

**THE IMPACT OF CREDIT FUNDING AND FINANCIAL PERFORMANCE OF  
SMALL MEDIUM ENTERPRISES**

**A CASE OF PALLISA TOWN COUNCIL, PALLISA DISTRICT**

**BY**

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UNIVERSITY**

**AUGUST, 2024**

## DECLARATION

### DECLARATION

I, the undersigned do hereby declare that the work in research report is my original work and to the best of my knowledge it has never been submitted for award of a Bachelor's Degree in any other University for examination purposes

Signature.....

Date.....11.07.2024

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## APPROVAL

### APPROVAL

This is to certify that this research report has been written by AKANDWANAHO ROGERS under my supervision and it is now ready for submission to the Department of Economics and Management, Faculty of Management Sciences as a partial fulfillment of the requirement for the award of Bachelor's Degree in Business Administration of Busitema University.

Signature  .....

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Date 11 / September / 21

## **DEDICATION**

I wish to dedicate this piece of work to my beloved father Mr. Twongyeirwe David and my mother Mrs. Kangume Anita who have given me all the support financially morally and spiritually during this demanding time of the study and also the sacrifice and patience they exhibited towards me during my time of study.

I also dedicate this work to my supervisor Mr. Emojong Ronald thank you so much for the great support that you rendered to me. I wouldn't have managed to make it without your help. May the Almighty God reward you abundantly.

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## LIST OF CRONYMS

|             |                                                     |
|-------------|-----------------------------------------------------|
| FY.....     | Financial year.                                     |
| GDP.....    | Gross Domestic policy                               |
| POT.....    | Pecking order Theory                                |
| PTC.....    | Pallisa Town Council.                               |
| SACOSS..... | Savings and Credit Cooperatives Society.            |
| SEDCO.....  | Small and Medium Enterprise Development Corporation |
| SMEs.....   | Small and Medium Enterprises.                       |
| SPSS.....   | Stastical package of the social science             |

## **ABSTRACT**

This study examined the impact of credit funding on financial performance of SMEs in PTC. The study was guided by the following objectives notably: to determine the impact of credit management on performance of small and medium enterprises in PTC, to determine the impact of credit policy on performance of small and medium enterprises in PTC and to determine the impact of interest rate on performance of small and medium enterprises in PTC. The study used a cross sectional research design, and a quantitative approach. Data was collected from a target population of 60 SMEs in PTC with accessible unit of 52 respondents, using simple random and purposive sampling techniques. Data were collected with the aid of closed ended questionnaire and Statistical Packages for Social Sciences was employed for analyzing data from which frequency tables, descriptive statistics (mean and standard deviation), reliability, validity, correlation, and regression results were obtained. The study findings revealed that there is a positive and a significant effect of credit management on financial performance, interest rate on financial performance and also credit policy on financial performance of SMEs in PTC. The study concludes that there is a strong predictive power that the dimensions of credit funding contribute towards enhancing financial performance of SMEs in PTC. Finally, the study recommends that to improve financial performance factors of credit management, interest rate and credit policy should be considered.

## **CHAPTER ONE: INTRODUCTION.**

### **1.0 Introduction**

This chapter consists of the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions. In this chapter the scope, significance of the study, justification of the study and conceptual framework are present.

### **1.1 Background of the study**

Numerous studies have been conducted to investigate on financial performance of SMEs (Sandberg and Susanne, 2021, Alsaaty and Makhoul, 2020). This because small and medium enterprises worldwide have been recognized as engines of growth and development and in many countries, there is some considerable effort to support them to create the necessary employment opportunities, incomes and productive capacity. Despite the substantial significance of the SMEs, many of the businesses that are started fail within their first year of operation.(Kenneth and Niclous, 2023)

Globally, a report by World bank group, (2020) showed that SMEs contributed to 30% compared to 65% that was anticipated and 33% to gross domestic product(GDP) in the growing economies.

In united states, according to Small Business administration report, (2023) (Alsaaty and Makhoul, 2020) showed that 67% of small and medium enterprises survive for the first two years. New ones formed in the past 5 years fail at an alarming rate of 80% due to lack of skills, limited access to market and credit.

In Africa, the situation is still worse that is ,according to the African Development Bank report, (2022) asserts that 75% of SMEs face numerous challenges ranging from power shortage, lack of capital, poor management skills and competencies, and inadequate information and corruption and this has led to their limited success to survive longer.

In South Africa according to International Finance Corporation report, (2021) estimated that the failure rate of SMEs is between 70% and 80% this being attributed to low market growth and low sales growth meaning that there is high competition among them and this leads to low performance and short time survival.

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