

**MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMEs IN
PALLISA TOWN COUNCIL.**

BY

OCWA DAVID

BU/UP/2015/310

SUPERVISED BY:

MR. EMUSUGUT DESTERIO

**A RESEARCH REPORT SUBMITTED IN PARTIALFULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF A DEGREE OF BUSINESS
ADMINISTRATION (ACCOUNTING AND FINANCE OPTION),
DEPARTMENT OF ECONOMICS AND MANAGEMENT,
FACULTY OF MANAGEMENT SCIENCES,
BUSITEMA UNIVERSITY**

APRIL 202

DECLARATION

I, **Ocwa David**, declare that this research report is my original work and has not been submitted for any award for examination at any institution of higher learning in this or any other university.

Ocwa David

BU/UP/2015/310

Signature: Date.....

APPROVAL

This research report is submitted for examination in partial fulfillment of the requirement for the award of degree of Business Administration (finance and accounting) with my approval as authorized University supervisor.

Mr. Emusugut Desterio

Lecturer Faculty of Management Sciences

Department of Economics and Management

Signature: Date.....

DEDICATION

I dedicate this research report to my beloved parents without them I wouldn't be at this point of my life, they lifted me up when I fell and gave me hope, may the almighty God bless them abundantly. Not forgetting my beloved wife and son for their un wavering love, care and support rendered during my study, I love you so much, thank you.

ACKNOWLEDGEMENTS

I thank God for enabling me finish this work though under hectic and cumbersome situation including unexpected changes in the course of producing this work. The entire research report has not been an individual work. Contributions have been made by many people whom I cannot list all, but above all, gracious. My highest appreciation goes to Mr. Emusugut Desterio, my Supervisor, for being part of this work by tirelessly reading, correcting and guiding me by giving constructive comments, God bless you. I do thank my family especially my beloved wife Khadija Daliya for the perseverance she showed during the preparation of this work. I thank all the SMEs which responded positively when I was collecting data and not forgetting my course mates who made my study journey captivating one, Asante

Table of Contents

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
LIST OF FIGURES	x
ABBREVIATIONS AND ACRONYMS	xi
ABSTRACT.....	xii
ONE: INTRODUCTION	1
1.0 Introduction.....	1
1.1Background of study	1
1.2 Statement of the Problem.....	3
1.3 Purpose of the study.....	4
1.4 Research objectives.....	4
1.6 Research questions.....	4
1.7.0 Scope of the Study	4
1.7.1 Content Scope	4
1.7.2 Geographical Scope	5
1.7.3 Time Scope	5
1.8.0 Significance of the Study	5
1.8.1To the Government	5
1.8.2 To researchers and academicians.....	5
1.9 Conceptual Framework.....	6
Definition of the terms.	7

CHAPTER TWO: LITERATURE REVIEW	8
2.0 Introduction.....	8
2.1 Theoretical review	8
2.2 Access to finance and financial performance.	9
2.3 Savings mobilization and financial performance.....	11
2.4 Financial literacy and training and financial performance.	12
CHAPTER THREE:	15
RESEARCH METHODOLOGY.....	15
3.0 Introduction:.....	15
3.1 Research Design.....	15
3.2 Study Population.....	15
3.3 Sample Size.....	15
3.4 Sampling method	15
3.5 Type of 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.....	17
3.9.1 Reliability.....	17
3.9.2 Validity	17
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 Age bracket	19
4.2.3 Education background	20
4.2.4 Position held in the organization.....	21
4.2.5 Period served in the organization.....	22
4.2.6 Form of business	23
4.3.1 Microfinance services and financial performance of SMES	24
4.4.1 Descriptive findings on the effect of savings mobilization financial performance of SMEs.....	25
4.5.1 Descriptive findings on the effect of financial literacy and training and financial performance of SMEs	26
4.6 Spearman’s Correlation Analysis	27
4.6.1 Access to finance and financial performance of SMEs	28
4.6.2 Savings mobilization and financial performance of SMEs.....	28
4.6.3 Financial literacy and training and financial performance of SMEs	28
4.7 Regression Analysis.....	29
CHAPTER FIVE: DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	
5.0 Introduction.....	33
5.1 Discussion of findings.....	33
5.1.1 The effect of access to finance on financial performance of SMEs	33
5.1.2 The effect of savings mobilization on financial performance of SMEs	33
5.1.3 The effect of financial literacy and training on financial performance of SMEs	34
5.2 Summary of the Findings.....	34
5.3 Conclusion	35
5.4 Recommendations.....	35
5.4 Limitations of the study	36

5.4.1 Areas for further reading.....	36
REFERENCES	37
APPENDICES	42
Appendix I: Letter of Introduction.....	42
Appendix II: Questionnaire.....	43
APPENDIX III: WORK PLAN	48
APPENDIX IV: RESEARCH BUDGET	49
Appendix V. Sample Size Determination Using Krejcie and Morgan Table	50

LIST OF TABLES

Table 1 Showing gender of the respondents	18
Table 2 Showing age bracket	19
Table 3 Showing Education level.....	20
Table 4 Showing Position held in organization	21
Table 5 Showing Position served in an organization	22
Table 6 Showing form of business	23
Table 7 Showing Access to finance	24
Table 8 Showing Savings mobilizations	25
Table 9 Showing financial literacy and training	26
Table 10 .Showing Spearman’s Correlation Analysis	27
Table 11 Showing regression between access to finance and financial performance of SMEs....	29
Table 12 Showing regression between Savings mobilization and financial performance of SMEs.	30
Table 13 Showing regression between financial literacy and training and financial performance of SMEs.....	31

LIST OF FIGURES

Figure 1 **Conceptual framework**..... 6

ABBREVIATIONS AND ACRONYMS

AF	ACCESS TO FINANCE
EUR	EUROS
FLT	FINANCIAL LITERACY AND TRAINING
FP	FINANCIAL PERFORMANCE
GDP	GROSS DOMESTIC PRODUCTS
GOU	GOVERNMENT OF UGANDA
PTC	PALLISA TOWN COUNCIL
SM	SAVINGS MOBILIZATUION
SME	SMALL MEDIUM ENTERPRISES
STD. DEV	STANDARD DEVIATION

ABSTRACT

The study was carried out with the purpose of examining the effect of microfinance services and financial performance of SMEs in Pallisa Town Council. The objectives for the study was; to determine the effect of access to finance on financial performance of SMEs, effect of savings mobilization on financial performance of SMEs and to determine the effect of financial literacy and training on the financial performance of SMEs. The study applied a cross-sectional research design on quantitative data from the designed research questionnaires where a total of 44 respondents participated in the study selected through simple random sampling method. The data collected from the questionnaire was used on descriptive statistics analysis and the information was presented in statistical form. Correlations and linear regression analysis were used to analyze the relationship between microfinance services and financial performance of SMEs. The study realized that there was a highly positive significant relationship between microfinance institutions and financial performance of SMEs. However, the study pointed out some of the challenges that derailed SMEs financial performance among which were, high interest rate on savings, limited collateral security, incompetence of firm managers and personnel in terms of skills and knowledge. Despite the above, the study however recommended SMEs to promote a positive attitude towards future risk management while ensuring adequate collateral.

ONE: INTRODUCTION

1.0 Introduction

This chapter will cover the following areas, the background of the study, statement of problem, purpose of the study, objectives, scope of the study, significance, conceptual framework and definition of the terms.

1.1 Background of study

SMEs are often considered the engine of global growth, job creation, and human development, particularly in developing nations, creators of operational efficiencies, generation of income and providing a source of livelihoods for the majority of low-income households in an economy (Ombongi and Long, 2018). However, despite their influential role in economic development, research showed that SMEs are underperforming and maintain limited market share, (Kulathunga, 2019).

Globally despite the fact that there has been a deteriorating and decreasing profitability of the SMEs due to limited access to funds from financial institutions and lack of adequate capital for business operations, in Holland, according to the Dutch Economic Board (2019) the new lending to SMEs stood at EUR. 18 billion in 2018 indicating a gradual decline as compared to 2017 where it stood at EUR. 21 billion which made total outstanding business loans also decrease slightly from EUR.328 billion in 2017 to EUR.325 billion in 2018 indicating decreasing performance of SMEs in Holland.

In central Asia, in Uzbekistan, SMEs make up to 91.8% of registered businesses between 2010-2018 making an increase by 51%. They play a significant role in the country's economy contribution of 54.9% GDP growth and 34.8% rise in investment. However, SMEs in Uzbekistan have encountered low financial performance and according to Dildora Tadjibaeva (2019), most SMEs in Uzbekistan have faced difficulties in their business operations as a result of limited access to financial services, unfavorable business environment, and high interest rates from microfinance institutions and at times high taxes from regulatory bodies. This is evident in World Bank survey (2018) in Uzbekistan where access to financial business loans and microcredits as a percentage of GDP declined from 8.0% in 2015 to 7.8% in 2017 and from 1.7% to 1.6%, respectively. The decline was related to the reduction of shares of the loans for small business and microcredits in financial loans.

REFERENCES

Ombongi, P. N., & Long, W. (2018). Factors affecting the financial performance of small and medium enterprises: A case of manufacturing SMEs in Kenya. *International Journal of Research in Business Studies and Management*, 5(1), 37–45. <https://www.ijrbsm.org/papers/v5-i1/4.pdf>

Ye, J., & Kulathunga, K. (2019). How does financial literacy promote sustainability in SMEs? A developing country perspective. *Sustainability*, 11(10), 2990. <https://doi.org/10.3390/su11102990>

Tuffour, J. K., Amoako, A. A., & Amartey, E. O. (2020). Assessing the effect of financial literacy among managers on the performance of small-scale enterprises. *Global Business Review*, 9(6), 75–95. <https://doi.org/10.1177/0972150919899753>

Kirima George Mutuma & Job Omagwa (2019); *International Journal of Scientific and Education Research* Vol. 3, No. 03; 2019 <http://ijsernet.org/>

Ben Ssembajjwe *CTA universitatis danubius. Economica* 16 (5), 2020

Research journal of finance and accounting: [www. iiste.org](http://www.iiste.org). issn 2222-1697 (paper) issn 2222-2847 (online)(5) 2, 2014

International journal of public administration and management research (IJPAMR), vol. 3, no 2, December, 2015. Website: <http://www.rcmss.com>. ISSN: 2350-2231 (online) ISSN: 2346-7215 (print) Everest turyahikay, 2015, 3(2):21-33

Bisignano. (1992). financial intermediation theory about micro finance institutions and small medium enterprises.

Beck ,demirguc-kunt,leaven and levine. (2008). smes as an engine of macroeconomics in mcro finance conference in serena hotel kampala.uganda .

Waithanji, S.W (2014) “effects of microfinance credit on the financial performance of small and Medium Enterprises in Kiambu County

Charles ocic. (2012). collapse time of smes in uganda.

A M. mohamond. (2018). working capital management and financial performance .

Nahamya. K., Wilfred, I., Ajanga, M., & Omega, M. (2013). the impact of microfinance service delivery on growth of SMES in Uganda. RF research reports no 69/13.

International journal of scientific and education research vol. 3 (2019), <http://ijsernet.org/>
www.ijsernet.org page 78 microfinance services and financial performance of small and medium enterprises in Meru town, Kenya. Kirima George Mutuma.

Will Kenton & Gordon Scott (2020) Fundamental analysis financial performance

Ssentamu, J. (2015). debt financing by commercial banks and small medium enterprises in western Uganda .

Delany, & Huselid. (2001). measures of financial performance among small medium enterprises.

Carter, Selina Howe, "Financial Intermediation, Growth, and Microfinance in Turkey: A Quantitative Study" (2013). Economics - Theses. 1

Hasnah, H., Saniza, B. S., Jayaraman, K., & Ishaka, I. (2013). Factors influencing small medium enterprises (SMES) in obtaining loan. International Journal of Business and Social Science , 4 (15), 182-194.

Nderitu, G. P., & Githinji, K. (2015). Debt financing and financial performance of small and medium size enterprises: Evidence from Kenya. Journal of Economics and Accounting , 2 (3), 473-481.

World Bank. (2014). Facilitating SME financing through improved credit reporting. World Bank.

Marus Eton, et al, (2017) Research Journal of Finance and Accounting www.iiste.org ISSN 2222-2847 (Online) Vol.8, No.8.

Gichana, A. F., & Barasa, W. T. (2013). Effects of credit on micro and small enterprises performance in Kitale Town. International Journal of Academic Research in Business and Social Sciences , vol 3 (9), 570-583.

Atiase, V. Y. & Dzansi, D. Y. (2019). Microfinance and Necessity Entrepreneurship: The Ghanaian Experience. In: Dana, L. P. & V. Ratten, (Ed.), *Societal Entrepreneurship and Competitiveness* (pp. 155–170), Bingley, UK: Emerald Publishing Limited. <https://doi.org/10.1108/978-1-83867-471-720191011>.

Abera, Gadisa, Mohammedsani Ali, and Haile Girma. 2019. Firm Growth and Its Determinants of Micro and Small Scale Manufacturing Enterprises in Selected Towns of Jimma Zone. *Horn of African Journal of Business and Economics (HAJBE)* 2: 397–447. Adil, Fareeha, and Abdul Jalil. 2020. Determining the Financial Inclusion Output of Banking Sector of Pakistan—Supply-Side Analysis. *Economies* 8: 42

Kofi, N. J., TanyMeh, P., & Gaeten, K. (2013). Financing small and medium enterprises (SMES) in Ghana: challenges and determinants in accessing bank credit. *International Journal of Research in social sciences* , 2 (3), 12-25.

Agbazo, E., & Omane, Y. E. (2012). Exploring the financial gap in Ghana for small and medium enterprises (SMEs) in Ghana: A case study of Ghana. School of Management, Blekinge Institute of Technology.

Agyapong, D., & Attram, A. B. (2019). Effect of owner-manager’s financial literacy on the performance of SMEs in the cape coast metropolis in Ghana. *Journal of Global Entrepreneurship Research*, 9(1), 11–27. <https://doi.org/10.1186/s40497-019-0191-1>

Kulathunga, K., Ye, J., Sharma, S., & Weerathunga, P. (2020). How does technological and financial literacy influence SME performance: Mediating role of ERM practices. *Information*, 11(6), 297. <https://doi.org/10.3390/info11060297>

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *SSRN Electronic Journal*, 56, 111–149. <https://doi.org/10.2139/ssrn.2260193>

Bunyaminu, A., Tuffour, J. K., & Barnor, C. (2019). Assessing the determinants of business failure of companies listed on the Ghana stock exchange. (2019). *Journal of Accounting and Finance*, 19(4), 64–78. <https://doi.org/10.33423/jaf.v19i4.2172>.

Jemal, L. (2019). Effect of financial literacy on the financial performance of medium-scale enterprise: A case study in Hawassa City, Ethiopia. *International Journal of Research in Business Studies and Management*, 6 (11), 33–39. <https://www.ijrbsm.org/papers/v6-i11/5.pdf>

Erdogan, A. I. (2018). Factors affecting SME access to bank financing: An interview study with Turkish bankers. *Small Enterprise Research*, 25(1), 23–35. doi:10.1080/13215906.2018.1428911

Oshora, Betgilu, Goshu Desalegn, Eva Gorgenyi-Hegyey, Maria Fekete-Farkas, and Zoltan Zeman. 2021. Determinants of Financial Inclusion in Small and Medium Enterprises: Evidence from Ethiopia. *Journal of Risk and Financial Management* 14: 286. <https://doi.org/10.3390/jrfm14070286>

Ayyagari, M.A., Demircuc-Kunt., & Maksimovic. (2016). “Access to finance and job growth: Firm level evidence across developing countries”, World Bank Policy Research Working Paper No. 7604

World Bank (2018), “Doing Business 2018, reforming to create job,” A World Bank Group Flagship Report.

UNIDO (2015). Country programs for inclusive and sustainable industrial development. United Nations Industrial Development Organizations.

World Bank (2016). “Competition in the GCCSME lending markets: An initial assessment”. Middle East and North Africa Region GCC Country Unit report. DC: Washington. <https://doi.org/10.1596/25404>.

Eton et al. *Journal of Innovation and Entrepreneurship* (2021).<https://doi.org/10.1186/s13731-021-00168-2>

Otieno, N. E., Muganda, M., Musiega, D., & Wekesa, M. (2015). Loan interest rate and performance of small and medium enterprises in Kenya. *International Journal of Management Research and Review* , vol 5 (10), 712-728. Popa, A. E., & Ciobanu, R.

Turyahebwa, A., Sunday, A., & Ssekajugo, D. (2013). Financial management practices and business performance of small and medium enterprises in Western Uganda. *African Journal of Business Management* , vol 7 (38), 3875- 3885.

Amornkitvikai, Y., & Harvie, C. (2016, June). The impact of finance on the performance of Thai Manufacturing small and medium-sized enterprises. ADBI Working Paper Series (576) . Asian Bank Development Institute.

Fariza, H. (2012). Challenges for the internationalization of SMEs and the role of government: The case of Malaysia. *Journal of International Business and Economy*, (2012), 13(1), 97–122

Wellalage, N., & Locke, S. (2017). Access to credit by SMEs in South Asia: Do women entrepreneurs face discrimination. *Research in International Business and Finance*, 41, 336–346. doi:10.1016/j.ribaf.2017.04.053

Nendakulola, K. (2015). The impact of microfinance institutions on the growth of micro and small enterprises in Tanzania. Working paper, Mzumbe University, Tanzania