/~ahlinc/research/groupsize.pdf (accessed on 2nd 04 2016)

Afeti, 2012, Ghana News Agency: Speed, Accuracy and Objectivity. Retrieved 21st November 2013 from www.ubos.org/onlinefiles/uploads/ubos/pdf documents/2012StatisticalAbstract.pdf

Anon, 299 - 299.pdf. Available at: http://www.sfbtr15.de/uploads/media/299.pdf [Accessed April 11, 2016].

Anon, IPOL_STU (2015)519230_EN.pdf. Available at: http://www.europarl.europa.eu/RegData/etudes/STUD/2015/519230/IPOL_STU(2015)519230_EN.pdf [Accessed April 9, 2016].

Anon, Purpose of loan - does it matter? - MoneySavingExpert.com Forums. Available at:

http://forums.moneysavingexpert.com/showthread.php?t=2604889 [Accessed April 10, 2016].

Anon, Small and Medium Enterprises (SMEs) Finance. Available atwww.worldbank.org/en/topic/financialsector/brief/smes-finance [Accessed April 18, 2016].

Anon, The Business Growth Agenda - Towards 2025 - mb13078-1139-bga-report-00-intro-09sept-v9-fa-web.PDF. Available at: http://www.mbie.govt.nz/info-services/business/business-growth-agenda/pdf-and-image-library/towards-2025/mb13078-1139-bga-report-00-intro-09sept-v9-fa-web.PDF [Accessed April 19, 2016].

Anon, The Design of Micro Credit Contracts and Persistent Access to Credit Constraints of Micro Enterprises in Uganda by Winifred M. Tarinyeba-Kiryabwire :: SSRN. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1616084 [Accessed April 3, 2016].

Anon, Uganda Coffee Farmers Smiling Again. - National Union of Coffee Agribusinesses and Farm Enterprises [NUCAFE]. Available at: http://www.nucafe.org/index.php/media-centre/latest-news/178-uganda-coffee-farmers-smiling-again [Accessed April 19, 2016].

Anon, UNU-WIDER : Working Paper : Types of Entrepreneurship and Economic Growth. Available at: https://www.wider.unu.edu/publication/types-entrepreneurship-and-economic-growth [Accessed April 19, 2016].

Anon, Van_Stel_De_Vries_De_Kok_Klagenfurt_ECFED_2014.pdf. Available at:

http://www.uni-klu.ac.at/sozio/downloads/Van_Stel_De_Vries_De_Kok_Klagenfurt_ECFED_2014.pdf [Accessed April 19, 2016].

Ardic, O.P., Mylenko, N. &Saltane, V., 2011. Small and medium enterprises: A cross-country analysis with a new data set. *World Bank Policy Research Working Paper Series, Vol*. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1747441 [Accessed April 2, 2016].

Bunea-Bontas, C.A., Lăzărică, M. &Petre, M.C., 2009. Capital adequacy and risk management-premises for strengthening financial system stability. In *GLOBALIZATION AND HIGHER EDUCATION IN ECONOMICS AND BUSINESS ADMINISTRATION, Conference Volume*. pp. 122–134. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1491635 [Accessed April 10, 2016].

Krejice, R.V., and Morgan, D.W.1970. Determining Sample Size for Research Activities. Educational and psychological measurement. Retrieved November, 26, 2013, retrieved from http://www.scp.nl/dsresource.

Leitner, Y. & others, 2006. Using collateral to secure loans. *Business Review*, 9. Available at: https://www.philadelphiafed.org/-/media/research-and-data/publications/business-review/2006/q2/br_q2-2006-2_using-collateral.pdf [Accessed April 10, 2016].

Mallett, J., 2013. An Examination of the e ect on the Icelandic Banking System of VerḥtryggḥLán (Indexed-Linked Loans). Available at: https://www.researchgate.net/profile/Jacky_Mallett/publication/235633200_An_Examina tion_of_the_effect_on_the_Icelandic_Banking_System_of_Vertrygg_Ln_(Indexed-Linked_Loans)/links/09e41512e8fe39a216000000.pdf [Accessed April 9, 2016].

Ochieng, F., 2009; Research Methodology: Kampala; M.Kabali and Basic Business book.

OKAFOR, I.G., 2014. *IMPACT OF MICROFINANCE BANKS ACTIVITIES ON POVERTY ALLEVIATION IN NIGERIA: 1993–2012*. DEPARTMENT OF BANKING AND FINANCE, FACULTY OF BUSINESS ADMINISTRATION, UNIVERSITY OF NIGERIA, ENUGU CAMPUS. Available at: http://www.unn.edu.ng/publications/files/OKAFOR%20Ph.D%20RESERACH.pdf [Accessed April 2, 2016].

Postelnicu, L., Hermes, N. &Szafarz, A., 2014. Defining social collateral in microfinance group lending. In *Microfinance Institutions*. Springer, pp. 187–207. Available at: http://link.springer.com/chapter/10.1057/9781137399663_10 [Accessed April 2, 2016].

Quainoo, T.K., 2011. *EXAMINING THE IMPACT OF LOANS ON SMEs IN GHANA.* Institute of Distance Learning, Kwame Nkrumah University of Science and Technology. Available at: http://ir.knust.edu.gh/handle/123456789/4460 [Accessed April 13, 2016].

Retrieved November 28, 2014 from http://el.ewcasle.edu.au/coffee.

Van Stel, A.J., de Vries, N.E. & de Kok, J.M.P., 2014. The Effect of SME Productivity Increases on Large Firm Productivity in the EU-27. In *Third GCW ("Governance of a Complex World") Conference, Campus Luigi Einaudi, Turin, Italy*. pp. 18–20. Available at: http://www.uni-klu.ac.at/sozio/downloads/Van_Stel_De_Vries_De_Kok_Klagenfurt_ECFED_2014.pdf

[Accessed April 2, 2016].

World Bank, 1990, Implementing Educational Policies in Uganda (pdf).Washington, D.C: Available at:http://www.world bank.org

www.ghananewsagency.org/social/ghana-needs-creative-graduates-dr-afeti-67510

APPENDIX 1

RESEARCH QUESTIONNAIRE

(To be filled in by the customers of centenary bank)

Dear Sir/ Madam,

I am **Lule Michael** a student of Uganda Martyrs University pursuing a Bachelor's Degree in Business Administration and Management. I am currently conducting a study on **Group loans and the performance of small and medium enterprises in centenary bank Kireka branch.** The study is purely for academic purposes and the information given will be treated with utmost confidentiality and a profound manner of professionalism. I therefore, humbly request you to spare some time and answer the following questions

Note:

1. This questionnaire has two parts1 and 2. Please answer all questions.

PART 1 (Tick or write answers in full where applicable).

1. Name (Optional)…………………………………………………………….……………

2. **Gender**

a) Male ☐ b) Female ☐

3. **Marital status:**

a) Single ☐ b) **Married** ☐ c) Widow(er) ☐ d) Divorced ☐

4. **Age bracket**

a) 18-25s ☐ b) 26-35 ☐ c) 36-45 ☐ d) 46 and above ☐

5. **Highest level of education attained**

a) UCE ☐ b) UACE ☐ c) Tertiary ☐ d) University ☐

6. **For how long have you been using banking services?**

a) 1year ☐ b) 2years ☐ c) 3years ☐ d) Above 3years ☐

PART 2 (Please tick, in one of the options provided that you think is the most appropriate)

1= strongly disagree 2= Disagree 3= neither agree nor disagree 4= Agree

5= strongly agree N/A=Not Applicable.

	1	**2**	**3**	**4**	**5**	**N/A**
Loan size						
The microfinance institutions can give you any amount money as long as you provide the necessary collateral security.						
The purpose for which the loan is to be used does not actually matter.						
One cannot get a loan without collateral security.						
Background information about the group asking for a loan is very important.						
The interest rate of a given loan is dependent on the loan size.						
Group size						

Bigger groups tend to make good use for borrowed funds.						
Cooperation in a group is vital for its success						
Idea generation is much easier with a bigger group.						
The performance of the group depends upon the leader it takes on.						
Group size has a direct impact on group productivity and function.						
Social ties						
Social ties are connections among people that are used for sharing information, knowledge, feelings and experiences.						
Social ties provide incentives for members in a given group to repay.						
Social ties are elusive to quantify.						
Personal trust and peer homogeneity are more important in a group.						
Social ties create an incentive for internal monitoring.						
Business growth						
Business growth is the process of improving some measure of						

the enterprises success.						
The small business owners monitor their progress towards meeting goals and objectives by using reports for analysis.						
The small business owners do carry out bookkeeping						
Small and medium enterprises can expand without borrowing.						
There are five stages of small business growth.						
Level of productivity						
Productivity refers to how efficiently the factors of production are being used.						
There are two basic ways in which productivity can be measured: output per worker and output per hour worked.						
The level of productivity is dependent on factors like the level of skills and the use of new technology.						
Growth in productivity can come from either; increasing outputs while maintaining the same level of inputs or maintaining outputs while reducing the level of inputs.						

Productivity reflects a range of concepts such as efficiency and technological change.						
Level of profitability						
When managers plan for their activities they tend to reduce on the costs to be incurred in an organization hence an enterprises profitability.						
When an enterprise makes profits it is an indication that it is doing well financially.						
Profitability is the primary goal of all business ventures.						
Profitability is measured with income and expenses.						
Profitability determines whether a company stays in business or not.						

Thank you for your co-operation

APPENDIX 2

Table for Appropriate Sample Size for a Given Population

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

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

APPENDIX 3: INTRODUCTION LETTER

Uganda
Martyrs
University

making a difference

Office of the Dean
Faculty of Business Administration and Management

Your ref.:
Our ref.:

Nkozi, 16th March, 2016

To Whom it may Concern

Dear Sir/Madam,

Re: Assistance for Research:

Greetings and best wishes from Uganda Martyrs University.

This is to introduce to you Lule Michael who is a student of Uganda Martyrs University. As part of the requirements for the award of the Degree of Bachelor of Business Administration and Management of the University, the student is required to submit a dissertation which involves a field research on a selected case study such as a firm, governmental or non governmental organization, financial or other institutions.

The purpose of this letter is to request you permit and facilitate the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

UGANDA MARTYRS UNIVERSITY
OFFICE OF THE DEAN
FACULTY OF BUSINESS ADMINISTRATION & MANAGEMENT
SIGN:........

Mr. Edward Segawa
Associate Dean

Uganda Martyrs University P.O. Box 5498 - Kampala - Uganda
Tel: (+256)038-410603 Fax: (+256) 038-410100 E-mail: bam@umu.ac.ug