

**MICROFINANCE LENDING TERMS AND THE PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN GULU CITY, UGANDA**

BY

MUSINGUZI ROGER

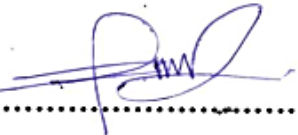
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**THE DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS AND
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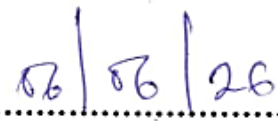
DECLARATION

I **Musinguzi Roger**, declare that the content of this dissertation is my original work and has never been submitted for an award in any Institution of learning.

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APPROVAL

This is to certify that this dissertation titled “Microfinance Lending Terms and the Performance of Small and Medium Enterprises in Gulu City” has been submitted under my supervision.

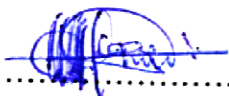
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DEDICATION

I dedicate this dissertation to my passionate spouse Ms Nantoogo Eva and my cherished children Haris and Eliana. They sacrificed financial options and allowed me to be absent in their lives while studying to become a better-providing husband and daddy in the years to come.

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LIST OF ABBREVIATIONS AND ACRONYMS

AMFIU	Association of Microfinance Institutions of Uganda
SMEs	Small and Medium Enterprises
MFIs	Microfinance Institutions
UIA	Uganda Investment Authority
MFSC	Microfinance Support Centre
NGOs	Non-Governmental Organizations
UBOS	Uganda Bureau of Statistics
SACCOs	Savings and Credit Cooperatives
MDIs	Microfinance Deposit-taking Institutions
OECD	Organization for Economic Co-operation and Development
RBV	Resource-Based View
GDP	Gross Domestic Product
MoFPED	Ministry of Finance, Planning and Economic Development
UMRA	Uganda Microfinance Regulatory Authority

ABSTRACT

This study examined the influence of microfinance lending terms on the performance of Small and Medium Enterprises (SMEs) in Gulu City, Uganda. Specifically, the study established the lending terms offered by microfinance institutions, assessed the performance of SMEs accessing microfinance loans, examined the effects of lending terms on SME performance, and explored the moderating role of government policy frameworks. A cross-sectional research design and quantitative approach were employed, involving 221 SME owners and managers. Data was analyzed using descriptive statistics, Pearson correlation, and multiple linear regression techniques. The findings revealed that loan accessibility was the most influential lending term, positively contributing to SME growth, profitability, and sustainability. Although interest rates, collateral requirements, and repayment schedules were generally perceived as supportive, concerns regarding affordability and flexibility remained. The study further found that SMEs exhibited moderate levels of growth, profitability, and sustainability, despite challenges related to market expansion and financial stability. In addition, supportive government regulations and SME support programs significantly enhanced SME performance by creating a more favorable business environment. The study concluded that accessible and SME-friendly microfinance lending terms, together with effective government support mechanisms, are essential for improving SME performance. It recommends enhancing loan accessibility, adopting more flexible lending conditions, and strengthening government support programs to promote the growth, profitability, and sustainability of SMEs in Uganda.

Keywords: Lending Terms, Performance of SMEs, Microfinance Institutions, Gulu City.

CHAPTER ONE

INTRODUCTION

1.0: Introduction

This chapter outlines the background of the study, problem statement, purpose, objectives, hypotheses, scope, significance, justification, conceptual framework, and operational definitions of key terms, thereby establishing the rationale for investigating how interest rates, collateral requirements, repayment schedules, and loan accessibility influence the growth, profitability, and sustainability of SMEs.

1.1: Background of the study

Small and Medium Enterprises (SMEs) are widely recognized as engines of economic growth, employment creation, poverty reduction, innovation, and industrial development across the world. Their contribution to economic transformation is particularly significant in developing economies where they account for the majority of business establishments and provide livelihoods for millions of people. Despite their importance, the performance of SMEs remains a major concern globally because many enterprises experience low profitability, limited growth, poor sustainability, and high failure rates (Yulianti and Aprullah, 2016). The challenge of improving SME performance has therefore attracted considerable attention from governments, development agencies, financial institutions, and researchers seeking to identify factors that promote or constrain business success. Among the factors that have consistently emerged in the literature is access to finance, particularly

through microfinance institutions (MFIs), which provide financial services to businesses that are often excluded from conventional banking systems (Bulla et al., 2019; World Bank, 2021).

The emergence of microfinance in the 1970s marked a significant shift in efforts to improve financial inclusion among low-income individuals and small businesses. The establishment of the Grameen Bank in Bangladesh demonstrated that small loans could empower entrepreneurs who lacked conventional collateral and banking relationships. Since then, microfinance has evolved into a global development strategy aimed at enhancing economic opportunities for small businesses and vulnerable populations (Grameen Bank, 2006). While access to finance through MFIs has expanded considerably, the performance of SMEs continues to vary across countries and regions. This variation has raised questions regarding whether the lending terms offered by MFIs effectively support business growth and sustainability or whether they unintentionally constrain enterprise performance through unfavorable conditions such as high interest rates, strict collateral requirements, inflexible repayment schedules, and limited loan accessibility (Robinson, 2001).

Globally, evidence suggests that SME performance is strongly influenced by the conditions attached to financial services. SMEs that access affordable and flexible financing tend to achieve higher profitability, greater business expansion, and improved sustainability compared to those operating under restrictive lending conditions. According to Bulla et al. (2019), access to finance remains one of the most critical determinants of SME growth, particularly in developing economies where internal business capital is often inadequate. However, despite increased financial inclusion initiatives, many SMEs continue to struggle with poor business performance because available financial products do not adequately match their operational realities. High borrowing costs, short repayment periods, and stringent collateral requirements have been

identified as major barriers that limit the capacity of SMEs to invest, innovate, and expand their operations (Darsono and Darwanto, 2019). Consequently, attention has increasingly shifted from merely providing loans to examining the specific lending terms under which credit is offered.

Across Africa, SMEs contribute substantially to employment generation and economic growth, yet their performance remains below potential. The continent is characterized by a vibrant SME sector that accounts for a significant share of economic activity, but many enterprises face challenges related to financing, market access, infrastructure, and business management (Okunbanjo et al., 2022). Among these challenges, access to affordable finance remains one of the most persistent constraints (Koti and Modiba, 2022). Although microfinance institutions have expanded their operations across African countries, concerns remain regarding the suitability of their lending terms for SME development. Studies conducted in Kenya, Nigeria, Ghana, and South Africa indicate that while microfinance improves access to credit, excessive interest rates, rigid repayment schedules, and demanding collateral requirements often undermine business performance by increasing financial pressure on entrepreneurs (Ekpo and Ebewo, 2024; Wasike, 2023). These findings suggest that the effectiveness of microfinance in improving SME performance depends not only on the availability of credit but also on the conditions attached to that credit.

In East Africa, SMEs continue to serve as the backbone of economic activity, particularly in countries where formal employment opportunities are limited. The sector contributes significantly to income generation and poverty reduction (Oshora et al., 2020). However, many SMEs experience slow growth, limited profitability, and sustainability challenges despite the availability of microfinance services (Bika et al., 2022). Research across the region shows that businesses are

more likely to thrive when they access loans with affordable interest rates, flexible repayment schedules, and reasonable collateral requirements (Anthanasius Fomum and Opperman, 2023). Conversely, restrictive lending conditions often reduce the productive use of borrowed funds and increase the likelihood of business failure. These findings underscore the importance of examining how specific lending terms influence business outcomes rather than treating access to finance as a uniform concept (Nwakoby and Okanya, 2021).

In Uganda, SMEs constitute the largest segment of the private sector and play a critical role in economic development. The sector contributes significantly to employment creation, household income, and national output. According to the Uganda Investment Authority (UIA), (2022), SMEs account for the overwhelming majority of private sector businesses and employ millions of Ugandans. Despite this contribution, SME performance remains a major policy concern due to persistent challenges related to growth, profitability, and long-term sustainability. Many enterprises struggle to expand their operations, maintain consistent profits, and survive in competitive business environments (Gulesci et al., 2020). One of the most frequently cited constraints is limited access to affordable and appropriate financial services Research by (Kakooza et al., 2023). Consequently, microfinance institutions have become important sources of financing for SMEs that are unable to meet the lending requirements of commercial banks.

The microfinance sector in Uganda has expanded considerably over the past two decades, supported by government reforms and regulatory frameworks aimed at promoting financial inclusion. Institutions such as savings and credit cooperatives, microfinance deposit-taking institutions, and other Tier Four financial institutions have increased access to credit among SMEs (Association of Microfinance Institutions of Uganda (AMFIU), 2023). Nevertheless, concerns

persist regarding the nature of lending terms offered by these institutions. Previous studies have reported that high interest rates, demanding collateral requirements, short repayment periods, and limited accessibility to credit continue to affect the ability of SMEs to maximize the benefits of microfinance services (Muhumuza, 2015; Wasike, 2023). While some businesses have successfully utilized microfinance loans to improve profitability and expand operations, others have experienced financial difficulties resulting from unfavorable lending conditions. This situation raises important questions regarding the extent to which microfinance lending terms influence SME performance in Uganda.

The challenge is particularly evident in Northern Uganda, a region that continues to recover from decades of conflict and economic disruption. SMEs have become central to the region's economic transformation by creating employment opportunities and supporting household livelihoods. In Gulu City, SMEs dominate the local business landscape and contribute significantly to economic activity (Gulesci et al., 2020). However, many of these enterprises continue to face performance challenges characterized by slow growth, limited profitability, and sustainability concerns. Although microfinance institutions operate extensively within the city, many entrepreneurs report difficulties related to borrowing costs, collateral requirements, loan accessibility, and repayment obligations. These challenges may limit the capacity of SMEs to utilize financial resources effectively and achieve desired business outcomes.

While previous studies have examined access to finance and SME development in Uganda, limited attention has been given to understanding how specific microfinance lending terms influence SME performance within the context of Gulu City. Existing literature often focuses broadly on financial access without adequately exploring how interest rates, collateral requirements, repayment

schedules, and loan accessibility individually affect profitability, growth, and sustainability. Furthermore, findings from other regions may not adequately reflect the realities of SMEs operating in a post-conflict economy such as Gulu. This study therefore seeks to bridge this knowledge gap by examining the relationship between microfinance lending terms and the performance of SMEs in Gulu City. By focusing on the influence of lending conditions on business outcomes, the study contributes to a better understanding of how microfinance can be structured to enhance SME performance and support local economic development.

1.2: Problem Statement

Small and Medium Enterprises (SMEs) are widely acknowledged as key drivers of economic growth, employment creation, innovation, and poverty reduction in both developed and developing economies. In Uganda, SMEs play a critical role in stimulating local economic development and providing livelihoods for a large proportion of the population. Ideally, SMEs are expected to achieve sustained growth, improved profitability, and long-term sustainability through access to adequate financial resources that support business expansion and operational efficiency. Microfinance Institutions (MFIs) have been established to bridge financing gaps by providing credit services to enterprises that are often excluded from conventional banking systems due to limited collateral, insufficient credit histories, and lack of formal documentation (Gulesci et al., 2020). Despite the growing presence of MFIs and increased access to microfinance services in Uganda, the performance of many SMEs remains below expectations. Many enterprises continue to face challenges related to low profitability, limited growth, financial instability, and high business failure rates, particularly during their early years of operation (Moussa, 2020). This situation raises concerns about whether the financial services provided by MFIs are effectively

supporting SME performance. While access to credit is generally considered beneficial, the lending terms attached to such credit, including interest rates, collateral requirements, repayment schedules, and loan accessibility, may significantly influence the ability of SMEs to utilize borrowed funds productively and achieve desired business outcomes (Nassoro and Jaraj, 2022). Existing studies present mixed evidence regarding the relationship between microfinance lending terms and SME performance. Some studies suggest that favorable lending conditions enhance business growth and sustainability, while others indicate that high interest rates, stringent collateral requirements, and inflexible repayment schedules can constrain enterprise development (Gulesci et al., 2020; Odongo, 2014). Furthermore, limited empirical evidence exists on how these lending terms affect SME performance in Gulu City, a rapidly growing commercial center in Northern Uganda. Consequently, this study sought to examine the influence of microfinance lending terms on the performance of SMEs in Gulu City, with the aim of generating evidence to inform lending practices, policy formulation, and strategies for enhancing SME growth, profitability, and sustainability.

1.3.: The Purpose of the Study

The purpose of this study was to examine the influence of microfinance lending terms on the performance of Small and Medium Enterprises (SMEs) in Gulu City, Uganda, and to assess the moderating role of the government policy framework in shaping the relationship between microfinance lending terms and SME performance.

1.3.1: Specific Objectives of the Study

1. To examine the lending terms of microfinance institutions in Gulu city

2. To assess the level of performance of small and medium enterprises that access microfinance loans in Gulu city
3. To examine the effects of microfinance lending terms on the performance of small and medium enterprises
4. To examine the moderating effects of the government policy framework on the operation of microfinance lending terms as applicable to small and medium enterprises in Gulu city

1.4.: Research Questions

1. What is the level of microfinance lending terms in Gulu City?
2. What is the level of performance of small and medium enterprises that access microfinance loans?

1.5: Research Hypothesis

1. H₁: There is no significant effects of microfinance lending terms on the performance of small and medium enterprises
2. H₁: There is no significant effects of the government policy framework on the operation of microfinance lending terms as applicable to small and medium enterprises

1.6: The scope of the study

The scope of the study was divided into three parts namely content, geographical, and time scope.

1.6.1: Content scope

This study encompasses several key areas based on the outlined objectives. Firstly, it assesses the level of microfinance lending terms, focusing on factors such as interest rates, repayment schedules, and collateral requirements, and their application within the context of Gulu City. Secondly, the study examines the extent of the performance of SMEs in Gulu, using metrics like business growth, revenue generation, and employment levels to gauge their success. Thirdly, the research establishes the influence of these microfinance lending terms on SME performance, identifying specific ways in which lending conditions impact business outcomes. Finally, the study explores the relationship between microfinance lending terms and SME performance, analyzing how variations in lending terms correlate with differences in business performance. Through these objectives, the research provided a comprehensive understanding of how microfinance lending terms affect SME success in Gulu City.

1.6.2: Geographical scope

The geographical scope of this study was confined to Gulu City in Northern Uganda. Gulu City, being a significant economic hub in the region, provides a relevant and focused context for examining the dynamics between microfinance lending terms and the performance of small and medium enterprises (SMEs). The study covers various parts of Gulu City, including both urban and peri-urban areas, to ensure a comprehensive analysis of the microfinance landscape and its impact on SMEs. This localized focus allowed for an in-depth assessment of the level of microfinance lending terms, the performance of SMEs, and the specific influence and relationship between these lending terms and SME performance within the unique socio-economic conditions

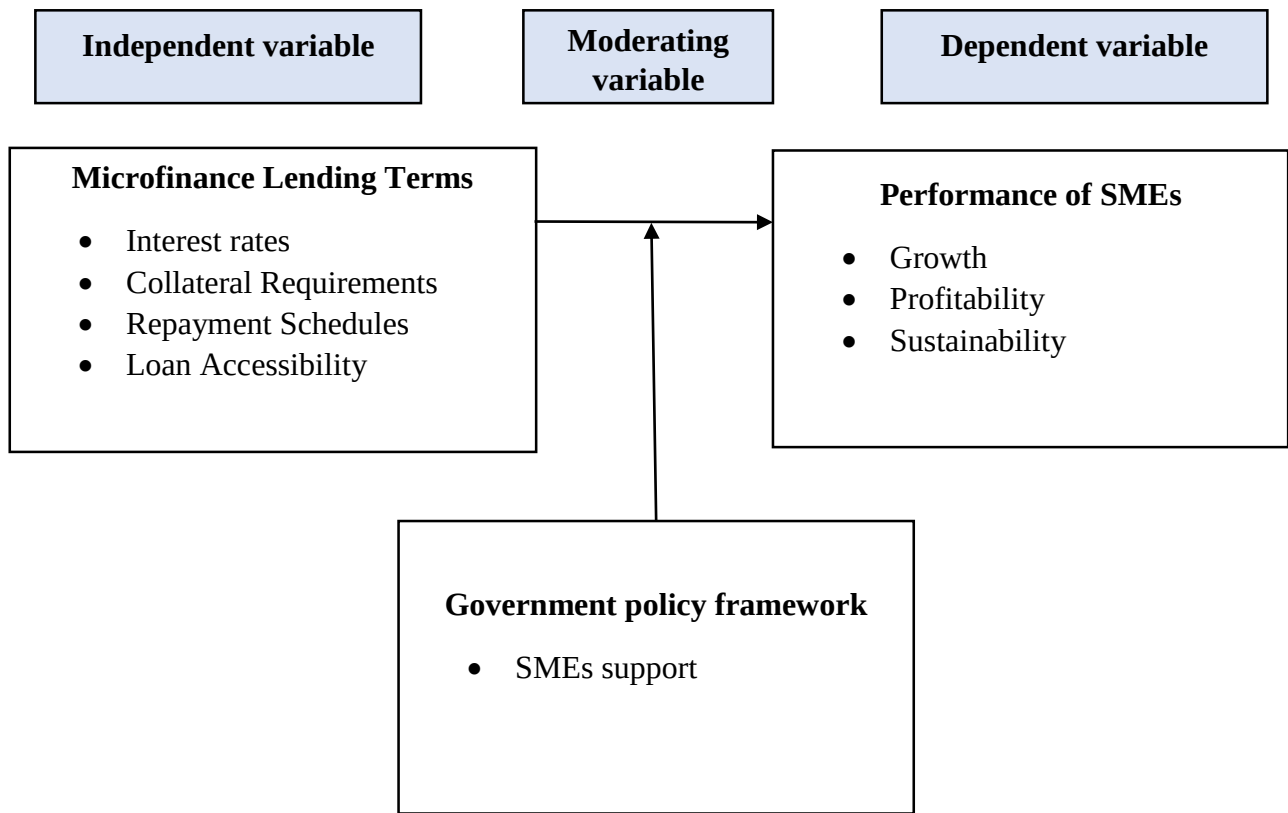
of Gulu City. By concentrating on this geographical area, the study aims to provide targeted insights that are directly applicable to the local context, potentially informing policy and practice in similar regions.

1.6.3: Time scope

The time scope of this study covers a period of twelve months, from November 2023 to October 2024. This timeframe is selected to provide a comprehensive view of the evolution and impact of microfinance lending terms on the performance of small and medium enterprises (SMEs) in Gulu City. By accessing data from this period, the study captured both short-term effects of microfinance interventions on SMEs. The study evaluates the level of microfinance lending terms, the extent of SME performance, the influence of these terms on SME outcomes, and the overall relationship between lending terms and performance in these three months.

1.7: Conceptual Framework

The conceptual framework for this study was designed to explore the intricate relationships between various microfinance lending terms and SME performance. The study's objectives guide this framework by focusing on key variables: the level of microfinance lending terms (interest rates, collateral requirements, repayment schedules, and accessibility), the extent of SME performance (growth, profitability, sustainability), the effects of these lending terms on SME outcomes, and the overall relationship between lending terms and SME performance.



Source: Conceptual framework Modified from Mohamed, (2017)

Figure 1: Conceptual framework for microfinance lending terms and performance of SMEs

This framework posits that favorable lending terms positively impact SME performance by reducing financial barriers and enhancing access to capital. Conversely, stringent lending terms could hinder SME growth and sustainability. The framework utilizes a mixed-methods approach, integrating quantitative data to measure the impact of lending terms on performance metrics and qualitative insights to understand the contextual factors influencing these relationships. This holistic approach ensures a comprehensive analysis of how microfinance lending terms shape the economic vitality of SMEs in Gulu City.

1.8: Justification of the Study

This study was grounded in the critical role that SMEs play in economic development and the unique challenges they face in accessing financial resources. SMEs are often considered the backbone of local economies, contributing significantly to employment, innovation, and GDP growth. However, in Gulu City, as in many other parts of Uganda, these enterprises struggle with limited access to formal financial services, which hampers their growth and sustainability. By examining how microfinance lending terms affect SME performance, this study provides insights that could lead to more effective financial products and services tailored to the needs of these businesses. Understanding the impact of various lending terms helps microfinance institutions and policymakers design interventions that better support SME development, thereby fostering economic growth and poverty reduction in the region.

Moreover, this study is justified by the need to address the gap in the existing literature concerning the specific context of Northern Uganda. While numerous studies have explored the relationship between microfinance and SME performance globally and nationally, there is a paucity of research focusing specifically on Gulu City. The socio-economic dynamics of post-conflict Northern Uganda present unique challenges and opportunities for SMEs that are not fully captured in broader studies. By focusing on Gulu City, this research was to provide localized insights that are crucial for developing context-specific strategies to improve the effectiveness of microfinance services. Additionally, the findings of this study was to help inform regional policies and practices, contributing to the broader discourse on sustainable economic development in post-conflict settings. Through this research, stakeholders including microfinance institutions, SME owners, and policymakers will gain valuable knowledge to enhance the economic resilience and prosperity of Gulu City.

1.9: Significance of the Study

This study is crucial as it explores how microfinance lending terms impact SME performance, offering insights for policymakers, MFIs, and entrepreneurs. By identifying optimal lending conditions, it aims to enhance SME growth, reduce over-indebtedness, and promote economic development. The findings will help design SME-friendly financial products, support job creation, and alleviate poverty, particularly in developing economies. Additionally, it fills a research gap, providing a foundation for future studies on microfinance and SME sustainability.

1.10: Operational Definitions of Key Terms

Interest Rates: The cost of borrowing expressed as a percentage of the loan amount, influencing the affordability of microfinance credit for SMEs. Higher interest rates may reduce SMEs' ability to invest in growth and operational efficiency.

Collateral Requirement: The tangible or intangible assets that SMEs must pledge to secure a loan from a microfinance institution. This requirement can impact SMEs' ability to access credit, depending on their available assets.

Repayment Schedules: The structured plan outlining the timing and frequency of loan repayments. Flexible and well-aligned repayment schedules improve SMEs' cash flow management and enhance their profitability.

Loan Accessibility: The ease with which SMEs can obtain credit from microfinance institutions, considering factors like application procedures, eligibility criteria, and approval timelines. Higher accessibility fosters business expansion and financial sustainability.

Growth: The increase in an SME's business size, market share, revenue, or asset base over time. Growth is influenced by access to financing, investment capacity, and operational efficiency.

Profitability: The financial performance of an SME measured by its ability to generate profits relative to costs and investments. Profitability reflects the effectiveness of business strategies and financial support from microfinance institutions.

Sustainability: The ability of an SME to maintain long-term business operations while ensuring financial stability and resilience to economic challenges. Sustainable SMEs effectively utilize resources and adapt to market changes.

SME Support: The financial and non-financial assistance provided to small and medium enterprises by microfinance institutions, including credit, training, advisory services, and market linkages to enhance business performance.

CHAPTER TWO

LITERATURE REVIEW

2.0: Introduction

The literature review section of this study explores and synthesizes existing research on the interplay between microfinance lending conditions and SME performance. It covers the theoretical framework, microfinance lending terms, SMEs performance, an overview of MFIs and SMEs, and the summary of the literature.

2.1: Theoretical Framework

This study was anchored on three complementary theories: Financial Intermediation Theory, Credit Rationing Theory, and the Resource-Based View (RBV) Theory. These theories collectively explain how microfinance institutions provide financial services to SMEs, how lending conditions influence access to credit, and how financial resources contribute to business performance. The theories provide a strong foundation for understanding the relationship between microfinance lending terms and the performance of SMEs in Gulu City.

2.1.1: Financial Intermediation Theory

Financial Intermediation Theory was advanced by Bhatia and Khatkhate, (1975) and later expanded by other scholars in financial economics. The theory posits that financial institutions act as intermediaries between surplus units (savers) and deficit units (borrowers), facilitating the efficient allocation of financial resources within an economy. Through this intermediary role,

financial institutions reduce transaction costs, minimize information asymmetry, manage risks, and improve access to finance for businesses and individuals who may not easily obtain credit from traditional financial markets (Hester, 1994). In the context of this study, microfinance institutions perform an intermediary function by mobilizing savings and extending loans to SMEs. The lending terms established by these institutions, including interest rates, collateral requirements, repayment schedules, and loan accessibility, determine the extent to which SMEs can access and utilize financial resources. Favorable lending terms enable enterprises to secure adequate capital for investment, expansion, inventory acquisition, and operational improvements. Conversely, unfavorable lending terms may limit access to finance and reduce business performance.

The theory further argues that effective financial intermediation promotes economic growth by channeling financial resources to productive sectors of the economy. SMEs that obtain affordable and accessible credit are more likely to improve profitability, increase productivity, and strengthen business sustainability. However, excessively high interest rates, stringent collateral requirements, and inflexible repayment conditions may reduce the ability of SMEs to benefit from financial services (Stiglitz and Weiss, 1987).

Financial Intermediation Theory is relevant to this study because it explains the central role played by microfinance institutions in providing financial resources to SMEs. Since the study examines how lending terms influence SME performance, the theory provides a useful framework for understanding how the design of financial products and services can either facilitate or constrain enterprise growth, profitability, and sustainability. It therefore helps explain the relationship between microfinance lending terms and SME performance in Gulu City.

2.1.2: Credit Rationing Theory

Credit Rationing Theory was developed by Ernst Baltensperger and Devinney, (1985) to explain why lenders may restrict the supply of credit even when borrowers are willing to pay the prevailing market interest rate. According to the theory, information asymmetry between lenders and borrowers makes it difficult for financial institutions to accurately assess the risk associated with loan applicants. To minimize the likelihood of default, lenders often ration credit through mechanisms such as high collateral requirements, strict screening procedures, reduced loan sizes, and stringent repayment conditions (Rotheim, 2020).

The theory suggests that credit rationing is common among small businesses because they frequently lack adequate collateral, formal financial records, or established credit histories (Houben & Nippel, 2001). As a result, SMEs are often perceived as high-risk borrowers and may face challenges in accessing finance despite having viable business opportunities (Stiglitz and Weiss, 1987). This situation can limit their ability to invest, expand operations, and improve performance (Wolfson, 1996).

In relation to this study, Credit Rationing Theory explains how lending terms can influence SME performance by either facilitating or restricting access to financial resources. High collateral requirements, rigid repayment schedules, and restrictive lending conditions may prevent SMEs from obtaining the financing needed to support business growth. Consequently, limited access to credit may negatively affect profitability, growth, and long-term sustainability.

The theory is appropriate for this study because it provides a clear explanation of how lending conditions imposed by microfinance institutions may create barriers to credit access for SMEs.

Since one of the key objectives of the study is to examine the effect of microfinance lending terms on SME performance, Credit Rationing Theory helps explain why some enterprises experience difficulties in accessing financial services and how these constraints influence business outcomes. The theory is therefore useful in understanding the role of collateral requirements, interest rates, repayment schedules, and loan accessibility in determining SME performance.

2.1.3: Resource-Based View (RBV) Theory

The Resource-Based View (RBV) Theory was developed by Jay, (1991). The theory argues that an organization's success depends on its ability to acquire, develop, and effectively utilize valuable resources. According to RBV, firms achieve sustainable competitive advantage when they possess resources that are valuable, rare, difficult to imitate, and non-substitutable (VRIN). These resources may include financial capital, human skills, technology, organizational capabilities, and managerial expertise.

Financial resources are among the most important strategic assets required by SMEs to improve performance. Access to finance enables enterprises to acquire productive assets, invest in innovation, expand market operations, improve product quality, and enhance operational efficiency (Sabourin, 2020). The theory therefore views financial capital as a critical resource that can contribute to business growth, profitability, and sustainability when effectively managed (Madhani, 2014).

Within the context of this study, microfinance loans constitute an important financial resource for SMEs. Favorable lending terms, such as affordable interest rates, flexible repayment schedules, reasonable collateral requirements, and easy loan accessibility, enhance the ability of SMEs to

acquire financial capital. Once obtained, these resources can be invested in productive activities that improve enterprise performance. On the other hand, restrictive lending conditions may limit SMEs' access to resources and weaken their competitive position.

The Resource-Based View Theory is relevant to this study because it directly links access to financial resources with business performance. The theory explains how SMEs can utilize financial capital obtained through microfinance institutions to improve growth, profitability, and sustainability. Since the study seeks to assess the influence of lending terms on SME performance, RBV provides a suitable framework for understanding how access to and utilization of financial resources contribute to enterprise success. It therefore complements the Financial Intermediation and Credit Rationing theories by focusing on the performance outcomes of financial resource acquisition.

2.2: Microfinance Lending Terms

Microfinance lending terms encompass various conditions and requirements that microfinance institutions (MFIs) impose on borrowers, including interest rates, collateral requirements, loan sizes, repayment schedules, and fees. These terms are crucial in determining the accessibility and affordability of microfinance loans for small and medium enterprises (SMEs). Interest rates, often higher in microfinance compared to traditional banking due to higher perceived risks, can significantly impact on SME's cost of capital and, consequently, its profitability and growth prospects (Cotler & Almazan, 2013). Collateral requirements, while intended to mitigate the lender's risk, can also be a barrier for SMEs that lack substantial assets. Thus, MFIs often adopt

innovative approaches, such as group lending or social collateral, to enhance loan accessibility while managing risk (Frawley, 2019).

Repayment schedules and loan sizes are also critical components of microfinance lending terms that affect SME performance. Flexible repayment schedules can help SMEs manage cash flow fluctuations and reduce the likelihood of default, thereby supporting their financial stability and growth. Conversely, rigid repayment terms can strain an SME's resources, especially in volatile market conditions. Loan sizes should ideally match the borrowing needs of SMEs without overburdening them with excessive debt (Ndege, 2019). Additionally, other fees associated with microfinance loans, such as processing fees and insurance premiums, can influence the overall cost and attractiveness of microfinance products. By optimizing these lending terms, MFIs can better serve the financial needs of SMEs, fostering an environment conducive to their success and sustainability.

2.2.1: Interest Rate

Interest rates in microfinance are a pivotal component of lending terms that significantly influence the performance of small and medium enterprises (SMEs). Typically, interest rates charged by microfinance institutions (MFIs) are higher than those of traditional banks due to the higher risk profiles of their clients and the costs associated with smaller loan amounts (Mitra, 2009). High interest rates can be a double-edged sword; while they ensure the sustainability and profitability of MFIs, they can also burden SMEs, reducing their net profit margins and constraining their ability to reinvest in business growth. Studies have shown that excessively high interest rates can

lead to higher default rates, as borrowers struggle to keep up with repayments, ultimately stifling the entrepreneurial activities they are meant to support (Frawley, 2019).

On the other hand, appropriate interest rate settings can enhance the accessibility and effectiveness of microfinance for SMEs. When interest rates are set at a level that balances affordability for borrowers with the financial sustainability of MFIs, they can facilitate business expansion, operational improvements, and increased productivity among SMEs (Ochien & Odondo, 2018). Transparent and fair interest rate policies are crucial in building trust between MFIs and their clients, promoting responsible borrowing, and ensuring that the benefits of microfinance reach the intended entrepreneurs. Furthermore, innovative interest rate models, such as performance-based or graduated interest rates, where rates decrease as the borrower demonstrates reliability, can incentivize timely repayments and foster a more supportive financial environment for SMEs (Ssekiziyivu et al., 2018). Therefore, understanding the impact of interest rates within microfinance lending terms is essential for optimizing their positive effects on SME performance.

2.2.2: Collateral Requirements

Collateral requirements in microfinance lending are a critical determinant of access to credit for small and medium enterprises (SMEs). Traditional banks often demand substantial collateral to mitigate the risk of default, which poses a significant barrier for many SMEs that lack adequate assets. In contrast, microfinance institutions (MFIs) typically adopt more flexible approaches to collateral to accommodate the needs of SMEs and low-income borrowers. These alternatives include group lending mechanisms, where members collectively guarantee each other's loans, and the use of non-traditional assets such as household items or business inventory as collateral

(Amoako-Adu & Eshun, 2018). Such innovative practices reduce the entry barriers for SMEs, enabling them to access much-needed capital to finance their operations and growth.

However, the lack of conventional collateral requirements also presents challenges. While it enhances credit accessibility, it increases the risk profile of the loans for MFIs. To balance this, MFIs often rely on rigorous assessment processes to evaluate the borrower's creditworthiness and business potential. Research indicates that while flexible collateral requirements can significantly enhance loan uptake and entrepreneurial activity, they also necessitate robust risk management practices to maintain the financial health of MFIs (Ndege, 2019). Moreover, the success of these flexible collateral arrangements depends on the socio-cultural context, trust among group members in group lending models, and the ability of MFIs to enforce non-traditional collateral agreements. Thus, while collateral flexibility can boost SME performance by improving access to finance, it requires a carefully managed approach to ensure sustainability and mitigate risks.

2.2.3: Repayment Schedules

Repayment schedules in microfinance lending play a crucial role in determining the success and sustainability of small and medium enterprises (SMEs). Flexible repayment schedules can provide significant advantages for SMEs by aligning payment timelines with their cash flow patterns. This is particularly important for businesses with seasonal income variations or those experiencing initial growth phases where cash flow might be unpredictable (Ssekiziyivu et al., 2018). For instance, MFIs may offer grace periods, balloon payments, or graduated repayment plans that start with lower installments that gradually increase as the business grows. Such tailored repayment

structures can reduce the financial burden on SMEs, helping them maintain liquidity and invest more effectively in their operations, thereby enhancing their overall performance.

Conversely, rigid repayment schedules can pose challenges for SMEs, especially those with volatile earnings or long inventory turnover periods. Fixed, frequent repayment schedules without consideration of the borrower's cash flow can lead to financial strain, forcing businesses to divert operational funds towards loan repayment, potentially stifling growth and innovation (Czura, 2015). Moreover, the stress of meeting inflexible repayment deadlines can increase the likelihood of defaults, which negatively impacts both the borrower and the lender. Studies have shown that when MFIs adopt more adaptive repayment terms, the default rates decrease, and borrower satisfaction and business performance improve (Ndege, 2019). Therefore, the design of repayment schedules is a critical factor in the effectiveness of microfinance lending and its ability to foster sustainable growth among SMEs.

2.2.4: Loan Accessibility

Loan accessibility is a fundamental aspect of microfinance lending terms that directly impacts the performance of small and medium enterprises (SMEs). Accessibility encompasses various factors, including the simplicity of application processes, the speed of loan disbursement, and the geographic reach of microfinance institutions (MFIs). Simplified application processes reduce barriers for SMEs, particularly those without formal financial training or significant documentation. By lowering these barriers, MFIs can ensure that a broader range of SMEs, especially those in underserved or rural areas, can obtain the necessary capital to start or expand their businesses (Kapkiyai & Mugo, 2015). Moreover, rapid loan disbursement can be critical for

SMEs needing timely investments to seize market opportunities or manage urgent operational needs, thereby enhancing their competitiveness and growth potential.

Geographic accessibility also plays a crucial role in determining how effectively microfinance can support SME performance. MFIs that extend their services to remote and rural areas can significantly impact local economies by empowering entrepreneurs who otherwise have limited access to traditional banking services Chávez-mejía et al., (2019). By leveraging mobile banking and other innovative technologies, MFIs can further enhance their reach and make financial services more accessible to a wider audience. However, ensuring loan accessibility also involves maintaining a balance between ease of access and prudent lending practices to mitigate the risk of over-indebtedness and ensure sustainable growth for both SMEs and MFIs. Thus, improving loan accessibility not only supports the immediate financial needs of SMEs but also fosters a more inclusive and dynamic economic environment.

2.3: Performance of Small and Medium Enterprises

The performance of small and medium enterprises (SMEs) is a critical indicator of economic health and development, particularly in emerging markets. Performance metrics for SMEs typically include profitability, revenue growth, market share expansion, employment generation, and overall sustainability. These enterprises are often considered the backbone of economies due to their significant contributions to GDP and employment (Moen et al., 2016). However, the performance of SMEs can be influenced by numerous factors, including access to finance, market conditions, regulatory environment, and managerial capabilities. Access to adequate and timely financial resources, such as those provided by microfinance institutions, is particularly essential for SMEs

to invest in technology, expand operations, and enhance their competitive edge (Slávik et al., 2023).

Furthermore, the ability of SMEs to perform well is intricately linked to the overall business environment, including regulatory policies and market dynamics. Favorable regulatory frameworks that reduce bureaucratic red tape and provide tax incentives can enhance the operational efficiency and profitability of SMEs. Additionally, market conditions, such as demand fluctuations and competition levels, play a significant role in determining SME performance. Effective management practices, including strategic planning, financial management, and innovation adoption, are also vital for sustaining growth and improving performance (Kapkiyai & Mugo, 2015). By understanding these various factors, stakeholders can implement supportive measures to boost SME performance, ultimately contributing to broader economic development and poverty reduction.

2.3.1: Revenue Growth

Revenue growth is a fundamental indicator of the performance and success of small and medium enterprises (SMEs). It reflects the ability of a business to increase its sales and expand its market presence over time. For SMEs, sustained revenue growth is essential for maintaining profitability, achieving economies of scale, and enhancing competitive advantage. Factors contributing to revenue growth in SMEs include effective marketing strategies, product or service innovation, customer retention, and market expansion (Moen et al., 2016). Access to adequate financing, such as that provided by microfinance institutions, enables SMEs to invest in these areas, thereby driving revenue growth. With financial support, SMEs can enhance their marketing efforts,

improve product quality, and enter new markets, all of which contribute to increased sales and revenue (Slávik et al., 2023).

Furthermore, revenue growth in SMEs is often influenced by the broader economic environment and industry-specific conditions. In dynamic and competitive markets, SMEs must continually adapt to changing consumer preferences and technological advancements to sustain growth. Strategic financial management, including effective cost control and investment in growth opportunities, plays a crucial role in this process (Fasola et al., 2020). Additionally, supportive regulatory frameworks and access to business development services can enhance the growth prospects of SMEs. Empirical studies have shown that SMEs with better access to finance and supportive business environments tend to experience higher revenue growth rates (Slávik et al., 2023). Therefore, understanding and addressing the various factors that influence revenue growth is vital for fostering the success and sustainability of SMEs.

2.3.2: Profitability

Profitability is a critical measure of the performance of small and medium enterprises (SMEs), reflecting their ability to generate income relative to their expenses over a specific period. It is a fundamental indicator of financial health and sustainability, enabling SMEs to reinvest in their operations, pay off debts, and provide returns to their owners. Several factors influence the profitability of SMEs, including cost management, pricing strategies, operational efficiency, and market positioning (Tjahjadi et al., 2020). Access to finance, particularly through microfinance institutions, can significantly impact profitability by providing the necessary capital for business expansion, technological upgrades, and inventory management. For instance, by securing

microfinance loans, SMEs can purchase new equipment, streamline processes, and enhance productivity, which collectively contributes to higher profit margins (Olusegun & Sabo, 2019).

However, profitability in SMEs is also affected by external factors such as market competition, economic conditions, and regulatory environments. High competition in the market can compress profit margins, while economic downturns can reduce consumer spending, impacting sales and profitability (Prijadi & Desiana, 2017). Additionally, regulatory challenges, such as high taxation or complex compliance requirements, can increase operational costs and reduce profitability. SMEs with better financial management practices, such as effective budgeting, cost control, and strategic investment, tend to be more profitable and resilient to external shocks (Parandy et al., 2024). Therefore, enhancing profitability involves not only securing adequate financing but also improving internal management practices and navigating external challenges effectively.

2.3.3: Sustainability

Sustainability is a crucial aspect of the performance of small and medium enterprises (SMEs), reflecting their ability to maintain and enhance operations over the long term while balancing economic, social, and environmental considerations. For SMEs, achieving sustainability involves not only financial stability but also the capacity to adapt to changing market conditions, manage environmental impact, and contribute positively to the community (Malesios et al., 2021). Financial sustainability is closely linked to the ability of SMEs to generate consistent revenue, manage costs effectively, and secure adequate financing. Access to microfinance, with its tailored lending terms, can support this by providing the capital needed for sustainable practices, such as adopting energy-efficient technologies or expanding into new, viable markets (Erdil, 2023).

Moreover, environmental and social sustainability are becoming increasingly important for SMEs as consumers and stakeholders demand more responsible business practices. SMEs that integrate sustainability into their core strategies can benefit from improved reputation, customer loyalty, and operational efficiencies. Microfinance institutions (MFIs) often play a role in promoting sustainable practices by offering incentives or technical assistance for adopting green technologies and socially responsible business practices (Hidayat et al., 2023). By aligning financial support with sustainability goals, SMEs can enhance their resilience to economic and environmental challenges, thus securing their long-term viability and contributing to broader sustainability objectives (Korsakienė & Raišienė, 2022).

2.4: Government Policies and the Performance of Small and Medium Enterprises

Government policies play a pivotal role in shaping the performance of small and medium enterprises (SMEs) by establishing the regulatory and economic environment in which these businesses operate. Supportive policies can enhance SME performance by providing access to finance, reducing regulatory burdens, and offering incentives for growth and innovation. For instance, policies that facilitate easier access to credit through subsidies, tax incentives, or guarantees can significantly improve the ability of SMEs to secure necessary capital, which is crucial for expansion and operational efficiency (Dosumu et al., 2017). Additionally, government initiatives such as grant programs and low-interest loans specifically designed for SMEs can provide financial relief and encourage investment in areas such as technology and human resources, ultimately driving business growth and competitiveness (OECD, 2021).

Conversely, restrictive or complex regulatory frameworks can hinder SME performance by increasing operational costs and creating barriers to market entry. For example, cumbersome licensing processes, high compliance costs, and stringent labor laws can disproportionately affect SMEs, which often lack the resources to navigate these challenges effectively (Musabayana et al., 2022). Therefore, a balanced approach that simplifies regulatory requirements while providing targeted support can enhance the overall business environment for SMEs. Governments that actively engage with SMEs to understand their needs and challenges, and that implement policies based on this feedback, are more likely to foster a thriving SME sector that contributes significantly to economic development and job creation (Musabayana et al., 2022).

2.4.1: Government Support for Small and Medium Enterprises (SMEs)

Government policies aimed at supporting small and medium enterprises (SMEs) can significantly influence their performance by providing the necessary resources, infrastructure, and incentives for growth. Such support often includes financial assistance programs, tax incentives, and grants specifically designed to bolster SME development. For instance, subsidies for research and development, innovation grants, and tax breaks can reduce operational costs and encourage investment in new technologies or market expansion (Zaato et al., 2022). Additionally, government-backed loan programs and venture capital initiatives can alleviate financing constraints, enabling SMEs to scale operations, hire staff, and enhance productivity. These support mechanisms are critical in helping SMEs overcome financial barriers and achieve sustainable growth, which in turn positively impacts their overall performance and competitiveness in the market (OECD, 2021).

Furthermore, comprehensive support policies also encompass non-financial aspects such as training, business development services, and market access initiatives. Governments that invest in capacity-building programs and entrepreneurial training equip SME owners with essential skills and knowledge, leading to improved business management and operational efficiency (Mukarutesi, 2016). Additionally, initiatives that facilitate access to international markets, such as trade promotion programs and export incentives, can help SMEs expand their reach and tap into new revenue streams. By fostering an environment that supports both financial and non-financial needs, government policies can significantly enhance the performance and resilience of SMEs, contributing to broader economic development goals (Enewerone & Edith, 2018).

2.5: Summary of the Literature Review

The literature review on microfinance lending terms and the performance of small and medium enterprises (SMEs) reveals a complex interplay between financial conditions and business outcomes. Research highlights that favorable lending terms, including lower interest rates, flexible repayment schedules, and minimal collateral requirements, can significantly enhance SME performance by improving their access to capital and reducing financial stress (Ndege, 2019). These terms facilitate the growth and sustainability of SMEs by enabling them to invest in expansion, technology, and human resources, which are crucial for their competitive advantage (Cotler & Almazan, 2013). Moreover, the ability to access loans under favorable conditions helps SMEs manage cash flow, reduce operational costs, and pursue growth opportunities, thereby contributing positively to their overall performance.

Conversely, the literature also points to the challenges associated with stringent lending terms and their impact on SME performance. High interest rates, stringent collateral requirements, and inflexible repayment terms can hinder SME growth by increasing the cost of borrowing and limiting access to essential financial resources (Mukarutesi, 2016). These constraints often exacerbate financial stress and may even lead to over-indebtedness among SMEs, affecting their ability to operate effectively and sustain long-term growth. Additionally, government policies and economic conditions play a critical role in shaping the lending environment and influencing SME performance. Supportive policies and economic stability are essential for creating a conducive environment that fosters SME growth and performance (OECD, 2021).

CHAPTER THREE

METHODOLOGY

3.0: Introduction

This chapter presents the methods that the researcher used to carry out this study. It covers the research design, Study population, Study sample size, sampling procedure, data collection methods and instruments, validity and reliability of data collection instruments as well as ethical considerations.

3.1: Research Design

This study employed a cross-sectional study design. Creswell, (2009) cites that a descriptive study provides for an in-depth analysis of a single or a few items which gives the study more information and detail about the study subjects. Thomas, (2011) on the other hand observes that descriptive design is important as it provides a detailed analysis of what is happening which can provide important information for decision-making.

This study applied a cross-sectional study design. A cross-sectional study design is an observational study that analyses data collected at a specific point in time from the population or a sample of the population (Sekaran, 2003). Since this study intended to collect data in a short period, therefore cross-sectional was the most appropriate research design or study design. Many scholars have used this study design in a similar discipline or study (Kemitare & Kabuye, 2018; Yan, 2017).

3.2 Study Population

The study population comprised small businesses. Specifically, the small and medium enterprises SMEs who access loans from microfinance institutions. However, all those who did not access loans from microfinance institutions were excluded from the study.

Table 1: The Study Population

S/N	Strata	Target Population (SMEs)	Sample Size
1	Barber shops & Hair saloon	20	7
2	Hotel and Restaurants	15	5
3	Retail shops	327	116
4	Computer café	8	3
5	Mobile money Shops	25	9
6	Furniture Workshops	17	6
7	Butcheries	21	7
8	Electronics and Phone Accessories	49	17
9	Hardware Shops	22	8
10	Wholesale	34	12
11	School and Training Institutions	26	9
12	Tailoring Shop	50	18
13	Book Shops and Stationaries	11	4
14	Pharmacies and Health Centres	13	5
15	Cloth Boutiques	29	10
16	Cosmetics	18	6
17	Bars	35	12
18	Motor/ Motor Bike Spares	14	5
Total		734	259

Source: Gulu City Government, 2024

3.2.1 Sample Size

To obtain the sample size, this study employed the Yamane (1967) formula. A sample frame of 734 SMEs that had access to loans from microfinance institutions was taken from Gulu City database through the help of Commercial offices in the four divisions.

$$n = \frac{N}{1 + N(e)^2} \dots \dots \dots (Equation 1)$$

Where n is the sample size, N is the population size, and e is the level of precision. When this formula (equation 1) was applied to the population of 734 SMEs at 95% confidence level and precision level (e) =5%, the final calculated sample size was 258.9065. However, during data collection, there were non-responses of 14.7% (38/259) respondents resulting in the reduction of sample size from 259 to 221.

3.2.2 Sampling Techniques

This study employed a multi-stage sampling technique to identify the study participants. In the first stage, four divisions of Gulu City (Bar-Dege, Layibi, Pece, and Laroo) were purposively selected due to the high number of SMEs. From each division, two wards were selected randomly selected using a simple random sampling technique. Two cells per selected ward in Bar-Dege, Layibi, Pece, and Laroo were then selected by simple random sampling.

The selected 259 respondents were then allocated to the four divisions proportionate to the number of SMEs as indicated in Table 2 as follows: Laroo (75), Pece (80), Layibi (60), and Bar-Dege (44).

Table 2: Composition of the Sample Size

Respondents	Sample(n)
Laroo	75
Pece	80
Layibi	60
Bar-Dege	44
Total	259

Source: Primary Data (Survey, 2024)

3.3 Data Collection Method

In this study, quantitative methods of data collection approach was employed to collect data. This was through structured surveys administered to a sample of SMEs in Gulu City. These surveys included questions on various lending terms such as interest rates, collateral requirements, and repayment schedules, as well as performance indicators like revenue growth and profitability. The surveys was designed to ensure reliability and validity, using established measurement scales where possible. For qualitative insights, semi-structured interviews were conducted with SME managers, and microfinance practitioners to explore their experiences and perceptions of the impact of lending terms on SME performance (Creswell & Creswell, 2017). This dual approach provides a comprehensive understanding of how microfinance conditions affect SMEs and allows for a richer interpretation of the quantitative findings.

3.4 Data Collection Instrument

The primary data collection instrument for this study was a structured questionnaire designed to capture comprehensive information on microfinance lending terms and SME performance metrics.

3.5 Questionnaire

The questionnaire for this study was structured to gather detailed and relevant data from SME owners and managers in Gulu City. It comprises four main sections: demographic information, microfinance lending terms, SME performance metrics, and open-ended questions for qualitative insights. The demographic section collects basic information about the respondents and their businesses, such as age, gender, business type, and years of operation. The microfinance lending terms section includes questions on interest rates, collateral requirements, repayment schedules, and loan accessibility, utilizing a mix of Likert scale items and multiple-choice questions to quantify respondents' experiences and perceptions. The SME performance metrics section assesses revenue growth, profitability, and sustainability through both objective measures (e.g., percentage changes in revenue) and subjective assessments (e.g., perceived profitability). Finally, the open-ended questions allow respondents to provide additional insights and experiences regarding the impact of microfinance lending terms on their business performance, facilitating a richer understanding of the quantitative data (Creswell & Creswell, 2017). The questionnaire is designed to be concise yet comprehensive, ensuring high response rates and reliable data.

3.6 Data Analysis and Management

The data analysis and management for this study involved a systematic approach to handle both quantitative and qualitative data. Quantitative data collected from the structured questionnaires were coded and entered into statistical software, such as SPSS, for descriptive and inferential statistical analysis. Descriptive statistics were used to summarize the data using measures of central tendency and dispersion, while inferential statistics, including regression analysis, was

employed to examine the relationships between microfinance lending terms (interest rates, collateral requirements, repayment schedules, and loan accessibility) and SME performance indicators (revenue growth, profitability, and sustainability) in objective three and four (Field, 2018). Descriptive statistics was used to analyze the microfinance lending terms and the performance of SMEs that access microfinance institutions whereas multiple linear regression was used to demonstrate the effects of microfinance lending terms and government policy framework on the performance of SMEs that access microfinance loans.

$$Y_i = \beta_0 + \beta_i X_i + \epsilon_i \dots\dots\dots 2$$

Y_i = Performance metrics of SMEs (profitability, revenue growth, and sustainability),

β_0 = The Intercept/ Regression constant Term

X_i = Microfinance Lending Terms (interest rates, collateral requirements, repayment schedules)

β_i = The coefficient of the Microfinance lending terms.

ϵ_i = Error terms

3.6.1 Data Validity

Ensuring data validity in the study involves implementing rigorous measures to guarantee the accuracy, reliability, and relevance of the collected data. To establish content validity, the questionnaire and interview guide were developed based on a comprehensive review of existing literature and consultations with experts in microfinance and SME performance. This was to ensure that all relevant aspects of microfinance lending terms and SME performance are

adequately covered. Construct validity was enhanced by pre-testing the data collection instruments with a small, representative sample of the target population to refine questions and address any ambiguities. Internal validity was strengthened through the use of standardized data collection procedures and training for enumerators to minimize biases and inconsistencies, thereby allowing the findings to be generalizable to a broader context.

3.6.2 Data Reliability

Ensuring data reliability in the study involves employing consistent and dependable data collection and analysis methods. Reliability was addressed through several key strategies. First, the research instruments, including questionnaires and interview guides, were pre-tested and refined to ensure clarity and consistency in the questions posed to respondents. The reliability of the quantitative data was assessed using Cronbach's alpha to evaluate the internal consistency of the questionnaire items. Training sessions were conducted for data collectors to ensure uniformity in administering the instruments, thereby minimizing interviewer bias and variability as shown in Table 3.

Table 3: Cronbach's Alpha reliability result

S/N	Variables	Dimension	Cronbach's Alpha coefficient	Number of Items
1	Microfinance	Interest rate	0.940	6
	Lending Terms	Collateral Requirements	0.885	7
		Repayment Schedules	0.934	6
		Loan Accessibility	0.917	6
2	SMEs	Growth of SMEs	0.899	6
	performance	Profitability of SMEs	0.900	6
		Sustainability of SMEs	0.851	6
3	Government Policy	SMEs Support	0.889	6
Average Cronbach's Alpha coefficient			0.902	

Source: Primary Data (Survey, 2024)

3.6.3 Measurement of Variables

In this study, the measurement of variables was critical to accurately assess the relationships and impacts being investigated. The independent variable, microfinance lending terms, were measured through specific dimensions such as interest rates, collateral requirements, repayment schedules, and loan accessibility. These dimensions were quantified using Likert scale questions in the questionnaire, where respondents were rated their experiences and perceptions on a scale from 1 (strongly disagree) to 5 (strongly agree). The dependent variable, SME performance, was evaluated through indicators such as revenue growth, profitability, and sustainability.

3.7 Limitations and Delimitations

The study was subject to several limitations. One limitation was the potential response bias from SME owners and managers, who provide socially desirable answers rather than candid responses. To overcome this limitation participants were given assurance of anonymity to encourage more candid responses and reduce social desirability bias.

Additionally, the study relies on self-reported data influenced by recall bias and inaccuracies. To improve data accuracy, cross-verification, pre-tested survey tools, and well-trained enumerators, were used to recall bias and enhance reliability.

3.8 Ethical Considerations

This study required careful attention to ethical considerations to ensure the integrity of the research and the protection of participants. Informed consent was obtained from all participants, ensuring they were fully aware of the study's purpose, procedures, potential risks, and benefits, and that their participation was voluntary. Confidentiality was strictly maintained, with all data anonymized

to protect the identities of the respondents. Participants had the right to withdraw from the study at any time without any negative consequences. Additionally, the research avoided conflicts of interest and was conducted with transparency and honesty. The study sought approval from the Faculty of Business and Development Studies Gulu University to ensure that all protocols meet established ethical standards. Special care was taken to avoid any form of coercion, and the research was conducted in a manner that respects the dignity and rights of all participants.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4. Introduction

This chapter presents study findings on the impact of microfinance lending terms on the performance of Small and Medium Enterprises (SMEs). It systematically examines the specific lending terms offered by microfinance institutions, assesses the performance of SMEs utilizing these loans, and analyzes the relationship between lending terms and SME performance. Furthermore, the chapter explores the moderating influence of government policies on the impact of lending terms on SMEs.

4.1 Socio-demographic Characteristics

The sociodemographic characteristics of SME owners are presented in Table 4.

Table 4: Socio-demographic and Socio-economic Attributes of SMEs

Categorical Variables		Frequency	Percentage (%)
Sex (n = 221)	Female	127	57.5
	Male	94	42.5
Marital Status (n = 221)	Single	69	31.2
	Married	148	67.0
	Divorced	2	1.0
	Widowed	2	1.0
Religion (n = 221)	Christianity	207	93.7
	Islam	14	6.3
Business Type (n = 221)	Retail	193	87.3
	Wholesale	28	12.7
Education (n = 221)	Primary	36	16.3
	Secondary	117	52.9
	Tertiary/ University	68	30.8
Continuous Variables		Mean	SD
Age (n = 221)		36.00	11.43
Business Experience (n = 221)		8.12	7.32

Source: Primary Data (Survey, 2024)

The findings in Table 4 indicate that the SMEs that participated in the study were predominantly female-owned (58%), highlighting women's significant role in the sector and suggesting a need for targeted support for female entrepreneurs. Most owners (67%) were married, potentially reflecting family stability that could impact business operations. Christianity (94%) is the primary religion, with only 6% identifying as Muslim. Retail businesses (87%) dominate, reflecting a consumer-focused local market. Education levels vary, with most owners having completed secondary (53%) or tertiary/university education (31%), indicating a reasonable foundation of business literacy. The average age of SME owners was 36 years old, combining youthful energy with maturity, and an average of 8.12 years of business experience, suggesting considerable practical knowledge that may contribute to business resilience.

4.2 Microfinance Lending Terms

The findings in Table 5, revealed SMEs' perspectives on microfinance lending terms, including interest rates, collateral requirements, repayment schedules, and loan accessibility, as detailed below:

Table 5: Microfinance lending terms

F	Statement	SD (%)	D (%)	N (%)	A (%)	SA (%)	μ (σ)
Interest Rates	Affordable for my business	89 (40)	51 (23)	4 (2)	22 (10)	55 (25)	3.44 (1.66)
	Favorable for the growth of my business.	82 (37)	63 (29)	7 (3)	24 (11)	45 (20)	3.51 (1.56)
	Interest charged is transparent	71 (32)	67 (30)	22 (10)	16 (7)	45 (20)	3.47 (1.51)
	Interest charged are consistent	74 (34)	70 (32)	14 (6)	20 (9)	43 (20)	3.51 (1.51)
	Interest rate charges are flexible	81 (37)	72 (33)	8 (4)	21 (10)	39 (18)	3.61 (1.49)
	Strengthens the sustainability of the business	101 (46)	51 (23)	10 (5)	13 (6)	46 (21)	3.67 (1.59)
	Overall interest	110 (50)	24 (11)	22 (10)	28 (13)	37 (17)	3.53 (1.36)
Collateral Requirements	Reasonable	82 (37)	69 (31)	9 (4)	50 (23)	50 (23)	3.55 (1.57)
	Affordable	88 (40)	70 (32)	8 (4)	40 (18)	40 (18)	3.68 (1.50)
	Valuable to your business	81 (37)	67 (30)	17 (8)	42 (19)	42 (19)	3.59 (1.50)
	Easily meet the collateral requirements for additional loans	86 (39)	55 (25)	15 (7)	43 (20)	43 (20)	3.54 (1.55)
	Relevant to your business	77 (35)	66 (31)	21 (10)	39 (18)	39 (18)	3.58 (1.47)
	stable for your business over time	110 (50)	47 (21)	17 (8)	37 (17)	37 (17)	3.83 (1.50)
	Overall collateral	106 (48)	37 (17)	25 (11)	25 (11)	25 (11)	3.63 (1.24)
Repayment Schedules	Flexible repayment schedule	123 (56)	30 (14)	15 (7)	12 (5)	41 (19)	3.82 (1.58)
	Reliable repayment schedule	95 (43)	57 (26)	11 (5)	22 (10)	36 (16)	3.69 (1.50)
	Regular and predictable repayment intervals	81 (37)	66 (30)	10 (5)	23 (10)	41 (19)	3.56 (1.52)
	Affordable repayment schedule	85 (39)	47 (21)	14 (6)	18 (8)	57 (26)	3.38 (1.65)
	Clear and simple repayment schedule	83 (38)	59 (27)	19 (9)	15 (7)	45 (20)	3.54 (1.54)
	Transparent repayment schedule	95 (43)	50 (23)	7 (3)	13 (6)	56 (25)	3.52 (1.66)
	Overall Repayment Schedules	105 (48)	38 (17)	16 (7)	26 (12)	36 (16)	3.59 (1.37)
Loan Accessibility	Transparent loan terms	35 (16)	51 (23)	12 (5)	15 (7)	108 (49)	3.82 (1.49)
	Easy application process	33 (15)	65 (29)	12 (5)	19 (9)	92 (42)	3.74 (1.45)
	Flexible repayment terms	24 (11)	49 (22)	16 (7)	17 (8)	115 (52)	3.97 (1.37)
	Fast approval time	19 (9)	65 (29)	6 (3)	15 (7)	116 (53)	4.10 (1.26)
	Favorable loan fees	27 (12)	63 (29)	12 (5)	10 (5)	109 (49)	3.98 (1.36)
	Clear eligible criteria	30 (14)	53 (24)	12 (5)	9 (4)	117 (53)	3.99 (1.41)
	Overall loan accessibility	19 (9)	38 (17)	25 (11)	14 (6)	125 (57)	3.93 (1.17)
Overall Lending Terms		113 (52)	37 (17)	24 (11)	37 (17)	18(8)	3.67 (1.17)
SA=Strongly Agree, A=Agree, NS=Not sure, D=Disagree and SD=Strongly Disagree, μ = Mean, σ = Standard Deviation							

Source: Primary Data (Survey, 2024)

4.2.1 Interest Rates

SME owners expressed mixed views on the affordability and impact of interest rates on their businesses. The majority 63% (40% strongly disagreeing and 23% disagreeing) found interest rates affordable ($\mu = 3.44$, $\sigma = 1.66$), while 66% (37% strongly disagreeing, 29% disagreeing) believed that the rates were favorable for growth ($\mu = 3.51$, $\sigma = 1.56$). Interest rates also were considered to be transparent by 62% of respondents (32% strongly disagreeing, 30% disagreeing, $\mu = 3.47$, $\sigma = 1.51$). The majority of SME owners [70% (37% strongly disagreeing, 33% disagreeing, $\mu = 3.61$, $\sigma = 1.49$)] perceived that the interest rates charged are consistent. Most respondents [(70%) SMEs ($\mu = 3.67$, $\sigma = 1.59$)] perceived that interest rates were not flexible.

4.2.2 Collateral Requirements

Collateral requirements were largely seen as not reasonable and affordable, with 68% finding them reasonable ($\mu = 3.55$, $\sigma = 1.57$) and 72% finding them unaffordable ($\mu = 3.68$, $\sigma = 1.50$), respectively. About 61% did not believe that collateral positively impacted profitability ($\mu = 3.52$, $\sigma = 1.58$), and 67% noted that collateral requirements were not valuable ($\mu = 3.59$, $\sigma = 1.50$). Overall, collateral requirements were perceived negatively, supporting long-term sustainability ($\mu = 3.83$, $\sigma = 1.50$).

4.2.3 Repayment Schedules

Most respondents (70%, $\mu = 3.82$, $\sigma = 1.58$) perceived that repayment schedules were not flexible and disrupted cash flow. Additionally, 67% disagreed that the frequency and timing of loan repayments were convenient ($\mu = 3.56$, $\sigma = 1.52$), aligning well with cash flow cycles. Overall,

majority (65%, $\mu = 3.59$, $\sigma = 1.37$) of the SMEs disagreed that repayment schedules for microfinance loans were favorable.

4.2.4 Loan Accessibility

Loan accessibility was a key benefit, with 49% strongly agreeing it positively impacted profitability ($\mu = 3.98$, $\sigma = 1.36$). Easy application process was noted by 51% (42% strongly agreeing, $\mu = 3.74$, $\sigma = 1.45$), while 60% felt that flexible repayment terms ($\mu = 3.97$, $\sigma = 1.37$), contributing to expansion and long-term sustainability ($\mu = 3.99$, $\sigma = 1.41$). The overall score of 3.93 ($\sigma = 1.17$) indicates a strong positive perception of loan accessibility among SMEs.

4.2.5 Overall finding on Lending Terms

Across all lending terms, most respondents (69%) rated the conditions unfavorably ($\mu = 3.67$, $\sigma = 1.17$), indicating a generally negative view of the terms provided by microfinance institutions, which are considered not conducive to business growth and sustainability among SMEs in Gulu City.

4.3 Performance of SMEs

Table 6 presents findings on SMEs performance indicators (growth, profitability, and sustainability) and summarizes respondents' views on each variable's construct items.

Table 6: Performance of SMEs

F	Statement	SD (%)	D (%)	N (%)	A (%)	SA (%)	μ (σ)
Growth of SMEs	My business has experienced consistent growth in revenue over the past year	30 (14)	28 (13)	10 (5)	68 (31)	85 (39)	3.68 (1.44)
	The number of customers served by my business has increased steadily	24 (11)	22 (10)	15 (7)	70 (32)	90 (41)	3.81 (1.35)
	My business has expanded its product or service offerings in the last year	25 (11)	17 (8)	36 (16)	55 (25)	88 (40)	3.74 (1.35)
	My business has opened new branches or expanded its physical presence	62 (28)	24 (11)	18 (8)	45 (20)	72 (33)	3.19 (1.65)
	My business' market share has grown in the past year	30 (14)	30 (14)	19 (9)	58 (26)	84 (38)	3.62 (1.45)
	My business has successfully entered new markets or regions	47 (21)	29 (13)	24 (11)	36 (16)	85 (39)	3.38 (1.60)
	Overall Growth	20 (9)	36 (16)	20 (9)	60 (27)	85 (39)	3.57 (1.20)
Profitability of SMEs	My business has achieved its profit targets consistently over the past year	42 (19)	19 (9)	23 (10)	77 (34)	60 (27)	3.43 (1.45)
	My business' profitability has improved compared to the previous year	35 (16)	26 (12)	27 (12)	68 (31)	65 (29)	3.46 (1.43)
	My business' profit margins are satisfactory given the current market conditions.	50 (23)	25 (11)	21 (10)	60 (27)	65 (29)	3.29 (1.55)
	My business' operating costs are well-managed, leading to better profitability	28 (13)	16 (7)	31 (14)	78 (35)	68 (31)	3.64 (1.33)
	My business has increased its net profits over the past year	41 (19)	18 (8)	24 (11)	61 (28)	77 (35)	3.52 (1.49)
	My business' return on investment (ROI) has been satisfactory	34 (15)	23 (10)	24 (11)	44 (20)	96 (43)	3.66 (1.50)
	Overall Profitability	25 (11)	35 (16)	25 (11)	62 (28)	74 (34)	3.50 (1.19)
Sustainability of SMEs	My business has implemented practices that ensure long-term sustainability	33 (15)	28 (13)	10 (5)	66 (30)	84 (38)	3.63 (1.47)
	My business has a stable financial position that supports sustainable operations	38 (17)	32 (15)	19 (9)	58 (26)	74 (34)	3.44 (1.50)
	My business' operations are environmentally sustainable	22 (10)	29 (13)	26 (12)	54 (24)	90 (41)	3.73 (1.37)
	My business' revenue streams are diversified to ensure sustainability	36 (16)	17 (8)	30 (14)	61 (28)	77 (35)	3.57 (1.44)
	My business maintains strong relationships with suppliers and partners for sustainability	19 (9)	11 (5)	19 (9)	30 (14)	142 (64)	4.20 (1.29)
	My business is prepared to adapt to changes in the market to ensure its sustainability	21 (10)	11 (5)	17 (8)	44 (20)	128 (58)	4.12 (1.31)
	Overall Sustainability	10 (5)	27 (12)	35 (16)	54 (24)	95 (43)	3.78 (1.06)
Overall Performance		10 (5)	39 (18)	30 (14)	57 (26)	85 (39)	3.62 (1.02)

SA=Strongly Agree, A=Agree, NS=Not sure, D=Disagree and SD=Strongly Disagree, μ = Mean, σ = Standard Deviation

Source: Primary Data (Survey, 2024)

4.3.1 Growth of SMEs

Respondents largely reported positive growth in their businesses, with 70% (39% strongly agree, 31% agree) experiencing consistent revenue increases ($\mu = 3.68$, $\sigma = 1.44$). Customer growth was also strong, with 73% (32% agree, 41% strongly agree) noting an increase in customers served ($\mu = 3.81$, $\sigma = 1.35$). Expanding product or service offerings was reported by 65% (25% agree, 40% strongly agree), demonstrating a trend toward product diversification ($\mu = 3.74$, $\sigma = 1.35$). However, physical expansion or opening new branches was less common, with only 53% agreeing ($\mu = 3.19$, $\sigma = 1.65$). Overall, the growth variable scored favorably ($\mu = 3.57$, $\sigma = 1.20$), with SMEs seeing more internal growth than expansion into new regions.

4.3.2 Profitability of SMEs

Respondents indicated moderate success in achieving profit targets, with 61% (27% strongly agree, 34% agree) consistently meeting their goals over the past year ($\mu = 3.43$, $\sigma = 1.45$). Profitability improvements compared to the previous year were noted by 60% ($\mu = 3.46$, $\sigma = 1.43$), while 56% found profit margins satisfactory given market conditions ($\mu = 3.29$, $\sigma = 1.55$). Effective cost management, contributing to improved profitability, was agreed upon by 66% ($\mu = 3.64$, $\sigma = 1.33$), and 63% reported an increase in net profits ($\mu = 3.52$, $\sigma = 1.49$). Overall profitability remained moderate ($\mu = 3.50$, $\sigma = 1.19$), with room for growth, particularly in managing operating costs and achieving profit targets.

4.3.3 Sustainability of SMEs

Regarding the sustainability status of the SMEs, respondents largely emphasized the importance of sustainability practices, with 68% (38% strongly agree, 30% agree) indicating they had implemented long-term sustainability strategies ($\mu = 3.63$, $\sigma = 1.47$). Financial stability was noted by 60% as essential for sustainable operations ($\mu = 3.44$, $\sigma = 1.50$). Environmental sustainability was a key focus, with 65% agreeing on the adoption of sustainable practices ($\mu = 3.73$, $\sigma = 1.37$). Diversified revenue streams were reported by 63% as part of their sustainability efforts ($\mu = 3.57$, $\sigma = 1.44$). The strongest positive responses were for relationships with suppliers and partners (78%, $\mu = 4.20$, $\sigma = 1.29$) and adaptability to market changes (78%, $\mu = 4.12$, $\sigma = 1.31$). The high mean score for sustainability ($\mu = 3.78$, $\sigma = 1.06$) reflects SMEs' prioritization of sustainable practices such as saving and diversifying income streams to ensure resilience in a competitive market.

4.3.4 Overall Performance

The combined results for growth, profitability, and sustainability indicate generally positive perceptions of SME performance, with 65% perceiving overall performance as favorable (39% strongly agree, 26% agree, $\mu = 3.62$, $\sigma = 1.02$). While there is an evident trend toward growth and sustainability, opportunities remain for further profitability improvements and geographic expansion to enhance market reach and impact.

4.4 The effect of microfinance lending terms on the performance of SMEs

4.4.1 Correlation analysis

This tests the relationship between microfinance lending terms on SMEs, and the performance of SMEs using Pearson correlation as shown in Table 7.

Table 7: Correlation Results

		Performance	Collateral requirements	Interest Rate	Repayment Schedules	Loan Accessibility
Performance	r	1				
	p					
Collateral requirements	r	-0.560**	1			
	p	0.000				
Interest Rate	r	0.588**	-0.818**	1		
	p	0.000	0.000			
Repayment Schedules	r	0.586**	-0.779**	0.807**	1	
	p	0.000	0.000	0.000		
Loan Accessibility	r	0.674**	-0.711**	0.750**	0.723**	1
	p	0.000	0.000	0.000	0.000	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

r - Pearson correlation, p – significance

Source: Primary Data (Survey, 2024)

SME performance exhibits a strong positive correlation with interest rates ($r = .588$, $p < .001$), repayment schedules ($r = .586$, $p < .001$), and loan accessibility ($r = .674$, $p < .001$). These findings suggest that favorable lending terms, such as manageable interest rates, flexible repayment schedules, and accessible loans, significantly enhance SME performance. The positive correlation indicates that as these terms become more supportive, SMEs tend to experience improved growth, profitability, and sustainability. Notably, loan accessibility shows the strongest correlation with

performance, underscoring its critical role in enabling SMEs to access the necessary financial resources for operational and strategic needs.

Conversely, collateral requirements negatively correlate with SME performance ($r = -.560$, $p < .001$). This indicates that stringent or unaffordable collateral terms may hinder SMEs' ability to access financing, thereby negatively impacting their performance.

4.4.2 Multiple linear regression analysis

Multiple linear regression was used to analyze the relationship between independent variables: microfinance lending terms; interest rate, collateral requirements, repayment schedules, and loan accessibility and the dependent variables: performance of SMEs; growth, profitability, and sustainability. The statistical package for social sciences was applied to analyze the regression as shown in Table 8 below.

Table 8: Model Summary and Anova Estimates for Individual SME Performance Constructs

Model	R	R ²	Adj R ²	SE
Growth	0.591	0.35	0.338	0.9801
profitability	0.663	0.44	0.43	0.89851
sustainability	0.604	0.365	0.353	0.85121

ANOVA						
Model		Sum of squares	df	Mean squares	F	P-value.
Growth	Regression	111.61	4	27.902	29.047	0.000
	Residuals	207.488	216	0.961		
	Total	319.098	220			
Profitability	Regression	137.119	4	34.28	42.461	0.000
	Residuals	174.381	216	0.807		
	Total	311.5	220			
Sustainability	Regression	89.969	4	22.492	31.043	0.000
	Residuals	156.505	216	0.725		
	Total	246.474	220			

Source: Primary Data (Survey, 2024)

Growth

The SME growth in Table 8 demonstrates a moderate correlation with the microfinance lending terms, as evidenced by a correlation coefficient ($R = 0.591$) in Gulu City. The adjusted R^2 determined the association between SME growth and the independent variables as the coefficient of determination as well as explaining the change in the variation in dependent variables due to change in independent variables. The R^2 value of 0.350 indicates that 35.0% of the variation in SME growth is explained by the independent variables.

The SME growth, regression model yields an F-value of 29.047 with a p-value of 0.000, indicating a highly significant result. The calculated value from the study findings was 29.047 while the critical value on the t-test of 220 SME owners is 3.323. The calculated value was greater than the critical value ($3.323 < 29.047$). This suggests that microfinance lending terms significantly influence SME growth in Gulu City.

Profitability

SME Profitability shows the strongest relationship with microfinance lending terms, with an R-value of 0.663, indicating a strong positive correlation. The R^2 value of 0.440 reveals that 44.0% of the variations in profitability is explained by microfinance lending terms, while the adjusted R^2 value of 0.430 confirms the stability of this explanatory power after accounting for the number of predictors.

The ANOVA results for profitability demonstrate an even stronger relationship, with an F-value of 42.461 and a p-value of 0.000.

This significant result indicates that the microfinance lending terms had a substantial impact on profitability in Gulu City.

Sustainability

For SME sustainability, the model shows a moderate positive relationship with the microfinance lending terms, as indicated by an R-value of 0.604. The R^2 value of 0.365 means that 36.5% of the variation in sustainability is attributable to the microfinance lending terms, with an adjusted R^2 of 0.353, confirming the model's reliability.

For sustainability, the regression model produces an F-value of 31.043 and a p-value of 0.000, showing a significant relationship between the microfinance lending terms and SME sustainability in Gulu City.

Overall Performance

The results showing SME's overall performance are presented in Table 9.

Table 9: Model summary and Anova Estimates for SME's Overall Performance

Model	R	R ²	Adj R ²	SE
Overall performance	0.691	0.478	0.469	0.74598

ANOVA						
Model		Sum of squares	df	Mean squares	F	P-value.
Overall performance	Regression	110.146	4	27.536	49.482	0.000
	Residuals	120.202	216	0.556		
	Total	230.348	220			

Source: Primary Data (Survey, 2024)

The SME's overall performance demonstrates the strongest correlation with the microfinance lending terms, as evidenced by an R-value of 0.691. The R^2 value of 0.478 indicates that 47.8% of

the variation in SME performance is explained by microfinance lending terms; interest rate, collateral requirements, repayment schedules, and loan accessibility at 95% confidence interval. The adjusted R^2 value of 0.469 supports the model's validity in accounting for microfinance lending terms. The overall performance yields the strongest results, with an F-value of 49.482 and a p-value of 0.000. This indicates that the microfinance lending terms strongly influence SMEs' overall performance in Gulu City.

4.4.4 Coefficient Table

Table 10 displays the findings of the beta coefficient for the regression equation from the regression analysis.

Table 10: Regression Coefficient

MFIs Lending Terms	Performance of SMEs							
	Growth		Profitability		Sustainability		Overall Performance	
	β	p-value	β	p-value	β	p-value	β	p-value
Collateral requirement	-0.094	0.350	0.070	0.448	0.138	0.115	-0.038	0.619
Repayment schedules	0.155	0.086	0.184	0.026	-0.023	0.768	0.105	0.124
Loan accessibility	0.440	0.000	0.492	0.000	0.342	0.000	0.425	0.000
Interest rate	0.104	0.299	-0.052	0.057	0.111	0.203	-0.054	0.475
constant	1.256	0.000	0.831	0.000	1.626	0.000	1.238	0.000

Source: Primary Data (Survey, 2024)

From the Table 10, the section included a y-intercept term (constant term) as well as the slope of the microfinance lending terms.

Estimating the Effect of Lending Terms on Growth

From the results, it is evident that only one component of lending terms - Loan accessibility was a strong significant predictor of SME growth ($\beta = 0.425$, $p < 0.001$). This means that an increase in loan accessibility leads a 42.5% increase in SME growth, other factors held constant. Other attributes of lending terms such as collateral requirements ($\beta = -0.094$, $p = 0.350$), repayment schedules ($\beta = 0.155$, $p = 0.086$), and interest rate ($\beta = 0.104$, $p = 0.299$) did not have any significant impact on SME growth. The equation depicting this model is thus presented as;

$$Y_{Growth} = 1.256 - 0.094X_1 + 0.155X_2 + \mathbf{0.440X_3} + 0.104X_4,$$

With X_1 , X_2 , X_3 , and X_4 being collateral requirements, repayment schedules, loan accessibility, and interest rate respectively.

Estimating the Effect of Lending Terms on Profitability

With respect to SME's profitability, the results reveal that only two attributes of lending terms that is repayment schedules ($\beta = 0.184$, $p = 0.026$) and loan accessibility ($\beta = 0.492$, $p < 0.001$) had a positive significant impact on SME's profitability. This implies that increase in the set repayment schedules led to 18.4% increase in SME's profitability, while increase in loan accessibility leads a 49.2% increase in SME growth, other factors held constant. Other attributes of lending terms such as collateral requirements ($\beta = 0.070$, $p = 0.448$), and interest rate ($\beta = -0.052$, $p = 0.057$) did not have any significant impact on SME profitability. The equation depicting this model is thus presented as; $Y_{Profitability} = 0.831 + 0.070X_1 + 0.184X_2 + 0.492X_3 - 0.052X_4$,

With X_1 , X_2 , X_3 , and X_4 being collateral requirements, repayment schedules, loan accessibility, and interest rate respectively.

Estimating the effect of Lending Terms on Sustainability

From the results, it is evident that only one component of lending terms - Loan accessibility was a strong significant predictor of SME sustainability ($\beta = 0.342$, $p < 0.001$). This means that an increase in loan accessibility leads a 34.2% increase in SME growth, other factors held constant. Other attributes of lending terms such as collateral requirements ($\beta = 0.138$, $p = 0.115$), repayment schedules ($\beta = -0.023$, $p = 0.768$), and interest rate ($\beta = 0.111$, $p = 0.203$) did not have any significant impact on SME sustainability.

The equation depicting this model is thus presented as;

$$Y_{Sustainability} = 1.626 + 0.115X_1 - 0.023X_2 + 0.342X_3 + 0.111X_4$$

With X_1 , X_2 , X_3 , and X_4 being collateral requirements, repayment schedules, loan accessibility, and interest rate respectively.

Impact of Lending Terms on Overall Performance of SMEs

From the results, it is evident that only one component of lending terms - Loan accessibility was a strong significant predictor of SME growth ($\beta = 0.425$, $p < 0.001$). This means that an increase in loan accessibility leads a 42.5% increase in SME growth, other factors held constant. Other attributes of lending terms such as collateral requirements ($\beta = -0.038$, $p = 0.619$), repayment schedules ($\beta = 0.105$, $p = 0.124$), and interest rate ($\beta = -0.054$, $p = 0.475$) did not have any significant impact on SME growth.

The equation depicting this model is thus presented as;

$$Y_{Overall\ Performance} = 1.238 - 0.038X_1 + 0.105X_2 + 0.425X_3 - 0.054X_4,$$

With X_1 , X_2 , X_3 , and X_4 being collateral requirements, repayment schedules, loan accessibility, and interest rate respectively.

4.5 Government Policies

4.5.1 Perceived Direct Effect of Government Policies on the Performance of SMEs

Table 11 presents the perceived direct effect of government policies on the performance of SMEs in Gulu city.

Table 11: Effect of Government Policy on the performance of SMEs

F	Statement	SA (%)	A (%)	NS (%)	D (%)	SD (%)	Total	Mean (SD)
SMEs Support	Government support programs for SMEs have significantly improved my business's profitability	27.1	34.8	10.4	8.6	19.0	221	2.57 (1.55)
	Access to government-funded SME support initiatives has fostered the growth of my business.	29.4	30.8	12.2	11.8	15.8	221	2.42 (1.45)
	Government training and advisory services have positively influenced the sustainability of my business	29.4	27.1	9.5	11.3	22.6	221	2.69 (1.52)
	The financial incentives provided by the government have enhanced the profitability of my business	30.8	35.3	14.0	7.2	12.7	221	2.39 (1.52)
	My business has benefited from government-backed SME loan schemes aimed at growth and expansion	34.8	27.6	10.9	8.1	18.6	221	2.56 (1.71)
	Government support programs have been crucial in ensuring the long-term sustainability of my business	43.4	19.9	10.9	10.4	15.4	221	2.90 (3.90)
	Overall SMEs Support	17.3	9.1	16.4	16.8	40.5	221	2.46 (1.51)
	SA=Strongly Agree, A=Agree, NS=Not sure, D=Disagree and SD=Strongly Disagree							

Source: Primary Data (Survey, 2024)

The findings in Table 11 revealed that the majority (69.1%) agreed that government support programs have significantly boosted their profitability, and 60% noted that access to government-funded initiatives has aided their growth. Additionally, 56.5% of SMEs reported that government-provided training and advisory services have positively impacted their sustainability. Furthermore,

66.1% found that government financial incentives have increased their profitability, and 62.4% benefited from government-backed SME loan programs for growth and expansion. A further 63.3% felt that government support programs are essential to their long-term sustainability.

4.5.2 Estimating the moderating influence of government policies framework on the operation of microfinance lending terms on the performance of SMEs

Table 12 explains the moderating effect of the government policy framework on the performance of SMEs in Gulu City.

Table 12: Moderating Effect Estimation

Model	R	R ²	Adj R ²	SE
Performance WOM	0.691	0.478	0.469	0.74598
Performance WM	0.721	0.52	0.509	0.71812

ANOVA						
Model		Sum of squares	df	Mean squares	F	p-value
	Regression	119.742	5	23.948	46.439	0.000
	Residuals	207.488	214	0.516		
	Total	319.098	219			

Note: WOM – Without moderating variables, WM - With moderating variables

Source: Primary Data (Survey, 2024)

The SME's performance in Table 12, demonstrates the strongest correlation (R-value = 0.721), with both the microfinance lending terms and governments' SME support policies, explaining 51% of the variation in SME performance ($x^2 = 119.7$, Adj R² = 0.509, $p < 0.001$). The moderating effect is the difference between (AdjR²_WM - AdjR²_WOM), therefore, the 4% variation in SME performance is explained by SME support policies in Gulu City.

The SME performance, regression model yields an F-value of 46.439 with a p-value of 0.000, indicating a highly significant result. The calculated value from the study findings was 46.439 while the critical value on the t-test of 219 SME owners is 3.323. The calculated value was greater than the critical value ($3.323 < 46.439$). This suggests that microfinance lending terms together with SME support policy significantly influence SME performance in Gulu City as shown in Table 12 above.

Table 13: Coefficient table with Moderating variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	p-value
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
Constant	1.037	0.181		5.725	0.000
Repayment schedules	0.122	0.066	0.163	1.852	0.065
Loan accessibility	0.382	0.068	0.437	5.622	0.000
Collateral requirements	-0.062	0.074	-0.075	-0.843	0.400
Interest rates	-0.017	0.074	-0.023	-0.234	0.815
SME Support	0.141	0.033	0.207	4.236	0.000

Source: Primary Data (Survey, 2024)

$$Y_{\text{Performance of SME}} = 1.037 + 0.122X_1 + 0.382X_2 + -0.062X_3 - 0.017X_4 + 0.141X_5$$

Thus, from Table 13, the results show that government SME support had a positive significant effect on SME performance ($\beta = 0.141$, $p < 0.001$). This implies that for every unit increase in government support towards SMEs, their performances increases by 14.1%.

Similarly, among all attributes of lending terms considered, the results indicate that only Loan accessibility exerted a positive significant influence on SME performance ($\beta = 0.382$, $p < 0.001$). This highlights that the more accessible loans/credit are, the more likely SME's performances are to increase by 38.2%.

CHAPTER FIVE: DISCUSSION

5.1 Introduction

This chapter discusses the findings of the study, which explored the dynamics of microfinance lending terms and their effect on the performance of small and medium enterprises (SMEs) in Uganda. The research focused on understanding the lending terms of microfinance institutions, assessing the performance levels of SMEs that access these loans, examining the effects of lending terms on SME performance, and investigating the moderating role of government policy frameworks.

5.2 Microfinance lending terms

The analysis of microfinance lending terms revealed mixed perceptions regarding interest rates, collateral requirements, repayment schedules, and loan accessibility among SMEs. Interest rates are seen as moderately favorable, with respondents highlighting their role in improving liquidity, net income, and business sustainability. However, concerns remain about affordability and their ultimate impact on profitability. Some SMEs find the interest rates supportive for growth (Nanziri & Wamalwa, 2021). In contrast, other SMEs had accepted that interest rate reduces growth of their business, aligning with Islam & Zabid Hossain, (2021) and Amsi et al., (2017)

The findings on collateral requirements were viewed differently by the SMEs some perceived that collateral requirements were responsible for business growth by allowing the SMEs secure large sum of credit as confirmed by the findings Muruga & Ismail, (2017) on Influence of Microfinance Lending on the Performance of Small and Medium Enterprises in Gatanga Sub County of

Murang' Acounty in Kenya. While some respondents perceive collateral terms as reasonable for business growth, affordability concerns are notable, this implied that collateral policies affect business expansion, especially when restrictive requirements hinder SMEs' ability to access additional loans (Amoako-Adu & Eshun, 2018; Bayo & Kayii, 2020).

Findings on repayment schedules show mixed reviews, while some respondents indicated that repayment terms were flexible thus promote profitability and liquidity, there were significant concerns regarding repayment challenges. Overall, the repayment schedules' flexibility and alignment with cash flow cycles of SMEs was considered beneficial.. This finding aligns with Bayo & Kayii, (2020), who suggested that mismatches between repayment schedules and cash flow cycles can negatively affect business sustainability. Overall, these schedules appear moderately supportive but may require tailoring to individual business cash flows.

Loan accessibility was the most positively rated element, suggesting it strongly influences SMEs' financial health and expansion. Respondents found loan access significantly beneficial for capital growth, stock increases, and long-term sustainability, consistent with findings from research by Pudyastuti et al., (2022) and Kibet et al., (2015) indicating that accessible finance plays a vital role in SME growth. Many SMEs highlighted that accessible loans bolster profitability and sustainability, suggesting that efforts to enhance loan access can amplify these benefits.

5.3 The level of performance of SMEs

The performance of small and medium enterprises (SMEs) across growth, profitability, and sustainability reveals varying strengths and areas for improvement. For growth, SMEs have generally experienced positive developments, such as increases in customer numbers and

expanded offerings. However, physical expansion and entering new markets present challenges, which aligns with findings by (Yazdanfar & Öhman, 2015), who note that limited market penetration often constrains SME growth. Enhancing support for market entry could help these businesses achieve a broader geographical presence.

Regarding profitability, a substantial number of SME owners had improved profit margins and ROI, due to affordable finances and improved operational efficiency. The effectiveness of cost management has contributed to profitability, a crucial element also emphasized by scholars like Serrasqueiro et al. (2023) and Aisyah & Umami (2022) who argued that efficient operating costs significantly impact SME profitability. Better access to financial management tools could support this area by helping businesses optimize operational spending.

Sustainability, a critical aspect of SME performance, shows encouraging results, particularly in supplier relationships and adaptability to market changes, which are essential for long-term success (Malesios et al., 2018). Nonetheless, financial stability and revenue diversification remain areas needing reinforcement to ensure resilience during economic shifts. The findings suggest that SMEs could benefit from strategic partnerships and market diversification strategies to enhance sustainability and secure a more stable future trajectory.

5.4 The effects of microfinance lending terms on the performance of SMEs

A number of microfinance lending terms such as repayment schedule and loan accessibility have considerable influence on the performance of SMEs. Similarly in this study, accessibility of loans significantly impacted SME performance because it enables businesses to obtain essential financial capital promptly, supporting cash flow, operational stability, and growth prospects. The

significance of accessibility aligns with the conclusions by Ibrahim et al. (2024), Merroun & Hamiche (2023), and Muruga & Ismail (2017), who highlight that when microfinance institutions are accessible and provide timely funding, they become reliable financial resources, especially in capital-constrained environments that allows for expansion of SMEs business. This implies that by enabling investment and entrepreneurship while reducing economic disparities, loan accessibility drives business growth, job creation, and economic development.

Additionally, flexible repayment schedules positively influence SMEs' performance because flexible repayment terms reduce financial pressure on SMEs. This allows SMEs to manage cash flow more effectively and allocate resources toward operational and strategic investments. This finding is consistent with those by Ssekiziyivu et al. (2018) who revealed that flexible loan repayment schedules are particularly important for businesses with seasonal income variations or those experiencing initial growth phases where cash flow might be unpredictable. Thus, aligning repayment schedules with revenue cycles enables businesses to avoid liquidity constraints, thus minimizing the risk of default and enhancing financial stability.

In the same vein, flexible loan repayment terms promote greater access to credit, as SMEs perceive such terms as less risky, encouraging borrowing for expansion and innovation. This is supported by Hamiche (2023) who revealed that adaptive financial products empower SMEs to navigate market uncertainties and sustain long-term growth. This means that inclusive and customized lending practices that create supportive entrepreneurial ecosystems are essential for the sustainability and success of SMEs.

5.5 Government regulation

5.5.1 Perception of SMEs Owners on Government Regulations

The analysis of government regulation highlights mixed perceptions among SMEs regarding the supportiveness of government SME support programs.

The government SME support programs receive relatively positive assessments. Many SME owners view government support initiatives favorably, particularly in enhancing profitability, growth, and sustainability. Programs such as government-backed loans, financial incentives, and advisory services are valued for their direct impact on profitability and long-term business sustainability. The accessibility of government support initiatives is generally appreciated, resonating with Agbim, (2020) findings, which emphasize that accessible government programs can be vital to SMEs' ability to navigate financial challenges and foster growth.

However, there are calls for further expansion and accessibility of these programs. While government financial incentives, loan schemes, and training services are generally seen as beneficial, some respondents note that more targeted support could improve their impact on business growth. This need for further enhancement aligns with the work of (Nakabugo et al., 2022), who argue that SME-tailored government support initiatives can improve business performance and long-term sustainability in emerging markets.

5.5.2 The moderating effects of the government policy framework on the operation of microfinance lending terms as applicable to SMEs

Government SME support demonstrated a positive and significant effect on performance of SMEs because it fosters access to financial assistance, business development, and technical training programs among others that are provided by the government. Such programs boost the profitability and sustainability of SMEs. This result aligns with a study by Agbim (2020), which emphasizes that government programs tailored to SMEs' needs can address resource limitations and market access constraints, thereby enhancing overall business performance, Zaato et al. (2022) also reveals that government support programs like providing financial incentives, capacity-building programs, infrastructure development, and establishing favorable policies are essential for addressing systemic barriers that hinder SME growth. Such interventions not only enhance access to resources, and improve operational efficiency, but also create an enabling environments for innovation and competitiveness among SMEs. Additionally, by reducing market uncertainties and providing stability, government support enables SMEs to scale operations, penetrate new markets, and contribute to economic development. This is consistent with findings by Enewerone & Edith (2018) who emphasize that strategic public-private partnerships and targeted policy measures are crucial for building resilient and sustainable SME ecosystems, including in resource-constrained settings.

CHAPTER SIX: SUMMARY, CONCLUSION, RECOMMENDATION AND AREAS OF FURTHER STUDY

6.0 Introduction

This chapter presents a summary of the study findings, conclusions, recommendations, and areas for further research. It highlights the key findings on microfinance lending terms, SME performance, and the role of government policy frameworks in influencing business outcomes in Gulu City. The chapter also draws conclusions based on the study objectives and provides recommendations for microfinance institutions, policymakers, and SMEs to enhance enterprise growth, profitability, and sustainability. Finally, it identifies areas that warrant further investigation by future researchers.

6.1 Summary of the Study

Most respondents [(69%) SMEs ($\mu = 3.67$, $\sigma = 1.59$)] perceived that interest rates were flexible. Collateral requirements were perceived positively, supporting long-term sustainability ($\mu = 3.83$, $\sigma = 1.50$). The majority (65%, $\mu = 3.59$, $\sigma = 1.37$) of the SMEs agreed that repayment schedules for microfinance loans were favorable. The majority (65%, $\mu = 3.59$, $\sigma = 1.37$) of the SMEs agreed that repayment schedules for microfinance loans were favorable. Thus, across all lending terms, most respondents (52%) rated the conditions favorably ($\mu = 3.67$, $\sigma = 1.17$).

The growth variable scored favorably ($\mu = 3.57$, $\sigma = 1.20$), with SMEs seeing more internal growth than expansion into new regions. The profitability remained moderate ($\mu = 3.50$, $\sigma = 1.19$). The SMEs were highly sustainable ($\mu = 3.78$, $\sigma = 1.06$). There was a generally positive perception of

SME owners toward the performance, with 65% perceiving overall performance as favorable (39% strongly agree, 26% agree, $\mu = 3.62$, $\sigma = 1.02$).

From the results, only loan accessibility was a significant predictor of SME growth ($\beta = 0.425$, $p < 0.001$). With respect to SME's profitability, the results reveal that only two attributes of lending terms that is repayment schedules ($\beta = 0.184$, $p = 0.026$) and loan accessibility ($\beta = 0.492$, $p < 0.001$) had a positive significant impact on SME's profitability. Only one component of lending terms - Loan accessibility was a strong significant predictor of SME sustainability ($\beta = 0.342$, $p < 0.001$). Overall, only one component of lending terms - Loan accessibility was a strong significant predictor of SME growth ($\beta = 0.425$, $p < 0.001$).

The majority (63.3%) of SME owners felt that government support programs are essential to their long-term sustainability. Further examination revealed that government policies had a 4% moderating effect on the influence of lending terms on the performance of SMEs in Gulu city, with specifically government SME support having a positive significant effect on SME performance ($\beta = 0.141$, $p < 0.001$).

6.2 Study conclusion

The study concludes that microfinance lending terms, particularly interest rates, collateral requirements, repayment schedules, and loan accessibility, play a significant role in influencing the performance of small and medium enterprises (SMEs) in Gulu City. While the interest rates are considered moderately favorable by SMEs, concerns about affordability and their impact on profitability persist. Collateral requirements are generally seen as a necessary factor for business growth, although affordability remains a challenge for many SMEs. Repayment schedules, though

somewhat flexible, are often not aligned with the cash flow cycles of SMEs, posing a risk to their sustainability. However, the ease of loan accessibility emerged as a key factor positively influencing SME growth, profitability, and long-term sustainability, emphasizing the need for continued improvements in financial accessibility for these businesses.

In terms of SME performance, the study finds that SMEs in Gulu City exhibit positive growth, especially in customer base expansion and business offerings. However, challenges in physical expansion and market entry persist, underscoring the importance of support for broader market penetration. Profitability has shown steady but cautious improvements, with cost management playing a significant role in sustaining profit margins. The sustainability of SMEs is also promising, particularly in terms of supplier relationships and adaptability to market changes. Nevertheless, the study highlights the need for further financial stability and revenue diversification strategies to enhance resilience in the face of economic fluctuations.

Loan accessibility is the most critical component of lending terms, consistently emerging as a strong predictor of SME growth, profitability, and sustainability. Its substantial influence highlights the importance of reducing barriers to credit access to enable SMEs to scale operations, improve financial performance, and ensure long-term viability. Additionally, despite repayment schedules positively impact profitability, their effect is more limited compared to loan accessibility. This implies that access to financial resources is the primary driver of SME success.

The study further concludes that government support programs have a moderating effect on the relationship between microfinance lending terms and SME performance. The study suggests that the government should refine its regulatory frameworks to better align with the needs of SMEs

and expand the reach of support programs to foster long-term business growth. By improving the accessibility and targeting of government support, SMEs would be better positioned to navigate financial challenges and enhance their overall performance in the competitive market.

6.3 Study recommendations

Based on the findings and conclusions of the study, it is recommended that microfinance institutions (MFIs) reconsider their interest rates, collateral requirements, and repayment schedules to make them more favorable for SMEs. While the study highlighted that some SMEs perceive interest rates as moderately favorable, affordability concerns were noted. MFIs could explore more competitive interest rate structures that balance business growth with profitability. Similarly, the collateral requirements should be made more flexible, possibly by introducing alternative forms of collateral or lowering the asset thresholds for loan approval. A more customized repayment schedule, aligned with the cash flow cycles of individual businesses, would also help enhance liquidity and reduce the financial strain that SMEs face. These adjustments could support long-term sustainability and improve the financial health of SMEs.

Furthermore, improving the accessibility of loans is crucial. The study found that accessible loans significantly benefit SME growth, capital expansion, and sustainability. Microfinance institutions should strive to enhance their outreach and simplify loan application processes to ensure that SMEs, particularly those in rural or underserved areas, can access the financial capital they need to expand. This would reduce the barriers to entry for smaller enterprises and increase overall business profitability. Additionally, MFIs could offer more financial management training to

SMEs to help them utilize loans effectively, ensuring that funds are invested in productive ventures that foster growth and sustainability.

Efforts should focus on designing flexible lending frameworks that cater to the diverse financial needs of SMEs, enabling them to scale operations and improve financial performance. While repayment schedules positively influence profitability, their impact is secondary to loan accessibility; therefore, policies should ensure repayment terms remain supportive but not overly restrictive, emphasizing access to financial resources as the cornerstone of SME success.

Finally, government policy frameworks should be refined to create a more supportive and transparent environment for SMEs. While some positive perceptions were reported regarding government-backed loans and support programs, respondents expressed the need for clearer regulatory frameworks and improved enforcement. Streamlining compliance processes and introducing SME-specific policies could reduce administrative burdens and foster a more conducive business environment. Additionally, the expansion and accessibility of government support programs, such as financial incentives, loan schemes, and advisory services, should be prioritized. Tailored government initiatives that address the specific needs of SMEs could significantly boost business performance, making these enterprises more resilient and competitive in the marketplace.

6.4 Further study areas

Impact of Digital Financial Services on SMEs

Microfinance Loan Default and Business Sustainability

Gender Disparities in Microfinance Accessibility

Microfinance and Rural SMEs

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APPENDICES

A: QUESTIONNAIRE

Title of the study: Microfinance Lending Terms and the Performance of Small and Medium Enterprises in Gulu City

Introduction

I Musinguzi Roger, a student of Gulu University humbly requests for your participation in the study to establish the Microfinance Lending Terms and the Performance of Small and Medium Enterprises in Gulu City. The study is for academic reasons and you are kindly requested to honestly fill this questionnaire by providing your true answers to all questions. Your thoughts will certainly contribute to the body of knowledge of Microfinance lending and performance of SMEs. At all stages of the study, your personal details shall be kept confidential.

Fill in or tick against the corresponding response

A: Socio-Demographic Information

1. Age in years.....
2. Sex: Male.....Female.....
3. Level of education in years.....
4. Marital status: Single.....Married.....Divorced.....Widowed.....Other.....
5. Religious Denomination: Christianity.....Islam.....Hinduism.....Traditional Religion.....
6. Duration of the Business in years.....

7. Number of employees.....

8. Type of Business.....

B: Microfinance lending Terms

1. Did you pay interest on the loans you have borrowed the previous year?

2. What was the interest amount in Uganda shillings?

3. Did the collateral requirement affect your loan access the previous year? Yes.....No.....

4. Loan repayment period favorable: Yes.....No.....

5. Loans were easily accessible: Yes.....No.....

The following statement indicates to what extent you agree with the statement used in measuring the level of microfinance lending terms and their impact on the performance of small and medium enterprises (SMEs) in terms of (**profitability, growth, and sustainability**). Please indicate your level of agreement with each of the following statements by selecting the appropriate number from the scale below: Rank them in order of importance with **1** being less important and **5** being very important

N/S	Statement	1	2	3	4	5
Interest Rates						
1	Affordable for my business					
2	Favorable for the growth of my business.					
3	Interest charged is transparent					
4	Interest charged are consistent					
5	Interest rate charges are flexible					
6	Strengthens the sustainability of the business					
Collateral Requirements						
1	Reasonable					

2	Affordable						
3	Valuable to your business						
4	Easily meet the collateral requirements for additional loans						
5	Relevant to your business						
6	stable for your business over time						
7	Reasonable						
Repayment Schedules							
1	Flexible repayment schedule						
2	Reliable repayment schedule						
3	Regular and predictable repayment intervals						
4	Affordable repayment schedule						
5	Clear and simple repayment schedule						
6	Transparent repayment schedule						
Loan Accessibility							
1	Transparent loan terms						
2	Easy application process						
3	Flexible repayment terms						
4	Fast approval time						
5	Favorable loan fees						
6	Clear eligible criteria						

C: Performance of the SMEs

1. Have you ever borrowed loans from microfinance institutions the previous year? Yes.....No.....
2. Did you realize any revenue growth after using the loan? Yes.....No.....
3. Did realize any profit after using the loans? Yes.....No.....
4. Do believe that this loan has contributed to your business sustainability? Yes.....No.....

The following statement indicates to what extent you agree with the statement used in measuring the extent of performance of SMEs based on these parameters (**growth, profitability, and sustainability**). Please indicate your level of agreement with each of the following statements by selecting the appropriate number from the scale below: Please indicate your level of agreement with each of the following statements by selecting the appropriate number from the scale below: Rank them in order of importance with **1** being less important and **5** being very important

N/S	Statement	1	2	3	4	5
Measuring the Growth of SMEs						
1	My business has experienced consistent growth in revenue over the past year					
2	The number of customers served by my business has increased steadily					
3	My business has expanded its product or service offerings in the last year					
4	My business has opened new branches or expanded its physical presence					
5	My business's market share has grown in the past year					
6	My business has successfully entered new markets or regions					
Measuring the Profitability of SMEs						
1	My business has achieved its profit targets consistently over the past year					
2	My business's profitability has improved compared to the previous year					
3	My business's profit margins are satisfactory given the current market conditions.					
4	My business's operating costs are well-managed, leading to better profitability					
5	My business has increased its net profits over the past year					
6	My business's return on investment (ROI) has been satisfactory					
Measuring the Sustainability of SMEs						
1	My business has implemented practices that ensure long-term sustainability					
2	My business has a stable financial position that supports sustainable operations					
3	My business's operations are environmentally sustainable					
4	My business's revenue streams are diversified to ensure sustainability					

5	My business maintains strong relationships with suppliers and partners for sustainability					
6	My business is prepared to adapt to changes in the market to ensure its sustainability					

D: Government Policy

1. Do you believe that government regulations on Microfinance interest rates favor your business growth? Yes.....No.....

2. Do you believe that government regulations on Microfinance collateral requirements favor your business growth? Yes.....No.....

3. Do you believe that government regulations on Microfinance loan repayment period favor your business growth? Yes.....No.....

4. Do believe that government funding support favor your business growth? Yes.....No.....

5. Do believe that government backed loans favor your business growth? Yes.....No.....

The following statement indicates to what extent you agree with the statement used in measuring the level of government policy and its impact on the performance of small and medium enterprises (SMEs) in terms of **(profitability, growth, and sustainability)**. Please indicate your level of agreement with each of the following statements by selecting the appropriate number from the scale below: Please indicate your level of agreement with each of the following statements by selecting the appropriate number from the scale below: Rank them in order of importance with **1** being less important and **5** being very important.

N/S	Statement	1	2	3	4	5
SMEs Support						
1	Government support programs for SMEs have significantly improved my business's profitability					

2	Access to government-funded SME support initiatives has fostered the growth of my business.						
3	Government training and advisory services have positively influenced the sustainability of my business						
4	The financial incentives provided by the government have enhanced the profitability of my business						
5	My business has benefited from government-backed SME loan schemes aimed at growth and expansion						
6	Government support programs have been crucial in ensuring the long-term sustainability of my business						

.....**The end**.....

B: THE CLEARANCE LETTER FROM THE FACULTY

GULU P.O. Box 166 Gulu, Uganda		UNIVERSITY Tel: 0471-42923 Fax: 256-471-42094
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OFFICE OF THE DEAN FACULTY OF BUSINESS AND DEVELOPMENT STUDIES

Date: 23rd September 2024

TO WHOM IT MAY CONCERN

RE: MUSINGUZI ROGER **REG. NO. 21/U/1558/MEC/PS**

The above-named person is a final year student pursuing Master of Science in Economics (MEC) Degree of Gulu University.

In partial fulfillment of the requirements for the award of the master's degree, he is carrying out research on the topic: **Microfinance Leading Terms and the Performance of Small and Medium Enterprises in Gulu City.**

Due consideration accorded to him shall be highly appreciated.

Yours faithfully,


Dr. Kitambo Enos- Research Coordinator (Ph.D.)
Faculty of Business and Development Student

23/9/2024



C: OUTPUT FOR RELIABILITY TEST.

Case Processing Summary

		N	%
Cases	Valid	221	100.0
	Excluded ^a	0	.0
	Total	221	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.867	25

D: WORK PLAN

Year	2023						2024											
Description of Research Activities	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Research Concept Development																		
Approval of Research Concept																		
Proposal Writing																		
Chapter one: General Introduction																		
Chapter two: Literature Review																		
Chapter three: Research Methodology																		
Design of Data Collection Tools																		
Review of the Proposal																		
Approval of the Data Collection Tools																		
Pre-testing																		
Data Collection																		
Data Entry																		
Data Analysis																		
Data Analysis and Presentation																		
Discussion of findings																		
Submission of the Draft Report																		
Conclusion and recommendation																		
Thesis defense																		
Thesis submission																		

E: BUDGET FOR THIS STUDY

No	Item	Unit	Price	Amount (UGX)
1	Stationary			
1.1	Ream of Printing Paper	2	18,000.0	36,000.00
1.2	Printing Services	1	100,000.0	100,000.00
1.3	Binding	3	20,000.0	60,000.00
2	Data Collection			
2.1	Training of data collection Assistant	2	400,000.0	400,000.00
2.2	Motor cycle Hire	1	200,000.0	200,000.00
2.3	Data Collection Assistants	5	600,000.0	3000,000.00
3	Refreshments	5	50,000.0	250,000.00
4	Internet services	1	100,000.0	100,000.00
5	Miscellaneous	1	300,000.0	300,000.00
6	Total			4,770,000.00