THE ROLE OF MICROFINANCE ON THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN UGANDA

A Case Study of Centenary Bank, Mbarara Branch

By

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LIST OF ABBREVIATIONS

CERUDEB: Centenary Rural Development Bank

DBP: Development Bank of Philippines

GBAW: Global Banking Alliance for Women

IR: Interest Rates

MFIs: Micro Finance Institutions

PSFU: Private Sector Foundation Uganda

SMEs: Small and Medium-sized Enterprises

SPSS: Statistical Package for Social Scientists

ABSTRACT

This paper investigated the role of Microfinance on performance of SMEs in Mbarara District, in Western part of Uganda; using Centenary bank Mbarara branch as the case study. The research investigated the impact of Microfinance services such as Microfinance loans, savings and training on performance of SMEs such as profitability, expansion, job creation and sustainability of Micro enterprises. The results found out that Microfinance affects the profitability, finance and expansion of SMEs, and sustainability of the Micro enterprises, hence affected performance of SMEs.

This study targeted beneficiaries of Microfinance in Centenary bank (Mbarara branch) from whom responses were obtained by use of questionnaires and interviews. The responses given in the questionnaires were analyzed by use of SPSS, and the outcomes interpreted on the basis of percentages derived from SPSS processor.

This paper consists of five chapters, in which the first covers the introduction, background of the study, overview of the case study and statement of the problem. The succeeding chapters handle the literature review, research methodology and design, data presentation and analysis, and the conclusions and recommendations respectively.

CHAPTER ONE

1.0 Introduction

The rise of Small and Medium Enterprises in Uganda is gaining more attention than ever and has come up due to the need to promote job creation so as to accommodate the fast-growing labor that cannot find employment opportunities in the public sector (Opondo & Kasekende, 2013). The authors further argue that this rise has necessitated acquisition of start-up capital which has not been readily available from bigger financial institutions, thereby giving rise to Microfinance, such that SMEs can easily access micro credit to start and run their enterprise.

According to Opportunity Uganda (2013), Microfinance is the provision of financial services such as loans, savings, insurance, and training to people living in poverty. Maheswaranathan & Kennedy (2010a), also argue that Microfinance involves provision of small loans at very low interest and systematic guidance for people who need money for self-employment projects that generate income. In addition, the authors note that Microfinance provides the poor with loans to improve on their existing economic activities or to start a new enterprise; hence it is regarded a very important means of credit delivery technique to enhance income generating activities and extend entrepreneurial training to poor people for self-employment activities. This allows the clients to achieve a better quality of life as it reduces the vulnerability of the poor and leads to increase in their income, (Maheswaranathan & Kennedy, 2010b).

Mustmuk (2012) argues that Microfinance is regarded as one of the great success stories in the developing world in the last 30 years and is widely recognized as a just and sustainable solution in alleviating global poverty. According to his research on the effect of Microfinance on SMEs, Mustmuk found out that in Nigeria and other developing countries in Africa, the rural poor have been able to improve their standards of living with

Microfinance services such as micro loans for small businesses, entrepreneurial training and savings.

Financial institutions such as Centenary Bank have laboured to offer microfinance services to SMEs, through financial assistance (loans), encouragement of savings and entrepreneurial training, (Centenary annual report; 2012). In the similar way, Hermes & Lensink (2007) argue that, in addition to loans, microfinance institutions also provide a wider range of financial services, such as savings funds, and insurance services. Moreover, they also play an important role in training potential borrowers how to run a firm, and deal with health provision.

1.1 Background to the study

In April 1983 the Catholic Dioceses in Uganda established the Centenary Rural Development Trust. The objectives included financing, promotion and enhancing the businesses of rural farming, small-scale industries, fishing, processing of agricultural produce and to administer funds for loans or assistance to rural farmers to promote modern farming and marketing methods. In 1994, the Trust developed into the full-fledged Centenary Rural Development Bank Ltd.(CERUDEB), but maintained its objectives.

An impact assessment was undertaken by Hivos (1999), whose findings showed the existence of overwhelming and statistically significant evidence that clients in Mityana and Arua experienced positive impacts from their micro-enterprise credit experience with CERUDEB. These impacts include favorable changes in the amount of business, income from business, enterprise assets and household assets.

Apart from CERUDEB, there are several microfinance institutions all over Uganda, such as Finca, Brac, Faulu (Opportunity Uganda), and Pride Microfinance among others, whose aim is to offer loans, saving facilities and training to the nationals, most especially those owning or want to start SMEs.

All these (microfinance) institutions offer facilities required to start up and/or maintain a Small and Medium Enterprise, as noted from Ouma & Hans (2003), that most of the SMEs rely on micro-credits offered by Microfinance institutions, to carry out their operations. This study therefore attempts to address puzzling questions concerning the short life of many SMEs, and the poor performance associated with those who struggle to keep in operation.

1.2 Statement of the problem

Uganda’s economy is characterized by many Small and Medium Enterprises which come up frequently with prospects of generating revenue, making profits, and creating employment opportunities. The research carried out by Gharad et al (2013) indicates that few SMEs grow to become larger businesses due to limited access to credit, preventing them from making larger investments to improve their operations, upgrade to new technologies, or expand.

On the other hand, the report released by Centenary Bank in 2012 showed continuity in provision of financial support to the SMEs, however, according to Opondo & Kasekende (2013), many SMEs that start up close and cease to continue operating within a short time after starting, and most of these are beneficiaries of Microfinance. Similarly, the report by Centenary Bank in 2012 indicated that Deposits average balance per account in 2012 and 2011 decreased to Shs. 28.0 million from 35.8 million in 2010 and 2009, signifying a decline in the savings culture by customers; and yet savings is an essential component of Microfinance for beneficiaries.

This study therefore investigates whether Microfinance has a significant contribution on the performance of the SMEs.

1.3 Purpose of the study

To establish the impact of Microfinance on performance of Small and Medium Enterprises

1.3.1 Objectives of the study

I. To examine the impact of loans in Microfinance on performance of SMEs

II. To investigate the effect of savings in Microfinance on performance of SMEs

III. To find out how the microfinance training affects the performance of SMEs

1.3.2 Research questions

I. How do loans affect the performance of SMEs?

II. Do savings impact on performance of SMEs?

III. How does microfinance training affect performance of SMEs?

1.4 Conceptual framework

The conceptual framework of this study was developed basing on the report done by Opportunity Uganda and Centenary Bank (2012), and it shows the relationship between Microfinance ***(Independent variable)*** and performance of SMEs ***(Dependent variable).*** In this case, the independent variables such as microfinance loans, (involving other loan elements such as the interest rate, size of loan, type of loan and access to loan) savings sensitization, insurance and training among others explain the role of microfinance. The researcher assumes that all elements of the independent variable ***(Microfinance loans, savings sensitization, and training)*** contribute to performance of SMEs ***(Dependent variable)*** in terms of profitability, expansion, and sustainability.

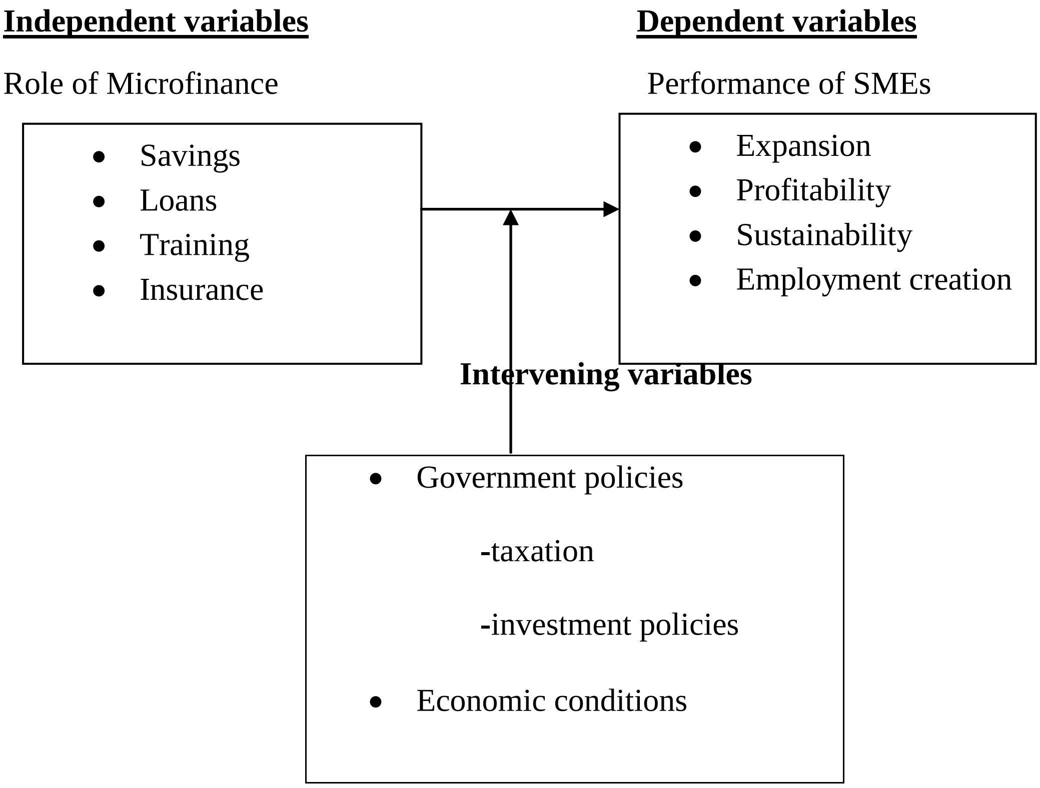
People acquire loans from MFIs to start or finance operations of their enterprises (SMEs), which operations include coverage of preliminary costs, or making purchases. The researcher also assumes that these people also benefit from Microfinance services such as training, and savings sensitization, since these services are some of the objectives of Microfinance and are a critical part of investment.

These microfinance services in turn impact on profitability, expansion, sustainability, and employment creation of SMEs. For example, acquisition of loan is expected to help start or finance an enterprise as per the requirements indicated by the feasibility study of the business owner, whereas savings are expected to help the enterprise access funds to finance its expansion operations, and training should assist in equipping people with skills necessary to keep the business in operation (sustainability).

Intervening variables such as Government policies ***(taxation and other monetary policies)*** also affect the performance of SMEs. For example, high taxes on SMEs lower their profitability, while high interest rates on loans discourage SMEs from borrowing.

Economic conditions such as inflation lower the value for money and lead to borrowers repaying more money than they actually should have repaid, hence affecting their profitability, sustainability, and expansion.

CONCEPTUAL FRAMEWORK



Source: Opportunity Uganda, (2013) & Centenary Bank, (2012)

1.5 Scope of the study

1.5.1 Geographical Scope

The study is geographically limited to Microfinance beneficiaries of Centenary Bank-Mbarara branch, located on Plot 25-27 high street along the Mbarara-Masaka-Kampala highway.

1.5.2 Content Scope

This study investigates the impact of Microfinance loans, savings sensitization and training on the performance of SMEs. The study achieves this, by reviewing related literature on the same objectives of microfinance done by other researchers.

1.5.3 Time Scope

The study was carried out between May, 2013 and April, 2014

1.6 Justification of the study

- The research about the role of microfinance on performance of SMEs intends to encourage potential entrepreneurs to understand the role of Microfinance on growth, continuity and expansion of SMEs in the dynamics of this modern economic competition.
- The study also aims at helping the researcher to developing the necessary skills and techniques about research-related activities in future; having acquired necessary knowledge on carrying out research.

1.7 Definition of key terms

Small and Medium scale Enterprises (SMEs)

SMEs are referred to as those businesses that employ between 1 and 19 employees, and 50-100 employees

Interest rates

Interest rates refer to the premium received by the lender after a stated period of time.

Microfinance

Microfinance is the provision of financial services such as loans, savings, insurance, and training to people who own or want to start a business.

Performance according to this study is the ability of SMEs to gain profitability so that they can sustain the operation and cover the costs they incur.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter deals with the past work of other researchers, whose studies attempted to address impact of microfinance on SMEs' performance. This chapter analyzes and summarizes literature of other authors, and attempts to reconcile disagreeing claims. In this chapter, I investigate the impact of Microfinance in terms of loans, savings and training, on performance of SMEs,

2.1 Overview of microfinance and SMEs

As seen in the previous chapter, Opportunity Uganda (2013) defines Microfinance as the provision of financial services such as loans, savings, insurance, and training to people living in poverty; whereas SMEs are referred to, as those businesses that employ between 1 and 19 employees and 50-100 employees (Hurst et al; 2011).

According to Gharad Et al (2013a), on the Global basis, the Philippines has the vast majority of registered enterprises which are small or medium sized, as there are over 800,000 micro, small, or medium enterprises nationwide. Promoting SME growth is therefore a central focus of national policy and all banks are mandated by Development Bank of the Philippines (DBP), to set aside at least 8 percent of their total loan portfolios for SMEs, (Gharad Et al; 2013b). According to the authors, Microfinance involves development banking institutions mandated to provide medium and long term loans to SMEs. Gharad et al further claim that in 2013, DBP began to move its new Retail Lending Program to Micro and Small Enterprises in 45 bank branches across the country. It can be noted from Gharad et al; 2013) that microfinance involves government policy which is geared toward general social economic welfare.

In Africa, Microfinance is said to have played a role of counteracting lack of access to credit, which is particularly severe in sub-Saharan Africa where it is estimated that; microfinance is reaching only a small percentage of the economically active population. According to Gharad Et al (2013b), in sub-Saharan Africa's poorest countries, less than 10 percent of the population has an account with a financial institution. However, the authors argue that in response, Opportunity International has devoted to building scalable, sustainable and accessible banks throughout the developing world to provide loans, training, savings and insurance products tailored to the specific needs of each region, (Gharad et al; 2013).

In Uganda, the rise of microfinance dates back in 1980s due to requirement of credit to facilitate and develop agribusinesses; since agriculture is the backbone of Africa's economy, (Hivos 1999). The study notes that Microfinance later gained prominence with establishment of CERUDEB (now Centenary Bank), Faulu (now Opportunity Uganda) and Pride microfinance among others. Thus Microfinance is regarded one of the great success stories in the developing world in the last 30 years and is widely recognized as a just and sustainable solution in alleviating global poverty, (Opportunity Uganda 2013; & Mustmuk 2012).

According to Opondo & Kasekende (2013), SMEs account for about 75% of the entire economy in Uganda, hence their existence and continuity in operations greatly impacts on the country's economy. This requires stable, consistent accessible and reliable sources of finance for SMEs to start and operate productively. It should be noted that such sources of finance should promote economic feasibility and thus be affordable. This study therefore, examines the impact of microfinance on the performance of SMEs, by reviewing related literature from other authors' similar researches carried out. The study further investigates whether there are benefits attained from using microfinance by the beneficiaries of various microfinance services such as loans, savings and training and impact of such services by examining how various elements of microfinance affect beneficiaries. The study considers elements such as microfinance loans in terms of size, interest rate on the loans, loan repayment period, and nature of the loans acquired by SMEs. This study further examines the effect of savings and training offered by Microfinance institutions, on the performance of SMEs.

2.1.1 Objectives of Microfinance institutions

The rise of Microfinance institutions was due to a number of objectives; majorly provision of financial services such as loans, savings, insurance, and training to people living in poverty (Opportunity Uganda, 2013).

Maheswaranathan & Kennedy (2010a) point out that Microfinance deals in provision of small loans at very low interest and systematic guidance for people who need money for self-employment projects that generate income. The authors further claim that Microfinance provides the poor with training to improve their entrepreneurial skills in existing economic activity or to start a new enterprise; thus making Microfinance a necessity in alleviating poverty in developing countries. In addition to the above, Maheswaranathan & Kennedy (2010b) argue that Microfinance offers a unique means of credit delivery technique to enhance income generating activities and extend small loans to poor people for self-employment activities, thus allowing the clients to achieve a better quality of life. They further assert that micro finance facilitates consumption, reduces the vulnerability of the poor and leads to increase in their income, through savings. Basing on the above argument, microfinance does not only involve small loans at low interest rates, but also training of the beneficiaries in relation to business operations so as to increase their incomes

According to Ouma & Hans (2003), microfinance objectives favor SMEs as microfinance institutions offer loans on better terms than commercial Banks, to people owning or who want to start an enterprise. The similar claim is advanced by Obli (2011) who argues that in the developing world especially where standards of living are generally poor, SMEs are commonly believed to have very limited access to deposits, credit facilities and other related financial support services provided by Formal Financial Institutions, which is commercial Banks. This gave rise to the Microfinance in which Centenary Bank is operating, so as to bridge the credit gap between SMEs and commercial banks.

Therefore, this study investigates whether or not the objectives of Microfinance have met their aim, by finding out how loans, saving sensitization, and training have affected the performance of SMEs.

2.2 Microfinance loans and performance of SMEs

Holtmann et al (2000) argues that SMEs have a small financial base and therefore they tend to often look for financing capital from financial institutions, of which the preferable choice is Microfinance institutions since they offer financial services to SMEs on better terms (no securities) than Commercial banks. He further asserts that the acquisition of such capital is usually in form of loans. In this case, the researcher looks at the beneficiaries who depend on Microfinance loans to start or run their enterprises, and those who just acquire a loan to top up their personal capital.

According to Colombo and Grilli (2007), the personal capital of entrepreneurs plays no role in their investment decisions and has no effect on the quantity of debt obtained at start-up time by the firms they founded. Therefore, microfinance beneficiaries must acquire a loan to enable them start and operate an enterprise.

However, the authors' argument does not account for personal funding, which actually reduces the volume of the loan required to start and run an SME, since such capital acts as top up for investment in SMEs.

This review therefore examines the impact of microfinance loans on performance of SMEs, in light of the terms laid by Microfinance institutions on SMEs' borrowing.

A study carried out by Wrenn (2005) on Centenary Bank-Uganda, shows that loans given to small farmers have resulted in substantial increases in part-time and permanent wage labor of even non-clients. Wren indicates that rural farmers especially in the northern Uganda have realized an increase in their personal incomes due to loans, training and savings sensitization.
This study however, notes that the loans advanced by Microfinance institutions to SMEs' become productive only when the interest rates charged on the loans allows the owners to earn a reasonable profit after loan repayment.
This study also considers the loan size and duration in which the loans are used as much important to the performance of the SMEs, in the sense that if a loan is advanced for a considerably longer period of time with a relatively low interest rate, it enables the proprietors of the SMEs to exploit all available opportunities, such that by the time the loan is repaid, the SME has realized reasonable revenue for meeting its obligations (loan and business costs).

In brief, the performance of SMEs ***(profitability, expansion, sustainability and employment creation)*** is directly dependent on the size of loans offered, the terms and conditions with which loans are offered to clients such as the period within which the loan has to be repaid, the IR payable on the loans, the nature of the loan advanced and the ease with which clients can access the loan.

2.2.1 Microfinance loan size

This study explains loan size to mean the amount of credit needed by a client to finance an enterprise, and how much credit is actually advanced to the client. For example, if a client wants 5,000,000, the Microfinance institution may offer the needed amount or less according to the terms and conditions in place; meaning that if the institution offers fewer amounts than required, the financing needs of the client will be constrained.

According to Gharad et al (2013), the size of the loan offered plays an important role in performance of SMEs. The author argues that most SMEs' financing needs exceed the small loans that microfinance institutions provide, yet larger commercial banks often find it too expensive to lend to SMEs because the cost of assessing whether an SME is creditworthy is high relative to the return banks could earn by lending to them. This means that the credit advanced by MFIs in not large enough to cover financing operations of SMEs, since SMEs' operations may also be constrained by family needs. It should be noted that microfinance provide services to poor people so as to assist them live a better life by earning reasonable income. This better living is inseparable from the family obligations because I assume that whoever does business to earn looks forward to sustaining their family and not only the business. In brief, the business is run to meet the family obligations and other personal needs.

Similarly, Meagher (2002) argues that Microfinance involves lending small amounts of money for short periods with frequent payments. In this case, as noted by Gharad, and Meagher, the SMEs' needs exceed the small loans offered, hence are likely to suffer expansion related problems. This study assumes that for an enterprise to expand, it must have enough capital to finance its expansion ventures as opposed to small loans from microfinance as noted from Meagher's argument. The study also notes that the size of the loan further accounts for a firm's profit margin in a way that if the client is offered the required amount of credit, the financing needs planned for will be satisfied, thereby facilitating market operations of the enterprise.

Table i: Source Centenary Bank report 2012. ***Loans and their respective size ranges***

Product Name	Loan Size Range
Home Improvement Loan	UGX 100,000 - 30,000,000
Micro Business Loan	**UGX 100,000 - 5,000,000**
Salary Loan	UGX 100,000 - 5,000,000
Small Business Loan	**UGX 5,100,000 - 15,000,000**

In conclusion as noted from the above arguments, for SMEs to benefit from microfinance loan, it is necessary that the amount of loan advanced to them be relatively large enough to facilitate the financing needs of their enterprises. It should also be noted that the loan size determines the level of investment in a sense that less credit finances small ventures while more credit finances larger ventures.

2.2.2 Microfinance loan repayment period

This study considers the period within which the loans acquired are repaid and how the repayment period affects the performance of the SMEs. In this case, the researcher considers that the repayment period has a significant impact on the performance of the SMEs in the sense that the interest rate on the loan affects the profitability of the SMEs if the loan is to be repaid in a very short period.

Meagher (2002) argues that Microfinance involves lending small amounts of money for short periods with frequent payments. He goes ahead to point out that the IR on loans in MFIs is higher because the borrowers do not give security as they borrow. This means that the repayment period within which microfinance institutions require the loans to be repaid may not favor profitability given the Ugandan unpredictable economic environment, hence may adversely affect SMEs' performance in relation to profitability and sustainability of operations.

According to Amonoo et al (2003), SMEs experience absence of ready market for their products, thereby fail to realize revenue which they could use to service their loans. According to the Authors, the absence of ready market for SMEs' products, leads to financial constraints that can be neutralized if the interest rates on loans are low, and the repayment period is reasonably long enough to enable SMEs realize a profit after loan servicing.

This study is based on the condition that, if the SMEs make a turnover that exceeds the loan at the end of the repayment period and realize a reasonable profit after deduction of the loan interest, the interest rate is considered favorable for performance of SMEs. But if the SMEs' turnovers at the end of repayment period can only enable them to meet the loans obligations without any profits realized (break-even), or end up in a loss; then the interest rate is considered unfavorable for performance of SMEs. However, it should be noted that most SMEs deal in perishable items such as food stuffs which exposes them to a higher risk of incurring losses in case their stocks go bad before selling off; thereby leading to difficulties in loan servicing

Therefore, from the above assertions, the loan repayment period is considered a significant constraint to investment as it discourages borrowing to those whose businesses experience unstable turnover; and it also has an impact on profitability of an enterprise.

2.2.3 Microfinance loan-access

In this case, the researcher examines whether there is easy or limited access to microfinance loans by SMEs, and how it affects their performance, in the sense that the degree of accessibility of capital by these enterprises has a direct effect on their performance. Such access to loans, if not reliable, becomes a growth constraint to SMEs as it prevents them from reaching their optimal size; in other words it limits expansion (Amonoo et al 2003a).

The research done by Gharad et al (2013) revealed that few SMEs from developing countries grow to become larger businesses. The authors argue that one reason could be that, unlike larger businesses, SMEs have limited access to credit, preventing them from making larger investments to improve their operations, upgrade to new technologies, or expand. This presents similar findings revealed by Opondo and Kasekende (2013). In this case, the study assumes that Microfinance meets credit access needs of SMEs such that in situations where SMEs need credit for expansion, MFIs provide easy access thereby facilitating growth and expansion of the enterprises. Therefore, if access to credit by SMEs is limited, there is no growth and expansion of these enterprises.

The study assumes that SMEs which save with Microfinance institutions are more likely to access loans with ease and on favorable terms. It should however be noted that not all SMEs do save with Microfinance institutions, and even those who save may find difficulties in accessing the loan due to various constraints which may be laid by the microfinance institutions.

According to Amonoo et al (2003b), the access to loans is affected by the interest rates, and possession of collateral. However, it is assumed that Microfinance institutions require no collateral as they advance loans to the poor owners of SMEs, who usually lack collateral. On the other hand, IRs on micro loans determines whether the SMEs perceive borrowing as viable or non-profitable. In this case, access to credit also relates to factors which discourage SMEs from borrowing among which is IR on loans. For example, people will require access to loans which have lower IR than those with higher IR. Therefore, IR becomes a determinant to credit-access by SMEs.

The research carried out by Beck & Kunt (2006a), revealed that access to loans is an important growth constraint for SMEs and that microfinance and legal institutions play an important role in relaxing this constraint, and that innovative financing instruments can help facilitate SMEs' access to loans even in the absence of well developed institutions. The study further revealed a strong economic effect of financial and institutional development on easing SMEs' financing constraints and on increasing their access to formal sources of external finance.

It is noted from Beck & Kunt (2006b) that in developing countries finance from friends and family play a much more significant role than industrialized countries.

This argument brings a question about the relevance of Microfinance, whose primary purpose is to provide financial assistance to SMEs among other aims.

The authors further note that Credit availability to enterprises, but especially to SMEs, depends on the infrastructure that supports financial transactions, including the legal system and the information environment. Commercial laws that effectively assign and protect property rights and their efficient enforcement are crucial for financial transactions. This includes the laws, regulations and institutions to create, register and enforce collateral and an effective bankruptcy. However, their findings show that, depending on the legal and information environment in their respective country, microfinance institutions around the world have developed specific techniques to lend to small, opaque firms with little or no collateral.

According to the above arguments, access to loans plays a very important role in the overall business environment, potentially constraining both firm entry and growth. Limited access to loans constrains the entry, growth and expansion of business enterprises, but smooth access to loans favors the emergence, growth and expansion of enterprises. It should therefore be noted that easy access to capital/loans from microfinance institutions is necessary for enterprises to exist, grow and expand to increase incomes of people and provide employment opportunities.

2.2.4 Interest rate (IR) on microfinance loans

In this study, the researcher investigates how the interest rates affect performance of SMEs. Interest rates refer to the premium received by the lender after a stated period of time, (Amonoo, Et al. 2003). The authors argue that the rate of interest is the major determinant of savings and investment. This means that if the interest rates on loans are high, investment in SMEs becomes difficult, and savings will rise only if they attract interest on deposits.

Nevertheless**,** the authors claim that if a small increase in the interest rates occurs, it will not disturb the long-run expansion of the enterprise. However, the study looks at interest rate as a significant factor that affects the SMEs' borrowing from and savings in microfinance, hence affecting their performance.

Amonoo et al (2003a) argue that high IR on loans lead to failure in loan servicing by the SMEs, and disrupts their profitability. The authors continue to note that, high IR limit access to credit by SMEs in form of borrowing since people always want to gain access to credit with lower IR than that with higher IR. In this case, it is assumed that for SMEs to operate maximally, the loans acquired should be offered at relatively low interest rate, and repaid after a reasonable period of time to enable SMEs realize a profit after repayment. In this case, interest rate becomes a variable that has a direct impact on performance of SMEs.

Basing on research carried out by Hivos (1999), this study uses the current Micro-Business and Small business loan interest rate from Centenary Bank Uganda, whereby Micro-Business loan of 100,000-5,000,000 UGX has a rate of 20-40% for 3-24 months, and Small business loan of 5,100,000-15,000,000 also has a rate of 20-40%, for 6-24 months, (Centenary Annual Report 2012). *(See table ii)*

Table ii: Loan Products and Pricing Information. Source Centenary Bank report 2012

Product Name	Annual Nominal Interest	Loan Size Range	Loan Term (months)
Home Improvement Loan	21.96%-27.96% annual, Decl Bal	UGX 100,000 - 30,000,000	6 – 24
Micro Business Loan	**21.96%-45.96% annual, Decl Bal**	**UGX 100,000 - 5,000,000**	**3 – 24**
Salary Loan	18.96%-34.56% annual, Decl Bal	UGX 100,000 - 5,000,000	3 – 24
Small Business Loan	**21.96%-45.96% annual, Decl Bal**	**UGX 5,100,000 - 15,000,000**	**6 – 24**

In this study, the researcher compares the rate to the situation under which SMEs operate in terms of the market size, and the rate at which the SMEs sell their stock; such that if the stock takes more time before sale than the actual repayment date, it is then unfavorable to get such a loan.

In brief, it can therefore be said that the rate of interest on loan and savings are constraining factors to SMEs such that if the IR on loans is high, it discourages borrowing and if the interest on deposits is high, it attract many to save, hence promote investment in SMEs.

2.2.5 Group and individual microfinance loan

As one of the significant variables of microfinance loans, the nature of loan acquired to operate SMEs poses a big impact on their performance.

Crowley & Wydick (2007), emphasize that group loans are preferred by Microfinance institutions to individual borrowing, since there is a low risk of defaulting by the group due to peer monitoring between borrowers. According to the authors, MFIs emphasize group loans such that the rate of loan default can be avoided or minimized, because if many people are involved, they ensure each other’s responsibility and hold each other accountable thereby endeavoring to repay the loan. The authors’ argument means that it is difficult for individuals to borrow without guarantors, thereby limiting people who wish to engage in individual ventures other than group ventures. It should be noted that group loans also reduce personal income as profits from a joint venture are shared by many partners; and it further leads to dilution of business control and decision making. Similarly, where an individual borrows in a group, there is no independence as the guarantor is supposed to monitor how the borrower uses the loan.

Similarly, Satish (2005) points out that Microfinance involves people forming groups of three to eight persons on the condition that each of them would be assuming responsibility for the lending and other financial operations for the other members of the group. Lending as well as repayment is directly to and from the individuals but with the guarantee of the other group members. In this case, the study examines the impact of such group loans on performance of SMEs, by looking at the degree of convenience a group loan has on expansion of an individual's SME. The researcher examines whether or not a group loan is used by all group members, or used independently by a chosen member of the group.

Basing on the above argument, it can be concluded that the nature of loan is a significant factor on performance of SMEs in such a way that an individual loan may promote business independence though may be harder to pay than a group loan, where all individuals share the burden of repayment. On the other hand, much as group loan be easier to repay than individual loan, it may lead to low business profits as they are shared among many members, and may not favor efficient business financing decisions due to difference in ideologies of group members.

2.3 Savings sensitization and performance of SMEs

This review examines the impact of savings sensitization of Microfinance institutions on the performance of SMEs, by analyzing whether the Microfinance institutions allow open access to savings deposited by members, or restricted access, and the amount of savings deposited.

According to Ouma & Hans (2003), some financial institutions restrict access to savings (limit withdrawal) until termination of membership, while others allow open access to savings. This would mean that if the proprietors of SMEs choose to save with Microfinance institutions which do not allow open access to their savings, they will lack the required capital for financing their enterprises in the near future. Therefore, this could discourage people from savings.

The authors point out that microfinance savings boost investment in SMEs, however, this can only be realistic if the microfinance institutions allow open access to savings, such that the proprietors of the SMEs will get financing capital for any new ventures, thereby expand their enterprises. In this case, the clients will be motivated to save a significant percentage of their profit, which in turn will increase investment or further expansion of their SMEs.

In the same way, Vetrivel & Chandra (2010) argue that Microfinance Savings facilities make small scale lending operations possible. The authors further claim that the SMEs do save, although not in financial assets, and hence value access to client-friendly savings service at least as much access to credit. It is noted from the authors' claim that savings mobilization also makes financial institutions accountable to local shareholders through offering soft loans and training. The authors therefore claim that adequate savings facilities both serve the demand for financial services by the SMEs and fulfill an important requirement of financial sustainability to the lenders.

Similarly, Ouma & Hans (2003), argue that savings is a valuable finance service, which the owners of SMEs need. The results in the research carried out by the authors indicated that microfinance savings is helpful to the SMEs' need for expansion. However, this is only possible in cases where microfinance institutions allow open access to savings as well as offering interest on savings such that the owners of the SMEs can get enough capital for financing their enterprises and in urgent situation of investment.

Moreover, it is also noted from the authors that the majority proprietors of SMEs save small amounts, hence need financial institutions which will not demand high minimum deposit balances. This also means that if the MFIs do not offer interest on savings, such deposits will not be meaningful when it comes to investment. In addition, if the interest offered is small, the size of deposits will remain small too thereby limit growth and expansion.

According to Holtmann et al (2000), despite the existence of microfinance institutions, the financing needs of the SMEs remain severe and unsatisfied. It should be noted that these needs include among others, savings; which determine starting, growth and expansion of an enterprise. According to Holtmann's argument, SMEs need much more services than just depend on Microfinance savings for their operations. However, the author does not explain whether SMEs need special consideration when it comes to savings sensitization. This would mean that since Microfinance targets the poor who usually save small amounts, a special arrangement could be made to enable their deposits fetch more credit to enable them meet their business needs.

The study therefore examines the terms under which microfinance institutions lay down before the clients as a requirement for savings; in terms of the minimum deposit balance, the amount charged for maintaining the deposits, and the degree to which customers can access credit in case they need capital for start-up or expansion of their enterprises.

2.3.1 Voluntary and compulsory/forced savings

This study examines the various types of savings offered by Centenary bank, and the effect of each of them on the performance of SMEs.

Milgram (2005) presents two types of savings; such as compulsory/forced savings and voluntary savings. The author claims that a member can withdraw his/her compulsory savings only when they resign from the program. According to the author, voluntary savings earn interest per annum, however, he does not show whether compulsory savings earn any interest. The author argues that in voluntary savings, the minimum amount is determined by the individual whereas in compulsory savings, the minimum amount of deposit is laid down by the microfinance. It can be noted from Milgram that for one to enjoy microfinance services, he/she must at least have a savings account with the Microfinance institution. On the other hand, it can be noted that if an individual is subjected to compulsory savings, it may not favor their financial progress which in turn retards the growth and expansion of their enterprise, since compulsory savings may require regular deposits which reduces one's disposable income hence discourages investment in immediate ventures.

It can therefore be concluded that irrespective of their nature, (whether voluntary or compulsory savings), microfinance savings are a necessary undertaking for those who intend to do invest or for anyone to benefit from microfinance services. This can however be meaningful if the savings attract interest on the client's deposit such that there is an increase in personal income.

2.4 Microfinance training and performance of SMEs

This study considers microfinance training a useful step towards achieving microfinance goals, such that when the microfinance beneficiaries are trained and equipped with entrepreneurial skills, it leads to productive utilization of other microfinance products such as loans and savings.

Ledgerwood (1999), Argues that apart from financial intermediation which involves the provision of social intermediation services such as the formation of groups, and development of self confidence in business, Microfinance involves the training of members in that group on financial literacy and management. It can be said that training provides entrepreneurial skills to the beneficiaries of microfinance such that they are able to carry out business ventures efficiently; for example, training on loan usage helps the illiterate to acquire knowledge about modern ways of business operation thereby leading them to engage in businesses with higher returns. This further eliminates complications related to loan servicing.

According to the report by Centenary Bank (2011), the bank's priorities are to improve further the Bank's market share in micro finance, diversification of the target markets to increase involvement in the small and medium enterprise market and on a lesser scale in the corporate market. The report indicated that in 2011, Centenary bank partnered with Private Sector Foundation (PSFU) to carry out financial trainings around the country to address issues like recordkeeping, budgeting, loan utilization, personal finance, family businesses and entrepreneurship. The program claimed to have trained 1,237 business entrepreneurs from Lira, Mbale, Mbarara, Arua and Kampala; while phase two, whose sponsorship was launched in 2012 was actually launched in February 2013.

On the other hand, records from Opondo and Kasekende (2013) show that the training offered to SMEs, is still theoretical though the intentions are good for some SMEs which have since grown into profitable companies. This means that training is essential for existence and continuity of SMEs, but according to the arguments and claims above, Centenary bank's entrepreneurial training may not yield intended fruits if it remains theoretical in nature. It should be noted that such training especially in loan utilization and record keeping is essential for beneficiaries since most of them are rural farmers and businessmen who lack formal education in entrepreneurship.

In the report presented by Global Banking Alliance for Women (GBAW) (2013a), the Managing Director Centenary Bank in Kampala on Tuesday, February 28, 2012, unveiled and launched the sponsorship of the second phase of the bank's Financial Literacy Training Program. According to the report, the new program was designed to benefit at least 10 million businesspeople operating Small and Medium Enterprises (SMEs) in Uganda.

The report further showed that financial literacy is one of the many challenges affecting small businesses in Uganda as they find it difficult to access finance partly due to lack of collateral to secure loans but also because they are considered high risk by formal banking institutions; hence people need financial training. Similarly, the assessment made by the GBAW (2013b), indicated that Centenary runs a Financial Literacy Program through Techno Serve, aimed at enhancing Ugandans' abilities to make sound, well-informed financial decisions. This training program targets the beneficiaries who lack formal education and training in business fields so as to enable them take a step ahead of poverty and other undesirable economic conditions.

According to Ngwenya and Ntando (2003a), many SMEs desire training in various skills such as record keeping, and other forms of financial management, all which are vital for their performance. However, in their research conducted on SMEs, Ngwenya and Ntando (2003b) argued that despite the numerous institutions providing training and advisory services, there is still a skills gap among the SME sector as a whole. This indicates that there is need to identify the causes of skills gap in the SMEs sector so as to come up with necessary measures of ensuring efficient and productive training in the SMEs sector.

From the above arguments put up by various authors, it is noted that microfinance training is an important need for SMEs' operations. In this case, the study finds that microfinance training necessary to equip the beneficiaries with appropriate business skills to enable them carry out meaningful and productive investments.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Bell (1999) defines research methodology as the framework associated with a particular set of assumptions that one uses to conduct your research. This chapter explains how the research was conducted in terms of research design, study population, sample size, methods and tools of data collection, procedures used, justification of reliability of the instruments and validity of data, data analysis, as well as ethical considerations followed by the researcher.

3.1 Research Design.

According to Bell (1999a), a research design encompasses the method and procedures employed to conduct research. It also defines the study type such as descriptive, correlational, experimental, review, descriptive, longitudinal or case study.

This means that research design gives guideline on the collection, interpretation and analysis of the data. The research design used is a Case study.

The choice of this research design in due to the fact that case study design gives the in-depth study of a particular problem as noted from Bell (1999b)'s argument.

This study uses both qualitative and quantitative approach, whereby Quantitative data was collected with an aim of establishing the frequency (number of times) of responses, while the qualitative approach was used to find out suggestions and specific position of a respondent.

3.2 Target population

The population of the study consists of the clients of Centenary bank, who are beneficiaries of Microfinance services of Centenary bank, Mbarara branch; such as loans, savings, and training.

3.3 Sample population

The study involved 56 (fifty-six) respondents (who were clients of Centenary bank Mbarara branch, and beneficiaries of Microfinance). This size was derived from Krejis & Morgan table, in which the population size was 68 beneficiaries of Microfinance in Centenary bank, Mbarara branch, chosen by purposive sampling technique. The purpose of such a choice was to help the researcher establish whether microfinance has helped SMEs to improve their performance or not, by comparing the responses of clients who benefited from Microfinance to the Microfinance objective, since beneficiaries are directly affected by microfinance. Open interview was held with 6 clients who were the Microfinance beneficiaries of Centenary bank Mbarara branch while the other 50 clients were given questionnaires to answer.

3.4 Sampling techniques

According to Bonita (2006), sampling entails the techniques by which the members that make up the sample size are to be chosen for data collection. The study used purposive sampling, whereby only the Microfinance beneficiaries of Centenary bank were selected to help provide data on the nature of loans advanced to them, the interest rates at which these loans were given, the size and repayment period of the loan; and other Microfinance elements such as savings and training. In this case, purposive sampling was considered suitable since it would help collect data from the real people directly affected by Microfinance services at Centenary bank.

3.5 Methods of data collection

3.5.1 Questionnaire; In the questionnaire method, both open-ended and closed questions were printed out on paper with spaces in which the respondents are to choose their relevant and preferred response, or write their answers to the question.

The questionnaires were distributed to 50 clients of Centenary bank, who were beneficiaries of Microfinance in the bank.

3.5.2 Interviews; In the interview method, targeted respondents were interviewed and responses recorded. This included 6 respondents who operated in Mbarara Central market.

These methods were considered suitable since there is allowance of respondents to provide answers at their own pace, or choose take their position by choosing from various options given, thereby enhancing the likelihood giving appropriate answers to the questions.

3.6 Quality control

3.6.1 Reliability; The data collected is considered reliable due to the fact that, in regard to the impact of microfinance on performance of SMEs, the research sought responses from clients of Centenary bank Mbarara branch, because they are the most knowledgeable about the matters concerning microfinance. The use of test and retest technique also was used so as ensure validity. This helped to collect relevant and reliable responses to the questions so as to obtain appropriate findings.

All questions printed on the questionnaires were reviewed and any unclear questions rephrased to give better and quick understanding to the respondent. In interviews, thorough explanation was given to all respondents to enable them give valid and reliable answers.

3.6.2 Validity; The data collection instruments such as questionnaires and interview guide were given to the supervisor and other experts for review and any necessary correction.

3.7 Data analysis

According to Adèr (2008), Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision making.

3.7.1 Qualitative data. Qualitative data was compiled and interpreted in relation to the research objectives of the study. This information was thereafter presented in a narrative form, aided by verbatim (word for word) reporting style. The information was further interpreted by comparing the objectives of microfinance with the actual responses from respondents.

3.7.2 Quantitative data

Quantitative data was analysed using SPSS from which graphs and tables were adopted in order to determine the relationship between Microfinance and performance of SMEs.

3.8 Ethical considerations

The researcher did not bribe, intimidate or influence respondents to get answers from them. All respondents were given due freedom of choice as regards to answering all questions asked. In addition, the names of the respondents were not sought so as ensure confidentiality of respondents' identity and revelations. Any respondent who was not willing to answer was excluded and replaced with the one who willingly offered to respond to the questions in the questionnaires.

3.9 Limitations

- Some of the respondents did not return the questionnaires thereby limiting the sample size.
- Some respondents feared to answer thinking that when the results are taken to Centenary bank, it would no longer give them loans in case of urgent situations.
- Most of the respondents did not know English language and failed to answer the questions.
- The time given for data collection was limited thereby exhausting the researcher

3.10 Solutions to limitations

- The respondents who did not understand English were given translators so that their responses could be matched with the respective answers in the questionnaire.
- To reduce the problem of exhaustion, the researcher used two helpers to distribute questionnaires and interpret the questions for the illiterate.
- The respondents who had feared to answer questions in fear that they would be restricted to access credit in future were assured of confidentiality.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the analysis of findings of the research carried out on the role of Microfinance on performance of SMEs. SPSS was used to analyze the data collected and the results interpreted in this chapter. Fifty questionnaires were distributed to respondents; however, only 39 questionnaires were returned and of which 4 questionnaires were invalid. In addition, interviews were held with 6 beneficiaries of Microfinance of Centenary bank whose views were recorded on paper.

In this chapter, each independent variable is presented in relationship with the dependent variables, and the interpretation of the results is given basing on the responses. For example, the role of micro loan as an independent variable is linked with financing, sustainability, employment creation and profitability. This is because each independent variable influences the dependent variables is a sense that, the loan borrowed does not only help finance the enterprise but will also determine the profitability of an enterprise, for example if the repayment period or the interest rate is favorable to the borrower.

The results are presented in tables adopted from SPSS; each variable with its respective response percentages is interpreted to come up with conclusion on the role of Microfinance on performance of SMEs.

4.1 Analysis and interpretation

The objectives are presented in respect with their various elements so as to establish a detailed interpretation of the effect of each independent variable to the dependent variable. For example, loan comprises of IR, Size, Repayment period, nature of loan (group Vs individual) and Access; all which affect the profitability, sustainability, expansion and financing needs.

Characteristics of respondents

Table iii **Source: primary data**

Age	**Frequency out of 35**	**%**	**Location**	**Frequency**	**%**	**Level of education**	**Frequency**	**%**
25-35	19	54.3	Urban	18	51.4	University	13	37.1
36-45	13	37.1	Rural	17	48.6	Secondary	12	34.3
46-60	3	8.6	-	-		Primary	10	28.6

4.2 The impact of Microfinance loan on performance of SMEs

The impact of microfinance loan on performance of SMEs was investigated using loan elements such as the Interest Rates, loan size, repayment period, nature of loan (individual or group), and the ease of access to the loan. This paper sought responses as to how these loan elements affected the performance of SMEs, by asking various loan beneficiaries of Centenary bank, Mbarara branch.

4.2.1 Loan size

The research found out that the loan size was generally enough, though some clients were dissatisfied as they indicated that they always received less credit than they applied for. The loan size component was taken into account to establish how the loan effect varies with a change in the loan size; for example, as loan increased, the IR payable also increased, similarly, as the loan terms changed, the loan effect on performance of SMEs also changed.

In this case, 51.4% of the responses were in agreement that the loan size was enough, with only 48.6% disagreeing.

The table below summarizes the various loan sizes and respective number of beneficiaries.

Table iv: *Loan size.* Source: primary data

	Frequency	%
50,000-500,000	3	8.6
500,000-1,000,000	8	22.9
2,000,000-5,000,000	19	54.3
above 5,000,000	5	14.3
Total	35	100.0

On the basis of above responses *(see table v),* 51.4% were in agreement that the loan advanced by Centenary bank was enough to meet their business needs.

Table v: *The loan was enough.* Source: primary data

	Frequency	%
Strongly disagree	10	28.6
Disagree	7	20.0
Agree	13	37.1
Strongly agree	5	14.3
Total	35	100.0

However, from the explanations obtained from open ended questions, 8 of the respondents explained that they applied for 2,000,000 each, but got less than the 2,000,000 *(no specific amount deducted was indicated)* applied for; signifying a negative impact as far as the loan size is concerned.

According to the interview held with 6 cloths retailers in Mbarara Central Market, who are beneficiaries of Centenary bank Mbarara branch (7 Feb, 2014), one retailer explained that one needs to apply for more loan than what they actually need so as to neutralize the loan charges and receive the exact amount of loan required. It was found out that when the borrower received less than what he/she actually applied for, the financing needs were not satisfied.

On the other hand, when the borrower applied for more loan than actually required to balance the effect of charges, he/she paid more interest thereby reducing his/her profit margin. This means that the size of the loan offered by Centenary bank (Mbarara branch) is not favorable to some of the clients. However, according to the responses given, the inadequacy complaint was advanced by those who borrowed less than five millions which would mean that even when a small deduction (charge) is made on the amount; it appears less since it was initially small amount.

4.2.2 Interest rate

The study further investigated the effect of IR on performance of SMEs and found out that the IR was not favoring borrowers. It was found out that the rate of interest played the major role of savings and investment; and high IR on loans led to failure in loan servicing by the SMEs, disrupted their profitability and discouraged borrowing to some clients. The results indicated that the interest rates in Centenary were high, which disrupted investment in SMEs because the cash flows of SMEs are not constant. In the responses, 60**%** of the responses indicated that the IR on loan in centenary is not favorable, meaning it was high for them to operate their enterprises and realize a profit. Most of the respondents expressed in writing that after paying the Interest and the principle amount, they did not realize any profit, hence expressed dissatisfaction with the IR on loan in Centenary bank.

For example, basing on the loan products and pricing information of centenary **(***see* **Fig 2 pg),** for Micro business loan, **100,000-5,000,000/=** was charged **21.96%** and **45.96%** interest respectively; payable monthly for a period between **3-24** months; meaning that the interest payable per month was **1,830/=** and **191,500/=** in the first month; together with the monthly installment. It was found out that though the interest reduces with reduction in the principle, the monthly payments did not favor many clients whose items took long to sell. According to the responses obtained, the dissatisfaction with the IR was mainly advanced by those who borrowed 2,000,000 and above.

The results can therefore be interpreted in the following ways;

(i) Those who borrow more money (i.e. 2,000,000and above) invest in ventures with unpredictable cash flows such as construction, which makes them fail to realize enough revenue per month so as to meet their monthly loan obligations.

(ii) Those who borrow less than two million invest in ventures with daily demand, hence stable cash flows for example restaurant where people are expected to at least buy something daily. This enables prompt payments in respect to the monthly loan obligations.

The figures below summarize the responses about the effect of the IR on loan from Centenary, as obtained from respondents.

Table vi: *The IR was favorable.* Source: primary data

	Frequency	%
Strongly disagree	11	31.4
Disagree	10	28.6
Agree	10	28.6
Strongly agree	4	11.4
Total	35	100.0

The results in table **vi** show that the IR set by Centenary Bank does not favor the clients, who borrow large financing capital mostly because it is paid monthly and the clients' ventures may be experiencing unstable cash flows.

4.2.3 Loan repayment period

The respondents were asked whether the repayment period was long enough to allow them realize a profit. It was found out that the clients are required to pay monthly- the amount of interest charged per month together with the monthly installment, however, the responses indicated that most of them were not satisfied with the monthly payments of the interest, arguing that most of their items take long before making a sale; hence the monthly payment of the interest on the loan was considered unfavorable. For example, of the 6 respondents interviewed (7 Feb, 2014), 5 argued that at times they paid the interest higher than the amount obtained from sales because it is not always easy to sale enough items to meet the bank interest and other business and personal needs within a month. The dissatisfaction was justified by the responses in which 62.8% (31.4% 7 31.4%) indicated their dissatisfaction with the repayment period. However, this could be interpreted to be the unfavorable effect caused by the IR, because if the IR was low, then the monthly payment would also be considerably low. Most of the clients interviewed argued that it is better if the interest was paid together with the principle such that the operational period of the business can enable them earn enough. The responses are summarized in the table below:

Table vii: *The repayment period was enough.* Source: primary data

	Frequency	%
Strongly disagree	11	31.4
Disagree	11	31.4
Agree	7	20.0
Strongly agree	6	17.1
Total	35	100.0

The interpretation of the above results can be linked to IR in which most borrowers indicated dissatisfaction with the IR simply because it is paid monthly. As earlier noted, if a business has unstable cash flows, it becomes difficult to meet the monthly loan obligations (interest payable per month)

4.2.4 Loan access in Centenary bank

The ease with which a loan was accessed from Centenary bank was also investigated to find out whether it is easy to get a loan in case a client has an immediate profitable business venture to invest in.

According to the interview held with 6 microfinance beneficiaries of Centenary bank Mbarara (7 Feb, 2014), some ventures such as catering and restaurant operations required quick access to finance since they usually occur on special occasions which cannot be postponed, and the returns are assured. This necessitated quick access to finance. The table **vi** on the next page summarizes the responses obtained.

Table viii: ***Loan access in Centenary bank is easy*****. Source: primary data**

	Frequency	%
Strongly disagree	2	5.7
Disagree	4	11.4
Agree	19	54.3
Strongly agree	10	28.6
Total	35	100.0

The results in the above table represent the ease with which Micro loans are accessed in Centenary bank. The responses indicated that loans were easily accessed in centenary; whereby 82% of the respondents agreed that the loan was easily acquired, (that is 54.3% & 28.6% respectively). The study therefore found out that the procedures required for one to be offered a loan are not unnecessarily long to delay investment in immediately-perceived business ventures; hence favorable.

4.2.5 Nature of loan (group Vs individual loan)

In this case, the study investigated the responses of the clients' view on individual loans and group loans. It was however found out that only 8.6% of the respondents were in favor of group loans. This indicted that most clients prefer individual loans to group loans. It can therefore be interpreted that people prefer individual loans because they want independence in decision making when it comes to business ventures. It was noted that group loans involved many decision makers who may not have been efficient in productive use of the loan, and because of the forecasted profits from the venture which always reduced after sharing among many partners; which also made monthly interest hard to meet.

The table below summarizes responses obtained from 35 respondents about the nature of the loan.

Table ix: ***Individual loans are better than group loans.*** **Source: primary data**

	Frequency	**%**
Strongly disagree	1	2.9
Disagree	2	5.7
Agree	15	42.9
Strongly agree	17	48.6
Total	35	100.0

It was found out that the majority respondents supported individual loans as opposed to group loans; whereby 91.4% answered in favor of individual loans, while only 8.6% were in support of group loans.

In brief, it can be noted that from the above information that the major problem with Centenary clients is IR and the repayment period respectively as far as microfinance loans are concerned.

4.3 The impact of training on performance of SMEs

This paper investigated the effect of training as part of Microfinance services, on the performance of SMEs. It was found out that 57.2% of the clients did not receive training from Centenary bank Mbarara, meaning that there was no training made, or there was lack of sensitization toward entrepreneurial training to clients of Centenary bank, if any training had been in place.

In the interview held with 6 clients of Centenary bank, Mbarara (7 Feb, 2014), 4 clients who had trained said that they did not do so from Centenary bank's Microfinance training program, but had attended either a vocational school or just secondary school education and had studied entrepreneurship subject. ***Table x gives a summary of responses obtained***

Table x: *Training.* Source: primary data

Questions asked	training has helped me use the loan productively	training enabled me carry out feasibility study	training has helped me earn profit	training helped me sustain my enterprise	I received training related to business loan use	training has helped me be self employed
No. Of responders	**35**	**35**	**35**	**35**	**35**	**35**
Strongly agree	**14 (40.0%)**	**12 (34.3%)**	**12 (34.3%)**	**12 (34.3%)**	**12 (34.3%)**	**10 (28.6%)**
Agree	**1 (2.9%)**	**2 (5.7%)**	**3 (8.6%)**	**3 (8.6%)**	**2 (5.7%)**	**7 (20.0%)**
Disagree	2 (5.7%)	18 (51.4%)	17 (48.6%)	17 (48.6%)	18 (51.4%)	17 (48.6%)
Strongly disagree	18 (51.4%)	3 (8.6%)	3 (8.6%)	3 (8.6%)	3 (8.6%)	1 (2.9%)

The results revealed that Centenary bank's Microfinance training program has not benefitted the clients of. It was noted from the above percentages that the highest percentage did not agree with training being helpful, whereby most of the respondents indicated no training on the questionnaires, which depicted inefficiency of the training program of Centenary bank.

On the other hand, most of those who appreciated training were operating from urban areas and had attained level of education not below secondary; except two respondents who operated from the rural areas.

In an interview conducted with 6 shop owners of Mbarara Central Market who were beneficiaries of Centenary bank, (7 Feb, 2014); 4 of them said they did not undergo any training even before the loan could be given to them; 1 said they had trained when still in school. whereas, the other respondent who accepted to have trained with Centenary said: *"I trained when Centenary was still known as Centenary Rural Development Bank (CERUDEB) but now it is no longer rural based"*. This meant that Centenary bank might have changed its objectives for reasons not yet made known to the public/customers, or there is lack of commitment to the training programs. It was however found out that there was a significant impact from training as part of microfinance services, though many clients did not train with Centenary bank but had at least undergone some training to enable them persist in their business ventures.

4.4 Savings and performance of SMEs

The research further sought responses from Microfinance beneficiaries of Centenary bank Mbarara branch to investigate whether savings affected their operations. However, it was found out that savings benefited only those who saved larger amounts of credit while those who with micro savings were not favored. For example, it was revealed that if one saves more money (say 5,000,000), the interest on deposit will outweigh the monthly maintenance charges on the account, thereby increase the income of the account holder.

This study assumed that as one saves money with Microfinance institution, there is some interest offered on the savings which increases the income of the account holder; therefore, the research sought responses to various questions which aimed at establishing whether savings affect the performance of SMEs. The research further investigated whether there is convenience with savings in Centenary bank Mbarara branch, and the results are shown in the next table:

Table xi: ***Savings in centenary are convenient*** **Source: primary data.**

	Frequency	**%**
Strongly disagree	6	17.1
Disagree	2	5.7
Agree	18	51.4
Strongly agree	9	25.7
Total	35	100.0

According to the results in table **xi,** it was noted that it is convenient to save with Centenary bank; as 77.1% of the respondents agreed that there is convenience with micro savings in Centenary bank. This allowed clients to easily open savings accounts with the bank. The 6 interviewees said that it was very easy for them to open up an account with Centenary bank which helped them to start depositing the little they earned.

The respondents were asked whether savings boosted their investment; however, 65.7% of the responses indicated a disagreement with the claim. This was linked to the assertion that Centenary bank does not offer interest on savings, which also scored 65.7 %.*(see tables:* ***xii & xiii****).* It was therefore found out that micro savings did not encourage investment since the amounts saved attracted negligible interest on the deposits. Microfinance savings therefore did not assist boosting investment in SMEs as the various authors showed it was one of the primary roles.

Table xii: ***Savings boost investment.*** **Source: primary data**

	Frequency	**%**
Strongly disagree	14	40.0
Disagree	9	25.7
Agree	6	17.1
Strongly agree	6	17.1
Total	35	100.0

Table xiii: ***Centenary offers interest on savings.*** **Source: primary data**

	Frequency	**%**
Strongly disagree	13	37.1
Disagree	10	28.6
Agree	8	22.9
Strongly agree	4	11.4
Total	35	100.0

Table **xii** & **xiii** represent the various responses as obtained in the 35 questionnaires given to the microfinance clients of Centenary bank.

In an interview held with the 6 clients of Centenary bank (7 Feb, 2014), who held micro savings accounts there, they argued that Centenary bank instead charges monthly maintenance fee on the savings account which neutralizes and in most cases reduces their savings. The clients further asserted that the interest on savings which Centenary bank claims to offer to its clients who save little is so small that it cannot increase their income on savings when the monthly maintenance fee is deducted on the account. However, the researcher also noted that most clients had very little deposit on their savings which could not attract significant interest; for example, some clients said that they were saving between 10,000 and 1,000,000; moreover occasionally.

The research further investigated whether savings in Centenary bank assisted clients to expand their enterprise. This investigation was based on the assumption that, when the bank offers interest on savings, the clients' money on the accounts increases and as soon as the clients needed funds for financing expansion ventures of their enterprises, they would access more money than the initial deposit; thereby use it to expand the business. The responses of up to 65.7% indicated that the savings had not assisted them in expansion of their businesses, as shown in the next table.

Table xiv: ***My business has expanded due to savings*** **Source: primary data.**

	Frequency	**%**
Strongly disagree	15	42.9
Disagree	8	22.8
Agree	2	5.7
Strongly agree	10	28.6
Total	35	100.0

In addition, the research found out that savings had not increased the personal incomes of the clients. As earlier noted, microfinance involves provision of productive savings to those owning or starting small businesses so as to increase their personal incomes and be able to invest in more ventures. Of the 35 responses, 62.6% indicated that micro savings had not increased their personal incomes, while 34.3% agreed with the assertion; indicating that Micro savings did not improve savings of SMEs.

Table xv: ***Saving has increased my income*** **Source: primary data.**

	Frequency	**%**
Strongly disagree	14	40.0
Disagree	8	22.6
Agree	5	14.5
Strongly agree	8	22.9
Total	35	100.0

In the interview with the 6 clients of Centenary bank, who held savings accounts in the bank, it was found out that because they save little, the interest on their deposit is negligible and hence cannot increase their income. For example, one of the interviewees said that: *"For us we save very little money intended to keep our accounts active, but there is no interest in Centenary."* (Interview on 7 Feb, 2014)

The study further in the interview, sought to know whether microfinance clients are subject to compulsory or voluntary savings policy. The clients said that for one to benefit from microfinance loan he/she must be an account holder in Centenary bank, hence compulsory saving. It was therefore interpreted that microfinance in Centenary benefits only those who hold accounts with the bank.

The questionnaires further sought whether clients had easy access to their saving accounts in Centenary bank. The responses indicated that it was easy to access the savings accounts as long as one had sufficient credit on the account.

Table xvi: ***I can access my savings account easily.*** **Source: primary data**

	Frequency	**%**
Strongly disagree	4	11.5
Agree	13	37.1
Strongly agree	18	51.4
Total	35	100.0

The study found out that 89.5% of the clients had easy access to their savings accounts; whereas the 11.5% disagreed; whereby some indicated that they were not allowed withdraw the entire amount on their accounts. The study revealed that this access did not improve the performance of SMEs since the amount the beneficiaries had on their savings accounts was little as a result of saving less credit, which attracted negligible interest.

In conclusion, from the above results, it was noted that microfinance in Centenary has not improved the performance of SMEs. This was derived from responses advanced by the microfinance beneficiaries, and the interview held with other clients of Centenary bank, who were also beneficiaries of microfinance in the same bank. It was also found out that some clients borrowed because it was the last resort to solving their business and family problems, for example, 3 of the 6 respondents interviewed said that they only borrowed because their children could not go back to school using the little money got from the small businesses.

It was further found out that the hindering factors to the improved performance of SMEs were associated with unfavorable IRs, containing repayment periods, and beneficiaries' engagement in businesses which deal in perishable items and items with inconsistent demand; which disabled them from earning enough revenue to realize profit after meeting credit obligations in time.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents conclusions in relation to the research results obtained, and recommendations based on the study findings. The conclusions are given on respective objectives of the study on the foundation of the responses on particular objective; thereby give the relationship between microfinance and performance of SMEs. In this case, the chapter gives suggestions (recommendations) for improvement on areas where the results were negative and the respondents expressed dissatisfaction about the Microfinance services offered by Centenary bank, Mbarara branch.

5.1 Conclusions about the findings

According to the findings, microfinance affects performance of SMEs such that if the microfinance services like loans, training and savings are poorly handled by Microfinance service providers and microfinance beneficiaries, the performance of SMEs will be poor too. The terms laid on loans such as repayment period, Interest Rates on loans, access requirements, loan size and savings sensitization with its related terms such as compulsory or voluntary savings, access to the savings account and training, all were found to have affected performance of SMEs as discussed below.

The study confirmed that loan affects performance of SMEs. Clients who received loans indicated how the terms attached to loans constrained their investment and financing operations. For example, the IR on loans reduced the profits of some respondents as it was paid monthly even when their merchandise had not made valuable returns. This meant that if the interest on loans is favorable, the performance of SMEs will improve, and if it is high, the performance of SMEs will be poor.

Similarly, the repayment period affected the performance of SMEs in a sense that the interest payable on loan was monthly, whereby most of the clients had not made enough sales to realize a profit after meeting the loan obligation. It should be noted that the performance of an enterprise is partly determined by profitability after meeting all expenses and other obligations. In addition, loan access also affects performance of SMEs such that if a person wants to finance an immediate productive business venture, the procedures for loan acquisition will determine whether the venture will be financed in time or not. That means that if the financing of the venture delays, all profitability associated with the venture is lost.

Furthermore, the loan size also affected the operations of SMEs, hence their performance too. The study noted that the loan size determines the level of investment such that a small amount of credit will discourage investment in large ventures, or limit expansion. Therefore, if a client applies for a loan, the loan charges reduce the initial amount requested for, thereby constraining the financing needs of an enterprise thereby limit the scope of profitability, which profitability is a performance indicator of SMEs.

The study found out that Microfinance savings also affect the performance of SMEs. The amount of money saved determines the level of investment such that if, for example, a client's initial deposit attracts interest, it increases thereby widening the level and scope of investment. In addition, savings determined the possibility of one accessing loan, whereby loans were only advanced to clients holding accounts with the bank (compulsory savings); therefore, savings has an effect on performance of SMEs.

In this case, there was no significant correlation between training and performance of SMEs. The study found out that most of the clients had not trained with centenary bank Mbarara branch. However, it can be concluded that the business complications which the respondents encountered, could have been as a result of lack of or poor entrepreneurial training, which should have helped to equip people with skills of record keeping, and most especially using credit in a productive way.

5.2 Areas where centenary bank microfinance has succeeded

The study found out that Centenary bank (Mbarara) has created public awareness of Microfinance services. This could be witnessed through savings sensitization, whereby the bank has attracted a great number of clients who save their credit with the bank, and go ahead to use other services of microfinance. Furthermore, the procedures for loan access were not so stringent thereby facilitating quick access to credit.

However, the bank did not satisfy microfinance beneficiaries especially when it came to credit terms, and training of microfinance beneficiaries to equip them with entrepreneurial skills to enable them benefit from the microfinance services.

5.3 Recommendations

I. There is need to review the current loan terms so as to enable clients undertake business operations with less financial strain. In this case, the IR needs to be revised so as to create confidence in the minds of clients that one can profit from the loan even when running a small business. For example, it was found out that most respondents engaged in trade of perishable products, majorly food stuffs; which meant that in case the demand is not frequent to satisfy the sale, losses cannot be avoided. Similarly, the charges attached to loans need revision such that clients are able to receive the amount of credit applied for and not less.

II. There is need to review the savings structure in Centenary bank such that clients who save small amounts are given a special consideration from those who save large sums of credit. This is because microfinance involves poor people who save little credit and yet hope for investment. In this case, there should be reasonable interest on small deposits of microfinance clients such that they could be convinced to hold their credit on the account for a reasonable longer time in hope of getting more returns. This could also help the bank do business as the clients' credit stays in the bank for long.

III. There is need to advance training schemes by Centenary bank, especially to all microfinance clients so as to equip them with up to date entrepreneurial skills thereby enabling them to operate efficiently in the competitive economy. This could change minds of some clients who think that microfinance does not favor the poor to get rich. It should be noted that since microfinance is designed mostly for people in rural areas who lack formal education in business fields, training is much necessary to equip beneficiaries with entrepreneurial skills such that they are able to operate efficiently and effectively.

IV. There is need to monitor how the clients use the borrowed credit since some of them indicated that they used some of the credit for family issues other than business issues, for which they borrowed the credit. Furthermore, according to the results obtained, there is need to carry out credit assessment before advancing loans since some of the clients interviewed said that "….you are only asked to verify whether you have a business and then they give you the loan"

5.4 Areas for further research

1. There is need to investigate the impact of government policies such as taxation on performance of SMEs since the government is the biggest employer which can influence funding and establishment of various business units in the economy, through the Central Bank and Ministry of finance .

2. There is need to find out the contribution of innovation on performance of SMEs since it influences tastes and preferences of consumers, who in turn determine the expansion and continuity of SMEs in operation.
3. There is need to assess the contribution of commercial banks on performance of SMEs, since commercial banks also offer loans to small and medium scale investors.

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INTERVIEWS

Interview with 6 Microfinance clients of Centenary Bank; on 7th February, 2014. At Mbarara central market

APPENDICES

APPENDIX I: Questionnaire for clients.

Dear Respondent, this is a research being carried out by Nimusiima Javiira, a student of Uganda Martyrs University. The research is being carried out purely for academic purposes, to establish THE ROLE OF MICROFINANCE ON THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES, a case of Centenary bank Mbarara branch.

I kindly seek your responses to these questions, and I hereby assure you that the information you give will be only for academic purposes and will be kept confidential.

Thanks for your cooperation

PART A: biographic information

Type of business..

Location: Urban ☐ Rural ☐

Age 25-35 ☐ 36-45 ☐ 46-60 ☐

Level of education

University ☐ Secondary ☐ Primary ☐ Did not go to school ☐

What has motivated you to become a client of Centenary bank?

…………………………………………….

How did you come to know Centenary bank Mbarara branch? (may choose more than one)

a. Through friends ☐
b. Through relatives ☐
c. Through employees ☐
d. Through advert ☐

OBJECTIVES: 1

Microfinance Loans and performance of SMEs

How much working capital did you borrow from this bank?

50,000-500,000 ☐

500,000-1,000,000 ☐

2,000,000-5,000,000 ☐

Above 5,000,000 ☐

(Strongly agree = 4, Agree =3, Disagree =2, strongly disagree =1)

	4	**3**	**2**	**1**
The repayment period was long enough to enable me realize profit				
Loan interest rates were favorable to me.				
Microfinance loan has been enough for me to start/finance an enterprise.				
I have been able to sustain and expand my enterprise due to microfinance loan.				
Individual loans are better than group loans				
It is easy to access a loan in Centenary				

How has microfinance loan affected your operations?..
....
....
....

OBJECTIVE 2

Training and performance of SMEs

(Strongly agree = 4, Agree =3, Disagree =2, strongly disagree =1)

	4	3	2	1
Microfinance training has helped me to utilize the loan productively				
Training enabled to me carry out feasibility study about for business before acquiring the loan.				
I have been able to make profits due to microfinance training				
I have been able to sustain and expand my enterprise due to microfinance training.				
I have received training related to operating a business and utilizing the loan				
Training has enabled me to get self employed				

How does training affect the performance of SMEs?...
....
....
....
....

Please, give reason (s)………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
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OBJECTIVE 3

Savings and performance of SMEs

(Strongly agree = 4, Agree =3, Disagree =2, strongly disagree =1)

	4	**3**	**2**	**1**
Savings in Centenary bank are convenient				
Microfinance savings boost investment				
My business has expanded due to microfinance savings				
Savings have increased my personal income				
Centenary offers interest on savings account				
I can access my savings account easily				

How do savings affect investment?...
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
……

Generally, what problems have you encountered as a client of Centenary bank?

No problems ☐

High interest rates ☐

Lack of collateral security ☐

Inaccessibility to the services ☐

Short repayment periods ☐

APPENDIX II: Interview guide

Micro loans and performance of SMEs

1. What type of business are you engaged in?.. ....
2. Are you a beneficiary of microfinance in Centenary bank?.................
3. How much capital did you borrow from Centenary bank?...
4. Was it easy to access the loan?...
5. How long do you take to repay?..

Training and performance of SMEs

1. Did you train before accessing the loan?...
2. How has the training affected your business operations?... ....
3. Do you employ other people in your business?... ....
4. Do you expect to continue operating your business?... ....
5. Do you see your business expand compared to when it started?... ....

Savings and performance of SMEs

1. Do you save with Centenary bank?... ....

2. Does your savings account attract interest?...................If not, what do you think is the problem?..
....
3. How much do you normally save on your account?...
....
4. Do you access your account easily?..
....