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MICROFINANCE LOANS AND PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN LIRA CITY, NORTHERN UGANDA

Magdalene Akite[1],Judith Akello Abal[2], Bonny Charles Opio[3]
**Corresponding author E-mail: (judithakello@yahoo.com)*

[1] Magdalene Akite, EMBA Graduate- Department of Commerce and Business Management, Lira University, P.O Box 1035, Lira-Uganda Part-Time Lecturer- All Saints University Lango (ASUL) P.O Box 32, Lira, Uganda

[2] Judith Akello Abal (PhD), Senior Lecturer and Head of Department-Commerce and Business Management, Lira University, P.O Box 1035, Lira-Uganda

[3] Bonny Charles Opio, Assistant Lecturer and Head of Department-Economics and Statistics, Lira University, P.O Box 1035, Lira-Uganda

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ABSTRACT

The study examined microfinance loans and the performance of small and medium size enterprises (SMEs) in Lira City. Data was collected using questionnaires and interviews and the design used was causal research designs using qualitative and quantitative approaches. The results showed that there was low Level of loan accessibility and performance by the SMEs. The study concludes that Microfinance loans contribute to performance of SMEs. Microfinance Institutions should increase provisions of non-financial services, revise policies on loan period and increase amount of loan given to SMEs to enhance entrepreneurial capability, savings and insurance so as to improve on their performance.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) has no universally agreed definition but varies from state to state and according to the level of economic activity. In Uganda, SMEs are officially defined based on both the number of people employed and annual turnover of the enterprise (Turyahebwa, Sunday & Ssekajugo, 2013). They are enterprises employing a minimum of 5 people and a maximum of 50 people, with annual sales revenue of more than UGX 360 million and total assets of more than UGX 360 million. It is also defined as follows, drawing upon the variables staff numbers and turnover etc. (Philips, Paul, Raby, 2018).

Performance comprises of actual output or results of an organization activities as measured against its input. For the purpose of this study Performance measures included Market Share, profitability and sales growth. Performance of small and medium-sized enterprises (SMEs), has become a leading area of study globally Hashim, (2012). Several studies for instance, studies by De la Tore, et al., (2010)

[1] Magdalene Akite, EMBA Graduate- Department of Commerce and Business Management, Lira University, P.O Box 1035, Lira-Uganda Part-Time Lecturer- All Saints University Lango (ASUL) P.O Box 32, Lira, Uganda

[2] Judith Akello Abal (PhD), Senior Lecturer and Head of Department-Commerce and Business Management, Lira University, P.O Box 1035, Lira-Uganda

[3] Bonny Charles Opio, Assistant Lecturer and Head of Department-Economics and Statistics, Lira University, P.O Box 1035, Lira-Uganda

associate the SME performance problem to numerous factors example, high competition, lack of entrepreneurship skills and none of these studies is quite conclusive in its findings. This study therefore was intended to examine Microfinance Loans and performance of SMEs operating in Lira City.

Globally, SMEs are important to almost all economies specially to developing countries which suffer from major unemployment and income distribution challenges. In Europe, SMEs represent 99% of all businesses. In Germany the Second biggest sector-craft trade alone accounts for more than one million enterprises, five million workers and an average company size between 5 and 20 employees ("Institute for Work and Technology, Gelsenkirchen, Germany," 2017).

In an attempt to industrialise economies in Sub-Saharan Africa, for example, the federal government of Nigeria has mainly been focused on the development of small and medium enterprises. This has been demonstrated not only in policy statements and the formulated policy measures but also and especially in the establishment of the small and medium size enterprises Development Agency of Nigeria (Adeyele, 2018). It is therefore considered as the engine of economic growth and for promoting equitable development in Nigeria.

SMEs are the backbone of Ugandan's economy for they make up close to 90% of the businesses in Uganda (Small & Medium Enterprises Financing in Uganda). They boost employment in both urban and rural areas, reducing poverty and they are recognized as an engine of economic growth and development (BIDS [Bangladesh Institute of Development Studies] report 2008).

Microfinance brings a range of financial services, including microcredit loans, savings, and non-financial services such as training to clients, insurance coverage, health care and personal development. within the reach of millions of operators of SMEs not served by commercial banks (Newman, Schwarz, & Ahlstrom, 2017). Microfinance industry bridges the gap between the formal financial institutions and the rural poor who cannot afford services from this formal institution and this has enabled a number of businesses to emerge since it gives financial support to start or continue with the existing business.

Through NGO'S and investors Microfinance reached Uganda and eventually Lira City to support local initiatives. All these was for economic empowerment of the productive people who would not have access to commercial banks loans. Microfinance institutions have taken center stage in the struggle for poverty eradication in Uganda (Zeija Flavianhe, 2013). With increased interest from donors and NGOs discovering that they can make a lasting impact on poverty alleviation by offering sustainable financial services, the microfinance industry began to take shape. In the Northern Uganda Microfinance institutions are scanty. These are situated more in urban areas than in the rural areas (MoFPED [Ministry of Finance, Planning and economic Development], 2009/2010).

Microfinance institutions offer various packages of loans ranging from business loans to personal loans to their clients in an effort to boost their capacity and grow. These loans however have strings attached such as high interest rates, need for loan security, bureaucratic procedures and at times limited grace period. All these affect the operation of SMEs in one way or another and yet they need to survive alongside the large scale businesses. Much as there are numerous SMEs in Lira City, it is evidenced that only a minority of them survive operations for more than one year and in addition, very few achieve sustained growth to the extent that their transition to large scale operation are hardly heard of. Many people startup businesses because of the attractiveness of profit making and self-employment Most operators of SMEs live on less than 1.25 dollars a day (UN Sustainable Development Goals Report 2016). Northern Uganda is the poorest with 52.7% of the population living in poverty (UBOS2009/2010 Report) and 72% did not have formal education and these contributes to the difficulties in handling the businesses.

1.1 Statement of the Problem

Finance is required for working capital and investment in fixed assets. In fact, Africa's slow economic growth has been linked to its poor capital accumulation. Like most other African countries, insufficient capital for investment remains the greatest challenge facing the people of Uganda as a whole and Lira City in Particular and this leaves SMEs with no option than to go for credit from financial institutions Eton et al, (2019) The contribution of SMEs to Uganda's economy is well over ninety percent (90%) of the total non-farm private sector employment, approximately 2% of the national Gross Domestic Product (GDP), and over 20% of incomes of the labor force (Nyanzi, 2015). Microfinance Institutions have proved to be a powerful way to bring financial services nearer to the productive people. This sector is seen as one of the key factor for economic growth and development (BIDS report 2008). In Uganda there are 99 MFIs and 7 are in Lira City, to provide financial services (Global Brands magazines 2019). These loans however have strings attached such as high interest rates, need for loan security, bureaucratic procedures and at times limited grace period. All these affect the operation of SMEs in one way or another and yet they need to survive alongside the large scale businesses. However, in Lira City some SMEs are closing down or loosing property to the MFIs every year. According to Eton et al, (2019) small and medium size enterprises in Lira City have available loans from microfinance institutions; nevertheless 90% of these enterprises close down in their first year of startup. The study therefore sought to examine Microfinance loans and performance of small and medium size enterprises in Lira City.

1.2 Theoretical Framework

The theoretical framework referred to a structure of concepts that existed (tested) and is a ready-made map for a study. It is composed of principles, theories, research findings and generalizations which are related to the subject under investigation (Sirkin, 2011).

The enactment of microfinance in recent years has been embraced by a theory of development called Neo-liberalism. This theory, originated from work done by Friedrich Von Hayek, Misses Ludwig Von (1920). Neo-liberal ideology relies on individuals to make rational decision that are in their best interests, and assumes that such decisions will lead to the betterment of society through the growth of the market. This market should be detached from the state, if possible, the state regulating rather than initiating economic activities.

The SMEs operators make rational decisions in initiating the businesses and improving of the enterprises by taking loans to their best interest for the betterment of society. SMEs create employment opportunities, generate income and reduce poverty thus a better society.

Economic growth and prosperity is the main goal of any development project, and ``is considered of greater value than the individual welfare, local culture and tradition and the environment in development proposals. Neo-liberation became a dominant theory of development in the 1980"s, and continues to be the theoretical motivation for influential organizations such as the World Bank and the International Monetary fund (Dunbar & Segrin, (2012).

For the purpose of this study Microfinance thus becomes a means of developing local enterprises according to main stream views of neo-liberalism. There are two primary grounds on which neo-liberalism focuses. First, neo-liberalism is focused on the betterment of the market. Secondly, neo-liberalism relies on the rational choices of the individual. Therefore, if individual SMEs borrow (Micro-Finance Institutions) MFIs loans and utilize it with the view of economic and market expansion, then their performance will improve (Isidore, 2010). However, micro-credit for micro-enterprise becomes a neo-liberal construct when one views it as the formalizing an informal economy. According to a report on poverty reduction published by the World Bank, ``Private enterprise operating through the market is the main engine of sustained economic growth.” By exposing pre-existing informal economic networks, as while providing the creation of additional formal businesses, neo-liberalism posits that the macro-economic situation of the state will improve.

Accessing credit is therefore considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables SMEs to overcome their liquidity constraints and undertake some investments such as the improvement of stock levels thereby leading to an increase in sales turnover (Hiedhues, 1995). The main objective of micro-credit according to Navajas et al., (2000) is to improve the performance of SMEs as a result of better access to small loans that are not offered by the formal financial institutions.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities improve risk scoping strategies and enable consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor. It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and a positive impact on SMEs development because they guarantee sustainable access to credit by the poor (Rhyne and Otero, 1992).

Microfinance programmes has become increasingly important component of strategies to reduce poverty or promote micro and small enterprise development. However, knowledge about the achievement of such initiatives remains only partial and contested and therefore needs further investigations. According to studies done by Holcombe (1995); Hossain (1988); Otero and Rhyne (1994); Remenyi (1991); Schuler, Hashemi and Riley (1977), microfinance has very beneficial economic and social impacts.

2. Literature Review: An Overview

2.1 Level of Loan Accessibility

Access to finance refers to the supply of and use of financial services without price and non- price barriers. Accessibility to monetary services is one of the significant factors for the continued existence of majority of the newly formed firms as well as an essential element in entrepreneurship practice (Ebong C.D, & Mwosi F, 2018). In the European Union, according to Molenaar, European, & Network (2009), the lenders enable the borrowers to access the microcredit by exempting them from a lot of requirements like creditor information and collateral security. Various African governments embarked on micro-finance scheme in view of its strength which lies in its simplified operations coupled with the promptness in loan procurement, both of which generally characterize the operations of the informal financial institutions (Okewu, (2015). Limited access to loan services remains a huge challenge to SME‟s in Uganda due to limited loan amount, short loan period, untimely loan disbursement period and high interest rate (Bank of Uganda, 2006; Ebong C.D, & Mwosi F, 2018; Okewu, 2015).

2.1.1 Loan Amount

Most SME‟s lack collateral, whereby lack of collateral necessitates financial institutions to limit the amount of credit allocated to SME‟s relative to other sectors (Lakuma, 2019). According to Sunil Sangwan (2020), the MFIs lend big loans to clients having a high income, assets, land size, lower informal borrowings and having longer loan experiences hence limiting loan accessibility of SMEs. The amount of each individual loan must be within any minimum or maximum limits that the agreement may specify. The pricing of loan amount theoretically depends on the cost of funds, transaction cost, investment income and mark-up (Annim, 2011). The perception that microfinance is designed for the poor who live on the fringes of survival justifies the non- responsiveness to loan amount. The identified transaction cost and credit risk factors tell about what a lender takes into accounts while screening and allocating loan amounts to the borrowers, where the lender has limited information about the client's ability to repay.

2.1.1 Loan Period

Most Micro-lending institutions schedules for weekly payments of loans to their clients and in most cases the weekly repayment schedule without a grace period may limit the contribution of these loans to SME‟s expansion and increase in income (Deboi, 2019). According to Gebremedhin & Gebretinsae (2010), the repayment period of loans is determined on the basis of the liquidity position of each borrower and the economic life of the investment. And since the liquidity position of each borrower and the economic life of the investment of SMEs is low it automatically limits their loan access. Repayment schedules must be made flexible so that it should be adjusted to borrower's cash flow pattern. When Financial Institutions do lend to SMEs, they tend to charge them a high interest rates for assuming a high risk and apply tougher screening measures which drive up costs on all sides. More so, maturities of loans extended by financial institutions in Uganda to SMEs are often limited to a period far too short to pay off any sizeable investment. Loans that are provided by these institutions to SME's are small, with a short repayment period (Arinaitwe & Mwesigwa, 2015).

2.1.3 Timeliness of loan disbursement

The term "disbursement" is used to indicate any payment under loan facility (Moyi, 2019). The timeliness of loan disbursement is crucial when loans are being used for seasonal activities such as Produce business. SMEs will not be able to undertake business activities when they would wish to, and the usefulness of the credit to them is much reduced. This can in turn worsen the prospects of repayment if they are highly dependent on seasonal business for income (Moyi, 2019).

2.1.4 Loan Interest

Interest can be defined as the premium received by the lender after a stated period. From the borrower's point of view, interest is the cost of capital at the time of obtaining a loan. An interest rate is often expressed as an annual percentage of the principal. A rise in interest rates for any reason tends to lessen business activity because credit becomes more expensive. MFIs believe that lending to SMEs entails higher risks and larger transactions costs, thereby justifying their high interest rates (Waithaka & Njeru, 2015). The high interest rates charged by the formal and semi- formal sectors are high, which crowd the benefits associated to informal sector financing (Eton, 2019). In microfinance, cost components of animating groups, purchase of forms, implications of forced savings' and frequent repayment rate constitutes the difference between real and effective interest rate. Less obvious, but added to this cost component, is time spent and opportunity cost in servicing the loan. In the case of poor clients this is high due to the inclusion of non-financial services as loan beneficiaries spend more time with bank staff Economic trends need consideration before deciding interest rates on loans. Furthermore, Loans that are provided by MFIs to SME"s are small with high interest rates (Arinaitwe & Mwesigwa, 2015).

2.2 Level of Performance of SMEs

Small and medium enterprises (SMEs) have an important role to play in the development of the country. A strong SME sector contributes highly to the economy, contributing to the gross domestic product, by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activity. In South Africa (SA), the growth of SMEs and prevalence of SMEs is significantly low (Sandada, Pooe, & Dhurup, 2016). SMEs performance can be seen as how the firm provides value to its stakeholders such as owners, customers, society and even government (Aminu, 2015). In other words, it indicates how thriving the management manages the firm's resources. Performance can also be defined as the procedures of quantifying business firm actions in terms of accomplishing its objectives. Several indicators show performance of SMEs; market shares (Charles, Joel, & Samwel, 2012) learning orientation, (Hakala, 2013), technology orientation (Hakala & Kohtamäki, 2011). In addition, Mazanai and Fatoki (2012) revealed that access to finance is directly related to the performance of SME"s for it allows firms to grow and develop. Thus, the lack of finance adversely affects the full potential of SMEs as an economic driver. As SMEs are not operating in a vacuum, a favorable business environment and healthy overall economic setting as a whole are good predictors of performance (Smit & Watkins, 2012). According to SMEDAN (2012), unfavorable business conditions and other environmental factors are other issues affecting SMEs" development and performance.

2.2.1 Market Shares

Market share is the percent of total sales in an industry generated by a particular company. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company in relation to its market and its competitors (Adams Hayes, 2020).

The major challenge faced by many SMEs have been how to globalise their operations in order to be able to better source raw materials and components and to take advantage of proximity to global markets in order to compete head to head with much larger companies. Small market shares and being independent were addressed as main features of small and medium sized companies' employment of fewer than a given number of employees, with low annual sales (Warzywoda, Dixon, Thompson, Sacco, & Suib, 2015).

2.2.2 Sales Growth

An economic growth rate is the percentage change in the value of all the goods and services produced in a nation during a specific period of time, as compared to an earlier period (Chen, 2019). SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation (Kofi, Tanyeh, & Gaeten, 2013), which constrains growth and competitiveness (Agbazo & Omane, 2012).The limited size of many SMEs means they have difficulty accessing capabilities and resources that would make them more productive, including talented individuals with the latest knowledge of technology, finance, and managerial practices slowing down their growth. Training of SMEs operators across the globe achieves a 40% increase in productivity. Other factors like, 'tax rate', 'competition', 'electricity' and 'political factors' which are not favorable slows down the growth of SME's (Albaz,2020).

2.2.3 Profitability

Profitability is the greatest indicator of performance of SMEs who struggle for survival on top of proving their credit worthiness and solvability to their financiers. Income and expenses are used to measure profitability. Profitability is the excess of revenue over expenses, which is seen by the ratios like gross profit margin and pre-tax margin (Odongo, 2014). Though profitability ratios are essential in measuring performance, their measurements are hindered in most SMEs. This is because most SMEs in developing countries lack proper documentation (Turyahebwa *et al*, 2013; Ökvist, 2016).

Most SMEs cover debt costs using operating capital, and these results in the decreasing levels of profitability (Popa & Ciobanu, 2014). Price is one of the most important element in management of SME's as it affects profitability and market competitiveness. Profitability is positively affected by high price levels while it is negatively affected by low price levels. Such indicates that price influences the profitability of SME's and therefore, a more strategic look at the pricing process may constitute one aspect that cannot be overlooked by SME"s (Paulo, 2017).

2.3 The contribution of microfinance loans to the performance of SMEs

Microfinance industry has highest growth potential for the country like India which consists of the world's second largest population. The potential lies in the fact, that most of the rural population is not covered with good financial services. The infrastructure for the financial inclusion is not adequate given the issues relating to the system of administration. Microfinance institutions (MFIs) have made an excellent attempt to reach in the interiors of the country and provide cheap loans and financial services thereby accelerating the growth rate and economic development of SMEs in recent years (Purav Parikh et al 2014).

According to Wanambisi & Bwisa (2013), the provision of financial services, especially credit and saving facilities to the SMEs plays an important role in the performance of these enterprises. The study added that once the loan amount is large enough, interest rate, and loan repayment period favorable then SME’s is able to perform. Studies also indicated that most SMEs consider small loans amount to meet immediate needs because SMEs don’t have capacity or experience to handle large sums of money in their businesses and even can lead to business failure (Odongo, 2014). The injection of an optimal size of microcredit to SME‟s with training, mentoring and favorable time for repayment improves the profit of enterprise; this enhances the contribution to the household income that increases family welfare (Parikh et al, 2014). The maturity of loans is also a serious issue, as Uganda seems to have the shortest average loan maturity (12 months) among comparable countries such as Kenya, Brazil, China and India, hence affecting performance of SMEs negatively (CGAP report, 2009).

The general argument is that, interest rates are not compatible with the performance of the SMEs and that most of these MFIs charge high interest rates and hence the SMEs tend not to be profitable (Msangula, 2015). There is a wide spectrum of organizations (most of them being not- for-profit entities) offering micro-credit at a considerably low interest rates enables SMEs improve on their performances and the operator’s livelihood (Molenaar et al., 2009). As a result, at higher interest rates, the expected return from a loan would start decreasing after a point due to higher default (Thampy, 2010). MFIs believe that lending to SMEs entails higher risks and larger transactions costs thereby justifying their high interest rates. The high interest rates charged by the formal and semi- formal sectors are high, which crowd the benefits associated to informal sector financing (Eton, 2019).

2.4 The Gaps in Literature

Studies have shown that Microfinance institutions (MFIs) have made an excellent attempt to reach in the interiors of the country and provide cheap loans and financial services thereby accelerating the growth rate and economic development of SMEs in recent years. However, limited access to loan services remains a huge challenge to SMEs in Uganda. The following factors: limited loan amount, lengthy loan period, untimely loan disbursement period and high interest rate contributes to the challenge. The provision of financial services, especially credit and saving facilities to the SMEs plays an important role in the performance of these enterprises. While Microfinance loan offered under terms and conditions contribute to the performance of SMEs, the extent to which the individual terms of Microfinance loans contribute to the performance of SMEs remain unknown. Therefore, this study fills this gap by examining microfinance loans and performance of small and medium size Enterprises.

3. Materials and methods

The study applied causal research design in which both qualitative and quantitative approaches were employed. Qualitative approach describes the attitude and behaviors of the population. Quantitative approach was used because it helped to generate numerical data in order to establish the relationship between microfinance loans and the performance of small and medium size enterprises in Lira City.

3.1 Study Population and Sampling techniques

The target population of the study included operators of the SMEs in Lira City which is approximately 720 in number according to the commercial department of Lira City (2018). From the operators of SMEs, consideration was taken on gender, age, and types of businesses being carried out. To be representative enough, a sample size of 240 respondents was drawn from the total population of 720 SMEs operators.

In order to obtain in-depth information, stratified random sampling technique was used. The strata included; retailers of essential goods, wholesalers of essential goods and restaurants owners who are easily accessible in Lira City. This technique was used because every item in each stratum has an equal chance and likelihood of being selected to represent the sample. Here the selection of items completely depended on chance or by probability and therefore this sampling technique is also sometimes known as a method of chances. This technique helped in minimizing the risk of collecting biased data, hence obtaining information from a wide source.

3.2 Data Collection and Analysis

Data was collected from questionnaires and interviews. Questionnaires enabled the researcher to obtain large amount of data within a short period of time and was done by presenting questionnaires to the respondents and giving them time to fill the questions. Interviews was used to enable the researcher obtain in depth information and it was conducted using open-ended questions with interview guide.

Data from each questionnaire was categorized and edited for accuracy and completeness of information. This was coded for easy data entry and analyzed using the Statistical Package for Social Science computer program (SPSS Version 27). Quantitative method was employed in the analysis. Descriptive statistics displaying tables of frequencies and percentages was used to show the distribution of respondents on the background variables. Information from interview guide were analyzed by transcribing the responses according to the variables under study in order to obtain the most relevant information. The information was then incorporated into the study findings.

4. Findings and Discussion

Findings are discussed under the following sections; level of: loan Accessibility, loan performance, and contribution of Microfinance Loans on the Performance of SMEs.

4.1 Level of Loan Accessibility by SMEs

The level of loan accessibility by SMEs in Lira City was measured using Loan amount loan period, timely loan disbursement and loan interest. This objective was analyzed using the mean and standard deviation. The mean showed the occurrences of a response while standard deviation portrays the extent to which the scores deviate from the mean. The detail of the findings is shown in **table 1.** With regards to loan amount as indicated in table 1, the results indicated low loan amount to SMEs at a mean of (2.42). The high standard deviation of (1.23) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

Turning to reporting, the finding indicated that there is low loan period given as most of the respondents indicated low loan period at a mean of (2.35) and standard deviation of (1.41) with regards to scale used in the study, indicating inadequacy of loan period **(Table 2).** The high standard deviation shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

On timely loan disbursement **(table 3),** the finding indicated that there is low timely loan disbursement to SMEs as most of the respondents indicated low timely loan disbursement at a mean of (x = 2.34) and (**s =** 1.22) with regards to scale used in the study, loan is normally not disbursing to SMEs in time and high standard deviation shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

About loan interest **(table 4)**, the results indicated low loan interest to SMEs because most of the respondents thought that amount of loan interest was low at a mean of Mean (x =2.42). The high standard deviation of (s = 1.32) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

In summary, the findings revealed that loan accessibility (Loan amount, loan period, timely loan disbursement and loan interest) by SMEs is low with mean at (x = 2.38) as per legend scale used in the study, implying that loan accessibility by SMEs is low **(table 5)**. The high standard deviation of (s = 1.30) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

As per the interview of respondents; "*They said limited loan amount, Short loan period, untimely loan disbursement period was the order of the day and high interest rate are the hindrance to loan use".*

This is in line with others studies that limited access to the loan, limited loan amount, lengthy loan period, untimely loan disbursement period and high interest rate remained a huge challenge to SME"s in Uganda. (Bank of Uganda, 2006; Ebong & Mwosi, 2018 Okewu, 2015).

According to Sangwan (2020), the MFIs lend big loans to clients having a high income, assets, land size, lower informal borrowings and having longer loan experiences hence limiting loan accessibility of SMEs. Agreeing to Gebremedhin & Gebretinsae (2010), the repayment period of loans is determined on the basis of the liquidity position of each borrower and the economic life of the investment. And since the liquidity position of each borrower and the economic life of the investment of SMEs are low, it automatically limits their loan access. More so, maturities of loans extended by financial institutions in Uganda to SMEs are often limited to a period far too short to pay off any sizeable investment. Loans that are provided by these institutions to SME‟s are small, with a short repayment period (Arinaitwe & Mwesigwa, 2015). Studies carried out also state that, Fair interest rates favor clients‟ willingness to take loan (Kaggwa, 2013) and since loans that are provided by MFI institutions to SME‟s are small with high interest rates, they are limited from accessing the loan (Arinaitwe & Mwesigwa, 2015)

4.2 Level of Performance of SMEs in Lira City

The second objective of the study was to determine the level of SME‟s Performance. This objective was analyzed using mean and standard deviation. The specific variables investigated under this, included Market Share, Sales Growth and Profitability. The detail of the findings is as shown in **table 6.** With regards to market share **(table 6),** the results indicated that low market share performance. This is because most of the respondents thought that market share at a mean of Mean (x = 1.82), which is low. The high standard deviation of (s = 0.95) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

Another dimension of Performance besides the market share is Sales Growth. The detail of the findings is as shown in **table 7.** With regards to Sales Growth, the results indicated that there is a low level of sales growth. This is because most of the respondents thought that sales growth at a mean of Mean (x = 2.08), which is low. The high standard deviation of (s = 1.18) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

Another dimension of Performance besides the market share and Sales Growth is profitability. The detail of the findings is as shown in **table 8.** With regard to profitability, the results indicated low profitability performance. This is because most of the respondents thought that profitability at a mean of Mean (x = 2.34), which is a Low. The high standard deviation of (s = 1.19) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

In summary **(table 9),** the findings revealed that there is low level of Performance of SMEs in Lira City with mean at (x = 2.08) indicating a low mean as per legend scale used in the study. The high standard deviation of (s = 1.10) shows disparity or non-coherent in the opinion of the respondents regarding the subject matter.

The respondents interviewed said that their profit is low due to high interest rates on loan. And since they use profit to cover debt costs, it results in the decreasing levels of profitability and constrains growth and competitiveness.

Studies also showed that small market share and being independent were addressed as main features of small and medium size enterprises, employment of fewer than a given number of employees, with low annual sales (Warzywoda *et al*, 2015). Furthermore, study conforms with other studies that most SMEs cover debt costs using operating capital, and these results in the decreasing levels of profitability (Popa & Ciobanu, 2014) and constrains growth and competitiveness (Agbazo & Omane, 2012).

4.3 Contribution of Microfinance Loans on the Performance of SMEs in Lira City

The third objective of the study was to establish the contribution of Microfinance Loans on Performance of SMEs. Multiple Regression analysis revealed the extent to which each construct (loan amount, loan period, timely loan disbursement and loan interest) predicted Performance of SMEs in Lira City as shown in **table 10.** In the multiple regressions the model takes the form of an equation that contains a coefficient (b) for each independent variable. The first part of the table gives us estimates for b values indicating individual contribution of each of the independent variables to the model.

4.3.1 Loan Amount

The result indicated that there is a positive significant relationship between loan amount and Performance of SMEs in Lira City evidenced by the P-value (sig. = 0.01) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, the study revealed that, loan amount contributes 0.202 (20.2%) to Performance of SMEs in Lira City. Studies also indicated that most SMEs consider small loan amount to meet immediate needs because SMEs don't have capacity or experience to handle large sums of money in their businesses and even can lead to business failure (Odongo, 2014). The injection of an optimal size of microcredit to SME‟s with training, mentoring and favorable time for repayment improves the profit of enterprise; this enhances the contribution to the household income that increases family welfare (Parikh et al, 2014).

4.3.2 Loan Period

The result indicated that there is a positive significant relationship between loan period and Performance of SMEs in Lira City evidenced by the P-value (sig. = 0.001) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, loan period contributes 0.415 (41.5%) to Performance of SMEs in Lira City. According to CGAP report (2009), the maturity of loans is also a serious issue, as Uganda seems to have the shortest average loan maturity (12 months) among comparable countries such as Kenya, Brazil, China and India, hence affecting performance of SMEs negatively.

4.3.3 Timely Loan Disbursement

The result indicated that there was a weak relationship between timely loan disbursement and Performance of SMEs in Lira City evidenced by the P-value (sig. = 0.62) being more than 0.05 level of significance. When it comes to the extent to which this relationship exists, timely loan disbursement contributes 0.029 (2.9%) to Performance of SMEs in Lira City. Other studies indicated that time line of loan disbursement is only crucial when loans are being used for seasonal activities such as produce business. SMEs will not be able to undertake business activities when they would wish to when disbursement is delayed, and the usefulness of the credit to them is much reduced. (Moyi, 2019)

4.3.4 Loan Interest

The result indicated that there was a positive significant relationship between loan interest and Performance of SMEs in Lira City evidenced by the P-value (sig. = 0.02) being less than 0.05 level of significance. When it comes to the extent to which this relationship exists, loan interest contributes

0.136 (13.6%) to Performance of SMEs in Lira City. This is in agreement with many studies. For instance, according to (Wanambisi & Bwisa, 2013), the provision of financial services, especially **c**redit at a favorable interest enables SMEs to perform.

In line to this, the general argument is that, interest rates are not compatible with the performance of the SMEs and that most of these MFIs charge high interest rates and hence the SMEs tend not to be profitable. (Msangula, 2015). There is a wide spectrum of organizations (most of them being not- for-profit entities) offering micro-credit at a considerably low interest rates enables SMEs improve on their performances and the operators' livelihood (Molenaar et al., 2009). As a result, at higher interest rates, the expected return from a loan would start decreasing after a point due to higher defaults (Thampy, 2010).

5. Conclusions

This article examined microfinance loans and performance of small and medium size Enterprises. The study found that, there is low Level of loan accessibility by SMEs due to limited loan amount, short loan period untimely loan disbursement and high interest rates. There is low level of Performance of SMEs resulting from small market share, low sales and use of operating capital to cover debt cost thus reduction in profitability in the SMEs. Therefore, microfinance loans contribute to Performance of SMEs in Lira City.

5. Recommendations

MFIs should revise their policies on Loan amount, Loan Period, Timeliness of Loan, and loan interest to enhance performance of SMEs. It should also take a critical look on loan period which contributes 41.5% to performance to a longer period compared to the 12 months to enable these enterprises perform. Considering the education level of majority of operators being primary leaving examination certificate holders, trainings should be accorded to these operators in managerial skills which may be lacking to enhance performance of SMEs.

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Conflict of interests

The authors declare no conflict of interest.

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TABLES

Table 1: Loan Amount

Items	Mean	Std. Deviation	Interpretation
The Loan amounts acquired from MFIs meets the capital requirements	2.10	1.25	Low
The loan amount applied for is received without downsizing	3.38	1.51	Moderate
The loan size is graduated in subsequent loans	2.03	1.13	Low
The loan amount generates sufficient profit during the loan cycle	2.16	1.06	Low
Aggregate Mean and Std Deviation	**2.42**	**1.23**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 2: Loan Period

Items	Mean	Std. Deviation	Interpretation
The Loan repayment period is suitable for investment in the business	2.20	1.76	Low
The Loan Installment is manageable within the repayment period	2.16	1.19	Low
The stock level is not affected after servicing the loan for the period	2.82	1.40	Moderate
The loan period agreed is convenient for the kind of business you undertake	2.20	1.27	Low

Aggregate Mean and Std Deviation	**2.35**	**1.41**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 3: Timely loan disbursement

Items	**Mean**	**Std. Deviation**	**Interpretation**
The Loan applied for is always given in time to meet the investment needs	2.75	1.56	Moderate
The procedures for processing loans from Microfinance Institutions are easier thanConventional Banks	1.93	0.87	Low
It takes a short time to acquire the next loan from MFIs compared to commercial Banks	1.86	1.03	Low
The anticipated business opportunity is not missed due to loan delay	2.81	1.41	Low
Aggregate Mean and Std Deviation	**2.34**	**1.22**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 4: Loan interest

Items	**Mean**	**Std. Deviation**	**Interpretation**
The interest rates of MFIs are relatively fair compared to commercial Banks	2.26	1.13	Low
The interest rates charged by MFIs are favorable to the borrowers	2.15	1.04	Low
The interest rates charged is stable over a long period of time	2.10	1.75	Low
Flexible payment schedules where only interest is paid and principle paid later is allowed	3.18	1.36	Moderate
Aggregate Mean and Standard Deviation	**2.42**	**1.32**	**Low**

N=240 Legend*:* *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 5: Summary of Level of Loan Accessibility

Item	**Aggregate Mean**	**Std. Deviation**	**Interpretation**
Loan Amount	2.42	1.23	Low
Loan Period	2.35	1.41	Low
Timeliness of Loan	2.34	1.22	Low

Loan Interest	2.42	1.32	Low
Grand Mean and Std Deviation	**2.38**	**1.30**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 6: Market Share

Items	**Mean**	**Std. Deviation**	**Interpretation**
The MFIs loans has helped to increase market share through increased stock	1.84	0.88	Low
The more loans borrowed from MFIs and invested the greater the market share	1.98	0.85	Low
The MFIs clients are more competitive than non-borrowers	1.87	1.21	Low
MFIs is evidently seen as a strong partner in the fast growth of Small and Medium size businesses in Lira City	1.60	0.85	Very Low
Aggregate Mean and Std. Deviation	**1.82**	**0.95**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 7: Sales Growth

Items	**Mean**	**Std. Deviation**	**Interpretation**
Stock has increased due to Microfinance Loans	1.69	0.95	Very low
The more the Capital acquired from MFIs loans, the greater the Sales volume	2.18	1.22	Low
The Microfinance Clients have more stock turnover than non-borrowers	2.34	1.37	Low
More clients are attracted to the microfinance loans because of increased sales	2.10	1.19	Low
Aggregate Mean and Std. Deviation	**2.08**	**1.18**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 8: Profitability

Items	**Mean**	**Std. Deviation**	**Interpretation**
The loans enable the business to earn more profits	1.90	0.99	Low
The profits earned from the sales are reinvested in the business to expand	2.02	1.06	Low
The loan repayment has no adverse effect on profitability	3.01	1.40	Moderate
Profits are able to clear the business expenses and apportion is reserved for investment	2.41	1.29	Low
Aggregate Mean and Std. Deviation	**2.34**	**1.19**	**Low**

N=240 ***Legend:*** *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 9: Summary of level of Performance

Item	**Aggregate Mean**	**Std. Deviation**	**Interpretation**
Market Share	1.82	0.95	Low
Sales Growth	2.08	1.18	Low
Profitability	2.34	1.19	Low
Grand Mean and Std Deviation	**2.08**	**1.10**	**Low**

Legend: *1.00 – 1.79 Very low, 1.80 – 2.59 Low, 2.60 - 3.39 Moderate, 3.40 – 4.19 High, 4.20 – 5.00 Very High*

Table 10: Multiple Regression Analysis

Model	**Unstandardized Coefficient B**	**Std. error**	**Standardized Coefficient Beta**	**T**	**Sig.**
(Constant)	.687	.144			4.760.000
Loan Amount	.171	.053	.202		3.230.001
Loan Period	.278	.039	.415		7.131.000
Loan Timeliness	.023	.047	.029		.496.621
Loan Interest	.112	.046	.136		2.427.016

a. Dependent Variable: Performance

Source: Primary Data