UGANDA MANAGEMENT INSTITUTE

THE EFFECT OF DEBT FINANCING ON THE FINANCIAL PERFORMANCE OF SELECTED SMALL AND MEDIUM SCALE ENTERPRISES IN KABALE MUNICIPALITY, UGANDA

BY

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14/MMSFM/33/046

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER'S DEGREE IN MANAGEMENT STUDIES (FINANCIAL MANAGEMENT) OF UGANDA MANAGEMENT INSTITUTE

FEBRUARY, 2018

DECLARATION

I, Judith Kyarikunda, hereby declare that the contents submitted in this work for the partial fulfillment of the requirements for the award of a degree of Master of Master's Degree in Management Studies (Financial Management) of Uganda Management Institute, are entirely my own and have not been submitted to any institution of learning for any award.

Name………………………………………………….. Date ………………………………

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APPROVAL

This is to certify that this dissertation Entitled "*The Effect of Debt on the Financial Performance of Selected Small and Medium Scale Enterprises in Kabale Municipality, Uganda"* has been prepared by Judith Kyarikunda under Our supervision and is now submitted with our approval.

Supervisors:

Signed…………………………………………Date……………………………………

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Signed…………………………………………Date……………………………………

MR. PADDY MUGAMBE

DEDICATION

This research is dedicated to my Mother Mrs Ndyabura Mary and my late father Mr. Celestine Katororo may your soul rest in eternal peace. To my beloved son Joshua and husband Job, to all my brothers and Sisters and lastly to my cousins and nephews for the moral and financial support given to me during my course. May God bless you abundantly.

ACKNOWLEDGMENT

Work of this nature can only be accomplished with support and guidance. I therefore wish to extend my sincere gratitude and appreciation to my supervisors Assoc.Prof. Gerald Kagambirwe Karyeija and Mr. Paddy Mugambe whose devotion time and corrections for improvement at different stages of my research made this work better than I would have managed on my own

I cannot forget to acknowledge the inspiration from my late brother Dr. Byamugisha Robert. It was because of his encouragement that I decided to enrol for this course. And to my workmates and my friends, that have been instrumental in one way or the other for my academic progress

I thank my respondents for the time they shared regarding my study questions and to all well-wishers and my friends who supported me spiritually, morally and financially. Be blessed

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LIST OF ABBREVIATIONS

ALTA	American Land Title Association
CGAP	Certified Government Auditing Professional
MFIs	Micro Finance Institutions
MFPED	Ministry of Finance, Planning and Economic Development
OECD	The Organisation for Economic Cooperation and Development
SMEs	Small and Medium Enterprises
UBOS	Uganda Bureau of Statistics
UIA	Uganda Investment Authority

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The researcher examined the influence of debt financing on Financial Performance of SMEs in Kabale Municipality, Uganda. Debt financing in terms of long-term, short-term loan and trade credit was treated as the IV while performance of SMEs was the Dependent Variable . Chapter one focused on background information of the study, problem statement, purpose, objectives, research questions, hypotheses, scope, significance and conceptual framework. It as well provides a base for other chapters.

1.1 Study Background

The background is presented in section: historical, theoretical, conceptual, and contextual backgrounds.

1.1.1 Historical Background

According to Niall (2011), “the roots of debt financing are traced back at civilization itself”. The “written loan contracts from Mesopotamia which are > 3,000 years old indicated growth of a credit system which involved the idea of interest”. McIlravey, (2014) also agrees that “debt financing is not new” and asserts that “historically, firms primarily financed their projects with 2 securities i.e, debt and equity”. Even during the 13th through 18th centuries in Europe**,** the Catholic Church frowned on acquiring interest, an indication of availability of debt financing during that time. “More interestingly, Islamic Sha'riah still proscribe against lending inspite the mathematics of compound interest came in the Middle East” (McIlravey, 2014).

In US, the standard loan strategy was started in 1929 by American Title Association. As loans were became attractive and accessible to average Americans, Financial institutions expanded considerably and title insurance was a condition for most institutions starting in mid-late 1900s. “Policy forms persistently evolved but have held numerous basic hidden risks” (McIlravey, 2014).

Increased debt financing for SMEs gained momentum with emergency of micro-finance institutions. For example according to Nannyonjo and Nsubuga (2014), MFIs in Uganda since mid-

1990s have gained broad recognition their role in offering financial services to the low-income households, and their contribution to poverty mitigation.

"Historically, debt financing in Small and Medium Enterprises (SMEs) was limited because of their restricted size and lower creditworthiness" (Cabbar, 2000). Availability to financial market tools was restricted than for big firms that benefited from sophisticated treasury operations, economies of scale in their financing operations and, in specifically, from access to securitized lending and stock markets. "The limitations for SMEs limited their financial performance and their development in specifically because of lack of risk capital, their creativity and R&D activities", (Gang, Qingfei, & Shaobo, 2008).

It was hard for SMEs to realize their desired performance in terms of liquidity, long term solvency and profitability thus leading to lost business opportunities and failure to develop in form of size and financial resources. "It was attributed to high lending conditions by financial organisations between 30% & 36% annually" (MFPED, 2009). Kasekende & Opondo (2003), "the underperformance of SMEs stems from poor loan management and generally lack of strategic resources consistent with resource dependency theory produced by Barney (1991)". These scholarly arguments indicate that there has not been a single factor which adequately explains the under-performance of SMEs in Uganda and elsewhere but rather multiplicity of factors; and because of this, the relationship between debt financing and Financial Performance of SMEs has for long been a subject of an important debate in the business finance literature

1.1.2 Theoretical Background.

This study was guided by the Growth Borrowing Theory advanced by Kauffmann (2004). According to Kauffmann, "financial institutions are determinants in fostering development of enterprises through enhanced performance in form of profitability, level of sales, and asset acquisition". This is partly because they work as financial problem solvers to those who are innovative but with insufficient capital. Through getting loans and paying later from profits got for lending organisations to grow, and the borrower, they generate a vicious cycle of borrowing.

The model believes that "the borrowed money is invested in industrious projects, that results into profits part of which is used to pay back the borrowed money, all of which enhance performance of

SMEs". Therefore this theory was selected to underpin the study because it provides a basic model of enhancing financial performance through debt financing.

1.1.3 Conceptual Background

SMEs are "companies which may not have public accountability and their debt tools are not traded in a public markets". "SMEs are the backbone of each economy globally" (Kanu et al., 2014). SMEs are categorized in relation to their size and users in the following way (Kirsch & Meth, (2007)

- Smaller SMEs – administered by the owners with banks as their main users – yet banks don't rely on published financial statements because they have the authority to demand and get information, and the financial statements have a feedback function;
- Fairly larger SMEs - with some external shareholders the right and authority to get internal information, and the financial statements have a feedback function;
- Large SMEs with mainly external shareholders, who rely on getting information with predictive value for making decisions.

According to OECD (2005), SMEs are non-subsidiary, autonomous institutions which hire less than a specified number of workers. The most regular upper limit designating an SME is 250 workers, like the European Union. Nevertheless, some countries set a limit at 200 workers, while the U. S takes SMEs to be companies with less than 500 workers. Small companies are commonly those with < 50 workers, whilst micro-enterprises have at most 5 - 10, employees. This study applied SMEs to imply non-subsidiary and autonomous companies which hire less than 250 workers.

Growth of SMEs involves increased level of output, increased number of employee performance, increased level of creativity and innovation, industrial restructuring and wealth generation in both developing and developed economies Uganda Investment Report (UIA, 2008). According to Matly & Westhead (2005), "healthy and growing SMEs are alleged to be critical for sustainable competitive and economic development at local, regional and national levels".

"In Uganda, SME's are enterprises employing > 5 but mot exceeding 50 workers, with a value of assets, including land, building and working capital of < Ug.Shs 50 million and annual income turnover of between Ug.Shs 10-50 million" (Kasekende & Opondo, 2003). SMEs are enterprises that are autonomously operated by few persons. They are in form of sales volume and number of workers in the enterprises shown by structural growth, profitability and employment levels. “They mostly involve buying produce, market vending, catering and confectionery, shop keeping, second hand clothes, health services, and many others” (UBOS report, 2004).

Debt financing is a form of financing where one borrows money to run his or her business from any other source, majorly financial intermediaries such as commercial banks, micro finance institutions and individual money lenders. Damodaran, (2009) embraces that “debt is a financing approach intended to boost the rate of return on owners’ investment through making returns on borrowed money than the cost of using it”. Miwa & Ramsey (2008) “trade credit is used as debt financing alternative when companies face short-term unforeseen emergencies”. In the context of this study, debt financing will be assessed in form of long-term, short-term loan and trade credit.

Financial performance is “the act of conducting a financial task”. It is “a level at which financial objectives has been accomplished”. Sandberg, Vinbery & Pan (2002), “the financial performance of SMEs is their capacity to add (in pecuniary terms) to job and wealth creation through business start-up, survival and development”.

Financial Performance is also a common measure of a firm’s general financial position over a period of time, and is used to evaluate related companies in a similar industry. “Financial Performance is assessed using accounting KPIs e.g. Returns on assets, Return on sales, Sales growth etc” (Crabtree & DeBusk, 2008). In the context of this study, financial performance was evaluated in terms of profitability, liquidity, and sales revenue.

1.1.4 Contextual Background

In Uganda the SMEs sector contributes 20% to Gross Domestic Product and it provides employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (ADB, 2012). The benefits of the small and medium enterprises in the Ugandan economy cannot be overstated. Small and medium enterprises play a substantial role in employment and income generation, producing import substituting options that significantly drive the Ugandan economy. Predictably though, Odongo (2014) exposed impediments like unsatisfactory liquidity, ineffectual financial efficiency of resource utilization, high risk of solvency leading to financial distress and high lending terms of financial institutions were linearly related to the financial performance of SMEs with the lending terms explaining 26.6% in performance variations of SMEs that borrowed in Uganda accordingly handicapping their growth efforts.

The financial institutions in Uganda have developed diverse lending platforms to SMEs to improve their financial performance and reduce the collapse of SMEs before their first anniversary in order to encourage them to create better business environment in the SME sector, (Lutwama, 2008). Different approaches have been made to bring in more insights to the SME and the Banking sector the best practices of lending to sustain SMEs financial performance in the fragile environments especially financial crisis in the global financial markets and fragile economies to create potential avenues for growth and development for job creation, (Odongo, 2014).

The government has given some SMEs support structures such as a funding platform through Microfinance support centre at concessionary rates. According to GEM (2008), "despite the fact that SMEs in have accessed funds from financial organisations; many of them remain financially poor and close before one year hence the need to find out is this is associated with debt financing".

"The percentage of SMEs with a bank loan to the total SMEs in Uganda has reduced from around 15.5% in 2006 to 9% in 2015", (World Bank, 2016). This means that there is a general increase in the uptake of loans from banks, credit unions, microfinance institutions by the SMEs in Uganda.

Although there have been several business start-ups in the recent past, a number of them have failed to continue. There was a decline in registered business from 800,000 in 2001 to 25,000 in 2007 as noted by (GoU, 2010; Kasekende and Opondo, 2003). According to Hatega (2007), Small and Medium sized Enterprises (SMEs) are estimated to constitute 90 percent of the businesses in Uganda. A small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees where as a medium sized enterprise is considered a firm, which 2 employs between 50-100 workers (Kasekende & Opondo 2003). Eighty percent of the SMEs in Uganda are located in urban areas and are largely involved in trade, agro-processing, and small manufacturing (Hatega, 2007). This study basically focused on debt financing and its effect on financial performance of SMEs with special reference to selected SMEs in Kabale Municipality.

1.2 Statement of the Problem

"Debt financing is a main foundation of capital for emerging firms as retained earnings are inadequate", (Sun, 2010). "SMEs rely on debt financing since it is cheaper in comparison to equity financing". Graham, (2000). "SMES in Uganda access financial services from financial organisations". Many initiatives such as; none traditional financial lending institutions like the Microfinance Support Centre, access to loans, and reduced cost of compliance with business regulations have been put in place by the government of Uganda to improve the performance of small and medium enterprises, (GEM, 2008).

Even with these initiatives, SMEs in Uganda continue to perform below expectation (UIA, 2008; Ernst and Young, 2011). As noted in Mugisha, C. & Kibirige, N. (2009), "access to credit facilities still remains a major challenge facing SMEs in Uganda with interest rates for short and medium term rates between 17-28 % annually". "Those SMEs that have access to loans find themselves caught up in a loan cycle and others have left business of poor Financial Performance and trouble in recovering loans", (The CGAP Assessment Report (2008).

Few studies in Uganda have been done on how SMEs' financial performance is affected by Debt financing especially in areas such as Kabale which the current study intends to fill. The study thus, intended to look at the effect of debt financing on Financial Performance of SMEs.

1.3 Study Purpose

It was to look at the impact of debt financing on the Financial Performance of SMEs in Kabale Municipality.

1.4 Study Objectives

i. To examine the impact of long-term loans on the Financial Performance of selected SMEs in Kabale Municipality.
ii. To establish the extent to which short-term loans affect the Financial Performance of selected SMEs in Kabale Municipality.
iii. To investigate the impact of Trade Credit on the Financial Performance of selected SMEs in Kabale Municipality.

1.5 Research Questions

i. What are the effects of long-term loan on the Financial Performance of selected SMEs in Kabale Municipality?

ii. To what extent has short -term loans affected the Financial Performance of selected SMEs in Kabale Municipality?
iii. What are the impacts of Trade Credit on the Financial Performance of selected SMEs in Kabale Municipality?

1.6 Study Hypotheses

It tested the hypotheses below:-

i. There is no significant impact of long-term loans on the Financial Performance of SMEs in Kabale Municipality.
ii. Short-term loans have no significant impact on the Financial Performance of SMEs in Kabale Municipality.
iii. There is no significant impact of Trade Credit on the Financial Performance of SMEs in Kabale Municipality?

1.7 Study Scope

The scope was defined based on three perspectives: the geographical scope, the conceptual and time scope.

1.7.1 Geographical Scope

"Geographically, Kabale Municipality covers an area of 64 km^2 and it borders Kyanamira in the east, Kitumba in the south and extends in the west and Bubaare in the north" (Kabale Municipal Council 3 Year Development Plan, 2010). Kabale Municipality is comprised of three divisions (Northern, Southern and the Central) and 12 wards. Respondents will be chosen from all the 12 wards in the three divisions. This area was chosen for this particular study because a number of SMEs have sprung up yet at the same time many of them have collapsed.

1.7.2 Content Scope

Conceptually, the study was guided by "Debt Financing" (the IV) and "Financial Performance" (the Dependent Variable) as study variables. Within this framework, the study looked at role, sources of debt and how debt financing influences Financial Performance of SMEs in Kabale Municipality.

1.7.3 Time Scope

The study covered a period of 5 years from 2011 - 2016. This period is based on when SMEs were mainly started in the study area. It is also based on grounds that it is when the government put in some effort to recognize SMEs' importance in socio-economic development by establishing the Microfinance Support Center in the region to specifically handle financial issues of SMEs. The period also gives enough timeline for any eventful effect to take place.

1.8 Justification of the Study

China, South Korea, and Singapore, which were at the same level of economic development with Uganda in about twenty-four years ago are now among the most developed countries of the world because of their investments in Small and Medium Scale Enterprises. Uganda seeks to follow in the footsteps and indeed, we are already trying although with limited success. In order for Uganda to achieve these levels successfully, studies in successes and failures of SMEs in the developing world are necessary. We need to contextualize circumstances these countries have gone through in order to achieve their current levels of economic growth and development. Therefore, the current study is of paramount importance to the entire country, to enthusiastic entrepreneurs, and the developing Africa.

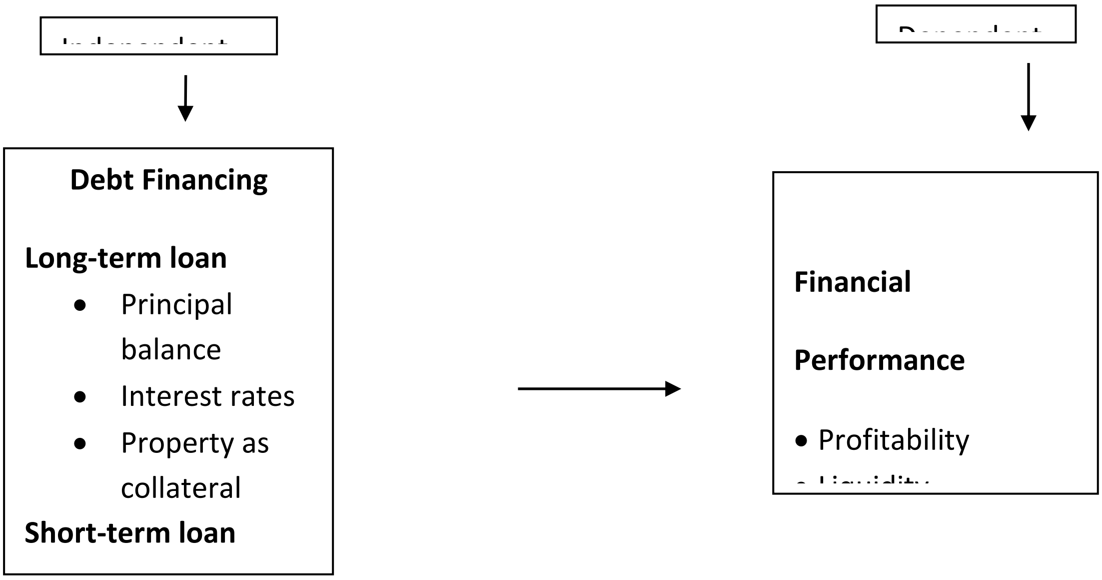
1.9 Significance

This study may be of significance to policy makers when it comes to policy formulation. Based on current study objectives, such policies will help to undermine legal barriers to SME entry into the financial market and shall ease their access to favourable sources of finance. In this way, policies will act as a guiding tool to show the financial direction. Corollary, this study will be useful to financial reforms that favour SMEs as these are significant in meeting the country's MDG agenda including poverty reduction. On the academic side, other researchers will use this study for reference purposes. Secondary, results of the study may help to add value to the current body of knowledge.

1.10 The Conceptual Framework.

This explained the interdependence and the variability of independent and dependent variables. It explains how the dependent variable is influenced by the independent variable. It however does not rule out the influence of the study outcomes by the intervening variables. The conceptual framework can be illustrated diagrammatically as below.

Conceptual Framework



Source: Developed by the researcher from the reviewed literature

Table 1.1: Conceptual Frame work for the effect of debt financing on financial performance

From table 1.1, the Independent Variable is "*Debt Financing*" and the Dependent Variable is "*Financial Performance*". This study aimed to examine how debt financing influences financial performance of SMEs in Kabale Municipality. SMEs are financed from Commercial banks, Savings, Profits' investment, Long term debt, Microfinance institutions; and these have been regarded by the study as "low interest sources". On the other hand, they can be financed from friends, money lenders, associations which are not registered and short term debt from various sources, and these have been regarded by the study as "high interest sources". In one way or the other depending on the grouping of sources of financing, these affect the firm's financial performance and this effect can be seen through the Level of profit making, production volume, number of employees and stock level, return on investment, level of asset acquired, new markets sales growth and liquidity. The financial performance of SMEs can also be affected by other factors like the financial policies of the SME or the legal and regulatory framework of the industry/sector in which the SME falls. These have generally been referred to as the intervening variables.

1.11 Definition of Terms

Small and Medium-size Enterprises (SMEs) are defined as registered businesses with less than 250 employees that contribute heavily to employment and GDP, often have great difficulty accessing financial services in many emerging markets and grow in ways linked to the formalization of an economy (Srinivas, 2015) .

Debt Financing is the practice of borrowing funds from outside an organization from such institutions as commercial banks, money lenders, micro finance institutions and SACCOs. It includes long-term debt (loans repayable in more than a year) and short-term loans (loans repayable within a year) (Frasch, 2013).

According to Munyuny, 2013, t**rade credit** refers to the credit extended to SMEs by their suppliers whom they have purchased goods or services from on a credit basis for a given period of time after which they pay later when the credit period expires

Profit: financial benefit which realized when income got from a business is > the expenses, necessary to maintain the activity. Any profit realized is taken by the business's owners, who might or cannot choose to spend it on the business. Calculated as: Profit = TR – TE. Profitability is a profit-making condition.

Return on Investment "A benefit to the investor resultant from an investment of some resource". A high ROI implies the investment profits compare satisfactorily to investment costs. As a performance measure, ROI is useful in evaluating the efficiency of a business.

Liquidity in a business enterprise is "a measure of level at which a company has cash to meet short-term obligations". In Accounts, it is "the capacity of firm's CAs to meet firm's CLs". In investment, it is an investment's capacity to rapidly change an investment portfolio into cash with little or no loss in value.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction.

The chapter provides literature by scholars in areas related to the current study. This was presented in accordance with the study objectives, that is, the effects of long-term, short -term loans and trade credit on the financial performance of SMEs. The first section focused on the theory and how it impacts on the study. Literature inclined to the above guidelines was searched from published documents, journals, conference papers and the internet.

2.1 Theoretical Review.

This study was based on "*the Growth Borrowing Theory*" by Kauffmann (2004). According to this model, "financial firms are determinants in promoting growth of business enterprises (SMEs) through better performance in forms of profitability, level of sales, and asset acquisition". It is due to the fact that they work as financial trouble solvers to innovators but with insufficient capital; through getting loans and paying back in future (debt financing) from returns for financial firms to develop as well as the borrower, therefore generating a vicious cycle of borrowing.

Gonzalez and Sushma (2009) argued that today, there's widespread agreement that most MFIs should operate sustainably, keeping their costs as low as possible and charging interest rates and fees high enough to cover those costs. Inability to access finance may be one of the reasons why we do not see a robust correlation between SME prevalence and economic growth and financial constraints are particularly preventing small firms from reaching their growth potential in terms of financial performance (Demirgüç, 2005). The authors further asserts that in most situations SMEs ought to pursue financial sustainability by being as efficient as they can but MFIs charge high cost of money to cover the costs of their lending and other services. Rosenberg (2009) concurs with Gonzalez and Sushma (2009) that the cost of money charged to SMEs represents money taken out of clients' pockets, and it is unreasonable if it not only covers the costs of lending. Even the cost of money that only covers costs and includes no profit can still be unreasonable if the costs are excessively high because of avoidable inefficiencies and resulted to poor consistence financial performance of SMEs

The theory assumes that "loans are put in creative start-ups that can result in profits, and some used to pay back the borrowed money". Therefore, the Growth Borrowing Theory was used to examine its practical and theoretical application in Kabale Municipality on how debt financing influences financial performance of SMEs.

2.2 Impact of Long-Term Loan on the Financial Performance of SMEs.

There has been considerable attention to the contribution and growth of SMEs globally. "It is because efforts to encourage economic development through establishing big industries have frequently failed to enhance the lives of most people concerned" (White Paper on International Development, 2000). The attention on SMEs has consequently attracted a number of scholars (Memba, Gakure, & Karanji, 2012; Lutwama, 2008; Kyomuhendo, 2014). These scholars agree to the fact that lack of accessibility to long term credit is a key limitation limiting the development of the SME sector and their financial performance in particular.

Given the value attached to financing SMEs, several of researches have been done to assess the impact of Long-Term Loan on the Financial Performance of SMEs. For example, Trisha (2011) carried out a study, titled, "*investigative the impact of Loans on SMEs in Ghana*". A descriptive research design was applied and the sample for the study comprised of 100 Small and Medium Enterprises who kept accounts with Stanbic bank. The results indicated that "the majority SMEs used loans as working capital largely to get raw materials for production". E.g. with the increased government contracts, the majority of suppliers applied for loans to facilitate them carry out these contacts. It was therefore, evident that SMEs used the long term loans to boost their business. This therefore means that in absence of such long term loan, the business operations of many small scale enterprises could easily be constrained.

In the same study by Trisha (2011), another conclusion was that "access of a loan was associated with high cost of capital on SMEs". Yet at the same time majority financial firms categorize SMEs as high risk therefore high default leading to high interest charges". Participants stated "complicated loan application processes are a weakness in access of loans". Similarly in a study by Kyomuhendo (2014) on credit financing and the growth of SMEs in Uganda it is reported that "lack of access to credit financing may in one way or the other deter the growth and development of small and medium enterprises simply because these proprietors may lack the ability to acquire sufficient funds in order to finance their activities". Such phenomenon is most prevalent in areas where there are no or sufficient bank outlets as compared to other businessmen in urban centers. Even the few financial institutions that are available impose high interest rates on their loans hence affecting the proper functioning of these SMEs.

In support of the views of Trisha (2011), Katto, (2008) established that “MFI loans were unsustainable because of the tough terms where interest rates were high and ranged from 28% – 48% with no grace period and short payback period”. Although many small business owners in Uganda (and in Kabale in particular) have complained about the conditions relating to acquiring long term credit, the complaints have not been translated into scientific research aimed at quantifying the influence of long term borrowing on the Financial Performance of SMEs. Therefore this study sought to fill this gap.

Bayene (2002), “long term loans are preferred sources of Debt Financing amongst well-established companies by virtue of their asset base and collateral requirements”. Such loans are suitable for several deposit taking financial companies like cooperative and commercial banks who give mid - term loans for 3 - 5 years with an agreement on the cost. The fact that such loans are suitable for deposit taking financial institutions and other financial service providers justifies the need to quantify their effect on the Financial Performance of SMEs.

In support of the views of Bayene (2002), Gitman, (2008) asserts that “long-term business and financial decisions rise to future cash flows which, when discounted by a cost of capital, establishes the market value of a firm”. Current assets and liabilities, that is, assets and liabilities with maturities < 1 year, should be cautiously managed.

2.3 Short -Term Loans and Financial Performance of SMEs

In a report by the World Bank on ‘*Making Finance Work for Africa’* (2006), it was reported that “access to credit by SMEs is positively correlated to growth of SMEs and the GDP per capita”. The accessibility of external finance is positively connected with the number of enterprise start-ups. Credit finance is also necessary if prevailing SMEs can exploit growth and investment opportunities and realize a larger equilibrium size. The type of credit a business desires relies on several factors like its stage of growth, trading history, financing status and how the business shall use the finances. The credit options range from short term credit to long term credit.

Several researches have been done to relate short-term credit to performance of businesses. In most of these studies, short-term bank loans have been found to have a positive impact on the profitability, expansion and earnings of SME. For example in a study by Teruel & Solane, (2008) who analysed “*the Spanish SMEs Corporate cash holdings”* and found that “companies with a high amount of short-term debt were able to have higher levels of cash, because they were able to lower the risk of non-renewal of the short-term debt”.

Weinraub & Visscher, (1998) on '*debt financing'* state that "for SMEs to financially grow well, they need an aggressive liquidity policy combined with high levels of lower cost of short-term debt and less long-term capital". Though capital costs are minimized, it raises the risk of a short-term liquidity dilemma. From their studies, they also found out that "there is a negative relationship between financial tangibility and short-term debt and a positive relationship between financial tangibility and long-term debt". "These results are consistent with most theories on capital structure which suggest that firms without fixed-assets are unable to access long-term financing due to lack of collateral" (Weinraub and Visscher, 1998).

Abor, (2005) examined "the effect of capital structure on the corporate profitability of listed firms in Ghana using a panel regression model"; the findings show "a positive relationship between short-term debt ratio and profitability while negative relationship between long-term debt ratio and profitability". Hammes, (2003) looked at "the relationship between capital structure and performance through comparing Polish and Hungerian companies to a big sample of companies in industrialized states". He used Panel data analysis to examine "the relationship between total debt and performance and between various sources of debt i.e, bank loans, and trade credit and firm's performance assessed by profitability". His findings demonstrate "a significant and negative impact for most countries". He found out that "the type of debt, bank loans is not of main importance since what matters is debt" (Hammes, 2003).

Gibson, (2004) conducted a study on "the significance of short term financial sources in SMEs in South Africa". The results specify "the larger, better performing companies are in a short term debt group". It means "SMEs might not take advantage of the information regularity advantages they get through size and performance to increase external mid - to long term borrowing". Somewhat they appear prone to use the benefits of their size and performance to expand stronger short term relationships with product, service and finance providers.

As supported by the empirical evidence from the many scholars who related access to short-term loans to performance of SMEs, short-term credit is a significant factor in enhancing business growth as a whole and financial performance in particular. Although many scholars have highlighted the value of short-term loans, few have provided guidance on the basics of accessing and using such loans. One such scholar, Gran (2013) discussed comprehensively "the best times to use short term loans". Gran, (2013) argues that "whether SMEs are working with a provisional financial crisis, short-term loans are key in addressing a cash crunch". The researcher maintains that "short-term loans should be used as part of a larger pool of business financing alternatives and that a CBA should always be performed before adopting short term financing". This is because the short-term nature of these loans are an extra cost. Short-term loans should be at a faster rate than long-term loans. This therefore implies that SMEs pay a high interest on short-term loans than on long-term loans. Gran (2013) recommends that "loans to for long-term debt, like purchase of fixed assets by SMEs using short term credit should be avoided".

2.4 Trade Credit on the Financial Performance of SMEs

Trade credit arises in situations where the suppliers do not require immediate payments for whatever batches of goods and services that have been supplied to a business until the given credit period. In other words, this is a short term source of credit and in most cases it is less than one year and because it gives the firm the time to invest in the money it would have otherwise use to pay the supplier and possibly pay more pressing expenses (Kakuru, 2001). Trade credit contract terms and the volume of trade credit are significant parts of trade credit because they decide the implied interest on trade credit, i.e. the price of trade credit. When the delivery and payment do not occur at the same time, payment arrangements define credit terms.

In a theory with no bank loans, Bougheas et al. (2009) show that, "for a given liquidity, an increase in production will require an increase in trade credit". It is further argued that "fast growing SMEs may finance themselves with trade credit when other types of finance are not sufficiently available". Boissay & Gropp (2007), "SMEs faced with a liquidity shock try to defeat this troubled condition through passing on of the shocks to their providers through taking more trade credit".

"Another way of extending a loan on a short-term basis is the advancement of trade credit, and it is the significant option to loans as a source of external financial in the SME sector in all MDCs and LDCs" (Dermirguc- Kunt & Maksimovic, 2001) because "it offers a safety valve for companies with liquidity surprises". With market challenges, the link of the exchange of goods and trade credit offers particular services. "The theoretical base of the relationship between trade credit and asymmetric information is given in the study and shows that trade credit has a substantial influence on company Financial Performance " (Garcia et al, 2011).

Trade credit can considerably decrease business cost through separating the exchange of goods from the exchange of funds, and through paying bills at regular intervals instead of each moment when on delivery of goods. This business motive is extensively believed to emphasize a considerable part of total stock of trade credit, even in researches analysing economic motives.

"Therefore, trade credit proved to be a feasible debt financial instrument in the discretion of committed businessmen that shall significantly add to Financial Performance" (Nielsen, 2002).

Dermirguc- Kunt & Maksimovic (2001) argue that "trade credit is the important alternative to bank loans as a source of external funding in the SME sector in every developed and developing economy".

2.5 Literature Survey

Given the value of SMEs in any economy, the question of SME financing has remained a central topic for both academic and practical research. Financing is essential to aid SMEs set up and grow their operations, expand new products and invest in new employee services. In other words financing is key for the financial performance of SMEs. Most scholars agree that SMEs continue to be faced with the problem of scarcity of funds (Peel & Wilson, 1996; Ukpong 2002). For example Ukpong (2002) reports that SMEs have limited debt funding opportunities while at the same time experience limited access to capital markets (equity financing). This coupled with the fact that most owners of SMEs do not have sufficient personal savings to satisfactorily run their businesses remains a big threat to SMEs performance in general and their financial performance to be specific.

Amidst all these conditions, the proponents of debt financing as a funding alternative for SMEs maintain that it remains the most viable option for SMEs (Trisha, 2011; Lutwama 2008; Gran, 2013). Yet critics of debt financing point to such challenges as high interest rates, demand for collateral, bureaucracy in accessing loans, unfavourable repayment schedules and the associated risks of loan repayment as strong disadvantages of debt financing. These critics argue that such challenges generally affect the performance of SMEs. In a study by Odife (2002), it is argued that some financial institutions are reluctant to lend money to SMEs because of the perception that lending to them is not economically feasible "Debt financing for SMEs is also considered high risk and an unsuccessful business owing to lack of accurate and reliable information on the financial condition and performance of many SMEs, unconvincing and weak business plans and weaknesses in management of SMEs" (Odife, 2002).

Although the semi-formal financial institutions for instance cooperatives, trade associations and SACCOs have been able to meet the credit needs of SMEs, a number of SMEs are still not able to access debt financing. "The reason for SMEs failure to get funds from formal financing source", Solola, (2006).

Even though debt financing is a common financing approach for SMEs, there are other viable financing alternatives for SMEs. One of these common sources of funds is through equity financing. Oteh, (2011) argues that "SMEs are the backbone of the country and thus capital markets plays a significant role in the provision of finances for SMEs". Similarly, Kasekende & Opondo (2003) argue that "capital markets are an option for finance for SMEs". Proponents of capital markets as an alternative form of finance for SMEs argue that capital markets would serve as an important source of long term finance.

Scholars agree that "equity financing does not entail a direct responsibility to repay the acquired finances". It is thus arguably true that equity financing offers a number of benefits for SMEs. However it is important to acknowledge that it a less preferred alternative because in equity financing the founders of SMEs must cede some control of the enterprise. Furthermore equity financing requires a degree of formalisation by SMEs which has a financial implication (Oteh, 2011).

Despite the disadvantages of debt financing, several studies have concluded that debt financing is an important correlate of financial performance among SMEs (Trisha, 2011; Bayene, 2002; Teruel & Solane, 2008). By operationally defining debt financing as long term, short term and trade credit, this study sought to find out whether debt financing significantly affects the Financial Performance of selected SMEs in Kabale municipality.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

The chapter present the study methodology. It provided a discussion of methods and procedures that the researcher used throughout the study. It consisted of the study design, study population, sample size, sampling technique, data collection techniques and tools, validity and reliability, procedure for data collection, data analysis, ethical consideration and study limitations.

3.1 Research Design

The researcher used cross sectional survey research design using a Case Study. “A case study is a thorough study of a specific unit under consideration” (Kothari, 2008).The researcher used this design because of its ability to provide a rich understanding of the study context and procedures being studied. A cross sectional survey design was used because there are many SMEs in the Municipality and each with employees. It was exploratory because the nature of the study was in such a way that it had to be investigative and probing so that appropriate data are received.

The researcher used both quantitative and qualitative research approaches questionnaires and interviews were also used.

Interviews enabled to record data that was used for the qualitative approach where data analysis was done descriptively, whereas the questionnaires were used to gather data for the quantitative approach where the use of statistical analysis was convenient (Odiya 2009).

The quantitative approach was used to enable statistical analysis through generation of descriptive statistics and inferential statistics. The qualitative approach on the other hand was used to capture in detail the opinions and ideas of the respondents.

3.2 Study Population

Amin, (2005) defined study population as a complete collection of all members of a group which is of interest in a specific study. It consisted of 80 participants from different SME categories which included hotel, tour & travel, education, construction, provision of financial services, general merchandise (provision fuel & gas, provision beverages & alcohol, and others) and transport.

This population consisted of specifically the top management representatives in these categories. The details of the study population are shown in the table 3.0.1 below:

Table 3.0.1: Respondent institutions

Category of SMEs in Kabale District	Population /Management/Owners	Sample
Hotels ,	12	10
Education	10	8
Transportation	12	10
General merchandise (Others)	20	17
Construction Companies	2	2
Consulting	5	4
SACCOS	7	5
Total	80	66

Source: Morgan& Krejcie (1970)

3.4 Sample Size and Selection

3.4.1 Sample Size

Oso & Onen (2008) describe a sample as "part of the available population has been logically chosen to represent it". The population of 80 members in the selected categories was considered for the study because of its relevancy in the study. A sample according to Odiya (2009) refers to the portion of respondents selected for the study. It is a subset of the population from which a generalization about a population is made. A sample of 66 was selected from the accessible population of 80 in accordance with the Morgan& Krejcie (1970) table of sample size selection.

3.4.2 Sampling Techniques

"Sampling technique is a procedure of choosing objects from a population in a way that the sample elements chosen stand for the study population" (Amin, 2005). The research used purposive and simple random sampling. Purposive sampling entailed selection of specific persons or elements in administration thought with knowledge issues that are researched about. According to Amin (2005), "purposive sampling technique allowed the researcher to use cases that are deemed to have necessary information in respect to the study variables". This sampling strategy helped the researcher in selecting the managers/owners of SMEs as they are thought to be dependable and knowledgeable on the study topic, thus they gave reliable and comprehensive information. "Simple random sampling is a sampling technique that makes sure that every element of the study population has an equal chance of being selected" (Oso & Onen, 2008). Simple random sampling was employed in choosing employees in different SMEs to participate in this study.

3.5 Data collection instrument

In order to collect both quantitative and qualitative data on the influence of debt financing on the Financial Performance of SMEs in Kabale municipality; the researcher used interviewing, questionnaire, and documentary review approaches of data collection. For selected methods, the following three instruments were used.

3.5.1 Interview guide for SME owners

A semi-structured set of questions related to the study variable was used to guide the process of data collection with the selected respondents. This was used to collect data from key informants, mainly the top manager of SMEs. In addition, the interview guide contained of both open and close-ended questions. The interview guide was prepared according to study objectives. In-depth interviews were employed because one can appreciate someone's impressions, or discover more about their responses to questionnaires.

3.5.2 Questionnaire to owners of SMEs/ Management

The researcher employed a self-administered questionnaire as a tool of data collection to collect quantitative data from respondents. The questionnaire was divided in 2 parts. 1) Was eliciting demographic features of the participants and 2) contained questions relating to debt financing and financial performance. The researcher used a closed ended Likert scale.

3.6 Validity and reliability of data collection Tool

3.6.1 Validity

"It is a degree to which a tool measures what it is meant to measure" (Carolel et al, 2008). The content validity of the tool was established commendable performing for the pilot test. After creating the questionaire, the researcher discussed with the supervisors and 3 other experts to get professional judgment on validity of the tool. "The formulae below was used to run the CVI" (Polit, 2006).

$$CVI = \frac{\text{Number of items regarded relevant by researcher}}{\text{Total number of items}}$$

The tools would be valid if the CVI of 0.5 or above is attained as illustrated in Table 3.2

Table 3.0.1: Degree of Accuracy (Construct Validity Test)

Interpretation	**Mean Range**
Not Acceptable	Below 0.50
Acceptable	0.50 to 0.699
Good	0.70 to 0.799
Great	0.80 to 0.899
Superb	Above 0.90

Source: Polit (2006).

30/34 = 0.882

The Content Validity Index was found to be 0.882 for all the items on the questionnaire and interview guide combined. Thus the questionnaire was considered valid given that a CVI of at least 0.8 is considered great y in measuring validity.

3.6.2 Reliability of Instruments

Reliability is a level at which measures are free from mistakes and hence yield steady results. If a measurement procedure constantly gives similar scores with equal values, the tool is considered reliable. "Reliability comprises of consistency of test scores that is., the level at which one expects comparatively constant deviation scores of persons across testing conditions on the same, testing tools" (Ganesh, 2014). The researcher used Cronbach Alpha Coefficient.

Table 3.0.2: Reliability

Variable	Cronbach Alpha Value
Long-Term Loans	.821
Short Term Loans	.769
Trade Credit	.808
Financial Performance	.889

Source: *Primary data 2017*

According to Cronbach (1950), coefficient alpha of 0.7 and above is considered adequate. From the results all the Cronbach alpha coefficients ranged from .769 to .889, therefore meeting the acceptable standards.

Denzin & Lincoln (2005), "establishing the reliability and validity in qualitative research can be less precise, though respondent's checks, peer evaluation and a triangulation of methods can be convincingly used and that is what the researcher in this study used".

3.7 Procedure of Data Collection

After writing the research proposal to the satisfaction of the supervisor, an introductory letter for seeking permission to proceed for data collection was obtained from Uganda Management Institute (UMI), and this was used to make respondents believe in the researcher. This letter was taken to area leaders to seek for permission before engaging the population for the study.

3.8 Data Processing and Analysis

3.8.1 Analysis of Quantitative Data

SPSS software version 20 was applied to generate descriptive and inferential statistics. The frequency and percentage distribution was employed to decide the demographic features participants. While mean and SD was used for different points of agreements in relation to the questions asked on the Likert scale. The effect of debt financing on Financial Performance of SMEs in Kabale Municipality were evaluated using a simple regression analysis.

The stated variables in the questionnaires were analysed using descriptive statistics of reactions categorized as below:

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	**2**	**3**	**4**	**5**

By use of descriptive statistics, the mean values of 3 and above indicated high levels of agreement with the statement while mean values of less than 3 showed high levels of disagreement with the statements as per the questionnaire.

3.8.2 Analysis of Qualitative Data

The inductive method was helpful as it replicates regularly reported patterns used in qualitative data analysis.

The assumptions of inductive method is "data analysis is established through research objectives and multiple readings and interpretation of raw data". "Therefore, results were got from both the research objectives outlined by the researcher and results arising from analysis of raw data" (Thomas, 2003).

3.9 Limitation of the Study

The researcher had anticipated some of the following limitations: Limited time for the study, constraints in convening respondents for focus group discussions, fear of being allowed to access confidential data especially data related to financial statements and loan performance reports. Some People feared to reveal certain information due to fear of competition in the business. The costs of the study were rather too high since it involved a big respondents' number coupled with constant travel between the study area upcountry and UMI in Kampala to meet the supervisor and in using of research assistants in data collection.

3.10 Ethical Considerations

An introductory letter for seeking permission to proceed for data collection was obtained from Uganda Management Institute and this was the basis for the informed consent of respondents. Furthermore, respondents were assured of utmost confidentiality of the data given to the researcher, because these data were treated for purposes of academic only and nothing else and this was explained to respondents. The researcher tried to guard against plagiarism. The researcher will not (as promised to respondents) reveal any information of confidential nature (as this may expose certain businesses to an unhealthy competition) after the study. The researcher discussed materials directly related to this study only with the research supervisor, and in any reports, papers and published materials by the researcher, obvious identifiers will first be removed.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter gives, analyses and interpretations of study results. It begins with a presentation of the background information on the study respondents and the study response rate which is followed by the key study results. Study results were presented based on study objectives i.e: To examine the influence of long-term loans on the Financial Performance of selected SMEs in Kabale Municipality; To establish the extent to which short-term loans affect the Financial Performance of selected SMEs in Kabale Municipality and; To investigate the effect of Trade Credit on the Financial Performance of selected SMEs in Kabale Municipality.

4.1 Response rate

The study targeted a sample of 70 respondents. 7 were considered for key informant interviews and 63 were supplied with questionnaires. A total of 63 questionaires were disseminated to the different targeted participants. The participation rate is indicated in Table 4.0.1 below.

Table 4.0.1: Response Rate

	Frequency	**Percentage**
Number of questionnaires distributed	63	100%
Number of Questionnaires returned	56	88.8%

Source: Primary data, 2017

As indicated in table 4.0.2, the study achieved an 88.8% response rate which is considered sufficient for the generalisability of the study findings as Mugenda & Mugenda (2010) suggests that “a 50% response rate is adequate, 60% good and above 70% rated very well”. This higher response rate could be clarified because the researcher employed the help of two research assistants who helped in distributing and gathering the questionnaires from the respondents.

4.2 Background Information about the Respondents

The first section of the questionnaire was meant to help the researcher gather background information about the respondents in the study. Such information was considered relevant in understanding the composition of the respondents as regard the study and its variables. Participants were requested to give their age group, gender, and highest level of education attained, marital status, business ownership and the type of business industry that they fall. The results on these background variables are presented below:

4.2.1 Respondents by Gender

The researcher endeavoured to establish the gender of participants used in the collection of data. This was meant to determine the gender category with big percentage number. Results are given in table 4.0.3 below.

Table 4.0.4: Gender Category of the Participants

	Frequency	Percentage
Male	40	71.4
Female	16	28.6
Total	56	100.0

Source: Primary data, 2017

The table 4.0.5 indicates that "71.4% of participants were males and only 28.6% of them were females". Although the debt financing options are not dependant of gender in particular, the above statistics reveal that there were more male respondents than their female counterparts. One of the possible reasons for this could be that statistically, Uganda has more males in the relatively organised business enterprises though females too are as good enterprises are they can be.

4.2.2 Respondents by their age bracket

The participants were also tasked to give the age bracket in which they belong. Table **4.0.6**is a summary of the respondents by their age ranges.

Table 4.0.7: Age Category of the Respondents

	Frequency	Percent
(31-40)years	30	53.6
(41-50)years	15	26.8
above(50)years	11	19.6
Total	**56**	**100.0**

Source: Primary data, 2017

The table 4.0.8 shows that over half of the participants, 53.6% were under the (31-40) year's age bract, 26.8% of the respondents were between (41-50) years and 19.6% of them were above 50 years. The high percentage of 53.6 % being 31-40 years could be justified by the presence of a vibrant age group which has rather established themselves in their business and thus were even accessible to receive the tolls for data collection. The researcher realised that the businesses with people over 50 years had an experience of having used or tried out the different debt options and thus they were willing to share their knowledge regarding their experiences in relation to these.

4.2.3 Respondents by the highest level of education attained

Participants were also requested to reveal their highest level of education attained and results are showed in table 4.0.9 below:

Table 4.0.10: Participants by the level of Education

	Frequency	Percentage
Certificate	4	7.1
Diploma	8	14.3
Degree	30	53.6
Masters	14	25.0
Total	56	100.0

Source: Primary data, 2017

Illustrated in the table 4.0.11 is the categorisation of respondents according to their level of education. The study shows that 53.6% of the respondents had achieved a bachelor's degree, 14.3% had attained diploma, 25% of the respondents had attained at least a master's degree and only 7.1% of the respondents had acquired at least a certificate qualification. The researcher notes that these respondents are expected to have the knowledge sought after by the researcher through the instruments used to obtain the data. Since most of them have attained some level of education, it implies that these individuals know something about the various debt options that were being asked about in the study.

4.2.4 Respondents according to their Marital Status

The Participants were requested to give their marital on if they were married or not. Results are summarized in table 4.0.5 below.

Table 4.0.12: Marital Status of the Respondents

	Frequency	Percentage
Yes	46	82.1
No	10	17.9
Total	56	100.0

Source: Primary data, 2017

Table 4.0.5 shows that 82.1% of Participants were married whereas only 17.9% were not. This meant that the number of married respondents was higher than any other category. The married could be looking at their enterprises with an aim of complementing their family incomes, while the single, widowed and/or divorced look at these debt financing options to support their enterprises.

4.2.5 Respondents according to Business Ownership

The respondents were requested to show if they owned a business or not. The findings are summarized in table 4.0.13 below.

Table 4.0.14: Business ownership of the respondents

	Frequency	Percentage
Yes	50	89.3
No	6	10.7
Total	56	100.0

Source: Primary data, 2017

The table 4.0.15 indicates 89.3% of participants were business owners whereas only 10.7% were not. This meant that the number of business owners was higher than any other category. This therefore means that most of Participants used in the study had first-hand knowledge on how to use the various debt financing options that were being asked herein the study. The researcher however noticed during the study that the ownership of the business as revealed herein is due to the involvement of the respondents in that given business.

4.2.5 Respondents according to Type of Business

Participants were requested to explain the type of business that they owned and findings are summarized in table 4.0.16 below.

Table 4.0.17: Type of business of the Participants

	Frequency	Percentage
Education	8	14.3
Travel and Tour	10	17.8
Hotels	10	17.8
Construction Companies	3	5.4
SACCOS	2	3.6
Transport	7	12.5
Consulting	2	3.6
Others(General Merchandise)	14	25.0
Total	56	100.0

Source: Primary data, 2017

Table 4.0.18 indicates, there were various types of businesses as shown from the study findings and these included. 8 respondents were from the education sector, 10 were from travel and tours, another 10 from the hotels, 3 from the construction sector, 7 respondents were from the transport, 2 from consulting and SACCOS equally and 14 respondents reported to registered "others" which could have been small individual enterprises. This implies that most of the businesses were represented in the study and thus the findings can be taken as representative of the whole.

4.3 Findings according to the study objectives

The following section presents an analysis and interpretation of data in accordance with the three research objectives. Each of the objective forms a subsection under which data is presented, analysed and interpreted.

4.3.1 Long-Term Loans on the Financial Performance of Selected SMEs

The first study objective was to examine the impact of long-term loans on Financial Performance of selected SMEs in Kabale Municipality. This objective was meant to inform on how long-term loans have contributed to the financial performance of the selected SMEs in Kabale. In order to achieve this objective, respondents were asked to show their degree of agreement with a total of 7 statements on a 5 point Likert scale from strongly agree to strongly disagree. The table shows the minimum and maximum values on which levels of agreements were addressed, means and Standard Deviation s according to the agreements on the statements presented to the Participants as summarized in table 4.0.8 below.

Table 4.0.19: Summary Statistics on Long-Term Loans and the Financial Performance of Selected SMEs

	N	Min.	Max.	Mean	Std. Deviation
The enterprise acquires long-term loans to finance its operations	56	1	5	3.61	1.246
the long-term loans are generally over one year in duration	56	2	5	3.89	1.021
The interest rates on the long-term loans is affordable by the enterprise	56	2	5	3.39	1.021
All the long-term loans acquired by the enterprise are associated with higher principle balances	56	1	5	3.18	1.208
The enterprise has enough collateral required to access the long-term loans	56	1	5	3.39	1.216
the repayment of the long-term loans is convenient for the enterprise	56	1	5	3.04	1.334
The frequency of long-term repayment is convenient for the enterprise	56	1	5	3.18	1.295

Source: Primary data, 2017

Table 4.0.8 indicates that respondents agreed that the enterprise acquires long-term loans to finance its operations (Mean=3.61, Std. Dev. =1.246). This finding that expressed a wide dispersion in the variance of the respondent's agreement to the statement can be justified by the realisation that different enterprises used in the study had variant preferences towards the type of debt financing that they preferred. Therefore, this implies that just as some businesses used the long-term loans, others preferred another debt financing option depending on the nature and size of the enterprise.

The study shows that there was also an agreement that the long-term loans are generally over one year in duration (Mean=3.89, Std. Dev. =1.021). The observation of the widely dispersed standard deviation too in this case can be explained by the different conditions that different enterprises received their long-term loans. Indeed, just as the study revealed that most of the long-term loans were over one year duration, others considered long-term loans just at 8 months depending on where they obtained their loans from. This implies that the duration of a loan was rather determined by the setting/institution where it was obtained to be called long-term or not and not necessarily does it have to be a year and above.

The findings of this study also revealed an agreement on the statement that the interest rates on the long-term loans is affordable by the enterprise (Mean=3.39, Std. Dev. =1.021) which could justify the consistency of those enterprises which use long-term loans for their sustainability and growth. Likewise, respondents agreed that all the long-term loans acquired by the enterprise are associated with higher principle balances (Mean=3.18, Std. Dev. =1.208) which could be explained by the interest that actually accumulates over time as spread through the year. These findings imply that regardless of the high principle balances and the spread interest rates over a long period that may even raise the rates, some enterprises have mastered how to effectively use long-term loans for their growth.

The study also revealed an agreement to the statement that the repayment of the long-term loans is convenient for the enterprise (Mean=3.04, Std. Dev. =1.334) and that the frequency of long-term repayment is convenient for the enterprise (Mean=3.18, Std. Dev. =1.295). These two findings could be understood alongside the findings from the interviews whereby when asked what are the different debt financing modes used by the enterprise and to give reasons why one mode was preferred over the other, one of the respondents stated that:

> *In our company we use both the long-term and short term loans but we prefer the long-term loans simply because the repayment period is spread over time and hence manageable.*

When asked about the effect of each mode of debt financing on the financing performance of their SMEs during the interviews, different respondents had different answers of which include:

Depending on the size and profitability of an SME, the effect of each mode differs. However, the SME can only afford to pay all its debt only if there was proper assessment of the business's capability to repay the loan based on its performance

Whereas another interviewee reported that:

Being in administration, you realise that you need the funds to accomplish bigger projects that is why I prefer the long-term loans to help me get a bigger loan, funds to do bigger projects like construction and buying of land.

To the same question, another interviewee responded that:

Though the beauty with short-term loans is that they tend to solve or rather fix quick needs however, long-term loans would be useful for business expansion.

Another respondent reported that:

The main reason I prefer the long-term loans over the other models is because the payment period is not stressing and thus you have time to concentrate in developing the business.

However, one of the respondents retorted that:

I hate long-term loans, I have a bad experience with them and I have realised that the only thing they can give to you and your business is the vicious cycle of endless debt! Another agreed that "long-term loans are not sustainable by the small businesses"

These findings from the interviews therefore imply that the major reasons why enterprises adopt the long-term loans model of debt financing include, the overtime spread of loan repayment that makes loan repayments manageable, the realisation that this model depends on the size and profitability of the business and the fact that it helps in expansion of the business over a long time as one pays their debts gradually.

Lastly, the study found out that respondents agreed that the enterprise in which they worked has enough collateral required to access the long-term loans (Mean=3.39, Std. Dev. =1.216). This could be explained the researcher's realisation that most of the enterprises that which opted for the long-term loans were rather big enterprises such as TOTAL, SHELL, hotels and schools among others. This implies that long-term loans seem to be more appreciated by the medium enterprises.

Regression Analysis

In order to quantify the contribution of long-term loans towards the Financial Performance of selected SMEs in Kabale municipality, Uganda, a simple linear regression analysis was done. The purpose of the regression analysis was to determine the level of variability of financial performance of selected SMEs (dependent variable) which can be explained by long-term loans under debt financing. The other variables were assumed to remain constant. Findings are given in table 4.0.20

Table 4.0.21: Regression analysis for Long-Term Loans and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.208[a]	.043	.025	1.345

a. Predictors: (Constant), Long-Term Loans

Source: Primary data, 2017

From the table 4.0.22 above, the coefficient of determination (*R Square) = 0.043*. The value implies that 4.3% of the variance in the financial performance of selected SMEs in Kabale municipality, Uganda considered for the study is explained by the use of long-term loans. The percentage (4.3%) expressed is rather small which could imply that the change of variance of financial performance in these enterprises is rather negligible.

4.3.2 Short-term loans and Financial Performance

The second study objective was to determine a degree at which short-term loans affect the Financial Performance of selected SMEs in Kabale Municipality. This objective was meant to shade light on how short-term loans affect the Financial Performance of the selected SMEs in Kabale. In order to achieve this objective, respondents were requested to show their level of agreement with a total of 7 statements on a 5 point Likert scale ranging from strongly agree to strongly disagree. The table shows the minimum and maximum values on which levels of agreements were addressed, means and SDs according to agreements on the statements presented to the participants as summarized in table 4.0.10 below.

Table 4.0.23: Summary Statistics on Short-term loans and Financial Performance

	N	Min.	Max.	Mean	Std. Deviation
The enterprise acquires short-term loans occasionally	56	1	5	3.54	1.061
Short term loans are easily obtained by the enterprise	56	1	5	3.54	1.026
Short term loans are less restrictive than long term loans	56	1	5	3.21	.986
The enterprise has the ability to pay short term loans given their short maturity rate	56	1	5	3.46	.953
short-term loans do not require much security	56	1	5	3.21	1.022
The interest rates of short term loans are affordable to the enterprise	56	1	5	3.25	1.031
The enterprise access short-term loans from formal financial institutions	56	1	5	3.54	.990

Source: Primary data, 2017

The table 4.0.10 indicate an agreement to the statement that the enterprise acquires short-term loans occasionally (Mean=3.54, Std. Dev. =1.061). This can be supported by a respondent who stated that:

> *Short-term loans are used to increase sales of that projected period if the SME has not enough funds to facilitate the projected business growth model/plan*

This finding can be attributed to those rather small businesses that apply for these loans. The finding that Short-term loans are easily obtained by the enterprise (Mean=3.54, Std. Dev. =1.026) can be explained by the existence of SACCOS, microfinance institutions, money lenders, and banks that are always ready to give out loans to those who need them. Likewise, when asked what are the different debt financing modes used by the enterprise and to give reasons why one mode was preferred over the other, one of the respondents stated that:

> *In this organisation we prefer to use the short-term loans because long-term loans are to some extent expensive and overwhelming with their interests…and this can also be attributed to the fact that in this area, short-term loans are easily acquired.*

The above response from an interviewee therefore is in agreement with other findings in this study such as the finding that indicate that Participants agreed to the statement that "Short term loans are less restrictive than long term loans (Mean=3.21, Std. Dev. =.986)". This can be explained by the existence of a high number of financial institutions in the region who are willing to provide loans and thus their loan requirements becoming less restrictive in order to be able give out more loans. This could imply that short-term loans are less restrictive so as to increase the number of the people who come for them.

The finding that showed an agreement that the enterprise has the ability to pay short term loans given their short maturity rate (Mean=3.46, Std. Dev. =.953) could be justified by those enterprises that have wholly adopted the short-term loans as their model of debt financing. However, when asked whether the enterprise was capable of meeting all its financial duties as and when they occur, one of the interviewees responded that:

> *Not always, when schools are open, then indeed business is doing well but when the students are home for holidays, we struggle to meet financial obligations due to* us.

This could be elaborated by another respondent who, when asked what are the different debt financing modes used by the enterprise and to give reasons why one mode was preferred over the other, responded that:

> *In our business, we use both the short-term loans and trade credit. However we realise that short-term loans are affected by seasons, when there is boom in trade, you get the profit, when business is sluggish, you can actually get loses.*

This therefore implies that though some enterprises could easily pay off their short-loans while others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow.

The study also showed that there was an agreement to the statement that short-term loans do not require much security (Mean=3.21, Std. Dev. =1.022) and that the interest rates of short term loans are affordable to the enterprise (Mean=3.25, Std. Dev. =1.031). These findings attracted a wide deviation in the standard deviation of the findings about how the individuals agreed to the statement due to the realisation that the security as well as the interest rates on a given loan are dependent on the amount of loan that is being subscribed for and not necessarily simply because it is short-term or otherwise which implies that both the security and the interest on the loans are determined by the amount of the loan is to be acquired.

Lastly, Respondents agreed when they were asked whether the enterprise accesses short-term loans from formal financial institutions (Mean=3.54, Std. Dev. =.990) which could be justified by the mandate for most formal financial institutions to grant a variety of debt options as herein considered for our objectives of the study. This implies that institutions that have access to the formal financial institutions in their vicinity have got access to the various debt financing options especially the most common ones being, short-term loans and long-term loans.

Regression Analysis

In order to quantify the contribution of short-term loans towards the Financial Performance of selected SMEs in Kabale municipality, Uganda, a simple linear regression analysis was done. The purpose of the regression analysis was to determine the level of variability of financial performance of selected SMEs (dependent variable) which can be explained by short-term loans under debt financing. The other variables were assumed to remain constant. The results are provided in table 4.0.11

Table 4.0.24: Regression analysis for Short-Term Loans and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.103[a]	.011	-.008	1.368

a. Predictors: (Constant), Short-Term Loans

Source: Primary data, 2017

In table 4.0.11 above, the coefficient of determination (*R Square) = 0.011*. Meaning that “1.1% of the variance in the financial performance of selected SMEs in Kabale municipality, Uganda is explained by the use of short-term loans”. The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises is so negligible to consider for the development of an enterprise.

4.3.3 Trade credit and Financial Performance

The third study objective was to investigate the effect of Trade Credit on the Financial Performance of selected SMEs in Kabale Municipality. It was meant to shade light on how trade credit affects the financial performance of the selected SMEs in Kabale. In order to achieve this objective, respondents were asked to give their level of agreement with a total of 7 statements on a 5 point Likert scale ranging from strongly agree to strongly disagree. Table shows the minimum and maximum values on which levels of agreements were addressed, means and SDs according to the agreements on the statements presented to the Participants as summarized in Table 4.0.12 below.

Figure 4. 0.25: Summary Statistics on Trade Credit and Financial Performance

	N	Min.	Max.	Mean	Std. Deviation
Trade credit is a convenient form of financing	56	1	5	3.93	1.110
Most of the enterprise's Purchases are acquired through credit	56	1	5	3.00	1.176
Trade credit encourages frequent purchases by the enterprise	56	1	5	3.54	1.128
Through trade credit, the enterprise acquires huge volumes of purchases	56	1	5	3.21	1.246
Acquiring purchases on the credit has enabled the enterprise to realise more sales	56	1	5	3.11	1.056
Trade credit is considered an expensive sources of finance for the enterprise	56	1	4	2.46	.990
The overall cost of acquiring good/services on the credit is affordable	56	1	5	3.39	.947

Source: Primary data, 2017

The study as per table 4.0.12 revealed that there was an agreement among respondents that Trade credit is a convenient form of financing (Mean=3.93, Std. Dev. =1.110) and that Most of the enterprise's Purchases are acquired through credit (Mean=3.00, Std. Dev. =1.176). These findings are in alignment with others from the interviews such as when asked what are the different debt financing modes used by the enterprise and to give reasons why one mode was preferred over the other, one of the respondents stated that:

> *Here, we use both the trade credit and short-term loans but we prefer trade credit because it is easy to access.*

When asked about the effect of each mode of debt financing on the financing performance of their SMEs during the interviews, different respondents had different answers of which include:

> *Trade credit is good because it is paid after selling which consequently helps the trader to increase their sales volume before paying off the loans. Another respondent stated that*

trade credit is preferred because you can raise money to pay from the stock supplied; it boosts the stock level.

This therefore implies that trade credit is preferred by the different enterprises because it comes in handy for the daily transactions of the business when shortage may have been a hindrance.

Data analysis also showed an agreement by the respondents on the statement that trade credit encourages frequent purchases by the enterprise (Mean=3.54, Std. Dev. =1.128) and they also agreed that through trade credit, the enterprise acquires huge volumes of purchases (Mean=3.21, Std. Dev. =1.246) this finding was strengthened by responses from the interviews where when asked about the effect of each mode of debt financing on the financing performance of their SMEs different respondents had different answers of which one them explained that:

One of the major reasons why I prefer the use of trade credit is because, trade credit can easily sustain the business given that it avoids increased interest on the loans obtained. Secondly, trade credit is good because one pays after earning. And lastly, trade credit enables this company to buy stock in large volumes.

Another respondent stated that:

My preference of a debt financing model is trade credit because it is cheaper and convenient and because the supplier is eager to supply goods on credit with no additional profits.

This can be explained by the existence of suppliers ready to offer trade credit to their clients once they have created trust among themselves which therefore implies that trade credit facilitates a constant supply of products to the enterprises that use it in their daily operations.

Likewise, the study revealed that respondents agreed that acquiring purchases on the credit has enabled the enterprise to realise more sales (Mean=3.11, Std. Dev. =1.056) and that the overall cost of acquiring good/services on the credit is affordable (Mean=3.39, Std. Dev. =.947). These findings were supported by others from the interviews such as when asked about the different debt financing modes used by the enterprise and to give reasons why one mode was preferred over the other, one of the key respondents who happened to be a manger in one company explained that:

In this company, we actually use all the debt financing options that you are looking at: the long-term, short-term and trade credit. However I must admit that much of our performance *has been based on the short-term loans to generate finances to push the business forward and to avoid the long-term duration of loan payments, we occasionally use the trade credit for emergencies to meet urgent demands.*

Lastly however, there was a disagreement to the statement that Trade credit is considered an expensive sources of finance for the enterprise (Mean=2.46, Std. Dev. =.990). This can only be explained by the earlier findings shown above where by most respondents seemed more satisfied with the operations under trade credit.

Regression Analysis

In order to quantify the contribution of Trade credit towards the Financial Performance of selected SMEs in Kabale municipality, Uganda, a simple linear regression analysis was conducted. The purpose of the regression analysis was to establish the level of variability of Financial Performance of selected SMEs (the dependent variable) which can be explained by trade credit under debt financing. The other variables were assumed to remain constant. The results are presented in Table 4.0.13

Table 4.0.26: Regression analysis for Trade Credit and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.361[a]	.130	.114	1.282

a. Predictors: (Constant), Trade credit

Source: Primary data, 2017

From the Table 4.0.13 above, the coefficient of determination (*R Square) = 0.130*. This value means that 13.0% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda is explained by the use of trade credit.

Multiple regression analysis of variables

This section reports the multiple regression results between the three microfinance products of loans, savings, money transfers and the dependent variable of social economic growth of entrepreneurs in Kabale Municipality. The findings of the multiple regression analysis are shown in figure 4.0.14.

Figure 4.0.27: Multiple Regression Model

Model	Unstandardised coefficients		Standardised Coefficient	T	Sig.	R^2	df	F	Significance
	B	Std. Error	Beta						
(Constant)	1.764	.1.125		1.568	.123	.148	3 55	3.013	.038[b]
Long-Term Loans	.142	.204	.096	.697	.489				
Short-Term Loans	-.176	.220	-.102	-.798	.428				
Trade Credit	.567	.238	.326	2.377	.021				
a. Dependent Variable: Financial Performance b. Predictors (Constant): Trade Credit, Short-Term Loans, Long-Term Loans									

Source: Primary data, 2017

A multiple regression result was computed to forecast financial performance of SMEs from Trade Credit, Short-Term and Long-Term Loans. These variables statistically significantly predicted Socioeconomic growth, F (3, 55) = 3.013, p < .05, (that is, the regression theory is a good fit of the data), R^2 = .148. All three variables added statistically significantly to the prediction, p < .05. From the findings shown in figure 4.14 the theory the R^2 value (also called the coefficient of determination), is the percentage of variance in the Dependent Variable which is explained by the IV was .148. Implying that the IV (Debt Financing) explains 14.8% of the variability of the Dependent Variable (Financial performance). The most significant predictor of Debt Financing was found to be trade credit (Beta = .567) followed by long-term loans (Beta = .142) and short-term loans (Beta = .176).

4.4 Conclusion

This chapter therefore set out to establish findings in relation to the study objectives and they have hereby been presented. Each variable was investigated using both qualitative and quantitative methods of data analysis and presentation. This thus implies that both descriptive and inferential statistics have been used on each objective and only the descriptive statistics used on the presentation of the bio data. The researcher believes that the results presented in this study answers the objectives and research questions that she sought out to investigate.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this final chapter the researcher provides a discussion of results in with the three objectives that guided the study. The chapter also details the key conclusions and recommendations advanced by this study.

5.1 Summary of Major Findings

The first objective was to examine the effect of long-term loans on the Financial Performance of selected SMEs in Kabale Municipality. The study established that: 4.3% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda considered for the study is explained by the use of long-term loans; that the major reasons why enterprises adopt the long-term loans model of debt financing include; the spread of loan repayment overtime that makes loan repayments manageable, the realization that this model depends on the size and profitability of the business and the fact that it helps in expansion of the business over a long period of time as one pays their debts gradually and; that the enterprises that had enough collateral required to access the long-term loans were rather big enterprises.

The second objective on the other hand was to establish the extent to which short-term loans affect the financial performance of selected SMEs in Kabale Municipality. Study findings revealed that; 1.1% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda is explained by the use of short-term loans. The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises is so negligible to consider for the development of an enterprise; the study also revealed that short-term loans are less restrictive so as to increase the number of the people who come for them and; that though some enterprises could easily pay off their short-loans others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow.

Lastly, the third objective was to investigate the effect of Trade Credit on the Financial Performance of selected SMEs in Kabale Municipality. The findings show that; 13.0% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda is explained by the use of trade credit and that the existence of suppliers ready to offer trade credit to their clients once they have created trust among themselves

5.2 Discussion of the Findings

5.2.1 Long-Term Loans on the Financial Performance of Selected SMEs

The major finding of this study in direct relation to the first objective was that 4.3% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda considered for the study is explained by the use of long-term loans. The percentage (4.3%) expressed is rather small which could imply that the change of variance of financial performance in these enterprises is quite negligible.

Another major finding in relation to this study is that the major reasons why enterprises adopt the long-term loans model of debt financing include; the spread of loan repayment overtime that makes loan repayments manageable, the realization that this model depends on the size and profitability of the business and the fact that it helps in expansion of the business over a long period of time as one pays their debts gradually. Contrasting our finding with other scholars such as Trisha (2011) who conducted a study, entitled, "Examining the effect of Loans on SMEs in Ghana", one can notice that her focus on the use of the long-term loans was on capital soliciting through long-term loans compared to what this study concentrated on-the operational level of long-term loans. Her results therefore indicated that "most SMEs used loans as working capital mostly to get raw materials for production". However, to the extent that there is increasing number of government contracts, most suppliers applied for loans to implement these projects. It was therefore, evident that SMEs used the long term loans to boost their business. This therefore means that in absence of such long term loan, the business operations of many small scale enterprises could easily be constrained.

This implies that long-term loans seem to be more appreciated by the medium enterprises since the focus of the study was on SMEs. These findings are in direct alignment with a study by Bayene, (2002) who reported that "long term loans are preferred sources of debt financing amongst well-established corporate institutions mainly by virtue of their asset base and collateral requirements"

5.2.2 Short-Term Loans on the Financial Performance of Selected SMEs

The study found out that 1.1% of the variance in the Financial Performance of selected SMEs in Kabale municipality, Uganda is explained by the use of short-term loans. The percentage (1.1%) expressed is rather very small which could imply that the change of variance of financial performance in these enterprises is so negligible to consider for the development of an enterprise.

This study therefore contradicts Gibson (2004) who conducted a study on "the importance of short term financing sources in small firms in South Africa" whose results indicated that "big and better performing companies are in the short term debt group". According to Gibson, means that small companies might not take advantage of the information symmetry merits they get through size and performance to boost external medium to long term borrowing, rather, they appear more likely to use the benefits of their size and performance to develop stronger short term relationships with product and service and finance providers. This difference in the finding could be brought about by the nature of the enterprises that these two studies have used or the difference in the nature of items used in the tools for data collection.

The finding that short-term loans are less restrictive so as to increase the number of the people who come for them is in line with Jun and Jen (2003) who suggested that "there are numerous advantages of short term debt i.e:, short term debt adapts more easily to a firm's financial requirement; and it aids bank relations between the company and the lending institution due to frequent renewals and therefore companies may get credit condition benefits".

This study also found out that though some enterprises could easily pay off their short-loans while others, depending on the nature of operations of their businesses, may struggle to do so especially during seasons where the business may be slow. The researcher thus has realised that few scholars have actually critically documented how short-term loans are affected by the seasons in businesses.

5.2.3 Trade Credit and Financial Performance of Selected SMEs

Major research findings indicated that "13.0% of the variance in the financial performance of selected SMEs in Kabale municipality, Uganda is explained by the use of trade credit". This study is an alignment with Miwa & Ramsey, (2008) who argued that "trade credit is utilized as debt financing alternatives if companies are faced with short-term unforeseen emergencies".

The study finding that showed the existence of suppliers ready to offer trade credit to their clients once they have created trust among themselves and which implied that trade credit facilitates a constant supply of products to the enterprises that use it in their daily operations is an agreement with Kakuru (2001) who explained that trade credit arises in situations where the suppliers do not require immediate payments for whatever batches of goods and services that have been supplied to a business until the given credit period. In other words, this is a short term source of credit and in most cases it is less than one year and because it gives the firm the time to invest in the money it would have otherwise use to pay the supplier and possibly pay more pressing expenses (Kakuru, 2001). This further can be supported by Boissay & Gropp (2007), who indicates that "SMEs which are confronted by a liquidity shock attempt to beat this troubled condition through passing a 1/4th of the distress to their suppliers by acquiring more trade credit".

5.3 Conclusions of the study

5.3.1 Conclusion on Long-term Loans and Financial Performance

In relation to the first objective, the study concluded that long-term loans are mostly used by medium size enterprises that are well established and they are usually considered by those enterprises that are looking towards the expansion of their businesses.

5.3.2 Conclusion on Short-term Loans and Financial Performance

Pertaining the second objective, the study concluded that short-term loans as a debt finance option though seems to be most accessible by the enterprises from the various finance institutions, it doesn't have a great impact towards the actual financial performance of the enterprises as shown by the regression analysis in this study.

5.3.3 Conclusion on Trade Credit and Financial Performance.

From the third objective, the study concluded that trade credit was more preferred by the various enterprises and had a high percentage effect on the financial performance because of not only its accessibility, but also because of the flexibility involved in the payment period while having the required supplies on credit for the business operations.

5.4 Recommendations of the Study

5.4.1 Recommendation on Long-term Loans and Financial Performance

The fact that long-term loans seem to be more used in the slightly larger enterprises, this study recommends that policy support for financial institutions should emphasis the training of various enterprises so as to prepare them comprehensively to use the available of long-term loan services to better their growth opportunities

5.4.2 Recommendation on Short-Term Loans and Financial Performance

Regarding the use of short-term loans, and given the fact that enterprises seemed to be worried about stringent and short-term loan repayment periods, the researcher recommends financial institutions should incorporate in their programmes a pronounced aspect of training about how best their clients could utilize the available services especially given the fact this is for the end of enhancing entrepreneurs in the area.

5.4.2 Recommendation on Trade Credit and Financial Performance

In relation to the third objective, the study recommends that given trade credit seems to appeal to most of the enterprises in the region, financial institutions could consider having some promotions that specifically target other enterprises that have not yet embraced trade credit to do so.

5.5 Areas for Further Research

Premised on the findings, conclusions and recommendations of this study, the researcher suggests that the following areas for future research.

i. Scholars should examine how enterprises can better be helped to meet their financial sustainability objective as well as increase their growth pace.
ii. More research can be made to investigate debt financing but with a focus about specific financial institutions in the areas of study.

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Appendix 1: Sample Size Determination Table

Population	Sample size	Population	Sample size	Population	Sample size
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375

160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	280	100000	384

Source: Morgan and Krejcie (1970)

Appendix 2: Questionnaire

Dear respondent,

This questionnaire is designed to aid an academic research on "*The effect of Debt Financing on the Financial Performance of selected Small and Medium Scale Enterprises in Kabale Municipality, Uganda".* The study is part of the requirement for the award of a degree in management studies of Uganda Management Institute. You have been selected to participate in this study. All information will be treated with utmost confidentiality and only for purpose of academic. Therefore, your responses will be highly appreciated.

I am Kyarikunda Judith - the student.

Thank you

SECTION A: Demographic data (Tick)

Gen ☐ Fem ☐ **Ag** ☐ ☐ ☐ ☐

☐ **Level of formal** Pri ☐ Seco ☐ Dipl ☐ Deg ☐

Married: ☐ ☐

Do you do any business? ☐ ☐ If **No**, stop here. If **yes**, go

SECTION B: Type of business (Tick that which you do)

Education ☐

Tour and travel ☐

Hotels ☐

Construction companies ☐

Manufacturing sector ☐

SACCOs ☐

Transport ☐

Consulting ☐

Others: Mention. …..

....

SECTION C: Debt Financing and Financial Performance

Please rank the following on the scale ranging from strongly agree to strongly disagree

Scale	1	2	3	4	5
	Strongly Disag (SD)	Disagree (D)	Neutral (N)	Agree (A)	Strongly Ag (SA)

LONG-TERM LOANS AS A MEASURE OF DEBT FINANCING

	SCALE	5	4	3	2	1
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	PART 1: Long-term loans					
1	The enterprise acquires long-term loans to finance its operations					
2	The long-term loans are generally over one year in duration					
3	The interest rates on the long-term loans is affordable by the enterprise					
4	All the long-term loans acquired by the enterprise are associated with higl principle balances					
5	The enterprise has enough collateral required to access the long-term loans					
6	The repayment of the long-term loans is less stressful to the enterprise					
7	The frequency of long-term repayment is convenient for the enterprise					

SHORT-TERM LOANS AS A MEASURE OF DEBT FINANCING

	SCALE	5	4	3	2	1
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	PART 2: Short-term loans					
1	The enterprise acquires short-term loans occasionally					
2	Short-term loans are easily obtained by the enterprise					
3	Short-term loans are less restrictive than long-term loans					
4	The enterprise has the ability to pay short term loans given their short maturity da					
5	Short-term loans do not require much security					

6	The interest rates of short term loans are affordable to the enterprise					
7	The enterprise accesses short-term loans from formal financial institutions					

TRADE CREDIT AS A MEASURE OF DEBT FINANCING

	SCALE	**5**	**4**	**3**	**2**	**1**
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	Part 3: Trade credit					
1	Trade credit is a convenient form of financing					
2	Most of the enterprise′s purchases are acquired through credit					
3	Trade credit encourages frequent purchases by the enterprise					
4	Through trade credit, the enterprise acquires huge volumes of purchases					
5	Acquiring purchases on credit has enabled the enterprise to realise more sales					
6	Trade credit is considered an expensive source of finance for the enterprise					
7	The overall cost of acquiring goods/services on credit is affordable for t enterprise					

FINANCIAL PERFORMANCE OF THE SMEs

		5	**4**	**3**	**2**	**1**
		Strongly agree	**Agree**	**Disagree**	**Disagree**	**Strongly disagree**
	Part 4: Financial Performance					
1	There is an increase in the sales value of this enterprise					
2	The enterprise has enough cash to meet its obligations effectively (as and wh they fall due)					
3	The profit levels of the enterprise are increasing every year					
4	The enterprise is able to pay off all its debts					
5	All the projected sales by the enterprise are achieved					

6	The rate at the enterprise is growing is satisfactory to the owners					

Thank you

Appendix 3: Interview Guide

SECTION A: BACKGOUND INFORMATION

Position held …………………………………………………

Gender of the respondent ………………………………………

Level of education ………………………………………………

SECTION B: INTERVIEW QUESTIONS

1) To what extent does this SME rely on debt financing for its operations?

2) Mention some of the key sources of credit for this SME

3) Have the sales of the business been growing over the years? Please explain.

4) How would you assess the profitability of this small scale enterprise?

5) Is this enterprise able to meet all its financial obligations as and when they fall due?

6) What are the different debt financing modes used by this enterprise? Which mode is most preferred by the business? Give reasons why it is preferred.

7) In your opinion, what is the effect of each mode of debt financing on the financial performance of your SME? Please explain.

Thank You