Micro Finance Loans and Financial Performance of Small and Medium Enterprises in Sembabule District. A Cross-sectional Study.

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Abstract

Background

This study aimed at examining the relationship between loan access and financial performance of SMEs in Sembabule district; the relationship between microfinance lending terms and financial performance of Small and Medium Enterprises in Sembabule district, and the relationship between Microfinance loan sizes and financial performance of SMEs.

Methodology

The study used a descriptive, correlational and cross-sectional survey design. The study sample size was of 53 SMEs within the district to establish the relationship between the study variables and use self-administered questionnaires and interviews to collect relevant data for this study.

Results

Of the 50 respondents of the study, 30 were females and 20 were males. This shows that majority 60% of the respondents were females and 40% were males. The correlational findings revealed a spearman's co-efficient of -0.242 with Sig value of 0.117. This shows a negative weak relationship between loan access and financial performance of SMEs in Sembabule district. The spearman's correlation coefficient of 0.724 was revealed with a significant value of 0.004. This shows a strong positive relationship between lending terms and financial performance. Therefore favorable lending terms led to improved financial performance of SMEs in Sembabule district.

Conclusion:

Generally micro loan access, lending terms and loan size have a significant relationship with financial performance of SMEs in Sembabule district.

Recommendations:

SMEs should avoid taking loans that take a sizable proportion of their business as this affects decision making, operations and financial performance of the business. The loan should be kept below 15% of the total capital of the business.

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1. Background of the Study

The concept of microfinance lending to SMEs was principally introduced more than three decades ago in Bangladesh by Nobel Peace Prize Winner Professor Muhammad Yunus. He started

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Grameen bank with the aim of reducing poverty by providing small loans to the country's rural poor who had little or no access to capital from financial institutions (Kimaru, 2014).

Before Uganda's independence in 1962, the main banks responsible for providing loans in Uganda were Barclays, Standard Bank and the Bank of Baroda from India. The government owned Uganda Commercial Bank and the Uganda Development Bank were launched in the 1960s (Magaji, 2020). The Uganda Development bank was a state-owned development finance institution, which channeled loans from international sources into Ugandan enterprises and administered most of the development loans made to Uganda (Wikipedia., 2021). The Uganda Development Bank Limited (UDB) was the first national development finance institution (DFI) in Uganda established under Decree No. 23 of 1972, which sought to "establish the Uganda Development Bank and the Credit Guarantee Fund and for other matters connected therewith" (Bank of Uganda,2020). Their main objective was to promote and finance investment in various commercial sectors of the economy with particular emphasis on agriculture, industry, tourism, housing and commerce. In order to achieve its objective, UDB was empowered, by its statute, to provide financing in the form of loans and by way of equity participation using funds borrowed from both local and foreign sources (UDB., 2012).

According to Bank of Uganda (2010), most of the banking activity was concentrated around Kampala, the country's capital, and other large towns, leaving 42 percent of Ugandans dependent on the informal financial sector and another 30 percent totally excluded from the financial services sector. This triggered banks of Uganda to categories financial institutions in into Tier I, II, III and IV financial Institutions. Under the Tier 4, Microfinance Institutions and Money Lenders Act, 2016 was gusseted in order to restore investor and consumer confidence in Uganda's microfinance industry whose reputation had been damaged by the rampant fraud in SACCOs and the unethical practices by some money lenders. This streamlined money lending business and also

foster the adoption of good practices that encourage savings mobilization through SACCOs in light of improved regulation and confidence in SACCOs and other Microfinance Institution (MF-PED, 2018).

Due to high, under and unemployment, most people have been forced to engage in variety of economic activities to generate sufficient income. However vast majority of these activities are in the informal sector hence establishment and dominance of micro and small enterprises.

For SMEs to finance their business operations effectively and efficiently, they need different sources of funds to increase their working capital through acquiring loans from financing institutions (Kimaru, 2014). The government through the Microfinance institutions and Money lenders act 2016, provided alternative ways through which Small and Micro enterprises can be financed using loans, included microfinance institutions, Commercial bank, money lenders, Islamic banking, bank assurance as well as local saving groups in rural areas (MFPED, 2018).

The persistent lack of assets and weak financial foundations often make it difficult for SMEs globally to access loans and expand in their operations. Consequently the inadequate equity capital invested in SMEs makes these businesses more reliant on other loans especially from micro finance institutions (Marus Eton, 2017). However, SMEs continue to face numerous challenges such as lack of collateral and guarantor in order to have access to finances. Further, a few SMEs that manage to access loans have on a number of times defaulted or failed to pay back in time hence liquidity and solvent problems and has led to accumulated interest arrears, non-performing loans, and loss of collaterals and dissolution of SMEs before their second birth day (World Bank, 2018).

Microfinance has been defined as the financial services provided to low-income individuals or groups who are typically excluded from traditional banking (FINCA, 2020). Kagan (2020) posits that microfinance is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Most microfi-

nance institutions focus on offering credit in the form of small working capital loans, sometimes called microloans or microcredit.

A loan refers to money received from a party. This amount of money carries interest in exchange for repayment of the loan principal amount. Loan terms are agreed to by each party before any money is advanced. It may be secured by collateral such as a mortgage or it may be unsecured such as a credit card (Kalio, 2016). Therefore, Micro finance loans are credits obtained from Micro finance institutions to finance working capital requirements for low income individuals and groups.

Verma (2020) defines financial performance as subjective to measuring how well a business uses its assets to generate revenues and ensure efficiency of its management policies. It is also used as a general measure of a firm's overall financial health over a given period and thus measures the effect of loans on the working capital, profitability, solvency and efficiency of SMEs.

Marus Eton (2017), in his study "Credit financing and performance of SMEs in Lira Municipality, Uganda" generalized performance of SMEs and was not specific of the source for financing businesses prompting the current researcher to find out the effect of micro loans on financial performance of SMEs. Further, James (2014), "Lending terms and financial performance of small and medium enterprises in Uganda: Case of Soroti district". In his study, he focused on the relationship between cost of money, loan period, and loan size as lending terms affecting financial performance of SMEs. This left a gap of other factors that influence financial performance of SMEs despite availability of micro finance loans. SMEs in Sembabule district have been involved in numerous cases of delayed loan repayment (non- performing loans), auctioning of their properties and default of loans of several SMEs. This has landed some into solvency before their third birthday thus prompting the current researcher to find out the influence of micro finance loans on the financial performance of SMEs in Sembabule district.

2. RESEARCH METHODOLOGY:

2.1. Research Design
The study used a descriptive, correlational and cross-sectional research design. Further, the study used both qualitative and quantitative hence a mixed research design.

The study was descriptive research survey design in nature because the researcher used mean, standard deviation, frequency table, graphs and pie charts to describe the findings of the study. The study was also cross-sectional because it took a short period of time considering the fact that the researcher is a student with limited resources to make a follow up on the study. Lastly the study is both qualitative and quantitative in nature because the researcher used both words and figures to explain the findings of the study.

2.2. Sources of data
The researcher collected data from both primary and secondary sources for this study.

2.3. Primary sources of data
Self-Administered questionnaires.

The researcher used self-administered questionnaire to obtain primary data for this study. This type of data was obtained from managers of selected SMEs in Sembabule district and managers of selected Micro finance institutions within the district.

2.4. Interviews
Further, primary data was obtained from interviews with stakeholders in the district. For example, the district information officer, the District Commercial Officer and Staff of Sembabule town council, Management of financial institutions and selected loan clients in the existing SMEs. These provided first-hand information that was necessary for this study.

2.5. Secondary sources of data
2.6. Documentary
The researcher obtained secondary data from documents such as annual reports, financial statements, meeting proceedings and SMEs files. Client Loan files at micro finance institutions.

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2.7. Target Population of the study

According to statistics records at Sembabule district (2020), Sembabule town council, the District has 52 SMEs and 7 branches of microfinance institutions and 1 commercial Bank which only exists in the District, hence the population of the study.

2.8. Sample size

The researcher adopted Krejcie and Morgan table (1970) select sample suitable for the study. The study sample consisted of 46 SMEs and 7 managers of microfinance institutions. Therefore the sample size comprised of 53 respondents.

2.9. Research instrument

In carrying out this research, the researcher used of some vital research instruments which included the following;

2.10. Questionnaires

Validated questions were designed and distributed to management of selected SMEs and microfinance institutions as respondents which represented the entire population to fill in the options.

2.11. Interviews

The study also used interviews to collect data from key stakeholders in the district especially the District Commercial Officer.

2.12. Data processing and Analysis

Data collected from the field was coded, validated, organized and harmonized using Microsoft Excel. After harmonizing the framework of variables of interest, the researcher added missing variables in the original MS Excel database and exported to SPSS software.

The processed data was analyzed using SPSS software v20 to uniquely produce the results of the study. The analysis looked at individual analysis of each variable of the study, bi-variate analysis as well as the multivariate analysis. Correlation analysis of the independent and dependent variables which were numeric was also carried out using Pearson's product moment (Bosco, 2016).

The study also used multiple regression model because the dependent variable (financial performance) is numerical and the independent variable is categorical (Micro finance loans) (Bosco, 2016).

2.13. Validity

The researcher used expert judgment method. After constructing the questionnaire, the researcher contacted the supervisor and experts in this area of study to ensure that the instruments were clear, relevant, specific, logically arranged. The expert was requested to rate the validity of each item using the following cords SA, A, D and SD. After the researcher had collected the questionnaires and established a content validity index. A CVI (n/N) of 0.9 was achieved hence the instruments were valid.

2.14. Reliability

A test- retest method was used to test reliability of the questionnaire. The researcher pretested the questionnaire on few respondents before administering it to the sample size. He gave the questionnaires to a few respondents (5) to answer it again. Responses from the first time (test) were compared to the responses of the second test (retest).

2.15. Ethical Consideration.

The researcher also did seek permission from the graduate school and obtained an introductory letter which he went with in the field. The researcher also promised participants to use the provided information for academic purposes only and also ensured that provided data was to be treated with maximum confidentiality.

Further, the researcher cited and credited all the previous researchers whose literature has contributed to this study. The researcher followed all the University guidelines in carrying out this research in terms of structure, format and referencing.

3. Results:

3.1. Response rate

The sample size of the study was 53 managers of the SMEs and Microfinance institutions in Sem-

babule district. Of the 46 selected SMEs to participate in this study, 3 managers were absent on the agreed day of collecting the questionnaires hence reducing the sample size and the response rate by 6%. However, the percentage is insignificant to alter the findings of the study.

From the table 1, the response rate for SMEs was at 81%. This led to a fall in response rate by 6% hence bringing the response rate to 94%. The response rate by microfinance institutions was 13%. This was because; the researcher used interview method hence responses were captured there and then. Therefore, interview method provided a better response rate than questionnaire method and is likely to give better results.

3.2. Background Information
3.2.1. Gender

From the table 2, of the 50 respondents of the study, 30 were females and 20 were males. This shows that majority 60% of the respondents were females and 40% were males. Further, majority of the SMEs are managed by women hence are more entrepreneurial than males in Sembabule district.

3.3. Years of operation of the SMEs

From the bar graph below, the year of operation of SMEs in Sembabule district were categorized for easy interpretation of the findings. The years of operation were categorized into 0-2 years, 3-5 years, 6-10 years and 11 years and above.

The findings revealed that the biggest proportion, 36% of SMEs has been operational for less than 2 years, followed by 24% for SMEs that have operated for 6-10 years. SMEs that have operated for 3-5 years and 11-above years have the same percentage of 20%. This shows that a lot of businesses are started but do not see their third birthday as the number of operating businesses for three years reduces. The trend shows a slight increase in the number of operating SMEs for6-10 years because the time was not proportional hence, it does not signify efficiency of firms.

3.4. SME Business types

The findings of the study also showed that SMEs in Sembabule district deal in wholesale business, medical supplies and services, beauty shops and salons, Schools and hardware business.

Also the findings showed that 36% of the SMEs operate wholesale business, 21% operate Schools and beauty shops, 14% operate medical services and 7% operate hardware. This shows that most SMEs deal in selling household items and food stuffs.

3.5. The number of employees for SMEs in Sembabule district.

The findings on the number of employees used by different SMEs were categorized into two. That is 5-10 and 11-20 employees because the number was varying per SMEs.

From the table 2, majority 52% of the SMEs employ 11-20 workers in their business operations. 48% of the SMEs employ 5-10 employees in their operations. The findings of the study showed that SMEs involved in the study employed at least 5 people.

3.6. Daily sales and loan size for SMEs.

From the graph above, majority (33) of the SMEs make daily sales of 500,000 to 1million followed by 12 SMEs that make sales of 1-2 million and 5 SMEs that make sales above two million per day. Also the table shows that 10 SME acquire loans of less than 3 million from the microfinance institutions, 40 SMEs are acquire loans above 3 million from microfinance institutions within the district. 31 SMEs that make sales of less than 1million acquire loans above 3 million. This means that loans have a significant influence on their capital and operations. Generally, the SMEs are making low sales hence likely to affect the daily cash inflows of the SMEs.

3.7. Percentage of capital financed by loans and Stock turnover of SMEs.

The stock turnover was generated by asking respondents the number of times stock is changed in a month averagely. The responses were categorized into 1 time, 2 times, 3 times and not applicable for business that did not have stock like schools. For the capital in percentage loans was aimed at finding the capital structure of the

Table 1: Showing response rate

Response	Questionnaires and interviews Issued		Questionnaires received	
	Frequency	Percent (%)	Frequency	Percent (%)
SMEs	46	87	43	81
Microfinance institutions	7	13	13	13
Total	**53**	**100**	50	**94**

Table 2: Summary of Gender of the Respondents

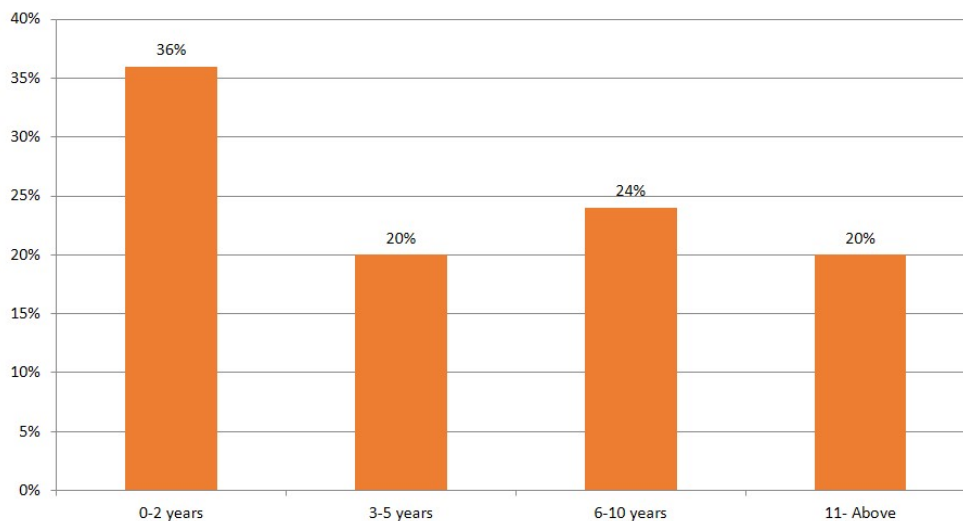|		Frequency	Percent	Valid Percent	Cumulative Percent
	Male	20	40.0	40.0	40.0
Valid	**Female**	30	60.0	60.0	100.0
	Total	**50**	**100.0**	**100.0**	

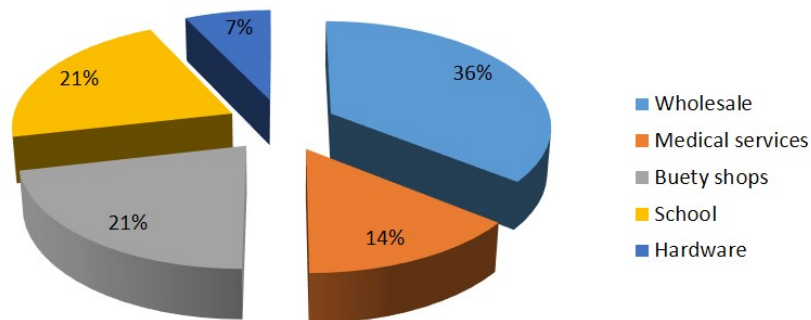Figure 1: showing years of operation by SMEs in Sembabule district.

Figure 2: showing business operated by SMEs in Sembabule district.

Table 2: showing number of employees for SMEs.

Employees		Frequency	Percent	Valid Percent	Cumulative Percent
	5-10	24	48.0	48.0	48.0
Valid	11-20	26	52.0	52.0	100.0
	Total	**50**	**100.0**	**100.0**	

Table 3: Showing sales and loans size for various SMEs

		Loan size Total		
	Values in millions	1-3 million	3.1-Above	
	0.5 -1	2	31	33
Sales	1-2	8	4	12
	2.1 and above	0	5	5
Total		10	40	50

SMEs. This was summarized by categorizing the loan percentage to 1-10% to mean low loan usage, 11-20 medium loan usage and 20 and above to mean high loan usage.

From the figure 3, majority of the SMEs that acquire loans from microfinance institutions change their Stock two times every month. Also results show that majority of the SMEs that acquire medium loans change stock 2 times, one time, three times. SMEs which take low amounts of loans have an equal number of stock turn over for most SMEs. This shows that majority of the SMEs borrow to finance the working capital shortfalls of their operations. Also, the level of stock turnover is moderate as SMEs do not replace their stock weekly. Therefore there is need to improve efficiency in their operations.

3.8. Correlatioanal findings of the study

In this section, the research findings are presented according to the study objectives set for the study. The objectives of the study were to examine the relationship between loan accessibility and financial performance, loan size and financial performance and lending terms and financial performance in Sembabule district.

3.9. The relationship between microfinance accessibility and financial performance of SMEs in Sembabule district

3.9.1. Descriptive analysis of microfinance loan access and financial performance of SMEs.

The researcher used Likert scale where the answers were on a scale of 1 to 5. Where 1= Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table also includes the summary of the participant's responses basing on percentages (%), frequency (F), standard deviation (Std) and mean.

Findings in the table 5 revealed that account opening has influence on loan access. 90% of the respondents strongly agreed with the statement and 10% also agreed with the statement. Averagely, the mean response value of the statement was 1.1 with a standard deviation of 0.13. This shows no significant change in response by the respondents. Generally, opening an account with

microfinance institution increases chances of accessing loans for SMEs in Sembabule district.

Further, the findings in table 5 showed that one must have collateral to have loan access. 80% of the respondents strongly agreed with the statement that one must have a collateral security while 20% agreed with the statement. Therefore, all the respondents agreed that a collateral is important before accessing microfinance loans.

Also, the findings in table 4.4 showed that one must have a guarantor and a national Identification card to access credit from microfinance institutions in Sembabule district. 68% of the respondents strongly agree, 24% agree, while 8% were neutral on the statement. Averagely, the response was 1.04 with a standard deviation of 0.36. The standard deviation is below 1 hence no significant difference in response value.

The findings also indicated that loan access has a relationship with the financial performance of SME. The biggest proportion 40% of the respondents was neutral on the relationship between loan access and financial performance of SMEs. The average response was 2.26 with a standard deviation of 1.23. This shows that respondents agree that there is a relationship between access to micro loans and financial performance. This is because access to loans increases the capital and stock of the business hence improved financial performance.

3.10. Spearman's correlation coefficient for loan access and financial performance of SMEs.

According to the findings in table 4.5, the correlation co-efficient between loan access and financial performance of SMEs was -0.242 with Sig value of 0.117. This shows a negative weak relationship between loan access and financial performance of SMEs in Sembabule district. The Pvalue of the relationship is greater than 0.05. Therefore, loan access does not necessarily influence the financial performance of SMEs.
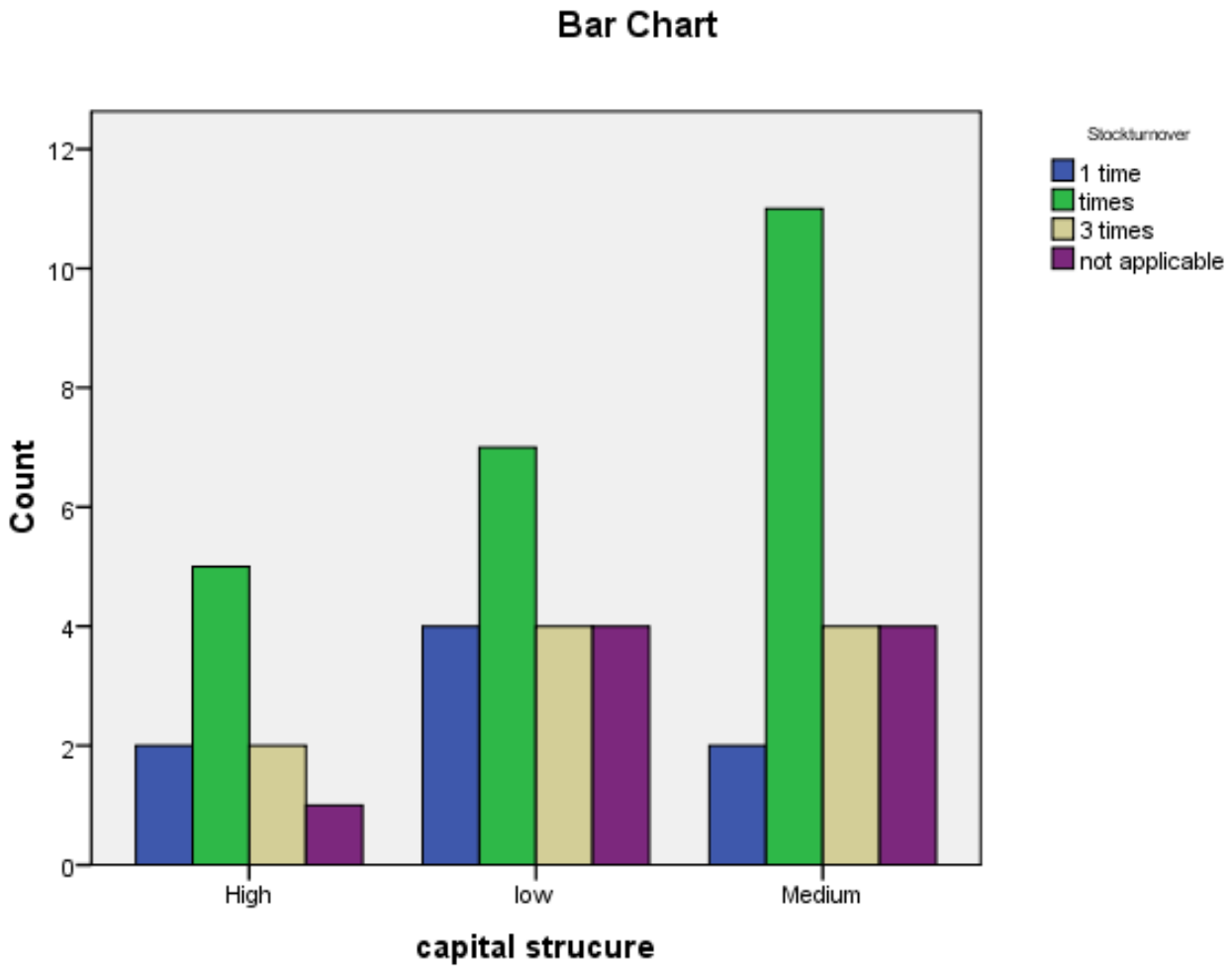
Bar Chart

Figure 3: Showing loan percentage and stock turnover.

4. The relationship between microfinance lending terms and financial performance of SMEs

The researcher used Likert scale for this particular section of the study where the responses were on a scale of 1-5. Where 1 = Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table below shows a summary of the participant's responses basing on percentages (%), frequency (F), standard deviation (Std) and mean.

According to the findings in table 4.6 repayment period affects the working capital of the SMEs. The findings revealed 2.68 mean response

with standard deviation of 0.17. The biggest proportion (40%) of the respondents was neutral on the statement. Also 38% of the respondents agree that loan repayment period affects the capital of the SMEs as loans increase capital during that period.

Further the findings in table 4.6 revealed that Interest paid on loan negatively affects the profits of SMEs. The findings showed that 68% of the respondents agree that interest paid on loans reduces the profits made by the SMEs. Therefore the average response was 1.84 with a standard deviation 0.62.

Also, the findings in table 4.6 indicated that Repayment period affects the stock of SMEs. The

Table 4: Descriptive analysis micro loan access and financial performance

Statement	SA	A	N	D	SA	Total	Mean	Std
Account opening has influence on loan access	45 90%	5 10%				50	1.10	0.13
One must have a collateral to have loan access	40 80%	10 20%				50	1.20	0.65
One must have a guarantor and a national Identification to access credit	34 68%	12 24%	4 8%			50	1.40	0.36
Loan access influences the capital of the SMEs	20 40%	14 28%	10 20%	6 12%		50	2.04	0.87
Loan access increases the stock of SMEs	10 20%	17 34%	12 24%	8 16%	3 6%	50	2.54	0.65
Loan access increases the profits made by SMEs		10 20%	24 48%	11 22%	5 10%	50	3.22	1.12
Loan access has a relationship with the financial performance of SMEs	4 8%	9 18%	12 24%	20 40%	5 10%	50	3.26	1.23

Table 5: Correlation between loan access and financial performance

Spearman's rho			Loan access	Employee Performance
	Loan access	Correlation Coefficient	1.000	**-.242** **
		Sig. (1-tailed)		.117
		N	50	50
	Financial performance	Correlation Coefficient	**-.242** **	1.000
		Sig. (1-tailed)	.177	
		N	50	50

Table 6: Descriptive analysis of microfinance lending terms and financial performance of SMEs

Statement	SA	A	N	D	SA	Total	Mean	Std
Repayment period affects the working capital of the SMEs	4 8%	15 30%	20 40%	10 20%		50	2.68	0.17
Interest paid on loan negatively affects the profits of SMEs	18 36%	16 32%	14 28%			50	1.84	0.62
Repayment period affects the stock of SMEs	19 38%	22 44%	9 18%			50	1.8	0.86
Lending terms have a relationship with financial performance of SMEs	12 24%	19 38%	10 20%	9 18%		50	2.32	1.09

findings revealed that 82% of the respondents agree that repayment period affects the stock of SMEs. Further, the findings showed that respondents averagely agree with the statement.

The findings in table 4.6 revealed that lending terms have a relationship with financial performance of SMEs. 62% of the respondents agreed that there is a relationship between lending terms and financial performance of SMEs in Sembabule district.

Therefore, based on the findings in table 4.6 there is a relationship between lending terms and financial performance of SMEs in Sembabule district.

According to the findings in table 8, the spearman's correlation coefficient between lending terms and financial performance of SMEs was 0.724 significant value of 0.004. This shows a strong positive relationship between lending terms and financial performance. Therefore favorable lending terms led to improved financial performance of SMEs in Sembabule district.

4.1. The relationship between loan size and financial performance of SMEs.

The researcher used Likert scale for this particular section of the study where the responses were on a scale of 1-5. Where 1 = Strongly Agree, 2= Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree. The table below shows a summary of the participant's responses basing on percentages (%), frequency (F), standard deviation (Std) and mean;

According to the findings in table 9, loan size increases the profits of SMEs. Further the findings revealed that the biggest proportion 40% of respondents were neutral, 20% disagreed with the statement and 40% agreed that loans increase the profits of SMEs. Averagely the respondents agreed (2.76) with a standard deviation of 0.98.

Also the findings in table 9 showed that loan size affects the capital structure of SMEs. 38% of the respondents were neutral, 34% agreed while 28% of the respondents disagreed with the statement. Averagely, respondents agreed that loan size has an effect on the capital structure of the business.

Further the findings of the study showed that loan size improves the stock of SMEs. 48% of the respondents strongly agreed, 40% agreed and 12% were neutral on the statement. Therefore 88% of the respondents agreed that loan size improves the stock of SMEs. Averagely, the response was 1.64 with a standard deviation of 0.24.

Also the findings revealed that loan size improves the working capital of SMEs. 52% strongly agreed with the statement, 46% agreed while 2% were neutral on the statement. Averagely, the respondents agreed that loans improve the working capital of SMEs.

The findings in table 10 revealed that the spearman's coloration co-efficient between loan size and financial performance of SMEs was -0.46 with significant value of 0.753. Therefore, there is a weak negative relationship between loan size and financial performance of SMEs. This shows that loan size reduces the profits by 4%. However it is insignificant to influence financial performance of SMEs.

4.2. Regression analysis.

The findings from table 11 showed that financial performance of SMEs in Sembabule district was 24.5% predicted by the microfinance loan access (Adjusted R Square = 0.245). The remaining 75.5% was predicted by other factors outside the study. The regression model was also valid (sig. <.05). Therefore access to loans increases financial performance of SMEs by 24.5%.

Also the table showed that financial performance of SMEs in Sembabule district was 35.7% predicted by lending terms (Adjusted R Square =0.357). The remaining 64.3% was predicted by other factors outside the study. The regression model was sig. <.000). Therefore, interest, loan period influence financial performance by 35.7%.

Results also showed that financial performance was 48 % predicted by micro loan size (Adjusted R Square =0.48). The remaining 52% was predicted by other factors outside the study. The regression model was also valid (sig. <.000).

Generally micro loan access, lending terms and loan size have a significant relationship with financial performance of SMEs in Sembabule district.

Table 7: Correlation between lending terms and financial performance of SMEs.

			Lending terms	Financial performance
Spearman's rho	**Lending terms**	Correlation Coefficient	1.000	0.724**
		Sig. (1-tailed)	.	.004
		N	50	50
	Financial performance	Correlation Coefficient	0.724**	1.000
		Sig. (1-tailed)	.004	.
		N	50	50

Table 8: Showing descriptive analysis of loan size and financial performance of SMEs.

Statement	SA	A	N	D	SA	Total	Mean	std
Loan size increases the profits of SMEs	2 4%	18 36%	20 40%	10 20%		50	2.76	0.98
Loan size affects the capital structure of SMEs		17 34%	19 38%	14 28%			2.94	1.34
Loan size improves the stock of SMEs	24 48%	20 40%	6 12%				1.64	0.24
Loan size improves the working capital of SMEs	26 52%	23 46%	1 2%				1.5	0.18

Table 9: Correlation between loan size and financial performance of SMEs

			Loan size	Financial performance
Spearman's rho	Loan size	Correlation Coefficient	1.000	-.046
		Sig. (2-tailed)	.	.753
		N	50	50
	Financial performance	Correlation Coefficient	-.046	1.000
		Sig. (2-tailed)	.753	.
		N	50	50

Table 10: Regression analysis for microfinance loans andfinancial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.702	.664		4.070	.000
	Loan access	-0.760	.188	-0.717	-4.045	.000
Independent variable: Financial performance						
	R square	0.276[a]			F-statistics	8.953
	Adjusted R Square	0.245			Sig.	0.001
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.930	.664		2.908	.006
	Lending terms	-.890	.179	-0.840	-4.986	000
Independent variable: Financial performance						
	R square	0.630[b]			F-statistics	10.070
	Adjusted R Square	0.357			Sig.	0.000
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.743	0.291		2.551	0.014
	Loan size	.363	.146	-0.218	-2.567	.014
Independent variable: Financial Performance						
	R square	0.46[c]			F-statistics	6.348
	Adjusted R Square	0.48			Sig.	0.000

5. Discussion

This section summarized the findings of the study, drew conclusions, suggested recommendations and proposed areas for further research about the topic of the study.

The sample size of the study was art53 managers of the SMEs and Microfinance institutions in Sembabule district. Of the 46 selected SMEs to participate in this study, 3 managers were absent on the agreed day of collecting the questionnaires hence reducing the sample size and the response rate by 6%. The response rate for SMEs was at 81%. This led to a fall in response rate by 6% hence bringing the response rate to 94%. The response rate by microfinance institutions was 13%. This was because; the researcher used interview method hence responses were captured there and then. Therefore interview method provided a better response rate than questionnaire method and is likely to give better results.

Of the 50 respondents of the study, 30 were females and 20 were males. This shows that majority 60% of the respondents were females and 40% were males. Further, majority of the SMEs are managed by women hence are more entrepreneurial than males in Sembabule district.

The findings revealed that the biggest propor-

tion, 36% of SMEs has been operational for less than 2 years, followed by 24% for SMEs that have operated for 6-10 years. SMEs that have operated for 3-5 years and 11-above years have the same percentage of 20%. This shows that a lot of businesses are started but do not see their third birthday as the number of operating businesses for three years reduces. The trend shows a slight increase in the number of operating SMEs for 6-10 years because the time was not proportional hence, it does not signify efficiency of firms.

Further, the findings revealed that SMEs in Sembabule district deal in wholesale business, medical supplies and services, beauty shops and salons, Schools and hardware business. Also the findings showed that 36% of the SMEs operate wholesale business, 21% operate Schools and beauty shops, 14% operate medical services and 7% operate hardware. This shows that most SMEs deal in selling household items and food stuffs. 52% of the SMEs employ 11-20 workers in their business operations. 48% of the SMEs employ 5-10 employees in their operations. The findings of the study showed that SMEs involved in the study employed at least 5 people.

Also majority (33) of the SMEs make daily sales of 500,000 to 1million followed by 12 SMEs that make sales of 1-2 million and 5 SMEs that make sales above two million per day. Also the table shows that 10 SME acquire loans of less than 3 million from the microfinance institutions, 40 SMEs are acquire loans above 3 million from microfinance institutions within the district. 31 SMEs that make sales of less than 1million acquire loans above 3 million. This means that loans have a significant influence on their capital and operations. Generally, the SMEs are making low sales hence likely to affect the daily cash inflows of the SMEs.

The stock turnover was generated by asking respondents the number of times stock is changed in a month averagely. The responses were categorized into 1 time, 2 times, 3 times and not applicable for business that did not have stock like schools. For the loans as a percentage of capital was aimed at finding the capital structure of the SMEs. This was summarized by categorizing the

loan percentage to 1-10% to mean low loan usage, 11-20 medium loan usage and 20 and above to mean high loan usage. Majority of the SMEs that acquire loans from microfinance institutions changed their Stock two times every month. Also results show that majority of the SMEs that acquire medium loans change stock 2 times, one time, three times. SMEs which take low amounts of loans have an equal number of stock turn over for most SMEs. This shows that majority of the SMEs borrow to finance the working capital shortfalls of their operations. Also, the level of stock turnover is moderate as SMEs do not replace their stock weekly. Therefore, there is need to improve efficiency in their operations.

5.1. Summary of the study objectives

5.2. Summary of the relationship between microloan access and financial performance of SMEs

The findings of the study on loan access and financial performance revealed opening an account with microfinance institution, collateral security, guarantor and a national Identification are essential for SMEs to access microloans on Sembabule district. Further, the findings showed that loan access enables SMEs to improve their stock and sales.

The correlational findings revealed a spearman's co-efficient of -0.242 with Sig value of 0.117. This shows a negative weak relationship between loan access and financial performance of SMEs in Sembabule district. The P-value of the relationship is greater than 0.05. Therefore, loan access does not necessarily influence the financial performance of SMEs.

Generally, there is a relationship between micro-loan access and financial performance of SMEs in Sembabule district.

5.3. Summary of the relationship between lending terms and financial performance of SMEs.

The findings revealed interest rate, loan period, repayment method and interest as the lending terms followed by SMEs in Sembabule district. Also the findings showed that repayment period

affects the working capital of the SMEs as managers save in advance to repay loans hence reducing the working capital of SMEs. The findings also showed that 68% of the respondents agree that interest paid on loans reduces the profits made by the SMEs. 82% of the respondents agree that repayment period affects the stock of SMEs. Generally, there is a relationship between lending terms and financial performance of SMEs in Sembabule district.

The spearman's correlation coefficient of 0.724 was revealed with a significant value of 0.004. This shows a strong positive relationship between lending terms and financial performance. Therefore favorable lending terms led to improved financial performance of SMEs in Sembabule district.

5.4. Summary of the relationship between loan size and financial performance of SMEs

On Loan size, the findings revealed loan size increases with increase the profits of SMEs. Averagely, respondents agreed that loan size has an effect on the capital structure of the business. 88% of the respondents agreed that loan size improves the stock of SMEs.

On "Loan size improves the working capital of SMEs" statement, 52% strongly agreed with the statement, 46% agreed while 2% were neutral on the statement. Averagely, the respondents agreed that loans improve the working capital of SMEs.

The spearman's coloration co-efficient between loan size and financial performance of SMEs was -0.46 with significant value of 0.753. Therefore, there is a weak negative relationship between loan size and financial performance of SMEs. This shows that loan size reduces the profits by 4%. However it is insignificant to influence financial performance of SMEs.

5.5. Summary on regressions

The findings showed that financial performance of SMEs in Sembabule district was 24.5% predicted by the microfinance loan access (Adjusted R Square = 0.245). The remaining 75.5% was predicted by other factors outside the study. The regression model was also valid (sig. $<.05$). There-fore access to loans increases financial performance of SMEs by 24.5%.

Also the table showed that financial performance of SMEs in Sembabule district was 35.7% predicted by lending terms (Adjusted R Square =0.357). The remaining 64.3% was predicted by other factors outside the study. The regression model was sig. $<.000$). Therefore, interest, loan period influence financial performance by 35.7%.

Results also showed that financial performance was 48 % predicted by micro loan size (Adjusted R Square =0.48). The remaining 52% was predicted by other factors outside the study. The regression model was also valid (sig. $<.000$).

Generally micro loan access, lending terms and loan size have a significant relationship with financial performance of SMEs in Sembabule district.

6. Conclusion

Of the 50 respondents of the study, 30 were females and 20 were males. This shows that majority 60% of the respondents were females and 40% were males. Further, majority of the SMEs are managed by women hence are more entrepreneurial than males in Sembabule district.

The findings revealed that the biggest proportion, 36% of SMEs has been operational for less than 2 years, followed by 24% for SMEs that have operated for 6-10 years. SMEs that have operated for 3-5 years and 11-above years have the same percentage of 20%. This shows that a lot of businesses are started but do not see their third birthday as the number of operating businesses for three years reduces. The trend shows a slight increase in the number of operating SMEs for 6-10 years because the time was not proportional hence, it does not signify efficiency of firms.

The correlational findings revealed a spearman's co-efficient of -0.242 with Sig value of 0.117. This shows a negative weak relationship between loan access and financial performance of SMEs in Sembabule district. The P-value of the relationship is greater than 0.05. Therefore, loan access reduces the profits of the SMEs hence poor financial performance of SMEs in the district.

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The spearman's correlation coefficient of 0.724 was revealed with a significant value of 0.004. This shows a strong positive relationship between lending terms and financial performance. Therefore favorable lending terms led to improved financial performance of SMEs in Sembabule district.

The spearman's coloration co-efficient between loan size and financial performance of SMEs was -0.46 with significant value of 0.753. Therefore, there is a weak negative relationship between loan size and financial performance of SMEs. This shows that big loan sizes reduce the profits of SMEs in Sembabule district. Generally micro loan access, lending terms and loan size have a significant relationship with financial performance of SMEs in Sembabule district.

7. Limitations of the study

i) A research of this nature allows students to go to the field a once due to limited resources hence has no follow up on certain cases hence a limitation to this research.

ii) The outbreak of the pandemic has caused a great threat to the success of this research. Collection of data has been limited by the lockdowns and limited access to the supervisor due to standard operating procedures.

iii) The already existing literature about the topic of study is too limited especially the contextual review and the geographical scope of the study hence requires extensive research and other research materials.

8. Recommendations of the Study

Further, majority of the SMEs are managed by women hence are more entrepreneurial than males in Sembabule district. There is a need for men to pull up and engage in entrepreneurship within the district.

Further, I recommend other researchers to use interview method to collect data for rural studies as respondents are spread hence information improving the response rate.

Also SMEs should engage in improving their sales and cash inflows so that they have the capac-

ity to finance acquired loans. This will help them to survive and see their third and more birthdays.

Also micro finance institutions should ease the loan access conditions as these negatively affect the financial performance of SMEs. This is because by the time the access a loan they spent a sizable amount on inspection, opening an account and convincing a guarantor.

Further, SMEs should avoid taking loans that take a sizable proportion of their business as this affects decision making, operations and financial performance of the business. The loan should be kept below 15% of the total capital of the business.

9. Areas for further research

Further research should be carried out on the relationship between lending terms and profitability of SMEs. The study should also be carried out on the relationship between government grants and growth of SMEs.

10. Source of funds

The researchers used own funds to carry out this study.

11. Conflict of Interest

The researchers have no any conflict of interest in carrying out this research.

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