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Micro-Credit Financing And The Financial Performance Of Micro- Enterprises In Rubaare Town Council, Ntungamo District In South Western Uganda.

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Abstract: *The study examined micro-credit financing and the financial performance of micro- enterprises in Rubaare town council, Ntungamo district and it was guided by the following objectives. To examine the contribution of micro-Credit Financing on the financial performance of micro- Enterprises, to identify the effects of Loans on the financial performance of micro- Enterprises, to investigate the effect of micro–Credit Financing on the financial performance of micro- Enterprises. A cross sectional survey design was used. The researcher used both qualitative and quantitative approaches for data collection and analysis to provide thorough and broader findings. The study used a population of 450 respondents comprising of street vendors, carpenters, plumbers, independent mechanics, machine shop operators, shoe makers and small farmers. The researcher used a sample size of 211 and used both purposive and simple random sampling. Questionnaires, interviews and documentary reviews were used in the study. Findings from Table 1 above indicate that 219(98.6%) of the respondents agreed,3(1.4%) of the respondents were undecided whether micro credit facilitate the development of the micro enterprises.Moreso,210(99.1%) of the respondents agreed and 2(0.9%) of the respondents were undecided whether micro credit improves the operations and contribute to the growth of micro enterprises.210(99.1%) of the respondents stated that micro credit triggers and sustains the economic growth of micro enterprises.209(98.6%) of the respondents agreed that micro credit helps to attain new customers and increased sales and 3(1.4%) were un decided. Findings also show that 209(98.6%) of the respondents agreed and 3(0.4) respondents were undecided as to whether micro credit helps to attract new customers.209(98.6%) of the respondents agreed that micro credit helps to secure assets and 3(0.4%) were un decided. Lastly,210(99.1%) of the respondents agreed that micro credit helps to secure and access capital markets and 2(0.9%) were un decided. There were no respondents that strongly agreed, disagreed and strongly disagreed. Findings from the table 2 above reveals that loans result to tension on microenterprises and this was represented by 210(99.1%) of the respondents,2(0.9%) were un decided and their mean was 3.99. Still findings revealed that 207(97.6%) agreed,5(2.4%) of the respondents disagreed that loans do not limit benefits of micro enterprises from market opportunities and the mean for the responses was represented by 3.98.In addition, Findings indicate that 211(99.5%) of the respondents strongly agreed and 1(0.5%) were undecided whether loans were affecting the financial performance of the micro enterprises.209(98.6%) respondents agreed and 3(1.4%) of the respondents were un decided.Furthermore,212(100%) strongly agreed that loans result to an increase in Stock over a period of time. Findings also revealed that 47(22.2%) strongly agreed,165(77.8%) of the respondents agreed that loans were contributing to an increase in the customers for the business products. Findings from the above table 2 indicates that 57(26.9%) of the respondents strongly agreed,100(47.2%) agreed,30(14.2%) disagreed and 25(11.8%) strongly disagreed that micro credit does not lead to better allocation and proper use of financial resources. On the other hand,18(8.5%) agreed,141(66.5%) agreed and 53(25.0%) strongly disagreed that micro credit doesn't lead to profitability of micro enterprises.70(33.0%) of the respondents strongly agreed,142(67%) agreed that micro finances lead to the sustainability of micro enterprises. In addition,35(16.5%) of the respondents,90(42.5%) agreed,48(22.6%) disagreed and 39(18.4%) strongly disagreed that saccos do not lead to better financial performance. Findings also indicate that 41(19.3%) of the respondents strongly agreed,96(45.3%) agreed,42(19.8%) strongly disagreed and 33(15.6%) disagreed that individual group loans lead to the expansion and growth of micro enterprises. The Study concludes that indeed micro credit financing plays a bigger role in facilitating the growth of micro enterprises, improves the operations and contributes to the growth of micro enterprises, triggers and sustains the economic growth, helps to attract the new customers and increased sale and secures assets. Micro credit financing results to tensions, limits benefits of micro enterprises for market opportunities, results to increase in profits, increases sales revenue for micro enterprises and increase in customers for business products. This study recommends the government to improve on micro finance support to financial institutions and formally established small and medium enterprises. To reduce on the interest rates to enable the micro enterprises achieve their own objectives of obtaining loans. To revise the policy of financial lending which seems to be beaucratic hence affecting the performance of the micro enterprises. To increase the financial awareness to enable micro enterprises to access the financial support to increase their businesses. The study also recommends that future studies focus on particular micro credit terms factors to examine their influence on MSMEs' performance. As per findings the study recommends that the micro finance institutions should focus on and improve the micro credit terms especially the duration of loan repayment as this was the main factor found to be significant in the study*

SECTION ONE: INTRODUCTION

Background to the study

Historical back ground of Microcredit.

Though the term microcredit is relatively new as it was invented in 1983, the concept is to provide financial help to those of a lower socioeconomic background. It is said that lending to people of lower socioeconomic background goes as far back as the 1700s in Ireland.

However, a new vision on the delivery of microcredit was introduced from the 1970s to the 1980s, and Muhammad Yunus was a key player in shaping the vision. He decided to open Grameen Bank in 1983 and realize his vision. Grameen Bank was able to receive funding and created a microcredit model.

One of the first examples of microcredit originated from a group of women who created bamboo stools in Bangladesh. The women were earning a minimal profit of $0.02 on each stool due to the repayment of suppliers.

Muhammad thought that if the women were provided with a source of credit to draw from to fulfill payments to suppliers, the women could make it out of poverty. The women were loaned $27 and were able to sustain the business and pay the loan off.

Micro-credit refers to small credit advances given to the poor to undertake self-employment businesses that generate income (GOK 2009).

Theoretical Background

In order to get valid data, this study used of the following theory:

Microfinance credit Theory

The theory was suggested by Dondo (1999), in 1950s established to provide credit to indigenous Kenyan with small scale enterprises. According to these theories, credits should have less interests as far as accuracy is upheld. With the knowledge of the creditors information on risk profile of its borrowers, the creditor has the authority to impose any interest rates despite of the borrower's risk. The creditor assumes that the borrower utilizes 13 the loan in accordance to what was intended for despite the risk the borrower might undergo through. The concept of micro finance credit theory is applicable in microfinance in providing solutions to the limitations of poor credit markets, mostly addressing the challenge of communication channels. Lack of proper communication and flow of information on riskiness of the borrower may lead to different situations of poor selection and behavioral hazards. From the application of the theory, the more risk the borrower is the more interest it is imposed by the creditor to compensate on the increased risk of defaulting. Those subjected to less risk of defaulting as accurately identified should be charged less interest. However, since the creditor has less or incomplete information about its borrowers, higher average interest rates should be passed on to all borrowers regardless of their risk profile.

Conceptual Perspective of Micro credit

Robinson (2001) defined Microcredit as the money lent with an obligation to pay back with or without an interest rate. The microcredit is referred to the small amount of credit given to poor people especially women at reasonable interest for generates income through self-employment.

Schreiner (2000) defined microfinance as formal schemes created to improve the well-being of the poor through better access to saving services and loans. He suggests that the services that provide by informal financial sector such as money lenders, pawn shops, check cashing outlets, and loans among relatives and friends all are important source to poor and important knowledge to microfinance institutions to discover the poor of people.

Contextual Perspective of Micro credit

Otero and Rhyne (1994) identify four methods for providing support to microenterprises. In their view, these include solidarity group lending, credit union, village banking and transformation lending. However, these methodologies cover a wide range of beneficiaries. It is argued that village banking aims at the poorest beneficiaries, particularly women carrying out the simplest enterprise activities.

Consequently, Ledgerwood (1998) describes the individual lending as provision of credit to individuals who are not members of a group which is jointly responsible for repayment. It is argued that with this method of financing microenterprise, individuals are responsible for loan repayment. The approach is largely urbanized and mostly successful for production-oriented businesses and for clients who have some forms of collateral or willing consigner.

Problem Statement

The Government of Uganda has established numerous centers like Uganda Micro Support Center, Commercial banks and others; to support Micro- Enterprises though their growth and development is still low. This has been attributed to high interest rate charged by micro credit enterprises, lack of sensitization, government policies that are not favourable and this has reduced the profits maximized by the enterprises.

Specific Objectives of the study

1.To examine the role of micro-Credit Financing on the financial performance of micro- Enterprises.

2. To identify the effects of Loans on the financial performance of micro- Enterprises.

3.To Investigate the Relationship between micro–Credit Financing and the financial performance of micro- Enterprises.

SECTION TWO

RESEARCH METHODOLOGY

Research Design

The study used a cross sectional survey design. This is a research approach that generates an in-depth, multi-faceted understanding of complex issues in its real-life context.. The researcher used both qualitative and quantitative approaches for data collection and analysis to provide thorough broader findings. The quantitative approach used to quantify incidences in order to describe current conditions while qualitative approach used to explain the events and describe findings using interviews and documentary review.

Study population

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate (Sekaran, 2014). A target population of 450 respondents comprising of street vendors, carpenters, plumbers, independent mechanics, machine shop operators, shoe makers and small farmers was used.

Sampling Size

According to Kothari (2005), a sample is a small group of the whole population taken as the representative of a whole population. According to Slovene's calculating method (1960), the formula has been set as follows:

$n = N/(1+Ne^2)$

Where:

n=means of sample size

N=the population size

And e= the error of sampling or the confidence interval at 95% therefore e=0.005%.it represents also the level of precision.

Using the same formula $n=N/1+Ne^2$

$n=450/1+450(0.05)^2$

$n=450/1+450(0.0025)$

$n=450/1+1.125$

$n=450/2.125$

n=212 individuals

The Slovene's formula gave the researcher a sample size of 211.

Sampling Strategies

The study used both purposive and simple random sampling.

Methods

Questionnaire.

The researcher used this method to collect data from residents because it was convenient as respondents would fill questionnaires during their free time and had a chance to consult for views and information about the research problem. They were designed to bring out silent aspects of the research. This method was used because it is reliable, simple and needed minimum cost and the required data was collected with a minimum number of errors.

Interview Method.

The researcher used interviews during data collection from staff. The aim of using interview method was to explore the respondents' views, feelings, perceptions and experiences about the study.

Documentary Review

Documentary sources contain data that was collected and compiled for other purposes. The secondary sources consisted of readily available information and report whose data was used by researchers for their studies.

Data Analysis

Data analysis involved the conversion of raw data into information that was interpreted. Quantitative data was analyzed separately from qualitative data and the results of both analyses which was triangulated to make conclusions.

Data analysis involved editing, coding, classifying and tabulating the collected data. The researcher employed both qualitative and quantitative data analysis techniques. Qualitative data, particularly responses from interviews was analyzed following the content analysis. Descriptive statistics such as frequencies and percentages were used to show the weight of the responses. Data was recorded manually, editing, coding and tabulation was done, tables were drawn using Microsoft excel program of a computer.

SECTION THREE: PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

Response Rate

During the study, the number of the sampled respondents who participated in the study was computed to establish their adequacy for the generation of the required study data. The response rate of each category of the study is presented in table below.

Table 1: Response Rate

Categories	Study population	Sample size	Response rate	% Response rate
Street vendors	60	50	50	100%
carpenters	25	30	30	100%
Plumbers	15	10	15	100%
Independent Mechanics	20	20	20	100%
Machine Shop Operators	80	50	48	96%
Shoe markers	120	30	30	100%
Small farmers	130	31	31	100%
Total	**450**	**212**	**112**	

Source: Primary Data, 2022

As presented in the table 1 above,212 respondents participated in the study that comprised of the 50 street vendors,30 carpenters,10 plumbers,20independent mechanics,50 machine operators,30 shoe makers and 31 small farmers. The response rate of the respondents was at 100% minus that of the machine operators that was at 96%.

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EFFECT OF MICRO CREDIT FINANCING ON FINANCIAL PERFOMANCE OF MICRO ENTERPRISES.

Table 2: Statements on the role of micro credit financing and financial Performance

Statement	SA	A	UD	D	SD	Mean	Std Dev
Facilitates the development of micro enterprise	00(00%)	219(98.6%)	3(1.4%)	00(00%)	00(00%)	3.99	0.118
Improves the operations and contribute to the progress of micro enterprises	00(00%)	210(99.1%)	02(0.9%)	0(00%)	00(00%)	3.99	0.097
Triggering and sustaining economic growth of micro enterprises	210(99.1%)	00 (00%)	02(0.9%)	00(00%)	00(00%)	4.98	0.194
Helps to attain new customers and increased sales	0 (00%)	209 (98.6%)	3 (1.4%)	00 (00%)	00 (00%)	4.97	0.237
Helps micro enterprises to secure assets	00(00%)	209(98.6%)	3(0.4%)	00(00%)	00(00%)	3.99	0.118
Helps the micro enterprises to secure and access capital markets	00(00%)	210(99.1%)	02(0.9%)	00(00%)	00(00%)	3.99	0.097

Findings from Table 1 above indicate that 219(98.6%) of the respondents agreed,3(1.4%) was undecided whether micro credit facilitate the growth of the micro enterprises.
Moreso,210(99.1%) agreed and 2(0.9%) were undecided whether micro credit improves the operations and contribute to the growth of micro enterprises.210(99.1%) stated that micro credit triggers and sustains the economic growth of micro enterprises.209(98.6%) agreed that micro credit helps to attain new customers and increased sales and 3(1.4%) were un decided.
Findings also show that 209(98.6%) of the respondents agreed and 3(0.4) respondents were undecided as to whether micro credit helps to attract new customers.209(98.6%) agreed that micro credit helps to secure assets and 3(0.4%) were un decided.Lastly,210(99.1%) agreed that micro credit helps to secure and access capital markets and 2(0.9%) were un decided. There were no respondents that strongly agreed, disagreed and strongly disagreed.
One of the male respondents was quoted saying that:
'*'My business would not have grown if I had not had access to micro credit services from our Sacco, I would now be meandering on the street with no stable business''*.
These findings are in line with (Kamunge et al., 2014), Growth of micro and small enterprises is vital because of the role they play in triggering and sustaining economic growth in both developed and developing economies. SSEs provide prolific sources of employment and also grow into medium and large enterprises, which are critical for industrialization

EFFECT OF LOANS ON FINANCIAL PERFOMANCE OF THE MICRO ENTERPRISES

Table 3: Statements on the result of loans on financial advancement of the micro enterprises

Statement	SA	A	UD	D	SD	Mean	Std Dev
Results to tension on micro enterprises	00(00%)	210(99.1%)	2(0.9%)	00(00%)	00(00%)	3.99	0.097
Limits benefits of micro enterprises from market opportunities and innovations	00(00%)	207(97.6%)	00(00%)	5(2.4%)	00(00%)	3.98	0.152
Results to consistent increase in profits	211(99.5%)	00 (00%)	01(0.5%)	00(00%)	00(00%)	4.99	0.137
Increase in sales revenue for micro enterprises	00 (00%)	209 (98.6%)	3 (1.4%)	00 (00%)	00 (00%)	3.99	0.118
Increase in inventory over a period of time	212(100%)	00(00%)	00(00%)	00(00%)	00(00%)	5.00	0.000
Increase in customers for business products	47(22.2%)	165(77.8&)	00(00%)	00(00%)	00(00%)	4.22	0.416

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Findings from the table 2 above reveals that loans result to tension on microenterprises and this was represented by 210(99.1%) of the respondents,2(0.9%) were un decided and their mean was 3.99. Still findings revealed that 207(97.6%) agreed,5(2.4%) disagreed that loans do not limit benefits of micro enterprises from market opportunities and the mean for the responses was represented by 3.98. In addition, Findings indicate that 211(99.5%) strongly agreed and 1(0.5%) were undecided whether loans were affecting the financial performance of the micro enterprises.209(98.6%) agreed and 3(1.4%) of the respondents were un decided.

Furthermore,212(100%) of the respondents strongly agreed that loans result to an increase in Stock over a period of time. Findings also revealed that 47(22.2%) strongly agreed,165(77.8%) of the respondents agreed that loans were contributing to an increase in the customers for the business products. However, one female farmer attested that

"*Though Loans result to increased profits, they make most of the beneficiaries to have sleepless nights due to scarcity of money resulting from the Impacts of COVID 19 and also affect people's saving because of over dependance and so, their creativity is affected".* (Interview held on 20th Jan 2022)

Table 4: Correlation results for the effect of loans on financial Performance

		Loans	Financial Performance
Loans	Pearson Correlation	1	.958**
	Sig. (2-tailed)		.000
	N	212	212
Financial Performance	Pearson Correlation	.958**	1
	Sig. (2-tailed)	.000	
	N	212	212

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

Table 3 shows a strong positive correlation between the loans and financial Performance (r=.958**; $p<0.05$).

The study found out that loans resulted to Results to tension on micro enterprises, Limits benefits of micro enterprises from market opportunities and innovations, Results to consistent increase in profits, increase in stock over a period of time, increase in sales revenue for micro enterprises and increase in customers for business products.

RELATIONSHIP BETWEEN MICRO CREDIT AND FINANCIAL PERFOMANCE OF MICRO ENTERPRISES.

Table 5: Statements on relationship between micro credit and financial performance

Statement	SA	A	UD	D	SD	Mean	Std Dev
There is better allocation and proper use of financial resources	57(26.9%)	100(47.2%)	00(0%)	30(14.2%)	25(11.8%)	3.99	0.097
Leads to profitability of micro enterprises	18(8.5%)	141(66.5%)	00(00%)	00(00%)	53(25.0%)	3.98	0.152
Micro finances lead to the sustainability of micro enterprises	70(33.0%)	142(67%)	00(00%)	00(00%)	00(00%)	4.99	0.137
Saccos lead to better financial performance	35(16.5%)	90(42.5%)	00(00%)	48(22.6%)	39(18.4%)	3.99	0.118
Individual group loans lead to the expansion and growth of micro enterprises	41(19.3%)	96(45.3%)	0(0%)	42(19.8%)	33(15.6%)	4.22	0.416

Source: Primary Data, 2022

Findings from the above table 2 indicates that 57(26.9%) of the respondents strongly agreed,100(47.2%) agreed,30(14.2%) disagreed and 25(11.8%) strongly disagreed that micro credit does not lead to better allocation and proper use of financial resources.

On the other hand,18(8.5%) strongly agreed,141(66.5%) agreed and 53(25.0%) strongly disagreed that micro credit doesn't lead to profitability of micro enterprises.

70(33.0%) of the respondents strongly agreed,142(67%) agreed that micro finances lead to the sustainability of micro enterprises.In addition,35(16.5%),90(42.5%) agreed,48(22.6%) disagreed and 39(18.4%) of the respondents strongly disagreed that saccos do not lead to better financial performance.

Findings also indicate that 41(19.3%) of the respondents strongly agreed,96(45.3%) agreed,42(19.8%) disagreed and 33(15.6%) disagreed that individual group loans lead to the expansion and growth of micro enterprises.

One respondent noted that
'*Micro enterprises performance dependents on the increased issue of loans as it increases its profitability''*

Based on the information obtained through interviews, micro credit results to increase financial allocation and usage and the profitability of the micro enterprises.

This is in relation to the findings by Amanda et al. (2007) that indicated that commercial banks provide the widest range of serv ices, but until recently, they were not interested in servicing Small and Medium Enterprises (SMEs) because of the perception of the higher credit risk and the high transaction costs. With an improved macroeconomic framework and lower interest rates, more banks are recognizing the potential of lending to SMEs and are developing products to target this growing sector. For example. Equity Bank provided financial literacy training and same-day emergency loans for SMEs at the time of that study. Equity bank's product range and marketing strategy directly targeted small and medium entrepreneurs. The study however observed that despite some positive trends by the banks and microfinance institutions in reaching out to the SMEs. small and medium entrepreneurs reported that they continued to encounter 'challenge of smallness' when they approached a traditional financial institution. Discriminatory treatment by bank officials who prefer dealing with larger entrepreneurs and business people and office do not take SMEs seriously was frequently cited in that study. This study however will go a step further and seek to establish how microfinance services offered my MFIs affect the performance of SMEs.

Table 6: Correlation results for relationship between micro credit and financial performance

		Micro credit	Financial performance
Micro credit	Pearson Correlation	1	.957**
	Sig. (2-tailed)		.000
	N	112	112
Financial Performance of micro enterprises	Pearson Correlation	.957**	1
	Sig. (2-tailed)	.000	
	N	112	112

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

The study found out that a significant positive relationship existed between micro credit and financial performance of micro enterprises.

SECTION FOUR: CONCLUSION AND RECOMMENDATIONS

CONCLUSIONS

Micro credit financing plays a bigger role in facilitating the growth of micro enterprises, improves the operations and contributes to the growth of micro enterprises, triggers and sustains the economic advance of the micro enterprises, helps to attract the new customers and increased sale and secures assets. Micro credit financing results to tensions on micro enterprises, limits benefits for market opportunities, results to increase in profits, increases sales revenue for micro enterprises and increase in customers for business products.

RECOMMENDATIONS

This study recommends the government to improve on micro finance support to monetary establishments.

- To reduce on the interest rates to enable the micro enterprises achieve their own objectives of obtaining loans.
- To revise the policy of financial lending which seems to be beaucratic hence affecting the performance of the micro enterprises.
- To increase the financial awareness to enable micro enterprises to access the financial support to increase their businesses.

- The study also recommends that future studies focus on particular micro credit terms factors to examine their influence on MSME.
- Micro finance institutions should focus on and improve the micro credit terms especially the duration of loan repayment as this was the main factor found to be significant in the study.

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