

**CREDIT FINANCING AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES (SMEs) IN JINJA CITY COUNCIL**

**BY**

**NKERAMIHIGO SHANTARI**

**BU/UP/2018/3812**

**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES,  
DEPARTMENT OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT FOR  
THE REQUIREMENT OF AWARD OF A  
BACHELORS DEGREE IN BUSINESS ADMINISTRATION**

OF BUSITEMA UNIVERSITY.  
MAY, 2022

## DECLARATION

I, NKERAMIHIGO SHANTARI, here by declare that this research report is my original work and

has never been submitted or published to any Institution of higher learning for any academic award.

Signature.....

Date.....

NKERAMIHIGO SHANTARI

BU/UP/2018/3812

## APPROVAL

This is to certify that this research report has been written by NKERAMIHIGO SHANTARI under my supervision and 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.

Name: **Mr. Emusugut Desterio**

Signature .....

Date .....

## DEDICATION

I wish to dedicate this piece of work to my beloved father Mr. Nkeramihigo Gabriel and my mother Musasizi Solome Nkeramihigo 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. Emusugut Desterio 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.

## ACKNOWLEDGEMENT

My appreciation and gratitude are to the Almighty God for enabling me to complete this piece of work and my education effort as a whole. I extend my thanks to those whose contributions and recommendations have helped me in finalizing this report.

My Special thanks goes to my supervisor Mr. Emusugut Desterio for all his guidance, useful suggestions and contributions and the struggles of having to read through the original manuscript that made me stay focused from the very beginning to the end.

I register my appreciation and gratitude to my mother Musasizi Solome Nkeramihigo and my father Mr Nkeramihigo Gabriel and my uncle Nkeramihigo Emmanuel, my brothers Bamuhanga Jackson Vincent, Nkeramihigo Owen, Nkeramihigo Shamar and my sisters Mbabazi Winnie, and Keza Ebenezer Jamie, for their financial, moral and spiritual support throughout my entire study period

Finally, I extend my gratitude to my friends, colleagues and classmates Vincent, Ashanat, Paluma Doreen and all other course mates and whoever contributed in one way or the other towards the success of this report. I cannot mention them all for the sake of time and resources.

May the Almighty God reward them all for their efforts.

## List of Acronyms

CM.....	Credit management
CNBS.....	Chinese National Bureau of statistics
CP.....	Credit policy
DV.....	Dependent variable
FI.....	Financial Institution
FP.....	Financial performance
FY.....	Financial year
GDP.....	Gross Domestic Policy
IR.....	Interest rate
IV.....	Independent variable
JCC.....	Jinja city council
POT.....	Pecking Order Theory
SE.....	Small enterprises
SME.....	Small and medium enterprises

## Table of Contents

DECLARATION.....	i
APPROVAL.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
List Of Acronyms.....	v
ABSTRACT.....	xii
CHAPTER ONE:.....	1
INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of study.....	1
1.2 Statement of the Problem.....	3
1.3 Purpose of the study.....	4
1.4 Research objectives.....	4
1.5 Research questions.....	4
1.6.0 Scope of the Study.....	4
1.6.1 Content Scope.....	4
1.6.2 Geographical Scope.....	5
1.6.3 Time Scope.....	5
1.7 Significance of the Study.....	5
1.8 Conceptual Framework.....	6
1.9 Definition of key terms.....	7
CHAPTER TWO:.....	9
LITERATURE REVIEW.....	9
2.0 Introduction.....	9



2.1	Theoretical review.....	9
2.2	Interest rate and financial performance.....	10
2.3	Credit policy on the financial performance.....	11
2.4	Credit management and financial performance.....	12
CHAPTER THREE:.....		14
RESEARCH METHODOLOGY.....		14
<b>3.0</b>	<b>Introduction:.....</b>	<b>14</b>
3.1	Research Design.....	14
3.2	Study Population.....	14
3.3	Sample Size.....	14
3.4	Sampling method.....	15
3.5	Type of data.....	15
3.5.1	Primary data.....	15
3.5.2	Secondary data.....	15
3.6	Data Collection methods.....	16
3.7	Data Analysis plan.....	16
3.8	Data Analysis Techniques and Methods.....	16
3.9	Reliability and Validity.....	16
3.10	Ethical Considerations.....	17
CHAPTER FOUR:.....		18
DATA ANALYSIS, PRESENTATION, AND INTERPRETATION OF FINDINGS.....		18
4.0	Introduction.....	18
4.1	Response Rate.....	18
4.2	Demographic Information.....	18

4.2.1 Gender of Respondents.....	18
4.2.2 Years served in the organization.....	19
4.2.3 Education background.....	19
4.2.4 Age bracket.....	19
4.3 Credit policy and financial performance.....	21
4.4 Interest rate and financial performance.....	22
4.5 Credit management and financial performance.....	23
4.6 Spearman’s Correlation Analysis.....	23
4.7 Regression Analysis.....	24
CHAPTER FIVE:.....	27
DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	27
5.0 Introduction.....	27
5.1 Discussion of findings.....	27
5.1.1 Credit policy and financial performance.....	27
5.1.2 Interest rate and financial performance.....	27
5.1.3 Credit management and financial performance.....	28
5.2 Conclusion.....	29
5.3 Recommendations.....	29
5.4 Limitations of the study.....	30
5.5 Recommendations for further studies.....	30
REFERENCES.....	32
APPENDICES.....	34
Appendix I: Letter of Introduction.....	34
Appendix II: Questionnaire.....	35

Appendix III: Work Plan.....	40
Appendix IV: Research Budget.....	41

## List of tables

Table 3.1 Showing sample size.....	15
Table 3.2 Showing reliability Statistics.....	17
Table 4.1 Showing gender.....	18
Table 4.2 Showing Length of operation.....	19
Table 4.3 Showing education level.....	19
Table 4.4 Showing age.....	20
Table 4.5 Showing Form of business.....	20
Table 4.6 Descriptive Statistics of the credit and financial performance.....	21
Table 4.7 Descriptive Statistics of interest rate and financial performance.....	22
Table 4.8 Descriptive Statistics of credit management and financial performance.....	23
Table 4.9 Spearman's correlation Analysis.....	24
Table 4.10 Regression analysis of credit policy.....	25
Table 4.11 Regression analysis of interest rate.....	25
Table 4.12 Regression analysis of credit management.....	26

## List of figures

Figure 1 : .....6

## **ABSTRACT**

This study examined on the effect of credit financing on the financial performance of small and medium enterprises in Jinja city council. The study applied a cross sectional research design and descriptive approach. Data was collected from 65 as a target population with accessible unit of inquiry being 56 respondents consisting of retail shops, boutiques, saloons, hardware, and mobile money shops. Data was collected with a closed ended questionnaire and statistical package for social sciences was used for analyzing data from which frequency tables, descriptive statistics, reliability, validity, correlation and regression results were obtained. The study findings revealed that there is a positive and significant relationship between credit policy and financial performance, interest rate and financial performance, and also on credit management on financial performance of small and medium enterprise. The study therefore recommends that to improve on financial performance, factors of credit policy, interest rate, and credit management should be considered

## CHAPTER ONE: INTRODUCTION

### 1.0 Introduction

This chapter presents the introduction, background of the study, problem statement, purpose of the study, objectives, research questions, scope of the study, conceptual framework, significance of the study, and definitions of key terms.

### 1.1 Background of study

Small and medium enterprises (SMEs) play a major role in employment creation and economic growth in the whole world. A report by World Bank Group (2016) indicates that formal SMEs contribute up to 45% of the total employment and 33% to Gross Domestic Product (GDP) in the growing economies. Financial institutions (F.I) in many countries in Africa do not avail SMEs with adequate finance. In fact, studies showed that about 20% of SMEs in Africa have a clear line to credit from banks Macharia, P. (2012). Research on financial performance of SMEs has revealed that the rate at which small firms fail in developing economies in Africa is greater than in the already developed economies (Ihua, 2009). For example, globally

According to annual report of World Bank, (FY2019/20) in German, showed poor financial performance in that it generated only 54.4% in 2019 which was low as compared to 63.7% of 2018 due to low profitability. Similarly in 2020 the performance was reduced from 54.4% to 53.6% due to low return on sales and low market growth of SMEs in German.

According to Chinese National Bureau of Statistics (CNBS 2016) in China, showed poor performance of small business sectors where by 70.4% in 2016 of the small business owners in China failed due to low market share as compared to 54% in 2015 and this also led to the decline in Chinese GDP from 40% to 32% in 2016.

According to Boston (2020) in United States, the study showed poor financial performance in that 3.3 million small business owner with an estimate of 40% only 1.2 million survived but a large number of 2.1 million with an estimate of 30% failed due low

## REFERENCES

Annual report of small business Act (2018) Uganda, overall performance of small businesses

Angelo, Z. & Paola, D. (2006). Bad loans and efficiency in Italian Banks. Veron: Dipartimento di scienze Economiche-Universita di Verona.

Bert Scholtens & Dick Van Wensveen. (2003). The theory of financial intermediation: An essay on what it does explain Vienna SUERF.

Chinese National Bureau of statistics (CNBS 2016), China, performance of small business sectors

Dieudone Ndab ,2018, Ghana, impact of credit management and financial performance.

Investment Management and Financial Innovations, 17(2), 146-156.  
doi:[10.21511/imfi.17\(2\).2020.12](https://doi.org/10.21511/imfi.17(2).2020.12)

Ihua, U. (2009). SMEs key failure-factors: a comparison between the United Kingdom and Nigeria. Journal of Social Sciences, 18(3), 199-207

Mathura (2010), Kenya, influence of trade credit policy on financial performance of manufacturing firms

World Bank (2016) 'Informal enterprises in Kenya'. Nairobi: World Ban



Macharia, P. (2012). Effects of access to finance on micro and small enterprises investment growth in Ongata Rongai Township. Unpublished MBA Project, University of Nairobi

Medani M. Ahmed (2019), impact of financial crisis of Small and Medium Enterprises in Sudan

Najib H.S. Farhan, Mosab I. Tabash and Mohammad Yameen (2020). The relationship between credit policy and firms' profitability: empirical evidence from Indian pharmaceutical sector.

Patterson and Lygnerud,1999, Directorate General for Research, the determination of interest rates.

Ogilo 2012 Kenya analyzed the impact of credit risk management on the financial performance

Onuora and Ifeacho (2017) in Nigeria, effects of credit management on the financial performance of manufacturing firm

Small business and entrepreneurial council report (2018/2019), Jinja, poor financial performance.

W. Mafumbo,2020, credit management, credit policy and financial performance of commercial banks in Uganda