



**MAKERERE UNIVERSITY  
COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES (COBAMS)  
SCHOOL OF BUSINESS**

**ACCESS TO AFFORDABLE CREDIT AND PERFORMANCE OF SMES IN THE CENTRAL  
DIVISION OF KAMPALA CITY, A CASE OF KIKUUBO BUSINESS HUB.**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS  
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**Plan A**

**November, 2024**

**Declaration**

I, Nakyejwe Irene, Registration Number 2018/HD06/3521U, hereby declare that this dissertation is my original work and has not been submitted to Makerere University or any other institution of higher learning for academic purposes, to the best of my knowledge.

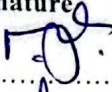

Signature



Date. 23/12/2025

Approval

This report has been prepared under our supervision and is hereby approved for submission in accordance with the university's approved guidelines.

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.

## **Dedication**

I dedicate this report to my parents, my spouse and my friends, whose untiring love, support, and encouragement have been my guiding light throughout this journey. Your unwavering belief in me has shaped my path, and your sacrifices and wisdom have been a source of strength. With immense gratitude and deep love, I acknowledge the profound impact you have had on my life, and I am forever grateful for your priceless influence in shaping both my personal and academic achievements.

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**List of abbreviations**

SMEs: Small and Medium Enterprises

GDP: Gross Domestic Product

GEM: Global Entrepreneurship Monitor

UBOS: Uganda Bureau of Statistics

UIA: Uganda Investment Authority

PDM: Parish Development Model

RBT: Resource-Based Theory

KPIs: Key Performance Indicators

MSME: Micro, Small, and Medium Enterprises

IAT: Information Asymmetry Theory

## **Abstract**

The purpose of this study was to establish the impact of access to affordable credit on the performance of small and medium enterprises (SMEs) in the Central Division of Kampala, specifically in the Kikuubo area. The study aimed to examine the relationships between Collateral Security, Credit Repayment Terms, and Interest Rate Levels with the performance of SMEs in this region.

Using a quantitative research approach and a cross-sectional survey, the study focused on a population of 200 registered traders in Kikuubo, with purposive sampling employed. The findings revealed significant relationships between key financial factors Collateral Security, Credit Repayment Terms, and Interest Rate Levels—and SME performance. Collateral Security was identified as a critical factor that enhanced access to credit, thereby improving SME financial stability. Flexible Credit Repayment Terms were found to positively correlate with SME performance, as they supported better cash flow and reduced default rates. Lower Interest Rate Levels were also found to have a positive impact on SME performance, as affordable financing allowed businesses to invest in growth opportunities.

The study recommended that policymakers and financial institutions explore ways to reduce or diversify collateral requirements to improve SME access to credit, particularly for women-owned enterprises. It also suggested that future research could explore other financial factors, such as loan duration and financial product innovation, to further understand their influence on SME performance. The study received a 98% response rate.

## CHAPTER ONE: INTRODUCTION

### 1.0 Introduction

This chapter of the study covers the background to the study, the statement of the problem, the purpose of the study, specific objectives, research questions, the scope of the study, the conceptual framework, and the significance of the study. The purpose of the study is to establish the impact of access to affordable credit on the performance of small and medium enterprises (SMEs) in the Central Division of Kampala, specifically in the Kikuubo area.

### 1.1 Background to the study.

Small and medium-sized enterprises (SMEs) play a crucial role in the development of a country's economy and serve as the backbone of many businesses across the globe (Kwarisiima, 2022; Niigata & Kazuo, 2023; Fomum & Opperman, 2023; Ayodele, 2023). In some countries, these enterprises are referred to as the country's lifeblood, reflecting their significance as key drivers of growth (Urim Tummim, Suzaan Le, & Dubihlela, 2022). SMEs form a strong foundation for economic growth and provide numerous employment opportunities worldwide, in both developed and developing countries (Kwarisiima, 2022; Odhiambo, 2023). In the European Union, SMEs constitute more than 99% of firms, accounting for approximately two-thirds of employment and 60% of value addition (Kwarisiima, 2022; Fomum & Opperman, 2023). In Malaysia, SMEs make up 98.5% of enterprises, contributing 66% of the country's employment, 37.1% of its GDP, and 17.3% of its total exports (Ambad, Andrew, & Awang Amit, 2020). Additionally, in Thailand, the SME sector is a significant contributor to economic growth, both in terms of GDP and job creation (Wall, 2021).

In Africa, SMEs contribute equally to economic growth as they do elsewhere. For example, in South Africa, SMEs in the manufacturing sector are primary contributors to the country's economic development. In Ethiopia, SMEs account for 90% of employment, while in Kenya, SMEs primarily employ youth, contributing about 74% of total employment and around 18% of the GDP (Fredick & Job, 2022). Ghana's SMEs are recognized for their substantial contributions to the country's economic growth and its transformation into a middle-class economy, accounting for approximately 70% of the GDP and about 92% of businesses (Frank, Oscar, & Kwabena, 2023).

In Uganda, SMEs dominate the private sector, representing over 90% of the economy (Kwarisiima, 2022). They are dispersed across various sectors, with approximately 49% in the service sector and 33% in commerce and trade. SMEs foster innovation and employ over 2.5 million people, contributing about 20% of the Gross Domestic Product (GDP) (Elizabeth & Dr. Imran Ibrahim, 2022; Odhiambo, 2023; Ayodele, 2023).

However, SME performance often falls below expectations (Ayodele, 2023), with many failing shortly after establishment. This high failure rate is attributed to several factors, with the lack of access to financing being a dominant challenge that hampers daily operations (Owusu, 2019; Ambad, Andrew, & Awang Amit, 2020; Kwarisiima, 2022). In Malaysia, the alarming rate of SME failure indicates that 60% fail within the first five years, while only 40% manage to overcome the challenges and succeed (Ambad, Andrew, & Awang Amit, 2020; Madangu, 2022).

In Africa, the SME failure rate is equally concerning; for every seven startups, five fail within the first year. South Africa reports about 70% to 80% of business failures occurring within the first five years, making it one of the countries with the highest mortality rates worldwide (Kato & Tsoka, 2020; Urim Tummim, Suzaan Le, & Dubihlela, 2022; Madangu, 2022). High failure rates are also linked to operational risks, particularly affecting manufacturing businesses. These risks include machinery breakdowns, natural disasters, and accidents, which collectively hinder SME progress and may lead to failure (Urim-Tummim Shipanga). Due to limited access to necessary financing, SMEs often fail to implement strategies needed to enhance performance, resulting in underperformance and missed opportunities for job creation and economic growth (Ayodele, 2023).

In East Africa, SMEs frequently collapse shortly after formation due to poor financial performance, with financing often posing a significant hurdle. For instance, many SMEs in Kenya fail within the first three years (Fredick & Job, 2022). In Uganda, numerous SMEs have not performed well, with many failing to celebrate their fifth anniversary. Many of these enterprises fail within their first year of operation due to various factors, including poor performance and a lack of innovation (Fidelis, 2023). The failure rate of SMEs in Uganda stands at 33.3% (Rulangaranga, Basemera, & Ndi Isoh, 2020; Elizabeth & Dr. Imran Ibrahim, 2022). The performance of Ugandan SMEs raises significant concerns because the number of business enterprises has been increasing over the years (Elizabeth & Dr. Imran Ibrahim, 2022), yet their

performance has shown a reverse trend attributed to Uganda's unfavorable business environment (Lule & Tusiime, 2019; Fidelis, 2023).

Access to affordable credit, identified as the foremost barrier to SME performance, makes it challenging for many businesses to meet their day-to-day operational needs. Firms require easy access to financing to address daily and unforeseen expenses, such as increasing inventory, expanding premises, and investing in modern technology to enhance work processes. Accessible credit is especially crucial during turbulent times, as these firms rarely have excess funds available during crises (Kato & Tsoka, 2020; Rulangaranga, Basemera, & Ndi Isoh, 2020; Lwidiko & Esther, 2021; Moses, Siraj, & Lukman, 2022; Odhiambo, 2023). Governments often develop strategies to enhance access to financing, particularly for youth, women, and individuals with disabilities (Barasa, 2022). For instance, the Federal Government in Nigeria has implemented financial, fiscal, and industrial strategies aimed at helping SMEs survive and thrive. In Uganda, the government has introduced measures to improve SME performance, including financial support through programs like "Entandikwa," relief measures such as loan term extensions, and reductions in financing costs, like the recent reduction of audit fees for SMEs to UGX 250,000 (Background to the Budget, 2019). Additionally, various tax policies have been implemented to support the growth and development of small-scale businesses, including new tax incentives and harmonization of tax rates (Nakaweesa et al., 2023).

Despite these government interventions, many SMEs continue to underperform and face collapse (Nakaweesa et al., 2023). There is hope that if affordable credit is made available to SMEs, their performance will improve, breaking the cycle of failure that has persisted for two decades (Background to the Budget, 2019). The study will, therefore, seek to establish the impact of access to affordable credit on the performance of SMEs in the Central Division of Kampala City.

## **1.2 Statement of the problem**

Despite Uganda's reputation as one of the most enterprising countries in Africa, many Small, and Medium Enterprises (SMEs) face a high failure rate, with a significant proportion closing their doors within the first year of operation. The Global Entrepreneurship Monitor (GEM) report (2023) highlights that while Uganda ranks high in entrepreneurial activity, it also grapples with substantial challenges regarding MSME sustainability, particularly in the Kikuubo area (UBOS, 2020). One of the primary concerns is the difficulty many SMEs encounter in accessing funding

from financial institutions (UIA, 2020). In the Kikuubo area of Central Division, Kampala, SMEs face considerable barriers to obtaining affordable credit from traditional financial institutions. This issue is exacerbated by inadequate collateral, as many businesses lack tangible assets to use as security (Deus, 2023). In response to these challenges, the Ugandan government has implemented programs such as the Parish Development Model (PDM) and Emyooga, alongside previous initiatives like the Entandikwa Scheme and Bonna Bagaggawale (Wealth for All). However, despite these efforts, many SMEs remain trapped in a cycle of debt, struggling with credit recovery issues after securing loans (Ivan et al., 2023). Even with government support, the majority of SMEs in Kikuubo continue to perform poorly and fail due to a lack of profitability (Kato & Tsoka, 2020). According to Nuwagaba, Tsubira, & Namanya (2024), SMEs could potentially tap into various financing sources, including conventional bank loans, to address their financial needs. If these challenges remain unresolved, SMEs in the Kikuubo area will continue to face significant obstacles. This study aims to investigate the impact of access to affordable credit on the performance of small and medium enterprises in the Kikuubo area of Central Division, Kampala.

### **1.3 Purpose of the study**

The purpose of the study was to establish the impact of access to affordable credit on performance of small and medium enterprises in the Central Division of Kampala, Kikuubo area.

### **1.4 Research objectives**

- i. To examine the relationship between Collateral Security and performance of SMEs in Kikuubo area, Central Division of Kampala.
- ii. To examine the relationship between Credit Repayment Terms and performance of SMEs in Kikuubo area, Central Division of Kampala.
- iii. To examine the relationship between Interest Rate Levels and performance of SMEs in Kikuubo area, Central Division of Kampala.

### **1.5 Research Questions**

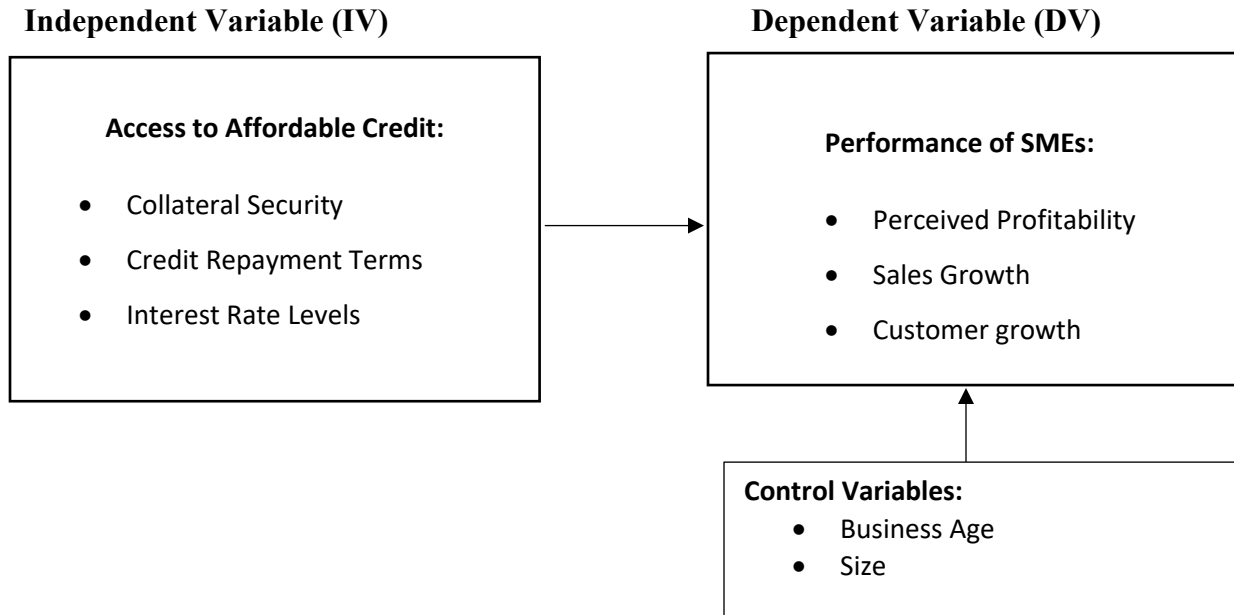
- i. What is the relationship between Collateral Security and performance of SMEs in Kikuubo area, Central Division of Kampala?
- ii. What is the relationship between Credit Repayment Terms and performance of SMEs in Kikuubo area, Central Division of Kampala?

- iii. What is the relationship between Interest Rate Levels and performance of SMEs in Kikuubo area, Central Division of Kampala?

### 1.6 Conceptual frame work

This conceptual framework explains the relationship between access to affordable credit on performance of small and medium enterprises in the Central Division of Kampala, Kikuubo area.

*Figure 1. Conceptual frame work*



Source: Developed on ideas adapted from literature review from Akhter and Cheng (2020), Jeong et al.

In this framework, access to affordable credit is conceptualized as the independent variable, comprising three key components: collateral security, credit repayment terms, and interest rate levels. These elements determine the ease with which SMEs obtain financing and manage their financial obligations. Guided by the Pecking Order Theory (Myers, 1984), which posits that firms prefer internal financing to external financing due to the higher costs and risks associated with the latter, the framework suggests that stringent collateral requirements, inflexible repayment schedules, and high interest rates can discourage SMEs from seeking external credit. Such constraints ultimately limit their operational capacity, growth prospects, and profitability. To ensure a more precise estimation of the relationship between access to affordable credit and SME performance, the framework incorporates control variables factors that may independently influence business outcomes. These include business age, reflecting the duration of enterprise

operations; business size, often measured by employee numbers or capital base; and entrepreneurial experience, representing managerial competence and sector knowledge. The dependent variable, SME performance, is assessed through indicators such as perceived profitability, sales growth, and customer growth. Understanding how access to affordable credit shapes these outcome measures while controlling for business age and size, offers valuable insights into the financing challenges faced by SMEs in Kikuubo. It further underscores the need for flexible and supportive financial policies tailored to the realities of small businesses, reinforcing the role of accessible credit in promoting SME development and regional economic growth (Nuwagaba, Tsubira & Namanya, 2024).

## **1.7 Scope of the study**

This study adopted the geographical, subject and time scope and described below

### **1.7.1 Geographical Scope**

This study was conducted within the Small and Medium Enterprises (SMEs) located in the Kikuubo area of the Central Division of Kampala. Kikuubo was selected as the focal point for this research due to its distinction as one of the regions with the highest concentration of SMEs in Uganda. According to a report by the Daily Monitor (2021), Kikuubo has become a hub for entrepreneurial activity, making it an ideal setting to explore the specific challenges and opportunities that SMEs face, particularly concerning access to affordable credit. By concentrating on this area, the study aims to provide insights that are relevant not only to Kikuubo but also to other similar urban environments in Uganda.

### **1.7.2 Subject Scope**

The study examined how the requirement for collateral impacts the ability of SMEs to secure loans. It investigated the types of assets typically used as collateral and the implications for businesses that lack tangible assets. This aspect explored the conditions under which SMEs are expected to repay their loans, including the flexibility and duration of repayment schedules. The study analyzed how these terms affect the performance of SMEs. The research also focused on the prevailing interest rates for loans accessible to SMEs and how these rates influence their financial decisions and overall performance. Together, these components contributed to a comprehensive understanding of the credit landscape for SMEs in Kikuubo.

### **1.7.3 Time Scope**

The study spanned a period from October 2024 to December 2024. Within this three-month timeframe, data collection and report writing was completed. This duration is crucial for ensuring an efficient and thorough process of gathering and analyzing data, as well as compiling the final report. The literature reviewed for this study covered a decade, specifically focusing on materials published from 2014 to 2024. This time frame allows for a comprehensive understanding of trends, challenges, and developments in SME access to credit over the years.

### **1.8 Significance of the study**

This study is significant to the following groups;

#### **1.8.1 Small and Medium Enterprises (SMEs)**

The findings of this study will provide valuable insights for SMEs in Kikuubo, enabling them to adopt strategies that will enhance their access to affordable credit. By understanding the key factors affecting credit access, SMEs was able to make informed decisions that will improve their financial performance, sustainability, and potential for expansion. This practical application of research findings will lead to better operational practices and increased resilience in the face of economic challenges.

#### **1.8.2 Scholars**

The study will significantly contribute to the existing body of knowledge regarding SME access to credit. It will illuminate the specific barriers and facilitators that SMEs will encounter in Kikuubo, providing a framework for understanding how these factors will influence business growth and sustainability. This knowledge was beneficial for scholars and practitioners interested in the dynamics of small business financing, particularly in developing economies.

#### **1.8.3 Government and Organizations**

The insights gained from this study was instrumental for government bodies and organizations focused on supporting and growing SMEs. By highlighting the challenges faced by SMEs in accessing credit, the study will inform the development of targeted policies and initiatives aimed at enhancing financial access. This will not only help achieve objectives related to improving SME performance but also contribute to broader economic growth and job creation within the region.

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature relevant to the study on the impact of access to affordable credit on the performance of small and medium enterprises (SMEs) in the Kikuubo area, Central Division of Kampala. Section 2.2 will cover the theoretical framework, while section 2.3 will provide a conceptual review. Section 2.4 will present an empirical review, focusing on the study's objectives, which include: examining the relationship between collateral security and SME performance in Kikuubo, analyzing the relationship between credit repayment terms and SME performance, and exploring the relationship between interest rate levels and SME performance in the same area.

### **2.2 Theoretical review**

#### **2.2.1 Resource-Based Theory (RBT),**

The Resource-Based Theory (RBT), first articulated by Wernerfelt (1984), posits that a firm's resources are critical to enhancing performance and maintaining competitive advantage (Wernerfelt, 1984; Prahalad & Hamel, 1990; Barney, 1991). These resources encompass financial assets (both liquid and illiquid), human capital, technological capabilities, marketing expertise, and physical resources. By effectively integrating these resources with organizational processes and characteristics, firms can develop robust corporate strategies (Andrews et al., 1965; Barney, 1991; Daft, 1983; Mata et al., 1995).

According to RBT, resources significantly influence a firm's profitability and overall performance, emphasizing that they should be valuable, rare, and difficult to imitate (Barney, 2001; Dierickx & Cool, 1989). In the contemporary business landscape, access to affordable credit represents a vital resource for small and medium enterprises (SMEs), particularly in areas like Kikuubo in Central Division, Kampala. The effective utilization of credit can help SMEs enhance operational efficiency and improve customer accessibility.

The dynamic nature of resource management underscores the need for SMEs to leverage their financial assets effectively to enhance operational performance and market presence. For instance, SMEs can utilize their resources to streamline product pricing and improve payment systems, thereby broadening their customer base and increasing sales volumes. The ability to adapt and

effectively utilize financial resources allows SMEs to meet current market demands and thrive by attracting new business opportunities.

RBT further asserts that a firm's success is contingent upon its ability to utilize internal resources, such as financial literacy and management skills, to make strategic financial decisions. When management is equipped with the knowledge to navigate credit options, they can strategically choose, manage, and allocate financial assets, resulting in improved business performance (Agyapong & Attram, 2019). Financial decision-making is crucial, as it significantly impacts profitability, growth, and the long-term viability of the firm.

The possession and strategic application of resources, including financial resources, are essential for value creation. RBT suggests that when SMEs fully exploit their internal capabilities, they can attract additional resources and create further value (Minola & Cassia, 2012). For example, effective training programs in financial management can enhance the skills needed to access and utilize credit effectively, enabling SMEs to mitigate risks associated with such resources.

Moreover, the availability of financial resources facilitates the acquisition of other essential resources, enhancing overall organizational performance (Stacey, 2011). The integration of cost-effective credit options can boost sales, leading to increased profits and the ability to secure additional resources. Consequently, when SMEs access and manage these resources effectively, their performance is likely to improve (Agyapong & Attram, 2019).

In summary, the Resource-Based Theory provides a framework for understanding how access to affordable credit influences the performance of SMEs in Kikuubo, Central Division of Kampala. This study aims to explore the relationships between key factors collateral security, credit repayment terms, and interest rate levels and the performance of SMEs, highlighting the strategic importance of resource management in enhancing business outcomes. Through effective credit management, SMEs can align themselves with evolving economic trends, enhancing efficiency and benefiting from improved financial conditions.

### **2.2.2. Information Asymmetry Theory (IAT).**

This is a conspicuous theory that explains the credit challenges faced by Small and Medium-sized Enterprises (SMEs). The theory postulates that there exists a fundamental imbalance of information between the SME borrower and the lender normally the bank. SMEs retain in detail, knowledge about their actual financial status and management capabilities and the particular risks involved in their activities, whereas on the other hand, the lender has only little of such publicly available information (Berger & Udell, 1998). This gap crafts two basic problems i.e. adverse selection whereby the lender charges higher average interest rate in order to discourage high risky borrowers. The higher average interest rate charged can however, mistakably scare away low risk high quality borrowers hence mainly leaving a collection of riskier borrowers. This comes as a result of the difficulty faced by lenders in identifying the less risky borrowers from the higher risky ones (Berger & Udell, 1998).

The second problem is moral hazard. This comes after loan disbursement. Financial institutions cannot accurately track the SME usage of the funds thus building up the risk that the borrower can easily trade in riskier projects than initially agreed since they stand higher chances of enjoying the potential profits while the financial institution bears most of the loss in case of project failure (Stiglitz & Weiss, 1981).

In order to alleviate above problems (adverse selection and moral hazard), financial institutions usually impose sterner conditions, for example requiring extensive collateral security, charging higher interest rates, engaging in credit rationing and asking for detailed business plans among others. While these stringent measures protect lenders, they create substantial and insistent barriers for SMEs pursuing business financing (Stiglitz & Weiss, 1981).

## **2.3 Conceptual review**

A conceptual review critically amalgamates existing literature about a given topic to, evaluate, and define its fundamental concepts and theoretical boundaries.

### **2.3.1 Small and Medium Enterprises**

In Uganda, small enterprises are defined as those that employ between 5 and 49 people or having total assets between Ugx 10 and Ugx 100 million while medium enterprises are ones that employ

between 50-100 people or those that have total assets between Ugx 100 million and 360 million (Pozhidaev, 2020) (Moses, Siraj, & Lukman, 2022) (Kwarisiima, 2022).

In the US, SMEs are defined as enterprises that consist of employees fewer than 500 (Kwarisiima, 2022). In the European Union the minimum required number of employees is 250 (Anthony, et al., 2023). In North America, in Canada, enterprises that consist of less than 500 employees are regarded as SMEs. In Ghana, SMEs are defined as firms that employ 6-9 people for small enterprises while medium enterprises are those that employ 10-99 people (Owusu, 2019).

In India, a company that has an investment of up to Rs. 10 crores and a turnover of up to Rs. 50 crores, is categorized as Small and those with an investment of up to Rs. 20 crores and turnover below Rs. 100 crores, are classified as “Medium”. (Akçaoğlu & Wehner, 2022)

Generally, SMEs can be defined as businesses with 250 employees and less. As discussed by several researchers, SMEs are known to greatly contribute to the country’s growth. In Kenya, these enterprises depict a very important role in the growth of the Country’s GDP by about 26% contribution to the general GDP. This sector also creates a great deal of employment opportunities with over 700,000 jobs in the country (Qabale, 2022).

### **2.3.2. Access to Affordable Credit.**

This refers to the availability of a reasonable quality of financial services. It is the ability of individuals to obtain financial services. It refers to the ready availability of financial services and at affordable costs as and when needed (Lwidiko & Esther, 2021). It can also be defined as ways by which firms acquire finance in terms of loans with an obligation to pay it back with interest within a specified period of time (Lwidiko & Esther, 2021). Access to credit according to Orji et al, 2023, refers to the ability of obtaining a bank loan at a cheap rate of interest. It is actually one of the biggest obstacles to the growth and development of SMEs in many African countries. For example, in Ghana and Nigeria, out of 100 SMEs, only 21 have access to credit while 79 of them have no access at all (Anthony, et al., 2023) . *In this study Access to Affordable Credit was measured in terms of Collateral Security, Credit Repayment Terms, and Interest Rate Levels.*

### **2.3.3 Interest Rates levels**

According Alafif (2023) the rate of interest is the reward for parting with liquidity for a specified period. In a sense, it is seen as a measure of the unwillingness of those who possess money to part

with their liquid control over it. It is the “price” which equilibrates the desire to hold wealth in the form of cash with the available quantity of each that is the price of credit. Interest rate as the price paid for the right to borrow and use loanable funds, are the costs of holding money (Liu, Mian, & Sufi, 2022). There are two types of interest rates; the nominal and real interest rates. The market rate of interest is roughly equivalent to the sum of the two forms of cost of holding money, that is: the market or nominal rate of interest equals (approximately) the real rate of interest plus the rate of increase in the price level. The nominal rates of interests are the rates of interest actually paid. They are the sum of expressed inflation and a real rate of return. The real rates are the nominal rates minus the expected rate of inflation (Vayanos & Vila, 2021).

#### **2.3.4 Collateral Security.**

This is a borrower's pledge of specific property to a lender, to secure repayment of a loan (Luck & Santos, 2024). The collateral serves as protection for a lender against a borrower's default that is, it can be used to offset the loan to any borrower failing to pay the principal and interest under the terms of a loan obligation (Heller, Leitzinger & Walz, 2024). If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral, with the lender then becoming the owner of the property. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral (Edwin, Glover & Glover, 2023). Should the buyer fail to pay the loan under the mortgage loan agreement, the ownership of the real estate is transferred to the bank. The bank uses the legal process of foreclosure to obtain real estate from a borrower who defaults on a mortgage loan obligation. A pawnbroker is an easy and common example of a business that may accept a wide range of items as collateral rather than accepting only cash (Mashetty, 2025).

Stringent collateral requirements have lately played a great role in excluding many SMEs from accessing the required financing especially those that lack tangible assets, particularly in the informal sector (Uganda SME Finance Report, 2024)

### **2.3.5 Credit Repayment Terms**

Credit repayment terms refer to the conditions under which a borrower is required to repay a loan, including the duration of repayment, frequency of installments, and structure of payments (Kassegn & Endris, 2022).

Zheng (2025) defines Loan repayment period as the period through which the borrower makes periodic payments to satisfy mortgage loans, car loans and other loans. One indicator of effective bank is the loan repayment of the borrowers (Johnson, Villanova & Smith, 2023). High repayment rates are associated with benefits both for the commercial banks and the borrowers and if there is high repayment rate where the period is shorter, the relationship between the bank (such as CRDB) and their client will be good, as Bialowolski & Weziak-Bialowolska (2021) argues that high repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the bank will be affected. In this case the borrowers will not be able to obtain the next higher loan and the lender will also lose their clients.

### **2.4. Performance of SMEs**

Performance of SMEs refers to the degree to which small and medium enterprises achieve their intended financial and non-financial goals, and it reflects the overall efficiency, competitiveness, and sustainability of the business (Abdullahi, Ardo & Ibrahim, 2021). In most developing economies, SME performance is assessed using indicators that capture both subjective and objective outcomes because many SMEs do not maintain formalized financial records (Anwar & Shuangjie, 2021). Performance can be defined as the extent to which an individual, group, organization, or system meets predetermined objectives or standards. It often involves evaluating effectiveness, efficiency, and outcomes in relation to goals (Neely, 2005). In the business context, performance typically refers to how well an organization achieves its goals and objectives, including profitability, market share, customer satisfaction, and operational efficiency. Key performance indicators (KPIs) are often used to measure success, with both financial metrics (e.g., revenue, profit margins) and non-financial metrics (e.g., customer loyalty, employee engagement) being considered (Kaplan & Norton, 1996). *Performance of SMEs was measured in terms of Perceived Profitability, Sales Growth, and Customer growth.*

### **2.4.1. Perceived profitability**

According to Daruwala, (2023), “profitability is the level of profit in relation to the volume of activities of the organization.” Although profitability can be used to measure firm performance and efficiency, profitability does not always equal the efficiency of management. Furthermore, profitability and profit are different concepts. According to Horton (2019), profit is the value of the difference between a firm’s total revenue and its expense; therefore, it will always be a firm’s objective to increase its profit. Profitability, although closely related to profit, is defined as the relationship between a firm’s level of profit and its relevant business scale (Horton, 2019). Following the model proposed by Ilaboya and Ohiokha (2016), this study uses profit before interest and tax to measure profitability.

Perceived profitability, refers to the business owner’s or manager’s subjective assessment of whether the enterprise is generating satisfactory profits relative to its costs and investments (Aryanto & Susanto, 2025). It takes into account the owner’s perception of earnings, profit margins, cost control capabilities, and overall financial stability. Perceived profitability is particularly important in SME research because it reliably captures financial outcomes even in situations where audited statements are unavailable.

### **2.4.2. Sales growth**

Another critical dimension of SME performance is sales growth, which measures the rate at which a firm’s sales revenue increases over a specific period (Ibe, & Akpan, 2024). Sales growth indicates a firm’s ability to attract new customers, retain existing ones, increase market share, and enhance demand for its products or services. A consistent increase in sales is often associated with effective marketing strategies, product quality improvement, customer loyalty, and successful adaptation to market changes. Sales growth is therefore considered a fundamental driver of SME expansion and long-term survival (Kamau & Gathenya, 2021). The performance of SMEs can be effectively evaluated by examining perceived profitability and sales growth together, as both dimensions offer insights into financial success, operational efficiency, and the firm’s potential for continued competitiveness in the market. These indicators provide a comprehensive picture of how well SMEs are performing and the extent to which they are contributing to economic growth, employment creation, and innovation within their respective sectors.

### **2.4.3. Firm Size**

Firm size is one of the core problems in modern enterprise theory, and enterprise (or firm) size still plays an important role in the study of enterprise growth (Hafiz, Latiff, & Wahab, 2022). Teal, 2023) defines firm size as “employees per establishment, employees per firm, sales per firm, and value added per firm.” Hafiz, Latiff, & Wahab (2022) indicated that firm size is the carrier of firm production and business activities. Presently, two criteria exist for enterprise scale classification in the theoretical field: qualitative and quantitative indexes. Qualitative division is defined by four main aspects: the degree of enterprise autonomy, the degree of ownership concentration, the management mode, and the status of the industry; quantitative division is defined mainly by the number of employees, the firm’s assets, and its sales income (Hafiz, Latiff, & Wahab, 2022). In previous related studies, firm size is measured by a firm’s total assets, its net sales, and the number of employees. Following Ilaboya and Ohiokha (2016), this study uses the total assets as the measurement of firm size.

### **2.4.4. Firm Age**

Age is defined as “the time of life at which some particular qualification, power, or capacity arises or rests” (Merriam-Webster, 2019). According to Ilaboya and Ohiokha (2016), a firm’s age is “the number of years of incorporation of the firm.” However, some argued that listing should be used to define firm age, as listing is more economical and because a firm’s life starts from the moment of listing. Similar to Ilaboya and Ohiokha (2016), we use the age of the firm since incorporation to measure firm age.

## **2.5. Contemporary around affordable credit access and Performance.**

As seen in the earlier chapter. Affordable credit is crucial for SMEs to smoothen their operations and growth for instance by investing in technology and developing new skills. Without easy access to credit, SMEs face liquidity restraints that hinders their potential for competitiveness and growth (Bank of Uganda , 2023) Below are some of the contemporary challenges related to access to affordable credit and performance.

### **2.5.1. High interest rates.**

One of the most pressing issues in the recent past, is the persistent high-interest rates charged by financial institutions. As of 2023, average lending rates for SMEs in Uganda were above 18%,

significantly higher than global SME lending averages (World Bank , 2023).This discourages borrowing and limits investment.

### **2.5.2. Weakened Business**

Growth and Advancement. Limited access to affordable credit creates cash flow restrictions which hamper SMEs' ability to venture into growth opportunities thus leading to stagnation and reduction in their market share (Uganda Bureau of Statistics , 2024)

### **2.5.3. Regulatory reforms**

The recent regulatory improvements designed to enhance financial inclusion, have had various results. Such reforms include the introduction of mobile money regulations and credit information bureaus which have enriched transparency but on the other hand, increased compliance costs for lenders (Bank of Uganda , 2023). There are different mobile money platforms that have broadened access to microloans, the scale remains inadequate for many SMEs especially those that require larger credit amounts.

## **2.6 Empirical review**

An empirical review is a systematic examination of existing research studies and data to identify patterns, trends, and relationships between variables, aiming to provide a comprehensive understanding of the current state of knowledge on a topic, identify gaps, and inform future research directions (Cooper, 2010).

### **2.6.1 Collateral Security and performance of SMEs**

Jrad (2023) explored the role of collateral in securing loans for SMEs in Lebanon, an emerging market economy. This study emphasized the necessity of collateral as a risk-mitigation tool, particularly in the Lebanese financial context where high uncertainty affected lending practices. Utilizing a quantitative methodology, Jrad found that collateral requirements remained high for SMEs, restricting access to financing. Similarly, Krasniqi, Kotorri, and Aliu (2023) investigated the relationship between relationship banking and collateral during economic crises, suggesting that in Southeast Europe, collateral requirements intensified during crises, making it difficult for SMEs to access loans. Aidoo and Nombare (2023) also analyzed collateral's influence on credit access, positing that larger loans were linked to stricter collateral requirements, thus impacting SMEs' borrowing capabilities.

Onzima, Aupal, and Alomu (2024) conducted an empirical study on SMEs in Arua Municipal Council, examining whether collateral security remains a determinant of SME performance. They found a limited positive correlation between collateral security and SME performance, implying that collateral's impact may be less significant than expected. Similarly, Cheptoyek (2023) explored the role of collateral among women-owned SMEs in Bukwo Town Council, revealing that many female entrepreneurs struggle to access credit due to stringent collateral demands, which hinders their business growth. This finding aligns with Munene, Walubuka, and Onkundi's (2023) study on SMEs in Meru County, which concluded that collateral availability critically influences SMEs' access to credit. Together, these studies highlight that collateral requirements remain a hurdle, particularly for smaller or women-owned enterprises.

In Kenya, Munguti and Wamugo (2020) assessed the impact of microfinance credit accessibility on SMEs' financial performance in Machakos County. Using a survey approach, they found that collateral security strongly influenced loan accessibility for SMEs, aligning with findings from Chilembo (2021) in Lusaka, who revealed similar constraints in the Zambian context. Chilembo's study further explored the extent to which other factors, such as interest rates, affected SME access to finance. In Malaysia, Wasiuzzaman, Nurdin, and Abdullah (2020) argued that firm linkages with large enterprises could alter the relationship between collateral and credit access, enhancing SMEs' chances of obtaining loans without stringent collateral requirements.

In Lesotho, Ramosoue (2021) investigated factors affecting SME growth, particularly the role of collateral and business plans in securing loans. This research, through regression analysis, indicated that collateral requirements negatively correlated with SME profitability, restricting their ability to expand. Cole, Cowling, and Liu (2024) extended this examination by studying SMEs in the UK and found that collateral requirements for term loans significantly reduced loan accessibility, particularly for smaller businesses with limited assets. Prihantoro and Nuryakin (2020) discussed similar findings in Indonesia, emphasizing that the collateral required from SMEs hindered their payment behavior and limited formal financing opportunities.

Pendame and Akotey (2023) focused on Malawi's introduction of a moveable collateral registry and its impact on MSMEs' access to finance. Utilizing a quasi-experimental design, they found that moveable collateral, such as equipment and receivables, increased credit access for SMEs by easing collateral constraints. Muindi and Mutwiri (2021) analyzed collateral as a determinant of

portfolio quality in Kenyan microfinance institutions, noting that collateral requirements reduced default risks but also limited access to credit. Onkundi, Munene, and Walubuka (2023) further examined how collateral availability influenced SME credit access in Meru County, Kenya, finding that SMEs with tangible assets faced fewer hurdles in obtaining loans.

Nzibonera and Waggumbulizi (2020) examined the impact of loans on the growth of small-scale enterprises (SSEs) in Kampala's central business area, noting that flexible collateral requirements positively impact business growth. They found that some microfinance institutions offer credit without demanding substantial asset-backed collateral, allowing SMEs with limited assets to access much-needed funding. Esperance (2021), studying SMEs in Kabale Municipality, similarly found that collateral is a significant determinant of financial accessibility, but also pointed out that many SMEs struggle to meet this requirement. Ambrose (2021) reinforced these findings, noting that insufficient collateral often limits SMEs' financing options, thereby affecting their performance negatively.

Syengo (2021) examined the securitization of intellectual property (IP) assets as collateral for SMEs in Kenya. This legal analysis suggested that despite SMEs' significant role in the information economy, limited acceptance of IP as collateral hindered their financing options. Simba, Tajeddin, and Dana (2024) extended this discussion to African SMEs more broadly, arguing that collateral value and the gender of SME owners influenced lenders' willingness to offer credit. Odhiambo (2020) also emphasized collateralizing intangible assets, advocating for policies that encouraged using intellectual property to support SMEs' financial needs.

The effectiveness of collateral in managing loan performance was analyzed by Ngode (2021), who studied commercial banks in Kenya. Findings revealed that SMEs struggled with loan performance when stringent collateral requirements were imposed, as limited assets restricted their financing options. This aligned with findings by Onzima, Aupal, and Alomu (2024) in Uganda, who observed that collateral security had an insignificant impact on SME performance, questioning its role as a decisive factor for financial success. Muindi and Mutwiri (2021) emphasized that collateral requirements, while stabilizing loan portfolios, added an undue burden on SMEs, often leading to financial exclusion.

Aidoo et al. (2023) assessed the effect of collateral on credit access, focusing on the loan size in African economies. Their findings, supported by quantitative analysis, revealed a negative

correlation between collateral requirements and SMEs' access to credit, especially for smaller loan sizes. This was further supported by Pendame and Akotey (2023), who argued that the establishment of moveable collateral registries, like those in Malawi, played a significant role in enhancing credit access for asset-constrained SMEs. Ramosoué's (2021) research in Lesotho found similar results, as stringent collateral requirements acted as a barrier to growth for SMEs, especially in developing regions.

The role of collateral in fostering or hindering SMEs' access to credit during economic downturns was highlighted by Krasniqi, Kotorri, and Aliu (2023) in their study on Southeast Europe. They found that SMEs experienced increased collateral requirements during economic crises, which reduced their ability to obtain necessary loans. Cole, Cowling, and Liu's (2024) research on UK SMEs concurred, emphasizing that collateral significantly impacted SMEs' access to credit, particularly during financial uncertainty. Similarly, Chilembo (2021) in Zambia noted that collateral, while intended to mitigate risk, often exacerbated financial challenges for SMEs facing high-interest rates and limited lending flexibility.

Wilcky, Nduhura, and Natamba (2021) conducted a study on debt financing challenges in Kampala's Rubaga Division, emphasizing that many SMEs face barriers in securing credit due to their inability to provide sufficient collateral. They estimated that limited access to financing due to collateral issues accounted for up to 26.6% loss in revenue among SMEs. In support, Luganda (2021) highlighted that financial characteristics, including collateral, significantly affect SMEs' ability to access funding in Uganda's Namanve industrial area. Muhire and Olyanga (2022) also found that stringent collateral requirements restrict SMEs' access to credit, limiting their ability to achieve growth and sustainability. These findings underscore the need for alternative credit access solutions to support SME development in Uganda.

Odongo and Kinyua (2021) analyzed the role of collateral requirements in determining credit accessibility for SMEs in Nairobi, Kenya. Their study employed a survey approach to assess how collateral impacted lending decisions in the region. Findings suggested that collateral significantly affected the willingness of banks to lend, often deterring SMEs from applying for loans due to limited asset ownership. In a similar African context, Mogaka and Makori (2022) examined collateral requirements among Kenyan SMEs, finding that strict collateral prerequisites hindered

the growth and profitability of small businesses, emphasizing the need for policy reforms to enable asset-limited SMEs to access credit.

Muhire and Olyanga (2022) also examined the sustainability of SMEs in Kampala's Nakawa Division, noting that collateral security requirements often act as a barrier to credit access. Their study found that many SMEs struggle to present the necessary collateral, impacting their operational sustainability. This view is shared by Esperance (2021) and Ambrose (2021), who noted that collateral requirements limit financial accessibility for SMEs, stalling their growth potential. Additionally, Nzibonera and Waggumbulizi (2020) observed that flexible collateral requirements could enhance access to credit, suggesting that adjusting collateral criteria could improve SME performance across Uganda.

Atieno and Ochieng (2021) conducted a case study in Kisumu, Kenya, focusing on micro-enterprises and their ability to secure financing from commercial banks. They found that most banks required tangible assets as collateral, a barrier for many micro-enterprises that lacked physical assets. This study highlighted the need for alternative collateral options, such as moveable assets or group guarantees, to facilitate easier loan access. Likewise, Abdulai and Osei (2022) studied Ghanaian SMEs, discovering that banks' heavy reliance on physical assets as collateral restricted SMEs' growth, as intangible assets were rarely considered acceptable for loan security.

Fosu, Frimpong, and Abor (2023) explored the determinants of SME financing in Ghana, examining how collateral requirements affected credit access among young and emerging businesses. Their findings revealed that collateral was a primary constraint, particularly for younger firms with limited asset bases. In response, they suggested implementing moveable asset registries to ease access to financing for SMEs. Similarly, Lokossou and Assogba (2022) studied collateral and credit access in Benin, observing that rigid collateral demands from banks limited entrepreneurial growth and innovation, calling for policy reforms that accommodate alternative forms of collateral.

In Uganda, Nabukenya and Nannyonga (2023) focused on the effects of collateral constraints on female-owned SMEs. Their study revealed that collateral requirements disproportionately affected women entrepreneurs, as they often had fewer assets to offer as security. This gendered disparity in collateral access limited credit opportunities for female-led businesses, reinforcing barriers to financial inclusion. Nair and Sam (2023) addressed a similar issue in India, finding that women-

owned SMEs faced greater challenges in meeting collateral requirements, underscoring the need for gender-sensitive lending policies that reduce asset-based loan prerequisites for women entrepreneurs.

### **2.6.2 Credit Repayment Terms and performance of SMEs**

The study by Ambrose (2021) in *Kabale Municipality, Uganda*, explores the relationship between financial accessibility and SME performance. He highlights that credit repayment terms, such as interest rates and loan duration, significantly influence SMEs' financial outcomes. This study, conducted using a quantitative research design, shows that stringent credit terms lead to increased default rates among SMEs, hindering their financial sustainability. Similar findings were echoed by Onkundi, Munene, and Walubuka (2023), who found that credit repayment terms directly impact SMEs' ability to meet loan obligations in Meru County, Kenya. This suggests a need for favorable credit terms to boost SME performance across regions.

Sulaiman et al. (2021) examine the impact of digital credit terms on loan defaults among university students in Uganda, showing that overly strict repayment terms contribute to higher default rates. Although this study focused on students, it provides insights into how restrictive credit repayment terms can affect different borrower groups, including SMEs. Likewise, Kinyua (2023) analyzed revolving fund repayment strategies in Kenya, finding that lenient repayment terms improve repayment performance, highlighting the importance of balancing credit conditions to promote successful loan recovery. Both studies underscore that repayment flexibility can benefit SME borrowers by reducing default risks.

In Tanzania, Katemana (2020) studied loan recovery determinants among micro, small, and medium enterprises (MSMEs) in Ilala Municipality, Dar es Salaam. The study adopted a mixed-methods approach and revealed that extended repayment periods and lower interest rates positively affect MSME loan performance. This is corroborated by Ndichu (2021), who observed in Kenya that credit management practices, including favorable repayment terms, are essential for improving loan performance in SMEs. These findings suggest that more manageable repayment terms may lead to improved SME performance and sustainable growth.

The research conducted by Kimunga (2021) on microfinance services and the financial performance of enterprises owned by persons with disabilities in Mukono Municipality, Uganda, found that credit repayment schedules directly influence business success. This study's qualitative

approach indicated that SMEs with regular, predictable repayment terms perform better financially. Simba (2023) further supports this, finding in Nairobi, Kenya, that socioeconomic factors, combined with manageable repayment terms, enhance SME access to credit. These insights suggest that adaptive repayment schedules tailored to SME characteristics may enhance performance.

Akol and Abuga (2023) explored microfinance credit services in Juba County, South Sudan, with a focus on small agribusinesses. Their study highlights that flexible repayment terms improve SMEs' ability to repay loans, thus fostering long-term growth. This aligns with Bitta and Omagwa's (2022) findings in Machakos County, Kenya, where affordable credit terms were shown to positively impact SME financial performance. Both studies, using descriptive research methods, illustrate that adaptable credit terms play a crucial role in supporting SMEs' growth in different African contexts.

Ndede, Wekesa, and Kiring'a (2021) investigated relationship lending and access to finance among SMEs in Kenya, finding that perceived hostile repayment terms discourage SME loan uptake and affect performance. This research, utilizing survey methodologies, showed that SMEs often struggle with repayment due to restrictive credit conditions, which limits their business expansion potential. These findings mirror those of Ssonko and Kawooya (2020), who observed in Uganda that accessible credit with moderate repayment requirements boosts business viability, emphasizing the importance of favorable credit terms for SME resilience.

Sireka and Fwamba (2020) studied the customer loan repayment records and financial performance of commercial banks in Kenya, revealing that consistent tracking of repayment history helps in formulating favorable credit terms for SMEs. This study's quantitative design demonstrated that by tailoring repayment terms based on borrowers' repayment behaviors, banks can reduce SME default rates. These findings support the argument presented by Akol and Abuga (2023) that a flexible approach to credit repayment can significantly improve loan performance among SMEs.

Research by Bwana and Mwakujonga (2019) on microfinance institutions in Tanzania shows that SMEs benefit significantly from credit terms that allow for gradual repayment, especially for long-term investments. Their study used a mixed-methods approach, concluding that flexible repayment options allow SMEs to allocate resources more effectively, enhancing their performance.

Similarly, Muturi and Rotich (2020) conducted a study in Kenya on the effect of credit access on SME sustainability, finding that relaxed credit repayment terms facilitate business growth by reducing the pressure on SMEs to generate immediate returns. This is echoed by Gikonyo and Linge (2020), who also found that favorable credit repayment terms improve SMEs' financial stability, underscoring the need for customized credit terms to meet SMEs' operational needs.

A study by Kiptoo and Sang (2021) on credit repayment and SME growth in Nakuru County, Kenya, found that SMEs with access to flexible repayment schedules exhibited better financial performance compared to those with rigid terms. Using survey data, the study highlighted that SMEs with adaptable repayment plans were able to maintain cash flow and invest in business expansion. This aligns with Onyango and Were's (2020) research in Nairobi, which demonstrated that the timing of repayments, alongside interest rate adjustments, significantly impacts SMEs' ability to thrive. Njagi and Njeru (2020) also support this, finding that in Meru County, Kenya, credit terms that match SMEs' income cycles boost repayment rates and business stability.

A comprehensive study by Muriuki and Gitonga (2022) on credit accessibility in Machakos County, Kenya, found that high-interest rates and short repayment terms often hinder SMEs from achieving sustainable growth. Their research, which used a case study approach, concluded that extending repayment periods could enhance SME resilience. This conclusion aligns with Mbiti and Mutemi (2021), who found in Kiambu County that small enterprises perform better under credit terms that include interest rate flexibility and moderate repayment timelines. Kioko and Muigai (2022) also support this view, emphasizing that accessible credit repayment terms are instrumental in reducing SME default rates and improving overall financial health.

Finally, research by Kamau and Gathenya (2021) on the role of credit terms in the performance of women-owned SMEs in Nairobi County showed that gender-sensitive credit terms, such as lower interest rates and extended grace periods, have a positive effect on business performance. Using a qualitative approach, the study found that credit providers who adapt their terms to the specific needs of women entrepreneurs help to empower and stabilize these businesses. Similarly, a study by Obura and Mulongo (2020) found that SMEs in Western Kenya with customized repayment plans are more likely to expand and sustain growth. Both studies suggest that credit repayment terms tailored to demographic and industry-specific needs improve SME performance and reduce default risks.

Finally, Chanyisa (2021) investigated green energy financing in Kenya, where flexible credit repayment structures are used to support private energy projects. Although focused on energy projects, this study highlights the benefits of accommodating credit terms for sustainability. Similarly, Luganda (2021) observed that in Namanve Industrial Area, Uganda, favorable credit terms, such as low-interest rates and extended repayment periods, positively impact SME growth and performance. Both studies underscore that flexible credit terms can foster development in various sectors, including SMEs.

### **2.6.3 Interest Rate Levels and performance of SMEs**

Interest rates play a crucial role in determining the performance of small and medium-sized enterprises (SMEs), as explored in various studies across different contexts. Onzima et al. (2024) conducted research in Arua Municipal Council, Uganda, examining the relationship between interest rates and SME performance. Their study utilized quantitative methods to analyze data collected from local SMEs, revealing that increased interest rates negatively impacted profitability and overall performance. The findings indicated that SMEs struggled to repay loans, leading to a decline in their operational capacity. Similarly, Otieno et al. (2021) investigated the effects of lending interest rates on SME performance in Kenya, employing a mixed-methods approach. They found a significant negative correlation between high lending rates and the growth of SMEs, emphasizing the need for government intervention to regulate interest rates and provide favorable lending conditions. These studies underscore the critical nature of interest rates in influencing SME success.

The impact of interest rates on SME performance extends beyond mere profitability to encompass various operational dimensions. Ashogbon (2022) explored this relationship in Nigeria, revealing that fluctuations in interest rates could hinder SMEs' access to necessary funding, ultimately affecting their growth trajectory. Using a survey methodology, the study concluded that high-interest rates deterred potential borrowers, leading to underinvestment in critical areas such as technology and employee training. In contrast, Osazevbaru (2021) focused on the informal sector in Nigeria, analyzing how interest rate and exchange rate volatility affected SME performance. The research highlighted that unpredictable interest rates compounded existing financial challenges, particularly for small businesses lacking financial literacy and management skills.

Together, these studies indicate that stable and predictable interest rates are essential for fostering a conducive environment for SME growth and development.

Access to credit and its relationship with interest rates also significantly affect SME performance. Yusuf et al. (2024) conducted an empirical study in Kwara, Nigeria, assessing the effects of credit delivery, availability, and interest rate fluctuations on SMEs. Their findings suggested that SMEs with better access to credit performed better, particularly when interest rates were favorable. This study employed a cross-sectional survey design, collecting data from various SMEs to illustrate the connection between access to finance and business outcomes. In another study, Samson (2021) examined the effects of microcredit and interest rates on SMEs in Northeast Nigeria. The findings demonstrated that lower interest rates on microloans enhanced SME performance, allowing for increased investment and operational efficiency. Both studies highlight the importance of tailored financial products that consider the unique challenges faced by SMEs.

Further analysis into the economic environment reveals how external factors, including interest rates, affect SMEs' operational decisions. Ugwu et al. (2023) investigated the economic environment's impact on SME performance in Nigeria, emphasizing that high inflation and interest rates stifled growth opportunities. The research utilized econometric modeling to analyze macroeconomic indicators and their correlation with SME performance, concluding that a stable economic environment is vital for fostering entrepreneurial activities. Dwamena and Yusoff (2023) explored the construction and manufacturing sectors in Ghana, finding that high interest rates significantly hindered project financing, leading to decreased productivity. Their qualitative methodology involved interviews with key stakeholders in the sector, shedding light on the operational challenges posed by high borrowing costs. These studies collectively suggest that a stable economic framework is essential for SMEs to thrive.

The role of government policies in regulating interest rates is also a pivotal factor in SME performance. Ilo et al. (2023) examined how monetary policy impacts SMEs in Nigeria, focusing on the interplay between interest rates and business performance. Their study employed a panel data analysis to assess the effects of interest rate adjustments on SME growth, concluding that well-calibrated monetary policies could enhance access to finance for SMEs. This finding aligns with previous research by Udoh et al. (2024), which analyzed the influence of macroeconomic variables, including interest rates, on SME financing decisions in Nigeria. Their research revealed

that SMEs favorably responded to lower interest rates, facilitating investment and expansion. These findings indicate that effective government policies can create a supportive financial ecosystem for SMEs.

Additionally, the availability of alternative financing options can mitigate the adverse effects of high-interest rates on SMEs. Akintola et al. (2023) explored the role of peer-to-peer lending platforms in Nigeria, finding that such platforms provided crucial financing alternatives for SMEs facing high-interest barriers. The study employed a qualitative approach, interviewing SME owners who utilized these platforms. The findings highlighted that these alternative financing sources helped SMEs maintain liquidity and invest in growth, emphasizing the importance of diversifying financing options in a high-interest environment. Similarly, Odhiambo and Kilonzo (2023) analyzed the role of venture capital in supporting SME growth in Kenya. Their research illustrated how venture capital could reduce reliance on traditional bank loans, thereby alleviating the pressures of high-interest rates on SMEs and enabling them to focus on long-term strategic goals.

The influence of financial literacy on SME performance in relation to interest rates is another vital area of exploration. Ibe and Akpan (2024) conducted a study on the impact of financial literacy on SMEs' ability to manage debt effectively. Their findings indicated that SMEs with higher financial literacy levels were better equipped to navigate fluctuating interest rates, make informed borrowing decisions, and ultimately achieve better financial performance. The study utilized a quantitative survey method, analyzing responses from SMEs across various sectors. In a complementary study, Kachwanya et al. (2023) examined the relationship between financial education programs and SME resilience in Tanzania. They found that SMEs participating in financial education initiatives demonstrated improved adaptability to interest rate changes, leading to enhanced business sustainability. These insights highlight the critical role of financial education in empowering SMEs to thrive despite adverse interest rate conditions.

Lastly, the technological landscape's evolution presents new opportunities for SMEs to manage the impacts of interest rates effectively. Chukwuma et al. (2024) investigated how digital financial services transformed SME financing in Nigeria, focusing on how these services allowed SMEs to access credit more easily. Their study revealed that fintech solutions reduced the time and costs associated with securing loans, providing SMEs with more flexibility in managing interest

payments. By employing a mixed-methods approach, the researchers illustrated how technology-driven solutions could enhance SMEs' responsiveness to interest rate fluctuations. In another study, Mensah and Osei (2023) examined the role of mobile banking in improving financial inclusion among SMEs in Ghana. The research showed that mobile banking services enabled SMEs to access lower-cost financing options, thus mitigating the negative effects of high-interest rates. Collectively, these studies underscore the potential of technology in reshaping the financing landscape for SMEs.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This section presented the analysis methods that the researcher employed to enable the execution of the study and accomplish its objectives. These steps included: research design, sample size, the population of interest and sampling techniques, data collection instruments, procedures, and data analysis. The methodology accommodated all objectives such as;

- i. To examine the relationship between Collateral Security and performance of SMEs in Kikuubo area, Central Division of Kampala.
- ii. To examine the relationship between Credit Repayment Terms and performance of SMEs in Kikuubo area, Central Division of Kampala.
- iii. To examine the relationship between Interest Rate Levels and performance of SMEs in Kikuubo area, Central Division of Kampala.

### **3.1 Research Design**

Frankfort-Nachmias and Nachmias (1992) describe research design as a detailed plan for moving from initial questions to conclusions, functioning as a logical framework that enables the researcher to make reasoned inferences. Keringer (1986), as cited in Kumar (2011) and Kiwala (2017), defines research design as a structured plan and strategy for investigation aimed at answering research questions or addressing problems. In this context, the study employed a Cross-sectional survey collecting data to make inferences about a population of interest at one point in time. This is selected because it provides a systematic description of the study which is factual and accurate (Amin, 2005). The study employed a cross-sectional survey in Kikuubo Business Hub, Central Division of Kampala District. The survey was a combination of both descriptive and analytical methods on access to affordable credit and performance. A quantitative research approach was chosen to collect numerical data

### **3.2 Study population**

The population is the total number of components that conform to some general set of specifications, from which the sample is selected (Paton, 2002). The study population was 200 registered traders in Kikuubo area, Kampala (Uganda Revenue Authority, 2020). The traders included cosmetic shops, Food supplies, stationary Bedding and detergents.

### **3.3 Sample Size**

The researcher used a size of 132 registered traders in Kikuubo area, determined by Krejcie & Morgan, 1970 table for sample size determination for a given population (The traders included cosmetic shops, Food supplies, stationary Bedding and detergents).

### **3.4 Sampling method and design**

The study used non-probability sampling, purposive sampling in particular, this enabled the researcher to purposely choose those, in her opinion was thought as relevant to the study. Simple random sampling was therefore used because it is deemed most appropriate.

#### **3.4.1 Data Collection Methods and Tools.**

The below data collection methods were used.

#### **3.4.2 Survey Method**

The study employed a questionnaire survey as its primary data collection method. This method involved soliciting information about people's experiences, attitudes, behavior, and beliefs through asking them different questions and tabulating their responses (Leedy & Ormrod, 2013). Survey was underpinned by a positivist paradigm that embraces empiricism, seeking to collect original data for descriptive purposes (Stangor, 2011).

#### **3.4.3 Questionnaire Design**

The questionnaire was self-administered and utilized a five-point Likert-type scale ranging from 5 (strongly agree) to 1 (strongly disagree) to measure variables (Vagias & Wade, 2006). This scale has been widely used in past studies and was considered suitable for obtaining accurate and reliable responses (Neuman & Robson, 2012).

#### **3.4.4 Pilot Study**

Prior to the main survey, a pilot study was conducted with 40 participants. Feedback from the pilot study was used to modify the questionnaire to ensure clarity and relevance of the questions.

#### **3.4.5 Data Collection Procedures**

Data collection was conducted using Google Forms to create an online questionnaire. The link to the questionnaire was sent to respondents, enabling easy data collection from various participants.

### **3.6 Reliability and Validity of Instrument**

#### **3.6.1 Validity**

Validity of the instrument was ensured by seeking views from experts in the field of MSMEs. The questionnaire was designed in accordance with specific research objectives to ensure accuracy and relevance in measuring the intended constructs (Saunders et al., 2009).

#### **3.6.2 Reliability**

Reliability of the instruments was assessed using Cronbach's Alpha Coefficient, with values above 0.7 indicating high internal consistency and stability (Field, 2009). The instruments were tested for internal consistency and stability to ensure reliability in measuring the constructs of interest.

### **3.7 Data Processing and Analysis**

Data from the field was compiled, sorted, edited, and coded to ensure the required quality, accuracy, and completeness. It was then entered into the computer using the Statistical Package for Social Sciences (SPSS) version 27 for analysis. Descriptive statistics was used to understand the results of the sample characteristics, while correlation analysis was testing the relationship between the independent variables and the dependent variable. Regression analysis demonstrated the combined effect of the independent variables on the dependent variable. Factor analysis was conducted for subsequent analysis. Spearman's correlation analysis was used for associations and moderator contributions according to the study objectives

Ethical considerations were paramount, ensuring that all data gathered was used solely for the purposes of the study and nothing else, and that personal bias was avoided during the entire study, including data analysis and reporting. Data cleaning involved identifying and addressing missing values Descriptive statistics such as mode, median, mean, standard deviation, was computed on each objective.

### **3.8 Ethical Considerations**

The researcher obtained an approval letter from the program coordinator to seek permission to conduct the study. The respondents were not asked to indicate their names on the questionnaire to maintain anonymity. The study ensured that participants voluntarily participate in the research. All

data gathered was used solely for the purposes of the study and nothing else. Research respondents were informed about the study before participating, and their informed consent was obtained. All sources of literature were appropriately cited and referenced throughout the study. Personal bias was avoided during the entire study, including data analysis and reporting.

## **CHAPTER FOUR PRESENTATION, ANALYSIS AND INTERPRETATION**

### **4.0 Introduction**

This chapter covers the analysis, presentation, and interpretation of the results according to the objectives of the study. The purpose of the study was to establish the impact of access to affordable credit on performance of small and medium enterprises in the Central Division of Kampala, Kikuubo area. These results were entered into Excel, cleaned, and then exported to Statistical Package for the Social Sciences (SPSS) version 27 and analyzed. It was analyzed for correlation and regression analysis to be able to answer the following objectives;

### **4.1 Response Rate**

In this study, 132 questionnaires were administered. A total of 129 questionnaires were filled and returned. This represented a 98% response rate, which is quite suitable to make a finale for the study. The 98 % response rate was generated because the researcher prepared Clear and concise questions to make it easier for participants to understand what is being asked and provide accurate responses. According to Fincham, (2008) a response rate of above 60% is adequate for a quantitative study. To check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, pilot study was performed excluding the study area. The purpose of pilot testing was to establish the accuracy and appropriateness of the research design and instrumentation.

### **4.2 Demographic Characteristics of Respondents**

The demographic characteristics of the respondents that were discussed include; gender, age, educational level, marital status, Number of employees and the number of years spent in business. Their respective descriptive statistics were generated. Table 4.1 below shows the distribution of these characteristics.

## Demographic Characteristics of Respondents

**Table 1. Sex of Respondents**

<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	61	47.3
Female	68	52.7
<b>Total</b>	<b>129</b>	<b>100.0</b>

**Table 2. Age of Respondents**

<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 24 years	14	10.9
25–29 years	32	24.8
30–34 years	44	34.1
35–39 years	17	13.2
40–44 years	14	10.9
45–49 years	6	4.7
50 years and above	2	1.6
<b>Total</b>	<b>129</b>	<b>100.2*</b>

*\*Note: Slight deviation from 100% due to rounding.*

**Table 3. Educational Background of Respondents**

<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
O Level	25	19.4
A Level	48	37.2
Certificate	18	14.0
Diploma	17	13.2
Degree	17	13.2
Others	4	3.1
<b>Total</b>	<b>129</b>	<b>100.1*</b>

*\*Note: Slight deviation from 100% due to rounding.*

#### Respondent Experience and Business Tenure

**Table 4. Number of Years as a Member of the Financial Institution**

<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 5 years	52	40.3
5–9 years	41	31.8
10–14 years	27	20.9
15–19 years	8	6.2
20–24 years	1	0.8
<b>Total</b>	<b>129</b>	<b>100.0</b>

**Table 5. Duration the Business Has Been in Existence**

<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1–5 years	61	47.3
6–10 years	47	36.4
11–15 years	19	14.7
Over 15 years	2	1.6
<b>Total</b>	<b>129</b>	<b>100.0</b>

**Source: Primary data 2024**

The study had a fairly balanced gender representation, with 52.7% female and 47.3% male. This suggests that women slightly outnumber men in small and medium enterprises (SMEs) in Kikuubo, indicating an active female entrepreneurial presence in the area.

The largest group of respondents (34.1%) were between 30-34 years, followed by 24.8% in the 25-29 age group. The presence of younger entrepreneurs suggests a dynamic and growing SME sector, driven by individuals in their prime working years. The lower representation of older entrepreneurs (50+ years at 1.6%) may indicate challenges in sustaining businesses for long periods or a tendency for older individuals to exit SMEs for other opportunities.

A significant portion of respondents (37.2%) attained A-Level education, followed by 19.4% with O-Level education. Only 13.2% held a diploma or a degree, suggesting that most SME owners operate businesses without formal higher education qualifications. This finding may imply a need for capacity-building programs in financial literacy, business management, and entrepreneurship training to enhance SME performance.

About 40.3% of respondents had been members of financial institutions for less than 5 years, while 31.8% had between 5-9 years of membership. The relatively short membership periods suggest that many SMEs may still be struggling to establish long-term financial relationships, potentially affecting their ability to secure affordable credit.

This highlights the need for financial institutions to design tailored credit solutions that support SMEs in their early years of growth. Nearly half of the businesses (47.3%) had been in operation for 1-5 years, while 36.4% had existed for 6-10 years.

Only 1.6% had been in existence for over 15 years, indicating a high turnover rate in the SME sector, likely due to financial constraints, market competition, or operational challenges. These findings suggest that affordable credit is crucial for sustaining businesses beyond their formative years, reinforcing the study’s objective of examining the impact of credit access on SME performance.

### 4.3 Descriptive statistics of the study variables

The table below shows the descriptive statistics relating to the Collateral Security

**Table 6. Analysis of Collateral Security**

No.	Statement	Mean	Std. Deviation
1	The requirement for collateral security makes it difficult for my business to access credit from financial institutions.	3.90	0.942
2	My business lacks sufficient assets to use as collateral for securing loans.	3.87	0.860
3	Financial institutions should provide alternative forms of security beyond tangible assets.	3.83	0.961
4	The inability to provide collateral has forced my business to rely on informal lenders.	4.16	0.705
<b>Overall</b>	<b>Grand Mean</b>	<b>3.94</b>	
	<b>Sample Size (N)</b>	<b>129</b>	

Source: Primary data 2024

The descriptive statistics in Table 4.2 reveal that collateral security requirements significantly

hinder SMEs in the Central Division of Kampala, Kikuubo area, from accessing credit, with a grand mean of 3.94. The requirement for collateral security makes it difficult for SMEs to access credit from financial institutions, as indicated by a mean of 3.90 and a standard deviation of 0.942. Many SMEs lack sufficient assets to use as collateral for securing loans, as shown by a mean of 3.87 and a standard deviation of 0.860, further restricting their access to credit. Financial institutions should provide alternative forms of security beyond tangible assets, a view supported by respondents, with a mean of 3.83 and a standard deviation of 0.961, indicating a strong need for more flexible lending policies. The inability to provide collateral has forced SMEs to rely on informal lenders, as reflected in the highest mean of 4.16 and a standard deviation of 0.705, highlighting the financial struggles faced by these businesses. These findings imply that restricted access to credit limits SME growth and increases dependence on informal lending, which often involves high interest rates and unfavorable repayment terms.

#### 4.3.1 Descriptive Statistics of Credit Repayment Terms

*Table 7. Descriptive Statistics of Credit Repayment Terms*

Statement	Mean	Std. Deviation
1. The repayment period given by financial institutions is too short for my business to generate sufficient returns.	3.24	1.109
2. My business struggles to meet loan repayment deadlines due to unfavorable repayment terms.	4.06	0.836
3. Flexible repayment terms improve the ability of SMEs to repay loans without financial strain.	3.84	0.917
4. High repayment installments negatively affect my business's cash flow.	3.71	0.971
5. The repayment period given by financial institutions is too short for my business to generate sufficient returns.	3.99	0.940

**Grand Mean (N=129) 3.768**

**Source: Primary data 2024**

The descriptive statistics in Table 4.3 highlight the challenges SMEs in the Central Division of Kampala, Kikuubo area, face regarding credit repayment terms, with a grand mean of 3.768. The repayment period given by financial institutions is perceived as too short for businesses to generate sufficient returns, as indicated by a mean of 3.24 and a standard deviation of 1.109, suggesting that many SMEs struggle with the time constraints imposed on loan repayment. Businesses also face

difficulties meeting loan repayment deadlines due to unfavorable repayment terms, as reflected in the highest mean of 4.06 and a standard deviation of 0.836, indicating that rigid repayment structures put significant financial pressure on SMEs. The findings further show that flexible repayment terms improve SMEs' ability to repay loans without financial strain, with a mean of 3.84 and a standard deviation of 0.917, reinforcing the need for adaptable financing options. High repayment installments negatively affect business cash flow, as shown by a mean of 3.71 and a standard deviation of 0.971, demonstrating the financial burden imposed by high loan obligations. Additionally, respondents reiterated that the repayment period is too short for businesses to generate sufficient returns, with a mean of 3.99 and a standard deviation of 0.940, emphasizing the need for extended repayment timelines.

### 4.3.2 Interest Rate Levels

*Table 8. Descriptive statistics of Interest Rate Levels*

Statement	Mean	Std. Deviation
1. High interest rates discourage my business from borrowing from financial institutions.	3.76	1.095
2. The cost of credit significantly reduces my business's profitability.	3.91	0.857
3. Government intervention is necessary to regulate interest rates for SME loans.	3.84	0.972
4. My business prefers borrowing from informal lenders due to lower interest rates.	3.53	1.054
5. Lower interest rates would enhance my business's ability to expand and grow.	4.09	0.852

**Grand Mean (N=129): 3.826**

**Source: Primary data 2024**

The descriptive statistics in Table 4.4 highlight the significant impact of interest rate levels on SMEs in the Central Division of Kampala, Kikuubo area, with a grand mean of 3.826. High interest rates discourage businesses from borrowing from financial institutions, as shown by a mean of 3.76 and a standard deviation of 1.095, indicating that most SMEs are deterred from accessing formal credit due to its cost. The cost of credit significantly reduces business profitability, as reflected in a mean of 3.91 and a standard deviation of 0.857, suggesting that high interest payments eat into SME profits, limiting their financial flexibility. The need for government intervention to regulate interest rates for SME loans is strongly supported, with a mean of 3.84 and a standard deviation of 0.972, pointing to a widespread belief that regulating interest rates could ease the financial burden on SMEs. Many businesses prefer borrowing from informal lenders due to lower interest rates, with a mean of 3.53 and a standard deviation of 1.054, indicating a tendency to seek more affordable alternatives to formal loans. Respondents also believe that lower interest rates would enhance business expansion and growth, as evidenced by a mean of 4.09 and a standard deviation of 0.852, highlighting the potential for growth when SMEs have access to more affordable credit.

### 4.3.3 Performance of SMEs

**Table 9. Perceived Profitability**

No.	Statement	Mean	Std. Deviation
1	Our profits have been growing year after year.	4.27	0.682
2	My business experiences financial losses.	3.38	1.213
3	My business has ability to invest in growth opportunities.	3.43	1.110
4	Our cash collections have increased over the past few years.	3.61	1.063
5	We are reducing costs while increasing production.	4.27	0.682
<b>Overall</b>	<b>Mean (Profitability)</b>	<b>3.83</b>	

**Table 10. Sales Growth**

No.	Statement	Mean	Std. Deviation
1	Our business sells more units than any other competitor in our market.	2.292	1.309
2	We have the highest market share in terms of the number of units sold.	2.177	1.197
3	Our business generates a higher percentage of revenue compared to other competitors in the market.	2.477	1.399
4	We are a market leader in terms of sales revenue within our Market.	2.515	1.388

No.	Statement	Mean	Std. Deviation
5	Our company has a larger customer base compared to other businesses in the industry.	2.454	1.365
<b>Overall</b>	<b>Mean (Sales Growth)</b>	<b>2.383</b>	

**Source: Primary data 2024**

The descriptive statistics in Table 4.5 provide valuable insights into the performance of SMEs in the Central Division of Kampala, specifically in the Kikuubo area, by assessing perceived profitability and sales growth.

**Perceived Profitability**

The data indicates that access to affordable credit plays a crucial role in improving business profitability. This is evident from the high mean of 4.27 and a standard deviation of 0.682, suggesting that businesses benefiting from accessible credit experience stable profitability. However, financial losses due to high loan repayment obligations remain a challenge, as reflected in a mean of 3.38 and a standard deviation of 1.213, highlighting the financial strain caused by loan repayments.

Furthermore, inadequate access to credit limits business growth opportunities, as shown by a mean of 3.43 and a standard deviation of 1.110. This underscores the necessity for better financial resources to support business expansion. The impact of loans on profits is mixed, with a mean of 3.61 and a standard deviation of 1.063. Some businesses experience profitability growth after obtaining loans, while others struggle due to repayment pressures.

Without affordable credit, many businesses struggle to sustain operations. This is further reinforced by a mean of 4.27 and a standard deviation of 0.682, indicating the critical role of financial accessibility in maintaining business viability and operational efficiency.

**Sales Growth**

Despite access to credit, SMEs have not experienced significant sales growth. The mean score of 2.29 and a standard deviation of 1.309 indicate that credit access alone does not directly translate

into increased sales. The limited ability to expand product offerings due to financial constraints is evident in a mean of 2.18 and a standard deviation of 1.197.

High-interest rates on loans further impede the capacity to invest in marketing and sales growth, as reflected in a mean of 2.48 and a standard deviation of 1.399. Although business loans enable SMEs to purchase inventory in bulk, leading to higher sales (mean 2.52, standard deviation 1.388), the overall effect on sales growth remains limited.

Additionally, the inability to compete effectively due to insufficient financial support is reflected in a mean of 2.45 and a standard deviation of 1.365, demonstrating that credit access alone does not guarantee a competitive advantage in the market.

#### 4.4 Correlation analysis

Pearson correlation coefficient was used to explain the relationship between each variable, as shown below.

**Table 11. Correlations between study variables**

<b>Variables</b>	<b>Collateral Security</b>	<b>Credit Repayment Terms</b>	<b>Interest Rate Levels</b>	<b>Performance of SMEs</b>
<b>Collateral Security</b>	1.000			
<b>Credit Repayment Terms</b>		1.000		
<b>Interest Rate Levels</b>			1.000	
<b>Performance of SMEs</b>				1.000

**Note:**

- Correlation is significant at the 0.01 level (2-tailed).
- N = 129

Source: own source

The correlation analysis in Table 4.6 was conducted to examine the relationships between the study variables Collateral Security, Credit Repayment Terms, Interest Rate Levels, and the Performance of SMEs in Kikuubo area, Central Division of Kampala following the three primary research objectives.

#### **4.4.1 Collateral Security and the performance of SMEs**

The analysis reveals a moderate positive correlation ( $r = 0.606$ ,  $p < 0.01$ ) between Collateral Security and Performance of SMEs. This indicates that SMEs with more stringent collateral requirements tend to experience better performance. The p-value of less than 0.01 confirms that this relationship is statistically significant. Although collateral may initially seem like a barrier to accessing credit, it can contribute to better financial products and improved SME performance when managed effectively.

#### **4.4.2 Credit Repayment Terms and the performance of SMEs**

The correlation between Credit Repayment Terms and Performance of SMEs is moderate ( $r = 0.535$ ,  $p < 0.01$ ), which suggests that favorable and flexible credit repayment conditions positively impact SME performance. The p-value indicates that this correlation is statistically significant at the 0.01 level, confirming that SMEs with more manageable repayment terms are likely to experience improved financial stability and growth.

#### **4.4.3 Interest Rate Levels and the performance of SMEs**

There is a strong positive correlation ( $r = 0.626$ ,  $p < 0.01$ ) between Interest Rate Levels and Performance of SMEs. This indicates that SMEs that can access credit at lower interest rates are likely to experience better performance. The significant p-value below 0.01 confirms the robustness of this relationship. Although high interest rates can reduce profitability, SMEs that can manage these costs tend to perform better.

### **4.5 Regression analysis**

Regression analysis was employed to the impact of access to affordable credit on performance of small and medium enterprises in the Central Division of Kampala, Kikuubo area. To achieve accurate results, a number of assumptions for the regression analysis were tested including the assumption of normality and multi-collinearity tests.

#### 4.5.1 Collateral Security and performance of SMEs

*Table 12. Regression results*

Model	R	R Square	Adjusted R Square	F Value	Significance (Sig.)
1	0.606	0.368	0.363	73.825	0.000

*Table 13. Regression Coefficients*

Predictor	Unstandardized Coeff. (B)	Std. Error	Standardized Coeff. (Beta)	t	Significance (Sig.)
(Constant)	1.465	0.297	-	4.925	0.000
Collateral Security	0.641	0.075	0.606	8.592	0.000

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Collateral Security

N=129

#### Source: Primary data 2022

The regression analysis results indicate that Collateral Security has a significant positive impact on the performance of SMEs in the Kikuubo area, Central Division of Kampala, with a coefficient of 0.641, meaning that for every unit increase in Collateral Security, SME performance improves by 0.641 units. The relationship is strongly significant, with a t-value of 8.592 and a p-value of 0.000, well below the 0.05 significance threshold. The R-square value of 0.368 suggests that Collateral Security explains about 36.8% of the variation in SME performance, which is a moderate level of explanatory power. These findings emphasize the importance of Collateral Security in facilitating access to credit, which in turn supports better SME performance. The results imply that policies aimed at reducing collateral requirements or offering alternative forms of security could improve financial accessibility for SMEs, leading to enhanced business performance and growth.

#### 4.5.2 Credit Repayment Terms and performance of SMEs.

The regression analysis was performed to establish the relationship between Credit

Repayment Terms and performance of SMEs in Kikuubo area, Central Division of Kampala.

**Regression modal summary and coefficients for the Credit Repayment Terms and performance of SMEs.**

**Table 14. Coefficients**

Unstandardized Coefficients Standardized Coefficients

Model	B	Std. Error	Beta	t	Sig.
1(Constant)	1.641	.332			4.934.000
Credit Repayment Terms	.614	.086		.535	7.142.000
R Square=.287					
Adjusted R Square=.281					
R=.535 <sup>a</sup>					
Sig=.000 <sup>b</sup>					
F-Value=51.014					

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Credit Repayment Terms

N=129

**Source: Primary data 2024**

The regression analysis results examining the relationship between Credit Repayment Terms and the performance of SMEs in the Kikuubo area, Central Division of Kampala, show a positive and statistically significant impact. The coefficient for Credit Repayment Terms is 0.614, indicating that for every unit increase in Credit Repayment Terms, SME performance improves by 0.614 units. The standardized coefficient (Beta) is 0.535, showing a moderate yet significant relationship between the variables. The t-value for Credit Repayment Terms is 7.142, which is much higher than the critical value, confirming that the effect is significant, with a p-value of 0.000, indicating strong statistical significance. The model’s R-square value is 0.287, meaning that 28.7% of the variation in SME performance is explained by Credit Repayment Terms, which is a moderate explanatory power. The

Adjusted R-square of 0.281 confirms the robustness of the model. The F-value of 51.014, with a significance of 0.000, further confirms that Credit Repayment Terms is a significant predictor of SME performance. These findings suggest that more favorable Credit Repayment Terms positively impact SME performance, and financial institutions could consider offering flexible repayment terms to improve access to credit and support the growth of SMEs.

#### 4.5.3 Credit Repayment Terms and performance of SMEs

**Table 15. Regression Analysis:**

Impact of Credit Repayment Terms on SME Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.626	0.391	0.387	0.253

**Overall Model Fit:**

- F-Value = 81.706
- Significance (Sig.) = 0.000

**Sample Size (N):** 129

**Dependent Variable:** Performance of SMEs

**Predictor:** Credit Repayment Terms

**Table 16. Regression Coefficients**

Model	Unstandardized Coefficients (B)	Standard Error	Standardized Coefficients (Beta)	t	Significance (Sig.)
(Constant)	1.738	0.253	-	6.867	0.000
Credit Repayment Terms	0.588	0.065	0.626	9.039	0.000

**Source: Primary data 2024**

The regression analysis for the relationship between Credit Repayment Terms and the performance

of SMEs in the Kikuubo area, Central Division of Kampala, reveals a strong and statistically significant positive association. The unstandardized coefficient for Credit Repayment Terms is 0.588, indicating that for every unit increase in Credit Repayment Terms, SME performance improves by 0.588 units. The standardized coefficient (Beta) is 0.626, which signifies a moderately strong relationship between the two variables. The t-value for Credit Repayment Terms is 9.039, with a p-value of 0.000, confirming that the relationship is highly significant. The model's R-square value is 0.391, meaning that approximately 39.1% of the variance in SME performance is explained by Credit Repayment Terms, which demonstrates a reasonable level of explanatory power. The Adjusted R-square value of 0.387 indicates that the model remains robust after adjusting for the number of predictors. Additionally, the F-value of 81.706 and the significance of 0.000 further support the conclusion that Credit Repayment Terms are a significant predictor of SME performance. These results imply that improving Credit Repayment Terms, such as offering longer repayment periods or more flexible terms, can enhance the financial stability and growth prospects of SMEs in the Kikuubo area.

#### **4.5.4 Regression analysis for access to affordable credit on performance.**

*Table 17. Multiple regression analysis*

<b>Statistic</b>	<b>Value</b>
<b>R-Square</b>	0.472
<b>Adjusted R-Square</b>	0.460
<b>F Value</b>	37.321
<b>Significance (Sig.)</b>	0.000
<b>Sample Size (N)</b>	129
<b>Dependent Variable</b>	Performance of SMEs

**Table 18. Regression Coefficients**

<b>Predictor</b>	<b>Unstandardized Coeff. (B)</b>	<b>Std. Error</b>	<b>Standardized Coeff. (Beta)</b>	<b>t</b>	<b>Significance (Sig.)</b>
<b>(Constant)</b>	0.913	0.317	-	2.881	0.005
<b>Collateral Security</b>	0.349	0.091	0.331	3.860	0.000
<b>Credit Repayment Terms</b>	0.119	0.108	0.104	1.105	0.271
<b>Interest Rate Levels</b>	0.325	0.093	0.346	3.497	0.001

**Source: Primary data 2024**

The multiple regression analysis was conducted to assess the impact of access to affordable credit, as represented by Collateral Security, Credit Repayment Terms, and Interest Rate Levels, on the performance of SMEs in the Kikuubo area, Central Division of Kampala. The results show that the model as a whole is statistically significant, with an R-square value of 0.472, indicating that approximately 47.2% of the variation in SME performance can be explained by the predictors. The Adjusted R-square of 0.460 suggests the model is robust after adjusting for the number of predictors. The F-value of 37.321 and the significance value of 0.000 confirm that the model fits the data well.

Looking at the individual predictors, Collateral Security has a positive and significant impact on SME performance, with an unstandardized coefficient of 0.349, a standardized coefficient (Beta) of 0.331, and a p-value of 0.000, indicating that as Collateral Security increases, SME performance improves. Interest Rate Levels also have a positive and significant effect on SME performance, with an unstandardized coefficient of 0.325 and a standardized coefficient of 0.346. The p-value for Interest Rate Levels is 0.001, indicating a strong relationship.

However, Credit Repayment Terms do not have a significant impact on SME performance, as shown by the unstandardized coefficient of 0.119, a standardized coefficient of 0.104, and a p-value of 0.271, which is above the commonly used significance threshold of 0.05.

These results suggest that while Collateral Security and Interest Rate Levels are key factors influencing the performance of SMEs in Kikuubo, Credit Repayment Terms do not appear to significantly impact

performance within this model. Improving Collateral Security and adjusting Interest Rate Levels could therefore be effective strategies for enhancing SME performance in the area.

## **CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This research was out to examine the relationship of access to affordable credit on performance of small and medium enterprises in the Central Division of Kampala, Kikuubo area. The Research objectives were; to examine the relationship between Collateral Security and performance of SMEs in Kikuubo area, Central Division of Kampala, to examine the relationship between Credit Repayment Terms and performance of SMEs in Kikuubo area, Central Division of Kampala.

In this chapter, the findings presented in chapter four are discussed, conclusions drawn and recommendations are made. The first part of this chapter deals with discussion, the second part deals with conclusions and the last part deals with recommendations and areas for further research.

### **5.2 Discussing the results.**

This is a vital portion of interpreting data, and explaining what it means, why it matters and what should be done next.

#### **5.2.1 Collateral Security and performance of SMEs**

The regression analysis examining the relationship between Collateral Security and the performance of SMEs in Kikuubo area revealed a significant and positive relationship. It was found that Collateral Security positively impacted SME performance, indicating that when SMEs provided collateral, their access to credit improved, leading to better business performance. This is consistent with Jrad (2023), who explored the role of collateral in securing loans for SMEs in Lebanon and emphasized the necessity of collateral as a risk-mitigation tool. This is also similar to Onzima, Aupal, and Alomu (2024), who found that collateral remains an important determinant of SME performance in Arua Municipal Council.

The analysis highlighted the importance of collateral in securing financing, which directly supported the financial stability and growth of SMEs. This is consistent with Cheptoyek (2023), who revealed that stringent collateral requirements hindered women entrepreneurs in Bukwo Town Council from accessing credit. This is similar to the study by Munene, Walubuka, and Onkundi (2023), which concluded that collateral availability is critical to SMEs' access to credit in Meru County. These findings suggested that reducing the burden of collateral requirements or introducing alternative forms of collateral could enhance SME access to finance, potentially leading to better business outcomes. This is consistent with the findings of Onzima et al. (2024), who found that the positive

impact of collateral on SME performance was evident, albeit in a limited manner. This is similar to Jrad (2023), whose study emphasized the need for reducing collateral barriers to improve financial accessibility for SMEs. Therefore, policies aimed at simplifying or expanding collateral options could significantly improve the performance of SMEs in the Kikuubo area, contributing to their sustainability and competitiveness in the market. This is consistent with Munene et al. (2023), who suggested that enhancing collateral availability could improve SME access to finance. This is also similar to Cheptoyek (2023), who noted that reducing collateral demands would benefit SMEs, particularly women-owned businesses.

### **5.2.2 Credit Repayment Terms and performance**

The regression analysis on Credit Repayment Terms and SME performance in Kikuubo area revealed a positive and significant correlation. This is consistent with Ambrose (2021), who found that credit repayment terms significantly influence SME performance in Kabale Municipality, Uganda. Favorable Credit Repayment Terms were found to have a positive effect on SME performance, implying that flexible repayment schedules enabled SMEs to manage their cash flow effectively and maintain financial stability. This is similar to the findings of Onkundi, Munene, and Walubuka (2023), who reported that credit repayment terms directly impacted SMEs' ability to meet loan obligations in Meru County, Kenya. These findings emphasized the importance of offering SMEs more adaptable repayment options, as this could directly support their growth and financial sustainability. Financial institutions were encouraged to consider more lenient repayment conditions, which could improve SMEs' access to credit and, in turn, foster better business performance. This is consistent with Ambrose (2021), who noted that stringent credit terms led to increased default rates, thus hindering SME performance. The results suggested that flexible Credit Repayment Terms played a crucial role in improving the overall performance of SMEs, enabling them to better navigate economic challenges and pursue growth opportunities. This is similar to Onkundi, Munene, and Walubuka (2023), who found that favorable credit terms were essential for enhancing the performance of SMEs in Kenya.

### **5.2.3 Interest Rate Levels and performance**

The analysis on the relationship between Interest Rate Levels and SME performance in Kikuubo area revealed a positive and significant impact. It was found that lower interest rates were associated with improved SME performance, as lower borrowing costs allowed SMEs to access more affordable

financing. This is consistent with Onzima et al. (2024), who revealed that increased interest rates negatively impacted SME profitability in Arua Municipal Council. This is also similar to Otieno et al. (2021), who found a significant negative correlation between high lending rates and the growth of SMEs in Kenya.

This, in turn, enabled them to invest in their operations, expand their businesses, and improve profitability. This is consistent with Onzima et al. (2024), whose study suggested that SMEs struggled to repay loans due to high interest rates, leading to reduced operational capacity. The findings suggested that interest rates played a crucial role in shaping the financial environment for SMEs. Financial institutions were encouraged to offer more competitive interest rates, as this could improve SMEs' ability to access credit and support their growth. This is similar to Otieno et al. (2021), who emphasized the need for favorable lending conditions to support SME growth. Overall, the results underscored the importance of interest rate levels in enhancing SME performance and fostering a conducive environment for their development in the Kikuubo area. This is consistent with Onzima et al. (2024), who highlighted the critical nature of interest rates in influencing SME success.

#### **5.4 Conclusions**

The study revealed significant relationships between key financial factors Collateral Security, Credit Repayment Terms, and Interest Rate Levels and the performance of SMEs in the Kikuubo area, Central Division of Kampala. Each of these financial elements positively influenced SME performance, with access to credit and financial stability playing central roles in supporting business growth and sustainability. Collateral Security was found to be a crucial factor in improving SME performance by enhancing access to credit. This finding aligns with previous studies indicating that collateral serves as an essential risk-mitigation tool for lenders, directly affecting the financial stability of SMEs. Credit Repayment Terms were positively correlated with SME performance, suggesting that more flexible repayment conditions enable SMEs to manage their finances effectively. Flexible repayment terms were shown to improve cash flow, reduce default rates, and support long-term business growth. Interest Rate Levels also demonstrated a significant positive relationship with SME performance. Lower interest rates provided more affordable financing, allowing SMEs to invest in growth opportunities and improve profitability. This highlights the importance of affordable credit in fostering a conducive environment for SME development.

## **5.5 Recommendations**

Based on the findings, several recommendations can be made to enhance the performance of SMEs in the Kikuubo area:

Policymakers and financial institutions should explore options to reduce or diversify collateral requirements, making it easier for SMEs to access credit. Introducing alternative forms of collateral, such as movable assets or guarantees, could increase financial inclusion for small businesses, particularly women-owned enterprises.

Financial institutions should consider offering more flexible credit repayment terms, such as extended loan durations or adjustable payment schedules, to support SMEs in managing cash flow and reducing default rates. These terms could be designed to align with the cash flow cycles of SMEs, thus ensuring financial stability and growth.

To promote SME growth, government regulators and financial institutions should prioritize offering competitive interest rates. Lower interest rates would reduce borrowing costs, making it easier for SMEs to invest in business expansion, improve operations, and increase profitability.

Training programs should be offered to SMEs, particularly on financial literacy, access to financing, and credit management. This would empower business owners with the knowledge to navigate credit systems effectively and use financial resources in a manner that supports sustainable growth.

## **5.6 Limitations of the Study**

While this study provides valuable insights into the relationship between financial factors and SME performance, it is not without limitations:

The study was conducted specifically in the Kikuubo area of Central Division, Kampala. While this provides valuable insights into this specific locality, the results may not be generalizable to SMEs in other regions of Uganda or other countries.

The sample size used in the study was limited to SMEs in the Kikuubo area. A larger and more diverse sample could provide a broader perspective on the factors influencing SME performance across different sectors and regions.

The study focused primarily on financial factors (collateral, credit repayment terms, and interest rates) and did not explore other potential variables, such as market conditions, competition, or managerial

capacity, that might also influence SME performance.

The study's cross-sectional design does not account for changes over time. A longitudinal study could provide more insights into how these financial factors influence SME performance over an extended period.

### **5.7 Contributions of the Study.**

The study enlightens about the possible benefits of improving credit access and thus contributing directly to economic growth. Such benefits include increased in business activities and entrepreneurship as well as creation of jobs. By accessing funds, SMEs can venture into in growth opportunities, multiply their operations, thereby creating more job and income opportunities. This directly contributes to economic expansion and can help narrow wealth gaps, particularly for underserved groups.

The study adds to the existing body of knowledge especially in developing countries by emphasizing the central role of SMEs in employment creation and poverty reduction. Understanding how affordable credit impacts performance of SMEs, is vital in fostering general economic health and stability.

The study emphasizes the vitality of financial inclusion to reduce income inequality. Easing access to financial services allow the marginalized groups to better manage their finances and invest in growth opportunities and other income generating activities.

The study recognizes access to finance as one of the greatest barriers to SME growth. Addressing this barrier, means increased access to credit and hence increased investment in growth opportunities by entrepreneurs to invent, grow, and empower women and youth thereby strengthening communities.

### **5.8 Areas for Further Study**

Future research could explore several areas to build upon the findings of this study:

Future studies could investigate additional financial factors such as loan duration, credit access, and financial product innovation, which may also impact SME performance.

Research comparing SMEs in different regions of Uganda or even between Uganda and other

emerging economies would help to determine whether the relationships identified in this study hold in other contexts.

Future studies could examine non-financial factors, such as managerial skills, technology adoption, and market access, and their impact on SME performance in the Kikuubo area or other urban centers.

Conducting longitudinal studies would provide insights into the long-term effects of financial factors on the sustainability and growth of SMEs, helping policymakers and financial institutions to develop strategies for supporting businesses over time.

Further research could focus on the gendered dimension of SME performance, particularly the challenges faced by women entrepreneurs in securing collateral and accessing favorable credit terms, with a view to designing more inclusive financial policies.

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## APPENDICES

### APPENDIX 1: Krejcie Table 1970

Morgan, Krejcie Table 1970 used to determine sample size.

If your population is:	Then your random sample size should be:	If your population is:	Then your random sample size should be:
10	10	440	205
15	14	460	210
20	19	480	214
25	24	500	217
30	28	550	226
35	32	600	234
40	36	650	242
45	40	700	248
50	44	750	254
55	48	800	260
60	52	850	265
65	56	900	269
70	59	950	274
75	63	1,000	278
80	66	1,100	285
85	70	1,200	291
90	73	1,300	297
95	76	1,400	302
100	80	1,500	306
110	86	1,600	310
120	92	1,700	313
130	97	1,800	317
140	103	1,900	320
150	108	2,000	322

160	113	2,200	327
170	118	2,400	331
180	123	2,600	335
190	127	2,800	338
200	132	3,000	341
210	136	3,500	346
220	140	4,000	351
230	144	4,500	354
240	148	5,000	357
250	152	6,000	361
260	155	7,000	364
270	159	8,000	367
280	162	9,000	368
290	165	10,000	370
300	169	15,000	375
320	175	20,000	377
340	181	30,000	379
360	186	40,000	380
380	191	50,000	381
400	196	75,000	382
420	201	1,000,000	384

Source: Amin (2005)

## APPENDIX I1: QUESTIONNAIRE

### Research Questionnaire: Access to Affordable Credit and SME Performance

#### Introduction

Dear Participant,

My name is Irene Nakyejwe, a Master of Business Administration (MBA) candidate at Makerere University. I am conducting a research study titled, "Access to Affordable Credit and Performance of SMEs in the Central Division of Kampala City: A Case of Kikuubo Business Hub."

Your business operates within the Kikuubo Business Hub, making your viewpoint invaluable to this study. Your honest feedback will be helpful in understanding the financial challenges and successes of SMEs in our community.

Participation is completely voluntary, and your responses will be treated with the utmost confidentiality. The data is entirely for academic purposes and will be reported in aggregate form to ensure your anonymity. As such, please do not write your name on the questionnaire.

This survey should take about 10-15 minutes to complete. Thank you for your valuable time and contribution.

#### Section A: Background Information

Instructions: Please tick (✓) the box that best applies to you.

##### 1. Gender:

Male

Female

Prefer not to say

##### 2. Age Group:

Less than 24 years

25 – 29 years

- 30 – 34 years
- 35 – 39 years
- 40 – 44 years
- 45 – 49 years
- 50 years and above

**3. Highest Level of Education Completed:**

- O-Level
- A-Level
- Certificate
- Diploma
- Degree
- Other (Please specify)

**4. How long have you been a member of your primary financial institution?**

- Less than 5 years
- 5 – 9 years
- 10 – 14 years
- 15 – 19 years
- 20 years or more

**5. How long has your current business been in operation?**

- 1 – 5 years
- 6 – 10 years
- 11 – 15 years
- Over 15 years

**Section B: Access to Credit and Business Performance**

Please rate your level of agreement with the following statements using the 5-point scale below. Circle the number that best represents your response.

Scale:

1 = Strongly Disagree (SD)

2 = Disagree (D)

3 = Neutral (N)

4 = Agree (A)

5 = Strongly Agree (SA)

Statement	SD	D	NS	A	SA
<b>Access to Affordable Credit</b>					
<b>Collateral Security</b>					
The requirement for collateral security makes it difficult for my business to access credit from financial institutions.					
My business lacks sufficient assets to use as collateral for securing loans.					
Financial institutions should provide alternative forms of security beyond tangible assets.					
The inability to provide collateral has forced my business to rely on informal lenders.					
<b>Credit Repayment Terms</b>	SD	D	NS	A	SA
The repayment period given by financial institutions is too short for my business to generate sufficient returns.					
My business struggles to meet loan repayment deadlines due to unfavorable repayment terms.					

Flexible repayment terms improve the ability of SMEs to repay loans without financial strain.					
High repayment installments negatively affect my business's cash flow.					
<b>Interest Rate Levels</b>	<b>SD</b>	<b>D</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
High interest rates discourage my business from borrowing from financial institutions.					
The cost of credit significantly reduces my business's profitability.					
Government intervention is necessary to regulate interest rates for SME loans.					
My business prefers borrowing from informal lenders due to lower interest rates.					
Lower interest rates would enhance my business's ability to expand and grow.					
<b>Performance of SMEs</b>	<b>SD</b>	<b>D</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
<b>Perceived Profitability</b>					
Our profits have been growing year after year.					
My business experiences financial losses					
My business has ability to invest in growth opportunities.					
Our cash collections have increased over the past few years.					
We are reducing costs while increasing production.					
<b>Sales Growth</b>	<b>SD</b>	<b>D</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
Our business sells more units than any other competitor in our market.					

We have the highest market share in terms of the number of units sold.					
Our business generates a higher percentage of revenue compared to other competitors in the market.					
We are a market leader in terms of sales revenue within our Market.					
Our company has a larger customer base compared to other businesses in the industry.					

**Thanking you once again for your valued contribution.**