

**ANALYSING THE LOAN APPRAISAL PROCESS, LOAN TERMS, MONITORING,  
AND TECHNICAL SUPPORT AS DETERMINANTS OF LOAN PERFORMANCE  
AMONG SMALL AND MEDIUM ENTERPRISES IN UGANDA: A CASE STUDY  
OF BORROWERS AT THE MICROFINANCE SUPPORT CENTRE**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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**UGANDA CHRISTIAN  
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## DECLARATION

I, **Remigio Tumuhimbise**, hereby declare that the work presented in this dissertation report titled “*Analysing the loan appraisal process, loan terms, monitoring, and technical support as determinants of Loan Performance among Small and Medium Enterprises in Uganda: A Case Study of Borrowers at The Microfinance Support Centre*” is entirely my original effort. This dissertation is submitted to the Faculty of Business and Administration in partial fulfilment of the requirements for the award of a Master’s Degree in Business Administration at Uganda Christian University.

I further confirm that this dissertation report has not been submitted to any other institution of higher learning for any academic award. All information used in this research was collected and analysed specifically for the purposes of this study, and all sources have been appropriately acknowledged. I fully understand the implications of academic dishonesty and plagiarism and affirm that I have upheld the highest standards of academic integrity throughout the research process.



11/07/2025

Signature and date

## APPROVAL

I hereby certify that the dissertation report titled “ *Analysing the loan appraisal process, loan terms, monitoring, and technical support as determinants of Loan Performance among Small and Medium Enterprises in Uganda: A Case Study of Borrowers at The Microfinance Support Centre*” by **Remigio Tumuhimbise** was conducted under my supervision. The report has been thoroughly reviewed and is hereby approved for submission to the Faculty of Business and Administration in partial fulfilment of the requirements for the award of a Master’s Degree in Business Administration at Uganda Christian University.

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## **DEDICATION**

This dissertation is dedicated to my wife, Naturinda Justine; my parents-in-law; and my sister, Ms Gloria Atuhaire, in recognition of their unwavering support and encouragement throughout this academic journey.

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Figure 1: Conceptual framework presenting the relationships between the key variables in this study

## **LIST OF ABBREVIATIONS**

BoU	Bank of Uganda
EIF	European Investment Fund
FSME	Federation of Small and Medium Enterprises
GDP	Gross Domestic Product
MFIs	Microfinance Institutions
MSC	Microfinance Support Centre
NPLs	Non-Performing Loans
OECD	Organisation for Economic Co-operation and Development
SBA	Small Business Administration
SMEs	Small and Medium Enterprises
UGX	Uganda Shilling (currency of Uganda)
URA	Uganda Revenue Authority

## ABSTRACT

The financial performance of Small and Medium Enterprises (SMEs) remains critical for economic growth and poverty reduction in Uganda. Despite their significance, many SMEs continue to face challenges in sustaining satisfactory loan repayment performance. This study examined the determinants of loan performance among SMEs in Uganda, focusing on borrowers from The Microfinance Support Centre Limited (MSC). Specifically, the study assessed the influence of the loan appraisal process, loan terms, and monitoring and technical support on SME loan performance. A cross-sectional research design was adopted, employing both quantitative and qualitative approaches. Data were collected from 108 SME borrowers using structured questionnaires and from eight MSC management staff through key informant interviews. Quantitative data were analysed using descriptive statistics, Pearson correlation, and simple linear regression to examine relationships between variables. Qualitative data were subjected to thematic analysis to provide contextual interpretation of the quantitative findings. The results revealed that the loan appraisal process had a statistically significant and positive influence on SME loan performance ( $r = .479$ ,  $p < .01$ ), explaining 43.4 percent of the variance. Key factors included the thoroughness of financial analysis, accuracy in risk assessment, and transparency in credit evaluation. Loan terms also showed a strong positive relationship with loan performance ( $r = .639$ ,  $p < .01$ ), accounting for 58.4 percent of the variance, with interest rates, loan tenure, and repayment flexibility emerging as significant contributors. Furthermore, monitoring and technical support exhibited a moderate positive effect ( $r = .413$ ,  $p < .01$ ), explaining 35.9 percent of the variation in SME loan performance, with regular follow-ups and targeted business support identified as critical drivers. The study concludes that enhancing loan appraisal rigour, tailoring loan terms to SME financial realities, and strengthening monitoring and technical support mechanisms are essential for improving SME loan performance. It recommends targeted capacity-building for credit staff, improved loan restructuring processes, adoption of digital monitoring tools, and the development of sector-specific technical support packages for SMEs.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

The credit performance of Small and Medium Enterprises (SMEs) is crucial as it underpins economic growth and financial stability. SMEs depend on loans for expansion, innovation, and job creation, with strong credit performance ensuring their sustainability by minimising default risks (Gherghina, et al., 2020). Poor credit performance, however, can adversely impact both SMEs and the financial sector, undermining economic progress (World Bank, 2018). In Uganda, SMEs play a vital role in economic development by contributing to employment, income generation, and poverty alleviation. The Uganda Investment Authority (2022) reports that SMEs contribute 20% to the country's Gross Domestic Product (GDP) and account for 90% of the private sector. This study aimed to examine the factors that determine the loan performance of Small and Medium Enterprises (SMEs) in Uganda, with specific reference to borrowers from The Microfinance Support Centre Limited.

#### **1.2 Background of the Study**

Small and Medium Enterprises (SMEs) are widely recognized as essential drivers of economic development globally, contributing to employment creation, poverty reduction, and economic diversification. According to the Organisation for Economic Co-operation and Development (OECD, 2021), SMEs account for 99% of businesses and 70% of total employment in developed economies. In countries like the United States, SMEs benefit from robust financial ecosystems that include government-backed credit guarantees, advanced credit assessment frameworks, and widespread financial literacy programs. Similarly, in the European Union, mechanisms like the European Investment Fund (EIF) reduce credit risk, enabling SMEs to access affordable loans and drive innovation. Despite these systems, SMEs in advanced economies still face challenges such as market volatility and evolving regulatory requirements, underscoring the need for continuous financial system adaptation.

In Africa, SMEs play a transformative role in addressing pressing socio-economic challenges such as high unemployment and income inequality. The African Development Bank (AfDB, 2022) estimates that SMEs contribute over 50% to GDP and 60% of employment on the continent. However, accessing finance remains a critical barrier, with over 70% of SMEs unable to secure

sufficient credit. Factors such as limited collateral, high default risks, and informal business operations exacerbate these challenges. Governments and development partners have introduced initiatives, such as credit guarantee schemes and SME-focused financial inclusion programs, but implementation has been inconsistent. For instance, countries like South Africa and Kenya have made significant strides in financial inclusion, while others, including Uganda, struggle with informal sector dominance and inadequate regulatory frameworks.

Within East Africa, SMEs are integral to regional economic growth and integration, accounting for the majority of businesses and employment. Countries like Kenya and Rwanda have implemented innovative financial inclusion strategies, such as the adoption of mobile money services and public-private partnerships to support SME credit access. However, across the region, the lack of standardized credit evaluation systems and weak financial literacy among entrepreneurs remain significant barriers. The East African Community (EAC) has recognized the critical role of SMEs in regional trade and has prioritized policies aimed at strengthening access to finance for this sector. Nonetheless, the impact of these interventions varies by country, with Uganda facing persistent challenges due to high non-performing loans (NPLs) and inadequate SME support mechanisms.

In Uganda, SMEs are the backbone of the economy, contributing 20% to GDP and employing over 2.5 million people, according to the Uganda Investment Authority (UIA, 2022). SMEs dominate the private sector, accounting for over 90% of all enterprises. Despite their economic significance, SMEs face significant obstacles in accessing credit due to factors such as weak collateral, inconsistent credit histories, and poor financial management practices. Lending institutions also struggle with high default rates, which hinder their ability to expand credit offerings to SMEs. To address these issues, the government has implemented initiatives such as the Tier 4 Microfinance Institutions and Money Lenders Act (2016), which aims to formalize microfinance operations and enhance borrower protections. However, weak enforcement of the Act has limited its effectiveness, leaving gaps in transparency and accountability.

The Microfinance Support Centre (MSC), a government agency tasked with providing affordable credit to SMEs, plays a crucial role in Uganda's financial ecosystem. The MSC offers capacity-building resources alongside credit, aiming to enhance SME sustainability. Despite these efforts, the MSC faces significant operational challenges, including a Portfolio at Risk (PAR) of 85%,

which has curtailed its ability to issue new loans (MSC, 2023). Contributing factors include inadequate credit appraisal processes, weak loan monitoring systems, and external economic pressures such as inflation and post-pandemic recovery challenges. Additionally, many SMEs in Uganda lack the financial literacy and managerial skills needed to utilize credit effectively, leading to poor cash flow management and high default rates.

These challenges are further compounded by structural issues within the financial sector, such as limited access to credit information and the informal nature of many SMEs. Unlike developed economies, which benefit from established credit information systems and government-backed guarantees that reduce lending risks, Uganda's financial sector lacks the necessary infrastructure to support effective SME financing. Addressing this gap requires focused measures to improve credit access, promote financial literacy, and strengthen loan performance among SMEs. This study examined the factors influencing the credit performance of formal SMEs borrowing from the MSC, to inform the development of improved lending policies and support mechanisms to facilitate SME growth and strengthen the financial stability of lending institutions in Uganda.

### **1.3 Problem Statement**

The loan performance of formal Small and Medium Enterprises (SMEs) in Uganda poses significant challenges to their general performance, with high default rates undermining financial stability. SME non-performing loans (NPLs) have averaged 15% over the past five years, far exceeding the national average of 5.3% (Bank of Uganda, 2022), raising concerns about the financial management practices of SMEs and the effectiveness of lenders' credit assessment methods. The Microfinance Support Centre (MSC), tasked with supporting formal SMEs, is particularly exposed to these risks due to issues like limited collateral, poor cash flow, and inconsistent credit histories, which complicate loan monitoring and recovery (MSC, 2023).

Despite SMEs comprising over 90% of Uganda's private sector and contributing around 20% to GDP (UIA, 2022), many struggle with credit management, limiting their growth and sustainability. Additionally, external economic pressures, such as inflation, market volatility, and post-pandemic challenges, have further reduced SMEs' repayment capacity, with MSC reporting a Portfolio at Risk (PAR) of 85%, leading to the suspension of supporting new loan applications from SMEs. Weak enforcement of the Tier 4 Microfinance Institutions and Money Lenders Act (2016) also limits regulatory efforts to improve transparency and accountability among SMEs (RIM Initiative,

2023). Previous studies underscore key factors influencing SME loan performance, such as monitoring, technical support, loan appraisal, and loan terms. Monitoring has been shown to improve repayment rates (Kayembe et al., 2021), while technical support enhances borrowers' financial stability (Sinha & Ghosh, 2022). Loan appraisal, particularly detailed financial assessments, is crucial for reducing defaults (Bhat & Lone, 2017). Additionally, flexible loan terms, while beneficial in managing cash flow, require careful oversight to avoid borrower complacency (Giné & Karlan, 2014). However, existing research predominantly focuses on SMEs dealing with Private and Profit centred Financial Institutions at a global level, leaving a significant gap in understanding the loan performance of SMEs operating locally in Uganda, and especially those borrowing from Government institutions, which are not profit oriented like the Microfinance Support Centre (MSC). Limited studies have addressed the unique challenges faced by SMEs receiving funding from Government owned financial institutions in Uganda, particularly with regard to MSC borrowers. This study sought to address this gap by focusing on the determinants of loan performance within this specific context.

## **1.4 Objectives of the Study**

### **1.4.1 General Objective**

To examine the factors that determine loan performance of SMEs in Uganda, with a specific focus on the borrowers from The Microfinance Support Centre Limited.

### **1.4.2 Specific Objectives**

- i. To evaluate the effect of the loan appraisal process on the loan performance of SMEs in Uganda.
- ii. To assess the influence of loan terms on the credit performance of SMEs in Uganda.
- iii. To examine the effect of monitoring and technical support provided by lenders on the loan performance of SMEs in Uganda.

## **1.5 Research Questions**

- i. What is the effect of the loan appraisal process on the loan performance of SMEs in Uganda?
- ii. What is the influence of loan terms on the credit performance of SMEs in Uganda?

- iii. What is the effect of monitoring and technical support provided by lenders on the loan performance of SMEs in Uganda?

### **1.6 Study Hypotheses (Null)**

- i. H<sub>0</sub>: The loan appraisal process has no significant effect on the loan performance of SMEs in Uganda.
- ii. H<sub>0</sub>: Loan terms do not significantly influence the credit performance of SMEs in Uganda.
- iii. H<sub>0</sub>: Monitoring and technical support provided by lenders have no significant effect on the loan performance of SMEs in Uganda.

### **1.7 Theoretical Background**

This study was supported by two key theories that provide a foundation for understanding the factors influencing loan performance of Small and Medium Enterprises (SMEs) in Uganda. These theories are Credit Risk Theory and Asymmetric Information Theory, both of which address critical aspects of lending and borrower behaviour that are central to the proposed research.

#### **1.7.1 Credit Risk Theory**

Credit Risk Theory focuses on understanding the potential risks involved in lending, particularly the risk that borrowers will default on their loans. Developed as part of the broader risk management framework, this theory provides tools for lenders to assess and quantify credit risk using borrower characteristics such as credit history, collateral, and external economic factors (Crosbie & Bohn, 2003). The theory was introduced to help financial institutions make informed decisions about lending, aiming to mitigate losses through effective risk assessment and management strategies. It emerged as a crucial model for banks and other lending institutions to ensure financial stability and reduce loan defaults.

Credit Risk Theory assumes that lenders can assess the risk of a loan based on various measurable factors such as credit scores, collateral value, and historical repayment patterns (Merton, 1974). The theory assumes that borrowers behave rationally and that their past financial behavior is a reliable indicator of future actions. While this model has been instrumental in understanding and managing credit risk, it has faced criticism for not fully accounting for subjective factors such as borrower trustworthiness and market volatility. Recent studies have expanded the theory to include

softer aspects of credit risk, such as the borrower-lender relationship and unforeseen economic factors (Black & Scholes, 1973).

Credit Risk Theory is directly applicable to this study as it underpins the key variables in the research, such as the Loan Appraisal Process, Loan Terms, and their impact on loan performance. By assessing borrower risk through financial analysis, credit history, and collateral, the study examines how these factors influence loan repayment and default rates among SMEs in Uganda. The theory also highlights the importance of managing risk through loan structuring, which is relevant to understanding the role of loan terms like interest rates and repayment schedules in loan performance. Furthermore, the theory's emphasis on monitoring and risk management is aligned with the study's exploration of the role of technical support and monitoring in improving loan performance and reducing defaults.

### **1.7.2 Asymmetric Information Theory**

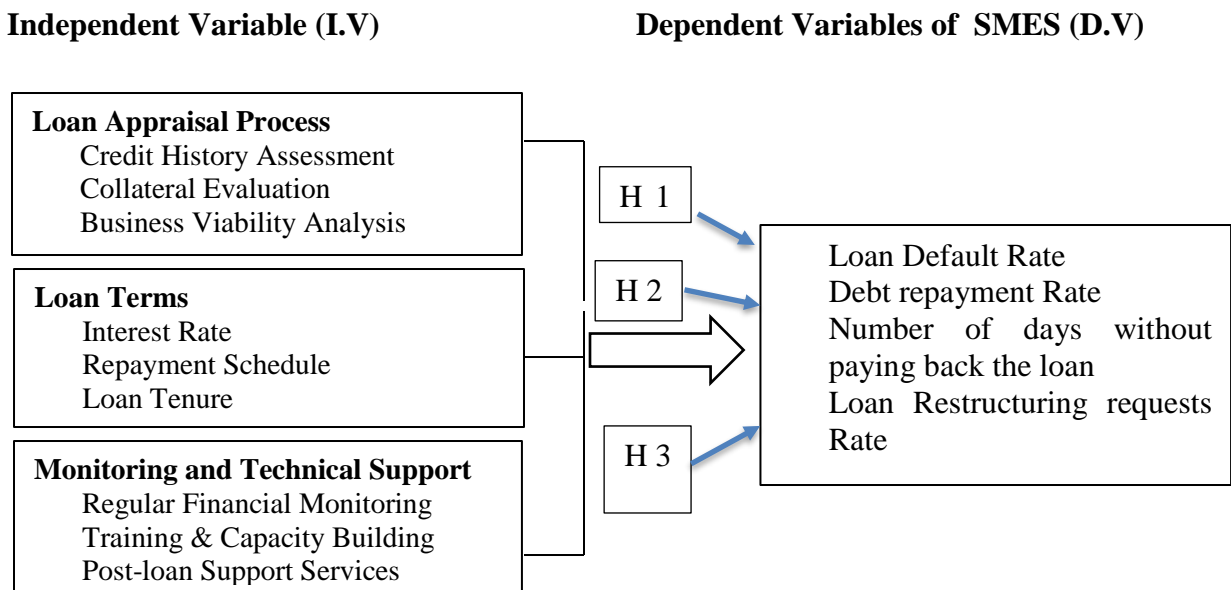
Asymmetric Information Theory, developed by George Akerlof in 1970, explores how unequal access to information between two parties in a transaction can lead to suboptimal outcomes. In financial markets, this imbalance often results in situations where lenders have less information about a borrower's financial health, leading to adverse selection and moral hazard (Akerlof, 1970). Akerlof's work on the "Market for Lemons" demonstrated how (lenders) could be at a disadvantage when making decisions in markets where ~~sellers~~ (borrowers) hold more or better information. This theory has been widely applied to understand the dynamics of lending and borrowing, particularly in contexts like microfinance where the lender's information is often limited or unreliable.

The central assumption of Asymmetric Information Theory is that one party (the borrower) has more or better information about their own financial situation than the other party (the lender). This imbalance can lead to issues such as adverse selection, where lenders unintentionally provide loans to high-risk borrowers due to lack of information, and moral hazard, where borrowers may take on excessive risk after securing a loan because they are shielded from its full consequences (Stiglitz & Weiss, 1981). Critics have pointed out that while this theory effectively explains some market inefficiencies, it does not fully capture the mechanisms that financial institutions use to reduce information gaps, such as credit ratings, collateral, or third-party assessments (Stiglitz & Weiss, 1981).

Asymmetric Information Theory. The theory helps explain how information gaps during the Loan Appraisal Process may affect lenders' ability to assess creditworthiness accurately, leading to higher risks of default. It also ties into the study's examination of Loan Terms, as an improper assessment due to asymmetric information may result in inappropriate loan conditions that hinder the borrower's ability to repay. Additionally, the theory supports the need for effective Monitoring and Technical Support, as these mechanisms help reduce the information asymmetry by providing lenders with up-to-date financial data and supporting borrowers with the necessary tools to manage their loans successfully.

### 1.8 Conceptual Framework

This section presents the conceptual framework illustrating the relationship between loan appraisal, loan terms, monitoring and support, and their collective influence on SME loan performance in Uganda.



*Source: Adapted from Nzibonera and Waggumbulizi (2020), Aliija and Muhangi (2017), Mwakujonga and Komba (2024), and modified by the researcher.*

**Figure 1: Conceptual framework presenting the relationships between the key variables in this study**

The conceptual framework above illustrates the relationship between the independent variables (I.V) and the dependent variable (D.V), which in this case is the loan performance of SMEs. The

Loan Appraisal Process, a key dimension of the I.V., includes factors like credit history assessment, collateral evaluation, and business viability analysis, all of which help lenders evaluate the creditworthiness and potential risks associated with lending to SMEs. The Loan Terms, which encompass interest rates, repayment schedules, and loan tenure, directly affect the affordability and sustainability of the loan for SMEs. Additionally, Monitoring and Technical Support, including regular financial monitoring, training and capacity building, and post-loan support services, play a critical role in helping SMEs manage and repay their loans effectively. The loan performance of SMEs (D.V) is measured by indicators such as the loan default rate, debt repayment rate, the number of days without paying back the loan, and the rate of loan restructuring requests. These factors collectively assess the ability of SMEs to meet their loan obligations and maintain financial stability.

### **1.9 Justification for the Study**

**SME Economic Importance and Credit Challenges;** SMEs are vital to Uganda’s economy but face major challenges in accessing and utilizing credit effectively—understanding loan performance is key to supporting their growth and sustainability.

**Loan Defaults and Financial Stability;** High default rates among SMEs threaten microfinance institutions like the MSC; analysing determinants of loan performance helps improve risk management and protect financial sector stability.

**Policy Impact and Institutional Relevance;** Insights from MSC borrowers informs better lending policies, credit appraisal systems, and public fund utilization, aiding both institutional effectiveness and national policy formulation.

**Addressing Knowledge Gaps and Enhancing Inclusion;** This study fills a research gap by providing localized, empirical evidence on loan performance, guiding improved lending practices, financial inclusion, and entrepreneurial capacity-building.

### **2.0 Significance of the Study**

This study provides valuable findings for multiple stakeholders involved in SME financing and credit management in Uganda. For government policymakers, the results may offer practical

evidence to guide the formulation and revision of policies and regulatory frameworks aimed at strengthening SME access to finance and improving loan performance. The study contributes to ongoing national efforts to support SME development, economic growth, and financial sector stability.

For Microfinance Institutions (MFIs), particularly the Microfinance Support Centre, the study offers insights into how loan appraisal processes, loan terms, and monitoring and technical support influence SME loan performance. These findings inform institutional credit risk management strategies, lending policy adjustments, and the design of borrower support mechanisms to reduce default rates and improve portfolio quality.

For SME owners and managers, the study offers practical knowledge on how internal and external factors affect their loan repayment behaviour. The findings may highlight areas where SMEs can strengthen financial management, business planning, and engagement with lenders to improve their creditworthiness and repayment discipline.

For financial institutions and investors, the study provides a clearer understanding of SME credit risk profiles and the determinants of loan performance. This knowledge supports the design of financial products, loan structures, and risk mitigation strategies tailored to SME needs, promoting sustainable lending practices.

For academia and researchers, the study contributes to the growing body of knowledge on SME credit performance in Uganda. It generates empirical evidence on how institutional lending practices and borrower characteristics interact to influence loan outcomes, offering a basis for further academic inquiry into SME financing, credit risk management, and financial inclusion within Uganda and similar developing country contexts.

## **1.10 Scope of the Study**

### **1.10.1 Content Scope**

The study focused on three key determinants of SME loan performance at The Microfinance Support Centre in Uganda: loan appraisal process, loan terms, and monitoring and technical support. Loan performance was assessed through indicators such as default rates, repayment consistency, days in arrears, and loan restructuring frequency. This focus addressed empirical gaps

identified in previous studies, which had not sufficiently examined the combined effect of these variables within the Ugandan SME lending context.

### **1.10.2 Geographical Scope**

The study was geographically limited to SMEs operating in various districts across Uganda that had accessed credit facilities from MSC. The selection of respondents covered a representative sample of SMEs from different regions where MSC operates, thereby capturing variations in borrower experiences and institutional lending practices across the country.

### **1.10.3 Time Scope**

The study covered the period from 2019 to 2024. This timeframe was chosen to reflect recent trends and developments in SME lending and loan management at MSC, allowing for an analysis of loan performance over a five-year period that coincided with both pre-pandemic and post-pandemic lending conditions in Uganda.

## **1.11 Operational Definitions of Key Terms**

In this study, the following key terms will carry these operational definitions to ensure clarity and consistency in the application of key terms throughout the study, providing a clear understanding of the concepts that drive the research:

Loan Appraisal Process refers to the procedures followed by financial institutions to assess the creditworthiness of an SME before granting a loan. This involves evaluating the borrower's credit history, collateral, and the overall business viability to determine the associated risks.

Loan Terms encompass the conditions under which a loan is provided, such as the interest rate, repayment schedule, loan tenure, and collateral requirements. These terms define the financial obligations and expectations for the borrower over the duration of the loan.

Monitoring and Technical Support involves the ongoing assistance and guidance provided by lenders to borrowers after the loan has been disbursed. This includes regular financial monitoring, training and capacity building, and post-loan support services, aimed at helping borrowers manage and repay their loans effectively.

Loan Performance refers to the ability of an SME to meet its loan obligations. It is measured by indicators such as the loan default rate, debt repayment rate, number of days without paying back the loan, and the rate of loan restructuring requests, which reflect the borrower's repayment behaviour and financial health.

Small and Medium Enterprises (SMEs) are businesses with a limited scale of operations, typically defined by the number of employees (fewer than 100) and annual revenue. In Uganda, SMEs are crucial to economic development, contributing significantly to employment and poverty reduction.

In conclusion, the chapter started with the major areas covered, then a presentation of back ground of the study, introduction, discussions on SMEs from a global, continental, Regional and Local/National level, Importance of SMEs in the development arena. The chapter further presented the purpose of the study, the study objectives, and the research hypotheses. This was followed by the scope of the study, and research significance. Ended with conceptual, theoretical framework that guided the study, and definitions of the operational key terms

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews existing literature on factors influencing SMEs loan performance, examining prior studies, theoretical foundations, and research findings to provide context for the current study. It also identifies gaps in the literature that this research aims to address.

#### 2.2 Theoretical Review

This section reviews the two theories that guided the study.

##### 2.2.1 Credit Risk Theory

Credit Risk Theory, developed through work like Merton's (1974) model on corporate debt, provides a framework for managing borrower default risk, stressing systematic creditworthiness assessment. It posits that factors such as a borrower's financial position, collateral adequacy, and economic conditions impact credit performance. Later studies, including Brown and Moles (2016), explore the theory's reliance on rational borrower-lender behaviour, information asymmetry, and risk diversification, noting that incomplete borrower information often leads to adverse selection and moral hazard.

The theory's strengths lie in structured risk assessment, essential for lenders like Uganda's Microfinance Support Centre. Studies by Adegbe and Otitolaiye (2020) and Saunders and Allen (2010) demonstrate its practical application in reducing defaults and managing portfolios, while research by Chijoriga (2011) and Di Salvo & Sbracia (2012) shows its impact on lending practices and SME loan performance through loan appraisal and monitoring. However, Critics like Stiglitz and Weiss (1981) highlight limitations, arguing the theory's assumptions of rationality and quantitative focus may overlook qualitative aspects like borrower relationships and external shocks.

##### 2.2.2 Asymmetric Information Theory

Asymmetric Information Theory, introduced by Akerlof (1970) and expanded by Spence (1973) and Stiglitz (1975), addresses situations where one party in a transaction has more information than the other, leading to decision-making imbalances. In credit markets, lenders often know less

about a borrower's financial status and repayment ability than the borrower, resulting in adverse selection and moral hazard. Akerlof (1970) illustrated that information asymmetry leads to inefficiencies, meaning riskier borrowers are more likely to seek loans, while lenders face challenges in enforcing repayment terms.

The theory's strength is its ability to explain credit market failures, influencing modern financial theories. Stiglitz and Weiss (1981) applied it to credit markets, showing how asymmetric information leads to credit rationing. Bester (1985) examined how collateral and interest rates help reduce information asymmetry. In Uganda, Asymmetric Information Theory helps explain high loan default rates, with studies by Conning and Udry (2007) highlighting how community-based networks reduce information risks in developing economies. However, the theory has limitations. Critics argue it oversimplifies borrower-lender interactions. Berger and Udell (2006) noted that technologies and credit scoring reduce information asymmetry, improving credit access. Mach and Wolken (2012) pointed out that SMEs use informal mechanisms like social capital to overcome informational gaps.

The integration of Credit Risk and Asymmetric Information Theories provides a strong foundation for this study. Asymmetric Information Theory explains how information gaps between lenders and borrowers' complicate creditworthiness assessments, raising default risks and portfolio at risk (PAR). Credit Risk Theory complements this by focusing on risk identification and management, essential for setting credit terms and optimizing debt recovery. Together, these theories guide effective credit risk management, helping lenders improve SME credit performance through enhanced information and risk management practices.

## **2.3 Empirical Review**

### **2.3.1 Loan Appraisal Process and the loan Performance of SMEs**

The role of financial analysis in determining loan success has been widely discussed in international contexts. Bhat and Lone (2017), for example, established that detailed financial assessments enabled microfinance institutions (MFIs) to better gauge borrowers' repayment capacities, particularly in informal sectors characterised by irregular income flows. Their study demonstrated that institutions applying rigorous financial analysis experienced fewer defaults compared to those with lenient evaluation procedures. Similarly, Nawai and Shariff (2012),

examining microfinance programmes in Malaysia, found that inadequate financial analysis often led to loan amounts that exceeded the borrower's capacity, triggering higher default rates. While these findings provide useful global perspectives, their direct applicability to the Ugandan SME lending context remains limited. Unlike Malaysia and parts of South Asia where formal financial documentation is relatively widespread among SMEs, most Ugandan SMEs operate informally, with poor record-keeping and limited financial reporting capacity. This contextual difference creates a research gap regarding how loan appraisal processes are adapted within Ugandan microfinance institutions such as The Microfinance Support Centre (MSC) to suit borrowers with minimal financial records.

In contexts with limited access to formal financial documentation, some studies have suggested alternative appraisal tools. Abiola and Ojo (2012), focusing on Nigerian MFIs, reported that community-based evaluations and household visits were frequently used in place of formal documentation. However, these informal methods were noted to carry inherent risks of subjectivity and inaccuracy, which could lead to poor credit decisions and affect loan performance. Similarly, Roslan and Abd Karim (2009), in Malaysia, found that MFIs using cash flow projections and credit scoring systems reported lower non-performing loan (NPL) rates. For Ugandan SMEs, where most financial data remain undocumented and where informal business models prevail, it is unclear to what extent institutions like MSC rely on community-based assessments, cash flow projections, or emerging credit scoring models during appraisal. This gap underscores the need for the present study to examine the specific appraisal methodologies employed by MSC and how these influence loan performance among Ugandan SMEs operating in largely informal settings.

Effective risk assessment is another dimension of the loan appraisal process that has been found to significantly influence loan performance. Al-Azzam, Hill, and Sarangi (2012), working in Jordan, demonstrated that integrating borrower characteristics with external market conditions improved repayment rates, especially in volatile environments. Similarly, Ledgerwood (2013), in her global study on MFIs, emphasised that balanced risk assessments considering both internal borrower profiles and external economic risks led to reduced default rates. However, these studies were conducted in regions with different socio-economic structures and credit market dynamics compared to Uganda. The unique economic challenges faced by SMEs in Uganda, such as frequent market shocks, unstable cash flows, and limited business insurance mechanisms, present an under-

researched context. There remains insufficient evidence on how risk assessment frameworks at MSC incorporate both borrower-specific and external environmental factors when evaluating SME loan applications. The current study therefore seeks to address this empirical gap by critically assessing MSC's risk appraisal practices in relation to SME loan performance within the Ugandan financial environment.

The reliance on qualitative risk assessment tools, while common in many African microfinance settings, has been criticised for introducing subjectivity and inconsistencies in loan decisions. Ademola and Olalekan (2015), in their study of Nigerian MFIs, noted that qualitative methods, such as personal interviews, often led to appraisal bias, affecting loan repayment outcomes. In contrast, Asiedu-Mante (2011), studying Ghanaian MFIs, recommended a mixed-method approach, combining quantitative techniques like credit scoring with qualitative borrower interviews to enhance the reliability of risk assessments. Given that Uganda shares structural similarities with these African economies—such as informality, low financial literacy among SME borrowers, and limited access to credit information—questions remain about how institutions like MSC balance qualitative judgment with quantitative risk appraisal techniques. The existing literature does not adequately document how Ugandan MFIs, and MSC in particular, mitigate appraisal subjectivity while ensuring accurate borrower evaluation. This creates a knowledge gap that the present study aims to fill by examining the effectiveness and balance of appraisal tools used at MSC.

Loan appraisal processes also extend to evaluating the borrower's business viability, particularly the realism of business plans and financial projections. Shane and Delmar (2014) established that entrepreneurs with well-structured and realistic business plans exhibited better loan repayment behaviours, largely due to enhanced financial discipline and strategic focus. Their research, however, was situated in high-income country contexts where SME borrowers typically have access to professional business development services. In contrast, SMEs in Uganda often operate without formal business plans, and when plans exist, they are frequently donor-driven rather than entrepreneur-generated. This limits their utility during the loan appraisal stage. The present study therefore seeks to explore how MSC navigates the appraisal of business plans and financial projections within the Ugandan SME context, where formal planning practices remain underdeveloped.

Conversely, weak or overly optimistic appraisals have been found to increase default risks. Kwong et al. (2022), in a study across sub-Saharan Africa, observed that business plans lacking detailed market analysis and realistic cash flow projections often contributed to poor loan performance. While their study captured broader trends in the region, it did not specifically examine Uganda or focus on SME borrowers of state-backed microfinance institutions like MSC. Given the institutional mandate and operational scale of MSC, this study uniquely focuses on how appraisal inaccuracies at MSC affect SME loan performance. By concentrating on MSC's specific credit evaluation processes, the study addresses a critical empirical gap in the Ugandan microfinance literature, offering insights into institutional appraisal practices and their direct impact on SME credit outcomes.

### **2.3.2 Loan Terms and the loan Performance of SMEs**

Research on SME loan performance has consistently shown that flexible repayment schedules play a critical role in influencing repayment outcomes. Field et al. (2013), through a randomised control trial in India, found that microfinance clients offered flexible repayment schedules reported higher repayment rates compared to those operating under rigid weekly repayment plans. The positive effect was attributed to borrowers' improved ability to manage cash flows, especially where incomes were irregular. Giné and Karlan (2014), in the Philippines, further observed that grace periods before loan repayment commencement enhanced borrower success by allowing investment of funds into income-generating activities. However, both studies cautioned that excessive repayment flexibility could potentially encourage borrower complacency. While these findings are relevant, they were drawn from Asian microfinance settings, characterised by different regulatory and institutional frameworks compared to Uganda. The current study addresses this contextual gap by focusing on how the Microfinance Support Centre (MSC) in Uganda structures its loan repayment schedules for SMEs and whether these scheduling mechanisms contribute to loan performance within the Ugandan financial and regulatory environment.

In addition to repayment flexibility, the potential negative effects of excessive leniency in loan terms have been noted in other developing countries. Attanasio et al. (2015), working in Mongolia, reported that overly flexible repayment terms, when not matched with effective monitoring and enforcement mechanisms, often led to relaxed borrower discipline and higher default rates. Their findings suggest that flexibility must be balanced with mechanisms that reinforce borrower

accountability. However, this recommendation was generated in a Central Asian context with different SME financing structures and borrower characteristics from those found in Uganda. Within the Ugandan context, there remains limited empirical evidence on how MSC ensures an appropriate balance between repayment flexibility and borrower discipline among SMEs. This study therefore seeks to fill this gap by examining whether MSC's loan terms successfully balance borrower support with institutional credit risk control.

The structure and level of interest rates have also been widely reported as significant determinants of SME loan performance. Chikwira et al. (2022), in their study of Nigerian MFIs, established that while high interest rates were necessary for covering operational costs, they imposed repayment burdens on low-income borrowers, increasing default risks. Similarly, Armendáriz and Morduch (2010), using cross-regional data, observed that lower interest rates improved borrower repayment performance but often threatened MFI sustainability by reducing operational revenue. While these studies provide useful benchmarks, their focus on Nigeria and broader global MFI environments limits their direct relevance to Uganda's public microfinance landscape. The current study therefore investigates how the interest rate policies at MSC influence SME loan performance in Uganda, considering the country's unique economic conditions and SME credit needs.

Furthermore, the design of interest rate models has been linked to loan repayment success across different settings. Cull, Demirgüç-Kunt, and Morduch (2009) found that MFIs employing declining-balance interest models experienced lower default rates compared to those using flat-rate structures, as declining models reduce borrower obligations over time, enhancing affordability. In contrast, Rosenberg, Gonzalez, and Narain (2009), drawing from Latin American and Sub-Saharan African MFIs, cautioned that extremely low interest rates could create operational inefficiencies and increase delinquency rates due to insufficient revenue for monitoring activities. However, these studies did not focus on Uganda's public microfinance institutions, which operate under government-mandated interest rate frameworks and face unique operational cost constraints. This study therefore focuses on MSC to examine how its interest rate structures affect SME loan performance in Uganda, providing evidence from a public sector lender in a low-income economy.

The relationship between loan terms and SME loan performance also extends to other dimensions such as loan amount, grace periods, and conditionalities attached to disbursement. Wondirad

(2020), studying MFIs in Ethiopia, noted that increased competition among lenders often led to weakened borrower screening processes and overly relaxed loan conditions. Although this study offers insights into credit market dynamics in East Africa, it does not address the situation within Uganda's semi-monopolistic public lending institutions like MSC. The current study is therefore necessary to examine how MSC designs its loan terms in the absence of high levels of competition, and how these terms affect SME repayment behaviour.

Additionally, Assefa, Hermes, and Meesters (2013), examining multiple microfinance markets, found that excessive competition led to borrower over-indebtedness and poor loan performance due to relaxed lending standards. While their findings highlight important sectoral risks, Uganda's SME financing environment, especially at MSC, is characterised by relatively controlled loan disbursement processes with limited market-driven competition. Given this difference, the present study seeks to explore how MSC mitigates the risk of loan overexposure among SMEs despite the absence of external competitive pressures, thereby addressing a contextual gap not examined by prior research.

### **2.3.3 Monitoring and Technical Support and the loan Performance of SMEs**

Literature on SME loan performance consistently demonstrates that frequent borrower monitoring plays a critical role in enhancing loan repayment rates and reducing default risks. Regular monitoring enables lenders to remain informed about borrowers' operational and financial conditions, allowing early identification of repayment challenges. Kayembe et al. (2021), in a study of microfinance clients in Malawi, found a positive association between monitoring frequency and loan repayment discipline. Similarly, Nakitende (2019), in research on Ugandan microfinance clients, observed that SMEs receiving regular follow-ups from lenders demonstrated improved repayment performance due to enhanced accountability and trust between borrowers and lenders. However, both studies largely focused on privately owned microfinance institutions with different operational mandates compared to Uganda's public-sector lender, the Microfinance Support Centre (MSC). The current study addresses this contextual gap by specifically investigating how MSC's monitoring practices influence SME loan performance within a government-driven credit delivery framework.

Nevertheless, while the benefits of frequent monitoring are widely acknowledged, the associated operational costs remain a critical concern for lending institutions. Migwi (2013), examining

commercial banks in Kenya, reported that increased monitoring improved loan recovery but also imposed financial and logistical strain on lenders. Lamichhane and Lama (2023), studying small MFIs, similarly noted that excessive monitoring efforts can overextend staff and operational budgets, potentially undermining institutional sustainability. In Uganda, such resource constraints are especially pertinent for MSC, which operates with limited field staff to cover a national SME loan portfolio. Despite this operational reality, there remains limited empirical evidence on how MSC balances the need for regular monitoring with its resource limitations. This study fills this gap by exploring how MSC's monitoring frequency and delivery mechanisms affect SME loan performance, within the institution's existing capacity constraints.

Beyond monitoring, technical support from lenders has been identified as a vital factor in improving SME loan performance. Technical support interventions such as financial literacy training, business management coaching, and record-keeping assistance have been linked to stronger repayment outcomes. Sinha and Ghosh (2022), in a study of MFIs in India, found that clients who received business management support demonstrated better loan servicing behaviour. Danga and Yusuph (2019), working with SMEs in Tanzania, observed that targeted financial planning and inventory management training significantly improved SME repayment rates. However, these studies were conducted in private-sector microfinance contexts, with limited reference to publicly funded lenders operating under government development mandates like MSC in Uganda. The current study is therefore unique in examining the effect of technical support interventions provided by a public lender, offering context-specific evidence on their contribution to SME loan performance in Uganda.

The literature further shows that ongoing monitoring and technical support play a complementary role in strengthening SME loan performance. Bruton et al. (2021), in their global study of microfinance practices, demonstrated that SMEs receiving continuous lender engagement, including progress tracking and advisory support, recorded fewer defaults and showed greater financial discipline. While these findings are useful, they do not account for the structural and policy context of Uganda's MSC, which operates under public sector performance targets and resource allocation frameworks. This study responds to this gap by examining how continuous monitoring and technical support are practically implemented within MSC and how these activities affect SME loan repayment outcomes in Uganda's public microfinance environment.

In addition, technical support through training in business management, marketing, and financial control has been shown to strengthen SMEs' operational capacity, leading to improved loan performance. Honig (2014), studying SMEs in South Africa, found that borrowers who received post-loan business advisory support exhibited stronger loan repayment behaviour compared to those who only underwent pre-loan screening. However, Honig's work was set in a private-sector and largely urban SME context, which contrasts with MSC's focus on diverse borrower segments across both urban and rural Uganda. This creates a knowledge gap regarding how post-disbursement technical support offered by MSC influences SME loan performance, particularly among Uganda's rural-based and low-income SMEs. The present study therefore provides empirical evidence on this relationship, contributing new knowledge specific to Uganda's public sector credit delivery model.

#### **2.4 Summary of Literature and Research Gap**

The literature on loan performance in SMEs highlights several critical factors, including the loan appraisal process, loan terms, monitoring, and technical support. Effective loan appraisal, which incorporates comprehensive financial assessments and risk evaluation, reduces default rates by aligning loan amounts and repayment capabilities with borrowers' financial health. Flexible loan terms, such as adjustable repayment schedules and reasonable interest rates, contribute positively to loan performance, particularly when they are tailored to borrowers' cash flow patterns. Furthermore, frequent monitoring and technical support, such as financial literacy and business management training, enhance borrower accountability and financial stability. However, despite these insights, a notable research gap exists in Uganda's microfinance sector, where studies are scarce compared to other regions like Tanzania and Kenya. Localized research is necessary to understand the unique challenges and opportunities faced by Ugandan SMEs, helping to develop more effective strategies to improve loan performance in this context.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter presents the methodology that guided the investigation of factors influencing the loan performance of SMEs in Uganda, with a specific focus on The Microfinance Support Centre (MSC). It describes the research design, study area, target population, sampling techniques, data collection methods, and data analysis procedures. These components were structured to ensure methodological rigour, accuracy, and validity in addressing the study objectives.

#### 3.2 Research Design

This study employed a cross-sectional research design to examine the factors influencing the loan performance of SMEs in Uganda, with a focus on The Microfinance Support Centre Limited. This design was selected because it is cost-effective and efficient, allowing the collection of data at a single point in time to capture critical variables such as monitoring, technical support, loan appraisal, and market stability (Fischer et al., 2023; Asenahabi, 2019). The cross-sectional approach was considered appropriate for identifying relationships between variables without requiring long-term follow-up. Furthermore, the study adopted a mixed-methods approach, combining qualitative interviews and focus groups with quantitative surveys. This methodological choice was intended to provide a balanced and comprehensive analysis of the determinants of SME loan performance (Fischer et al., 2023). While the quantitative data allowed for statistical examination of patterns and relationships, the qualitative data offered contextual depth and a better understanding of the institutional and borrower-level dynamics at play.

#### 3.3 Study Population

The study population refers to the entire group of individuals or entities relevant to the research from which conclusions can be drawn (Mishra & Alok, 2022). For this study, the population comprised all SME borrowers of The MSC, totalling 1,080 borrowers, 3.4 Sample Size and Selection

The sample size was determined in accordance with the Morgan and Krejcie (1970) table, which provides scientifically recommended sample sizes based on known population figures. From the total SME population of 1,080 borrowers, a sample of 108 SMEs was selected, and then 8 MSC

staff participated in giving qualitative information. This approach was chosen to ensure both borrower-level and institutional perspectives were adequately captured in relation to the study objectives.

**Table 3.1: Sample Selection of Respondents and Sampling Procedures**

Category	Population	Sample	Sampling Procedure
SMEs	1,080	108	Simple random sampling
Staff of MSC participants	8	8	
<b>Total</b>	<b>1,080</b>	108	

*Source: MSC HR Records, 2024*

### 3.5 Sampling Technique and Procedure

Sampling involves selecting a subset from a larger population relevant to the research (Mishra & Alok, 2022). In this study, both simple random sampling and purposive sampling were applied to select respondents from SMEs and MSC staff, respectively.

#### 3.5.1 Simple Random Sampling

Simple random sampling, a probability technique, ensures that every member of the population has an equal chance of selection, minimising selection bias (Mishra & Alok, 2022). This technique was used to select SME borrowers from the MSC. By giving each borrower an equal opportunity to participate, this method enhanced the representativeness and reliability of the research findings. The approach was appropriate for this study because it reduced sampling errors and allowed generalisation of the findings to the wider population of SMEs at MSC.

#### 3.5.2 Purposive Sampling

Purposive sampling was applied to select senior management staff from MSC. This non-probability technique involves deliberately selecting respondents based on their expertise, roles, and relevance to the research objectives (Mishra & Alok, 2022). Senior staff were chosen because of their in-depth knowledge of credit management policies, appraisal procedures, loan monitoring strategies, and SME support mechanisms at MSC. Their insights were essential for capturing institutional perspectives on factors affecting SME loan performance.

### **3.6 Data Collection Methods and Instruments**

Data collection methods refer to the techniques used to gather information necessary for addressing research questions, testing hypotheses, and assessing outcomes (Cohen et al., 2018). This study employed two main data collection methods to examine factors influencing SME loan performance at The Microfinance Support Centre Limited, with specific instruments tailored to each respondent category.

#### **3.6.1 Questionnaire/Survey Method**

The questionnaire or survey method involved the use of structured questions to collect quantitative data from respondents (McLeod, 2023). This method was chosen for its cost-effectiveness and efficiency in gathering large-scale data, making it appropriate for collecting information from SME borrowers on issues such as monitoring support, credit appraisal, and loan terms. The main data collection instrument was a self-administered questionnaire (SAQ), where SME respondents independently completed structured questions (Leon et al., 2022). The SAQ ensured participant confidentiality and standardisation of responses. It comprised closed-ended questions measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), designed to capture perceptions on the study variables. Nominal scales were used for demographic characteristics (Landau & Everitt, 2004), while ordinal scales assessed borrower opinions (Creswell, 2009; Amin, 2005). SMEs were selected as the target respondents for the questionnaire because their owners or managers are directly involved in loan utilisation, business management, and loan repayment processes. Their feedback provided essential quantitative data on how loan appraisal, loan terms, and monitoring and technical support influenced their loan performance.

#### **3.6.2 Interview Method**

The interview method, a qualitative approach, involved direct engagement with respondents to capture detailed perspectives and institutional experiences (George, 2022). This method was selected to generate in-depth insights that could complement the quantitative findings from SMEs. It specifically targeted senior management staff at The Microfinance Support Centre who are directly responsible for credit appraisal, loan monitoring, technical support provision, and overall loan management. The primary instrument used for this method was a structured interview guide comprising open-ended questions aligned with the study objectives (George, 2022). The guide ensured consistency across interviews while allowing respondents to elaborate on institutional

practices, operational challenges, and policy frameworks influencing SME loan performance. The researcher targeted MSC staff for interviews because they possess expert knowledge of internal lending procedures, credit evaluation strategies, risk management approaches, and SME client engagement practices. Their perspectives provided essential institutional-level qualitative data to explain and contextualise the borrower-level quantitative findings obtained from the SMEs.

### **3.7 Data Sources**

This study used both primary and secondary data sources to obtain comprehensive information on the factors affecting loan performance at The Microfinance Support Centre Limited.

Primary data were collected through structured questionnaires administered to SME owners and managers, and semi-structured interviews conducted with MSC officials. The primary data collection focused on aspects such as financial management, collateral availability, loan terms, monitoring practices, and external factors influencing SME loan performance.

Secondary data were obtained from institutional documents including financial reports, credit records, and other relevant internal records at MSC. Additional secondary data were sourced from existing literature on SME financing, loan performance, and microfinance practices, including journal articles, policy documents, and previous research studies. These secondary sources provided background context on loan default rates, SME risk profiles, and the broader economic conditions influencing SME operations in Uganda during the study period. Together, the integration of primary and secondary data ensured a well-rounded and contextually informed analysis of the determinants of SME loan performance.

### **3.8 Quality Control**

Quality control ensured the reliability and validity of the data, minimising errors and enhancing credibility (Sekaran & Bougie, 2010). The study undertook specific measures to assess both validity and reliability of the research instruments.

#### **3.8.1 Validity**

Validity was evaluated using the Content Validity Index (CVI), which assessed the extent to which the questionnaire items accurately represented the intended study constructs. Expert reviewers evaluated each item for relevance, clarity, and appropriateness in measuring the study variables. A CVI score above 0.7 was considered acceptable, indicating that the questionnaire sufficiently

captured the content domains of interest (Slevin, 2002). This process ensured that the questionnaire provided an accurate measurement framework for investigating the determinants of loan performance among SMEs.

**Table 3.2: Content Validity Indices**

Variable	Description	No. of Questions	CVI
Independent	Loan Appraisal Process	6	0.85
	Loan Terms	6	0.79
	Monitoring and Technical Support	6	0.78
Dependent	Loan Performance	6	0.81

Source: *Pilot Study, 2024*

As indicated in Table 3.2, all the items recorded a CVI above 0.7, indicating that they were considered acceptable and demonstrating that the research instrument met the required threshold for content validity (Sürücü & Maslakçi, 2020).

### **3.8.2 Reliability**

Reliability was determined by calculating Cronbach's alpha coefficient to assess the internal consistency of the questionnaire items. This procedure examined how closely related the set of items were as a group, ensuring that each variable was measured with consistency and stability. A Cronbach's alpha value of 0.7 or higher was considered an indicator of acceptable reliability, confirming that the instrument generated dependable and replicable results. In addition, a pre-test involving 10 percent of the sample size was conducted prior to the main data collection to further refine the questionnaire and verify its reliability within the Ugandan SME lending context.

**Table 3.3: Reliability Indices**

<b>Variable</b>	<b>Description</b>	<b>No. of Questions</b>	<b>Cronbach Alpha</b>
Independent	Loan Appraisal Process	6	0.85
	Loan Terms	6	0.79
	Monitoring and Technical Support	6	0.79
Dependent	Loan Performance	6	0.86

*Source: Pilot Study Data, 2024*

The Cronbach alpha coefficients for all items were above 0.7, demonstrating acceptable internal consistency and reliability of the study instruments.

### **3.9 Data Analysis**

Data analysis involved inspecting, cleaning, transforming, and modelling the data to derive meaningful patterns that addressed the research objectives (Coakes & Steed, 2009).

#### **3.9.1 Quantitative Data**

Quantitative data were analysed using the Statistical Package for Social Sciences (SPSS) version 23. Descriptive statistics, including frequencies, means, and standard deviations, were used to summarise respondents' demographic characteristics and responses to key variables related to SME loan performance. Inferential statistics, specifically correlation and regression analysis, were employed to examine the relationships between the independent variables (loan appraisal process, loan terms, and monitoring and technical support) and the dependent variable (loan performance of SMEs). This statistical approach helped test the study hypotheses and determined the strength and direction of relationships between variables (Creswell & Creswell, 2018).

#### **3.9.2 Qualitative Data**

Qualitative data collected using key informant interviews from staff of The Microfinance Support Centre were analysed using thematic analysis. This approach involved coding the data, identifying recurring patterns, and categorising them into key themes that corresponded with the study objectives. The analysis focused on capturing respondents' perceptions and lived experiences regarding institutional practices and factors influencing SME loan performance. These themes were integrated into the presentation of results to complement the quantitative findings, offering a

broader and contextually grounded understanding of the determinants of SME loan performance in Uganda (Cohen, Manion, & Morrison, 2018).

### **3.10 Ethical Considerations**

Ethical considerations were prioritised throughout the research process to ensure integrity, respect, and professionalism (Saunders et al., 2019). An anti-plagiarism test was conducted on the proposal and data collection instruments, maintaining a similarity index below 15 percent. A letter of introduction from Uganda Christian University was obtained to facilitate access to respondents and relevant stakeholders. Informed consent was sought from all participants after they were briefed on the study's purpose, procedures, potential risks, benefits, and their right to withdraw at any stage without any penalty (Bryman & Bell, 2019). Confidentiality and anonymity were upheld by removing personal identifiers from all collected data. Additionally, ethical standards guided the responsible reporting of findings, ensuring proper citation of all sources and a final anti-plagiarism check before submission. A debriefing session was conducted to share the study's outcomes with participants, thereby acknowledging their contribution and promoting transparency in the research process.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.1 Introduction

This chapter presents the study's findings on the determinants of loan performance among SMEs in Uganda, with a focus on borrowers at The Microfinance Support Centre Limited. The presentation aligns with the study objectives and research questions, utilising both quantitative and qualitative data. Quantitative results are analysed using descriptive and inferential statistics, while qualitative data from key informant interviews are summarised thematically to support the statistical findings. The chapter begins with the response rate and background characteristics of respondents before proceeding to the analysis of the main study variables.

#### 4.2 Response Rate

This section presents the response rate achieved during data collection. The response rate was determined by dividing the number of completed and returned questionnaires and interviews by the total targeted sample, then multiplying by 100 to obtain the percentage. This calculation was applied separately for SMEs and senior management respondents to reflect their respective participation levels.

**Table 4.1: Response Rate by Category**

Category	Sample Targeted	Actual Response	Response Rate (%)
SMEs	108	102	94.4
Senior Management	8	6	75.0
<b>Total</b>	108	108	93.1

Source: *Primary Data, 2025*

The results in Table 4.1 show that the overall response rate was 93.1 percent, with SMEs registering 94.4 percent and senior management 75.0 percent. According to Creswell and Plano Clark (2018), in quantitative research, a response rate exceeding 70 percent is considered sufficient for generalisability and statistical reliability. For the qualitative component, the study followed the principle of saturation, where data collection continued until no new themes emerged, making the number of respondents less critical (Saunders et al., 2018). Therefore, both response levels were considered adequate for the purposes of this study.

### 4.3 Results on Demographic Characteristics of Respondents

This section presents the demographic characteristics of the SMEs that participated in the study. The analysis covers key aspects such as loan amount received, loan tenure, loan payment history, frequency of defaults, and penalties faced. These background variables provide essential context for understanding the patterns and trends in SME loan performance.

**Table 4.2: Demographic and Loan Repayment Characteristics of SMEs (N = 102)**

Variable	Category	Frequency	Percentage (%)
Loan Amount (UGX Millions)	10–29	15	14.7
	30–49	30	29.4
	50–69	32	31.4
	70–89	20	19.6
	90–100	5	4.9
	<b>Total</b>		102
Loan Tenure (Months)	12 months (1 year)	20	19.6
	24 months (2 years)	55	53.9
	36 months (3 years)	27	26.5
	<b>Total</b>	102	100
Loan Payment History	Never missed	20	19.6
	Rarely (1–2 times)	45	44.1
	Occasionally (3–5 times)	30	29.4
	Frequently (More than 5 times)	7	6.9
	<b>Total</b>	102	100
Frequency of Defaults	Very Low	25	24.5
	Low	35	34.3
	Moderate	20	19.6
	High	12	11.8
	Very High	10	9.8
	<b>Total</b>	102	100
Penalties Faced	Yes	76	74.5

No	26	25.5
<b>Total</b>	102	100

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Source: *Primary Data, 2025*

Loan Amount (UGX Millions): The findings on loan amount revealed that most SMEs (31.4 percent) received loan amounts ranging between 50 and 69 million Uganda Shillings. This was followed by 29.4 percent who accessed loans between 30 and 49 million, and 19.6 percent who obtained between 70 and 89 million. A smaller segment, 14.7 percent, received between 10 and 29 million, while only 4.9 percent secured loan amounts in the 90 to 100 million range. These statistics indicated that the Microfinance Support Centre mainly financed SMEs within a mid-range borrowing bracket, with relatively few SMEs qualifying for larger credit packages. This loan allocation pattern reflected the Centre’s risk appraisal practices and had a direct effect on SME loan performance. SMEs that accessed smaller loans were more likely to face capital limitations, while those with larger loans assumed higher repayment obligations, affecting their ability to meet scheduled payments.

Loan Tenure (Months): With regard to loan tenure, the data showed that 53.9 percent of SMEs were granted 24-month repayment periods, 26.5 percent received 36 months, and 19.6 percent were assigned 12 months. This distribution suggested that the Microfinance Support Centre prioritised medium-term loan products. By offering longer repayment periods, the Centre enabled SMEs to align loan servicing with business cash flow cycles and revenue streams. This structuring played a central role in influencing loan performance by either facilitating or constraining repayment flexibility. SMEs with shorter tenures faced greater pressure on liquidity, potentially increasing their risk of default, while those with longer terms had more manageable instalment schedules.

Loan Payment History: The analysis of loan payment history revealed that 44.1 percent of SMEs rarely missed payments, 29.4 percent occasionally defaulted between three and five times, 19.6 percent had never missed any payments, and 6.9 percent frequently defaulted more than five times. These statistics indicated that while most SMEs demonstrated a reasonable degree of repayment discipline, a significant proportion still faced occasional challenges in meeting their loan obligations. This repayment pattern reflected the extent to which loan monitoring and borrower support mechanisms were effective in reinforcing SME repayment behaviour. The frequency of

missed payments had a direct bearing on overall loan performance, with SMEs experiencing multiple defaults showing a higher risk of falling into non-performing loan status.

**Frequency of Defaults:** In terms of perceived default frequency, 34.3 percent of SMEs rated their defaults as low, 24.5 percent as very low, 19.6 percent as moderate, 11.8 percent as high, and 9.8 percent as very high. These statistics demonstrated that although a large proportion of SMEs considered their default rates to be within acceptable limits, a notable section reported moderate to high levels of default. This variability highlighted differences in financial management capacity and suggested gaps in the loan appraisal and monitoring systems. Borrowers with higher default frequencies contributed significantly to the Centre's overall Portfolio at Risk, making this variable critical to understanding loan performance trends.

**Penalties Faced:** The results on penalties faced showed that 74.5 percent of SMEs reported having been penalised for missed payments, while 25.5 percent had not. This high rate of penalty imposition reflected the Microfinance Support Centre's strict enforcement of loan conditions. Such enforcement acted as a deterrent against further defaults but also introduced additional financial burdens on already struggling SMEs. The application of penalties had a direct influence on borrower behaviour and loan recovery rates, making it a key institutional factor affecting loan performance as addressed in the study objectives.

#### **4.4 Empirical Findings**

This section presents the empirical findings of the study, organised according to the specific objectives. The analysis integrates multiple approaches, including descriptive statistics, inferential analysis, and qualitative data from key informant interviews, to provide a comprehensive understanding of how loan appraisal, loan terms, and monitoring and technical support influenced loan performance among SMEs. Quantitative results address patterns and relationships between variables, while qualitative insights offer contextual perspectives drawn from management experiences at the Microfinance Support Centre.

##### **4.4.1 Loan Performance of SMEs**

The study examined the overall loan performance of SMEs, which served as the dependent variable, by assessing respondents' levels of agreement with six structured statements. The analysis focused on dimensions including timely loan repayment, loan default rates, debt repayment discipline, delays in loan servicing, frequency of loan restructuring, and the Portfolio

at Risk (PAR). Respondents rated their agreement levels on a five-point Likert scale ranging from strongly disagree to strongly agree. The results are summarised in the table below using descriptive statistics and are followed by a detailed interpretation and triangulation with qualitative findings.

**Table 4.3: Descriptive Statistics on Loan Performance of SMEs (N = 102)**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>Total</b>	<b>A+S A (%)</b>	<b>Mean</b>	<b>Std. Dev</b>
Our SME consistently met its loan repayment obligations on time	0 (0)	1 (1.0 )	6 (5.9)	58 (56.9 )	37 (36.3 )	102	93.2	4.29	0.59
The rate of loan default in our SME was low, indicating effective loan management	1 (1.0 )	0 (0)	10 (9.8)	60 (58.8 )	31 (30.4 )	102	89.2	4.17	0.66
Our SME had a high debt repayment rate, demonstrating good financial discipline	0 (0)	3 (2.9 )	9 (8.8)	59 (57.8 )	31 (30.4 )	102	88.2	4.15	0.63
The number of days without paying back the loan was minimal, and our SME was prompt in repayments	0 (0)	2 (2.0 )	13 (12.7 )	55 (53.9 )	32 (31.4 )	102	85.3	4.14	0.66
Our SME rarely requested loan restructuring, as we effectively managed repayment schedules	0 (0)	3 (2.9 )	12 (11.8 )	56 (54.9 )	31 (30.4 )	102	85.3	4.13	0.65
The Portfolio at Risk (PAR) in our SME was low, indicating strong repayment capacity and risk management	2 (2.0 )	5 (4.9 )	22 (21.6 )	50 (49.0 )	23 (22.5 )	102	71.5	3.86	0.81
<b>Average Totals</b>						<b>102</b>	<b>85.4</b>	<b>4.12</b>	<b>0.67</b>

Source: *Primary Data 2025*

The results show that most SMEs agreed (56.9 percent) or strongly agreed (36.3 percent) that they consistently met their loan repayment obligations on time. Only 1 percent of respondents disagreed, while 5.9 percent remained neutral. The mean score for this item was 4.29 with a standard deviation of 0.59. This means that timely loan repayment was a widely observed practice among SMEs participating in the study. Since the majority agreed, as reflected by the high mean and low variability, this suggests that repayment timeliness was a key contributor to overall loan performance. This quantitative finding was corroborated by qualitative evidence from key informants who described the importance of structured appraisal and monitoring in shaping timely repayments. One officer stated,

*“When we give loans, we do not just stop at disbursement. We make follow-up visits to the SMEs, check how their businesses are performing, and remind them of upcoming repayment dates. This level of engagement makes clients take their repayment schedules seriously because they know someone will check on them. In my experience, most SMEs strive to pay on time because they do not want to lose access to future funding.”*

Findings relating to loan default rates revealed that 58.8 percent of respondents agreed and 30.4 percent strongly agreed that their SMEs recorded low default levels. The mean was 4.17 with a standard deviation of 0.66. A small proportion (9.8 percent) was neutral, and only 1 percent strongly disagreed. This means that loan defaults were not prevalent among the surveyed SMEs. Since the majority agreed, the results suggest that effective credit control and borrower discipline contributed to maintaining low default rates, reinforcing the overall financial health of the SME loan portfolio. Qualitative narratives supported this observation, with key informants highlighting the role of pre-loan financial assessment in filtering out high-risk borrowers. One officer explained,

*“Before we approve any loan, we take time to understand the SME’s financial history and business operations. We go to their business premises, review their sales, ask about their market, and check their CRB status. This thorough background check means we avoid lending to businesses with a high risk of default. As a result, most of the SMEs we fund tend to pay back their loans with very few cases of defaults.”*

The study further revealed that 57.8 percent of respondents agreed and 30.4 percent strongly agreed that their SMEs demonstrated a high debt repayment rate, indicating good financial discipline. Only 2.9 percent disagreed and 8.8 percent were neutral. The mean stood at 4.15 with a standard deviation of 0.63. This means that most SMEs were able to meet their debt obligations without significant delays. Since the majority agreed and the mean remained high, this suggests that prudent financial management practices played a central role in enhancing SME loan performance. This finding was reinforced by qualitative testimonies that described how the loan appraisal process contributed to SME financial discipline. As one key informant observed,

*“Our appraisal process is not just about deciding who gets the loan. It is also about educating the SME on what is expected in terms of repayment. We take time to explain the repayment schedules, loan terms, and what happens in case of default. This early engagement makes most SMEs feel responsible for paying on time because they understand the consequences of non-payment and appreciate the opportunity they have been given.”*

Responses concerning promptness of repayment showed that 53.9 percent agreed and 31.4 percent strongly agreed that their SMEs experienced minimal days without loan repayment. The mean was 4.14 with a standard deviation of 0.66. A total of 12.7 percent remained neutral, while 2 percent disagreed. This means that late repayments were not common across the participating SMEs. Since the majority agreed, as indicated by the high mean and low standard deviation, this suggests that prompt loan servicing helped reduce delinquency risks and contributed to the stability of the loan portfolio. This finding was reinforced by qualitative testimonies that described how the loan appraisal process contributed to SME financial discipline. As one key informant observed,

*“Our appraisal process is not just about deciding who gets the loan. It is also about educating the SME on what is expected in terms of repayment. We take time to explain the repayment schedules, loan terms, and what happens in case of default. This early engagement makes most SMEs feel responsible for paying on time because they understand the consequences of non-payment and appreciate the opportunity they have been given.”*

Regarding the need for loan restructuring, 54.9 percent of respondents agreed and 30.4 percent strongly agreed that their SMEs rarely requested loan restructuring. The mean was 4.13 with a

standard deviation of 0.65. About 11.8 percent were neutral and 2.9 percent disagreed. This means that SMEs demonstrated an ability to honour original loan agreements without seeking repayment adjustments. Since the majority agreed, the findings suggest that financial planning and repayment capacity were sufficient to avoid the need for loan renegotiations, thus reducing administrative burden on the lender. Qualitative findings confirmed this observation, with credit officers highlighting that loan structuring processes were initially tailored to the borrower's cash flow, reducing the need for future restructuring. One respondent remarked,

*“We design repayment schedules based on the SME’s cash flow analysis at the beginning of the loan. That is why most of our clients do not come back to ask for restructuring. The few who do are those facing serious business challenges like market disruptions or illness, but generally, the way we structure our loans helps clients to repay without asking for changes.”*

Findings on Portfolio at Risk (PAR) indicated that 49 percent of respondents agreed and 22.5 percent strongly agreed that their SMEs maintained a low PAR. However, 21.6 percent were neutral, 4.9 percent disagreed, and 2 percent strongly disagreed. The mean score was 3.86 with a standard deviation of 0.81. This means that while many SMEs experienced low exposure to credit risk, a notable portion of respondents expressed uncertainty or disagreement on this aspect. Since the level of agreement was lower and variability higher compared to other loan performance indicators, the findings suggest that credit risk management remained a concern for some SMEs and may have required closer monitoring. The qualitative evidence supported this interpretation, with some key informants acknowledging that despite their best efforts, not all SMEs managed their loans well. One officer explained,

*“We have good risk assessment tools and follow-up mechanisms, but still, there are clients who struggle due to unexpected business downturns or poor financial management. Some SMEs simply fail to meet obligations despite all our efforts. That’s why we keep monitoring closely and use tools like the Portfolio at Risk report to track and manage problem accounts as early as possible.”*

Across all six items measuring loan performance, 85.4 percent of respondents either agreed or strongly agreed with the positive performance statements. The overall mean was 4.12 with a standard deviation of 0.67. This means that SME loan performance, as assessed in this study, was

generally strong across key indicators of repayment behaviour and credit risk management. Since the average mean remained above 4.0 and standard deviation low, this suggests that the Microfinance Support Centre maintained a relatively stable and well-performing SME loan portfolio, which aligned with its institutional objectives of promoting sustainable lending and borrower creditworthiness.

#### 4.4.2 Loan Appraisal Process and Loan Performance of SMEs in Uganda

##### 4.4.2.1 Descriptive Statistics and Qualitative Findings Presentation

The first objective of the study was to evaluate the impact of the loan appraisal process on the loan performance of SMEs in Uganda. Respondents were asked to indicate their level of agreement with six statements addressing the quality, fairness, and effectiveness of the loan appraisal procedures at the Microfinance Support Centre. The descriptive findings focused on respondents' experiences of financial analysis, risk assessment, communication of credit evaluation criteria, and the transparency of the appraisal process. In addition to survey responses, perspectives from key informant interviews with MSC staff were used to contextualise and enrich the analysis. The findings are presented in the table below, followed by interpretation that integrates both respondent and lender perspectives on the loan appraisal process.

**Table 4.4: Descriptive Statistics on the Loan Appraisal Process at MSC (N = 102)**

Statement	SD	D	N	A	SA	Total	A+S A (%)	Mean	Std. Dev
MSC's loan appraisal process included a thorough financial analysis of our SME	0 (0)	1 (1.0 )	12 (11.8 )	58 (56.9 )	31 (30.4 )	102	87.3	4.17	0.62
The risk assessment process at MSC accurately reflected our SME's creditworthiness	0 (0)	2 (2.0 )	10 (9.8)	59 (57.8 )	31 (30.4 )	102	88.2	4.18	0.66

MSC's credit appraisal process positively influenced our SME's loan performance	0 (0)	1 (1.0)	9 (8.8)	60 (58.8)	32 (31.4)	102	90.2	4.21	0.59
MSC clearly communicated the criteria used in credit evaluations to our SME	0 (0)	2 (2.0)	15 (14.7)	55 (53.9)	30 (29.4)	102	83.3	4.12	0.67
The credit appraisal process effectively identified our SME's strengths and weaknesses	0 (0)	1 (1.0)	12 (11.8)	56 (54.9)	33 (32.4)	102	87.3	4.17	0.63
MSC's loan appraisal process was transparent and fair in evaluating our SME's financial status	0 (0)	1 (1.0)	10 (9.8)	57 (55.9)	34 (33.3)	102	89.2	4.19	0.61
<b>Average Totals</b>						102	87.6	4.17	0.63

Source: *Primary Data 2025*

The findings presented in Table 4.4 reveal that a substantial proportion of respondents agreed (56.9 percent) or strongly agreed (30.4 percent) that the loan appraisal process at the Microfinance Support Centre included a thorough financial analysis of their SMEs. The mean score for this item was 4.17, with a standard deviation of 0.62, indicating low variability in responses. This means that most SMEs perceived the financial appraisal procedures as comprehensive and data-driven. Since the majority agreed, the results suggest that the credit evaluation process was grounded in detailed financial scrutiny, which likely enhanced the lender's capacity to assess repayment ability and credit risk accurately. Qualitative findings corroborated this observation, as several key informants emphasised the detailed nature of MSC's financial assessments. One key informant explained,

*“Before any loan is approved, we carefully analyse the SME's cash flow patterns, profitability, and working capital needs. We visit their business premises, look at*

*how stock is managed, ask for sales records where available, and even interview suppliers and customers where possible. This is to ensure that the client's business can generate enough revenue to cover loan instalments without causing financial strain."*

The study further established that 57.8 percent of respondents agreed and 30.4 percent strongly agreed that the risk assessment process at MSC accurately reflected their SME's creditworthiness. With a mean of 4.18 and a standard deviation of 0.66, the responses demonstrated a high level of consensus. This means that the risk evaluation procedures were regarded as credible and reflective of SME financial realities. Given the high mean and consistency in responses, this finding suggests that the risk assessment tools employed by MSC effectively captured the financial standing and credit profiles of SME borrowers, thereby contributing to informed lending decisions. This was echoed in the qualitative interviews where staff described risk evaluation as a rigorous and multifaceted process. One informant remarked,

*"When it comes to risk assessment, we do not rely on paperwork alone. We consider the business environment, market trends, the SME's past loan repayment behaviour, and even the management competence of the business owner. Sometimes, we decline loan applications not because the business is bad, but because the risk indicators suggest the client may struggle with repayments in the current conditions."*

Additionally, the findings show that 58.8 percent of respondents agreed and 31.4 percent strongly agreed that the loan appraisal process positively influenced their SME's loan performance. The mean stood at 4.21 with a standard deviation of 0.59, the highest among all six items. This means that most SMEs attributed improvements in their loan repayment behaviour to the appraisal procedures they underwent. Since the majority agreed with this statement, the implication is that the appraisal process contributed not only to loan approval decisions but also to shaping borrower practices that supported timely and consistent loan repayment. Qualitative narratives further reinforced this, with respondents stating that the appraisal phase provided SMEs with a clearer understanding of their repayment obligations. One key informant explained,

*"During the appraisal stage, we sit with the client and explain in detail how the loan repayment will affect their monthly cash flow. We also highlight possible risks*

*they might face and how to manage them. This discussion helps the SME owner to mentally prepare for the responsibility of repayment, and in most cases, we see them take their obligations more seriously after that engagement.”*

The analysis also revealed that 53.9 percent of respondents agreed and 29.4 percent strongly agreed that MSC clearly communicated the criteria used in credit evaluations. The mean was 4.12 with a standard deviation of 0.67, while a smaller proportion (14.7 percent) remained neutral and 2 percent disagreed. This means that most SMEs considered the loan evaluation requirements transparent and understandable. However, the presence of a neutral segment suggests that communication strategies, while generally effective, could be further strengthened to ensure uniform clarity for all loan applicants. This was consistent with qualitative findings, where informants described various methods used to promote transparency. One key informant noted,

*“We make sure that clients understand every step of the process. Before the loan is approved, we explain the criteria we are using, the reasons behind every document we request, and even the risks involved. We also give them a written copy of the loan agreement and repayment schedule so that there are no surprises later. This has built trust over time.”*

Furthermore, the study found that 54.9 percent of respondents agreed and 32.4 percent strongly agreed that the loan appraisal process effectively identified their SME’s strengths and weaknesses. The mean was 4.17 with a standard deviation of 0.63. This means that the appraisal process was seen as diagnostic, offering SMEs critical feedback on their financial position. Since the majority supported this view, the results imply that the appraisal stage served not only as a screening tool for loan approval but also as a source of constructive information for SMEs to strengthen their business operations. Corresponding qualitative data confirmed this observation. One key informant from the credit section commented,

*“Part of our appraisal includes helping the client to see where their business is strong and where there are weaknesses. We highlight cash flow gaps, poor stock management, or weak record-keeping, and we give advice on how to improve. Some clients have even told us that this feedback helped them avoid business mistakes that could have led to failure.”*

Further analysis showed that 55.9 percent of respondents agreed and 33.3 percent strongly agreed that the loan appraisal process was conducted in a transparent and fair manner. The mean score was 4.19 with a standard deviation of 0.61, with minimal disagreement recorded (1 percent). This means that borrowers perceived the appraisal procedures as impartial and just. Since the majority agreed, these results suggest that MSC's appraisal practices promoted fairness and equity, which are essential for sustaining borrower trust and encouraging continued engagement with formal credit institutions. Qualitative responses reinforced this, with key informants explaining the institution's emphasis on fairness. One key informant stated,

*"We follow a clear credit policy that all staff are trained on, and we apply the same standards to all clients regardless of business size or background. If a client fails to qualify, we give them clear reasons and advise them on what they can improve before reapplying. This fairness is why many SMEs prefer coming back to us for financial support."*

In terms of the overall perception of the loan appraisal process, the findings showed that 87.6 percent of respondents agreed or strongly agreed across all six items, with an aggregate mean of 4.17 and a standard deviation of 0.63. This means that the loan appraisal process was generally rated positively across key dimensions, including thoroughness, fairness, risk assessment, communication, and influence on loan performance. Given the consistently high mean scores and low response variability, the findings suggest that the appraisal process at MSC contributed meaningfully to strengthening SME loan performance, enhancing borrower readiness, and promoting responsible lending outcomes.

#### **4.4.2.2: Inferential Statistics**

This section presents inferential statistical results aimed at establishing the relationship between the loan appraisal process and loan performance among SMEs in Uganda. The analysis also served to test the first research hypothesis, which stated that the loan appraisal process has no significant impact on SME loan performance.

#### **Correlation Analysis**

The strength and direction of the relationship between the loan appraisal process and SME loan performance were examined using Pearson correlation analysis. This test evaluated whether

variations in the quality of loan appraisal corresponded with changes in SME loan performance levels.

**Table 4.5: Pearson Correlation Results between Loan Appraisal Process and Loan Performance of SMEs in Uganda**

		Loan Appraisal Process	Loan Performance of SMEs
Loan Appraisal Process	Pearson Correlation	1	.479**
	Sig. (2-tailed)		.002
	N	101	101
Loan Performance of SMEs	Pearson Correlation	.479**	1
	Sig. (2-tailed)	.002	
	N	101	101

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

Source: *Primary Data, 2025*

The results presented in Table 4.5 indicate a moderate positive and statistically significant relationship between the loan appraisal process and SME loan performance ( $r = .479$ ,  $p < .01$ ). This suggests that improvements in the quality and effectiveness of loan appraisal processes were associated with better loan performance outcomes among SMEs. The positive correlation implies that SMEs which experienced more thorough and transparent loan appraisals demonstrated stronger repayment behaviours and lower default risks.

### Regression Analysis

In addition to the correlation analysis, a simple linear regression analysis was conducted to determine the extent to which the loan appraisal process predicted SME loan performance. This analysis quantified the proportion of variance in loan performance explained by the loan appraisal process.

**Table 4.6: Regression Model Summary for Loan Appraisal Process and Loan Performance of SMEs in Uganda**

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**Change Statistics**

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Model	R	R Square	Adjusted R Square	Std. Error	R Square Change	df 1	df 2	F	Sig F
1	.479	0.434	.368	.27396	.434	1	101	4.2762	.000

a. Predictors: (Constant), Loan Appraisal Process

The regression results in Table 4.6 show that the loan appraisal process had a statistically significant influence on SME loan performance, with an R value of 0.479 and an R Square of 0.434. This indicates that approximately 43.4 percent of the variance in loan performance was explained by the loan appraisal process. The model was statistically significant ( $F = 4.2762$ ,  $p < .01$ ), suggesting that the loan appraisal process was a meaningful predictor of SME loan performance. Given the significance level ( $p = .000$ ), the null hypothesis, which stated that the loan appraisal process has no significant impact on SME loan performance in Uganda, is rejected.

#### 4.4.3 Loan Terms and Loan Performance of SMEs in Uganda

##### 4.4.3.1 Descriptive Statistics and Qualitative Findings Presentation

The second objective of the study was to assess the influence of loan terms on the loan performance of SMEs in Uganda. Respondents were asked to express their level of agreement with six statements addressing key aspects of loan terms at the Microfinance Support Centre. The analysis focused on variables such as interest rates, repayment schedules, loan duration, grace periods, and flexibility of repayment conditions. Responses were captured using a five-point Likert scale ranging from strongly disagree to strongly agree. The results are summarised in the table below and are followed by interpretation and triangulation with qualitative findings.

**Table 4.7: Descriptive Statistics on Loan Terms at MSC (N = 102)**

Statement	SD	D	N	A	SA	Total	A+S A (%)	Mean	Std. Dev
The repayment schedules set by MSC were flexible enough for our SME	0 (0)	7 (6.9)	10 (9.8)	56 (54.9 )	29 (28.4 )	102	83.3	4.07	0.71

The interest rates charged by MSC were fair and manageable for our SME	0 (0)	9 (8.8)	12 (11.8)	54 (52.9)	27 (26.5)	102	79.4	3.97	0.74
The loan tenure provided by MSC allowed our SME to meet repayment obligations effectively	0 (0)	8 (7.8)	11 (10.8)	55 (53.9)	28 (27.5)	102	81.4	4.02	0.72
The loan terms provided by MSC aligned with our SME's financial capacity	0 (0)	12 (11.8)	9 (8.8)	54 (52.9)	27 (26.5)	102	79.4	3.94	0.78
MSC provided enough flexibility to adjust loan terms in case of unforeseen financial difficulties	0 (0)	16 (15.7)	14 (13.7)	50 (49.0)	22 (21.6)	102	70.6	3.78	0.83
The overall loan conditions offered by MSC supported the long-term financial health of our SME	1 (1.0)	14 (13.7)	12 (11.8)	51 (50.0)	24 (23.5)	102	73.5	3.83	0.85
<b>Average Totals</b>						<b>102</b>	<b>77.9</b>	<b>3.93</b>	<b>0.77</b>

Source: *Primary Data 2025*

The analysis revealed that the majority of respondents agreed (54.9 percent) or strongly agreed (28.4 percent) that the repayment schedules set by the Microfinance Support Centre were flexible enough for their SMEs. The mean score was 4.07 with a standard deviation of 0.71, while only 6.9 percent disagreed and 9.8 percent remained neutral. This means that most SMEs perceived the repayment schedules as sufficiently adaptable to their business cash flows. Since the majority agreed, as indicated by the high mean and relatively low variation, this suggests that repayment flexibility contributed positively to SME loan performance by allowing firms to meet their

instalment obligations with greater ease. This quantitative finding was supported by qualitative narratives from key informants who described MSC's deliberate efforts to align repayment schedules with SME cash flow cycles. One key informant from the credit section stated,

*“We do not give blanket repayment schedules. Every SME loan repayment plan is adjusted based on their cash flow pattern. If it's a seasonal business, we give longer grace periods or staggered instalments. We sit with the client before disbursement to ensure the schedule is affordable to them right from the start.”*

The study further established that 52.9 percent of respondents agreed and 26.5 percent strongly agreed that the interest rates charged by MSC were fair and manageable for their SMEs. The mean score was 3.97 with a standard deviation of 0.74. However, 8.8 percent disagreed and 11.8 percent remained neutral. This means that a considerable majority viewed the interest rates as affordable, although a small segment expressed concern. Since the level of agreement remained dominant, the findings suggest that reasonable interest rates supported SME repayment ability and reduced the likelihood of financial distress linked to borrowing costs. This perception of fairness in interest rate setting was reinforced by qualitative evidence, where key informants explained the criteria used in rate determination. One key informant explained,

*“We determine our interest rates after looking at factors like market conditions, the cost of funds, and the SME's risk profile. Before we disburse, we sit with the client and explain how we arrived at the rate, why it is at that level, and how it compares with other institutions. Most SMEs appreciate this openness, and they feel the rates are justified.”*

Concerning loan tenure, 53.9 percent agreed and 27.5 percent strongly agreed that the loan duration provided by MSC enabled their SMEs to meet repayment obligations effectively. The mean was 4.02 with a standard deviation of 0.72, while 7.8 percent disagreed and 10.8 percent were neutral. This means that loan tenures were generally seen as appropriate for business financing needs. Since the majority expressed agreement, the results suggest that adequate loan duration helped SMEs align their repayment schedules with revenue cycles, thereby enhancing loan performance outcomes. This quantitative result found confirmation in qualitative interviews, where key informants described the process of tailoring loan tenure based on SME business cycles. One key informant from the credit section observed,

*“We consider the SME’s cash flow projections and business seasonality when determining tenure. For short-cycle businesses, we limit tenure to a few months, but for those in agriculture or manufacturing, we stretch the tenure to suit their income timelines so that repayment never becomes a burden.”*

The findings also indicated that 52.9 percent agreed and 26.5 percent strongly agreed that the overall loan terms aligned with their SME's financial capacity. The mean score was 3.94 with a standard deviation of 0.78. Nevertheless, 11.8 percent disagreed and 8.8 percent were neutral. This means that most SMEs found the loan conditions suitable relative to their income streams and operational demands. Since the majority agreed, as reflected in the mean value, the results suggest that loan terms were tailored to accommodate SME repayment potential, supporting sustainability in loan performance. Corresponding qualitative feedback emphasised the institution’s commitment to aligning loan terms with SME realities. One key informant explained,

*“Before loan approval, we make it a point to assess the SME’s operational and financial status in detail. We review their cash flows, sales cycles, and cost structures to set loan sizes, instalments, and tenures that do not exceed what the business can handle. Our goal is to make sure the client succeeds in repayment without straining the business.”*

The study further revealed that 49.0 percent of respondents agreed and 21.6 percent strongly agreed that MSC provided sufficient flexibility to adjust loan terms in cases of unforeseen financial difficulties. The mean was 3.78 with a standard deviation of 0.83. However, 15.7 percent disagreed and 13.7 percent remained neutral. This means that while most SMEs found some level of flexibility in loan restructuring, a notable proportion experienced challenge. Since the agreement levels were comparatively lower for this item, the results suggest that while MSC offered some flexibility, further adjustments may have been necessary to strengthen SME repayment outcomes during periods of financial instability. This finding was mirrored in qualitative accounts where key informants reported that loan term adjustments were handled on a case-by-case basis. One key informant stated,

*“Whenever an SME presents evidence of financial distress, we allow for loan rescheduling, refinancing, or grace periods. However, each case goes through*

*internal assessment and must be justified before approval. This helps us manage risk while supporting struggling clients.”*

Regarding the overall loan conditions and their support for long-term SME financial health, 50.0 percent of respondents agreed and 23.5 percent strongly agreed, resulting in a mean of 3.83 with a standard deviation of 0.85. A total of 13.7 percent disagreed and 11.8 percent were neutral. This means that although many SMEs believed the loan conditions were supportive, some borrowers held reservations. Since the majority agreed, the findings suggest that loan structures contributed positively to SME financial resilience, but there remained scope for improvement in tailoring long-term support mechanisms. Qualitative findings corroborated this interpretation, with key informants acknowledging the importance of designing loan products that enhanced business sustainability. One key informant explained,

*“We know that SMEs grow gradually, so our loan terms are designed not just for repayment but also to support business stability and future growth. That is why we review client performance regularly and make necessary adjustments if we see that the current loan structure is limiting their operations.”*

Considering the overall average across the six loan term indicators, 77.9 percent of respondents either agreed or strongly agreed with the positive statements regarding MSC’s loan terms. The mean stood at 3.93 with a standard deviation of 0.77. This means that the general perception of loan terms was favourable, with most SMEs acknowledging the role of loan conditions in supporting their repayment performance. Since the overall mean approached 4.0 and standard deviation remained moderate, the findings suggest that loan terms at MSC were a significant factor in facilitating SME loan performance, though certain areas such as flexibility and long-term financial support may require further enhancement.

#### **4.4.3.2: Inferential Statistics**

This section presents inferential statistics used to test the second research hypothesis, which stated that loan terms have no significant influence on SME loan performance in Uganda. The analysis involved correlation and regression procedures to establish the nature and predictive strength of the relationship between loan terms and loan performance.

## Correlation Analysis

Pearson correlation analysis was used to assess the relationship between loan terms and SME loan performance. The focus was to determine whether variations in loan conditions, such as interest rates and repayment schedules, were linked to changes in loan repayment behaviour.

**Table 4.8: Pearson Correlation Results between Loan Terms and Loan Performance of SMEs in Uganda**

		Loan Terms	Loan Performance of SMEs
Loan Terms	Pearson Correlation	1	.639**
	Sig. (2-tailed)		.000
	N	101	101
Loan Performance of SMEs	Pearson Correlation	.639**	1
	Sig. (2-tailed)	.000	
	N	101	101

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

Source: *Primary Data 2025*

The results presented in Table 4.8 reveal a strong positive and statistically significant relationship between loan terms and SME loan performance ( $r = .639$ ,  $p < .01$ ). This indicates that better loan terms, characterised by favourable interest rates, appropriate repayment schedules, and suitable loan durations, were associated with improved loan repayment behaviour among SMEs. The strength of the correlation suggests that variations in loan terms were closely linked with corresponding changes in SME loan performance levels.

## Regression Analysis

A simple linear regression analysis was conducted to determine the extent to which loan terms predicted SME loan performance. This analysis quantified the variance in loan performance explained by loan terms.

**Table 4.9: Regression Model Summary for Loan Terms and Loan Performance of SMEs in Uganda**

Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics				
					R Square Change	df 1	df 2	<i>F</i>	<i>Sig F</i>
1	.639	.584	.546	.197651	.584	1	101	4.3682	.000

a. Predictors: (Constant), Loan Terms

The regression results in Table 4.9 indicate that loan terms had a statistically significant influence on SME loan performance, with an R value of 0.639 and an R Square of 0.584. This means that approximately 58.4 percent of the variance in loan performance was explained by loan terms. The model was statistically significant ( $F = 4.3682$ ,  $p < .01$ ), demonstrating that loan terms were a substantial predictor of SME loan performance. Given the significance level ( $p = .000$ ), the null hypothesis, which stated that loan terms do not significantly influence the credit performance of SMEs in Uganda, is rejected.

#### **4.4.4 Monitoring and Technical Support and Loan Performance of SMEs in Uganda**

##### **4.4.4.1 Descriptive Statistics and Qualitative Findings Presentation**

The third objective of the study was to examine the effect of monitoring and technical support provided by lenders on the loan performance of SMEs in Uganda. Respondents were asked to indicate their level of agreement with six statements related to the frequency and quality of monitoring, the adequacy of technical support, and the perceived effect of these interventions on loan repayment performance. Areas assessed included regular monitoring, business management support, and the relevance of financial guidance provided by the Microfinance Support Centre. Responses were rated on a five-point Likert scale ranging from strongly disagree to strongly agree. The results are presented in the table below, followed by interpretation and triangulation with qualitative data.

**Table 4.10: Descriptive Statistics on Monitoring and Technical Support at MSC (N = 102)**

Statement	SD	D	N	A	SA	Total	A+S A (%)	Mean	Std. Dev
Our SME received regular monitoring from the Microfinance Support Centre	0 (0)	4 (3.9)	12 (11.8 )	56 (54.9 )	30 (29.4 )	102	84.3	4.07	0.68
The technical support provided by MSC met our SME's needs	0 (0)	10 (9.8)	15 (14.7 )	52 (51.0 )	25 (24.5 )	102	75.5	3.91	0.77
MSC's monitoring efforts had a positive effect on our loan repayment performance	0 (0)	7 (6.9)	10 (9.8)	58 (56.9 )	27 (26.5 )	102	83.4	4.03	0.70
Regular monitoring by MSC encouraged timely loan repayment by our SME	0 (0)	6 (5.9)	11 (10.8 )	57 (55.9 )	28 (27.5 )	102	83.4	4.05	0.69
The technical support provided by MSC enhanced our SME's business management capabilities	0 (0)	19 (18.6 )	14 (13.7 )	49 (48.0 )	20 (19.6 )	102	67.6	3.69	0.84
MSC offered relevant business guidance that helped our SME overcome financial challenges	0 (0)	12 (11.8 )	13 (12.7 )	53 (52.0 )	24 (23.5 )	102	75.5	3.86	0.76
<b>Average Totals</b>						<b>102</b>	<b>78.3</b>	<b>3.93</b>	<b>0.74</b>

Source: *Primary Data 2025*

The findings presented in Table 4.10 show that most respondents agreed (54.9 percent) or strongly agreed (29.4 percent) that their SMEs received regular monitoring from the Microfinance Support Centre. The mean score was 4.07 with a standard deviation of 0.68, while only 3.9 percent disagreed and 11.8 percent remained neutral. This means that monitoring activities were a consistent feature of MSC's engagement with SMEs. Since the majority agreed, as reflected in the high mean and low variability, this suggests that regular lender follow-up contributed to improved loan management and repayment discipline among SME borrowers. This finding is consistent with qualitative evidence, where key informants confirmed the frequency and consistency of monitoring. One key informant from the credit section remarked,

*“We conduct monthly or bi-monthly visits to each SME, especially during the early stages of the loan. We do not just wait for repayments; we go to their business locations, assess their operations, check stock levels, and have face-to-face discussions with the business owners about their repayment progress and any emerging challenges.”*

The study further established that 51.0 percent of respondents agreed and 24.5 percent strongly agreed that the technical support provided by MSC met their SME's needs. The mean was 3.91 with a standard deviation of 0.77. However, 9.8 percent disagreed and 14.7 percent remained neutral. This means that while the majority of SMEs found the technical support adequate, there was a notable proportion with reservations. Since the mean remained above 3.9 and agreement levels were dominant, the findings suggest that the support provided was generally relevant, though some SMEs may have required more tailored or intensive assistance. Qualitative responses reinforced this finding. One key informant explained, *“Our technical support includes financial literacy sessions, business planning assistance, and cash flow management coaching. We invite SME owners for regular training, and we tailor the sessions to their specific business sectors, whether it is retail, agriculture, or services.”*

Regarding the effect of monitoring on loan repayment performance, 56.9 percent of respondents agreed and 26.5 percent strongly agreed that MSC's monitoring efforts positively influenced their loan repayment behaviour. The mean score was 4.03 with a standard deviation of 0.70, with 6.9 percent disagreeing and 9.8 percent neutral. This means that most SMEs linked regular monitoring with improved repayment outcomes. Since the majority agreed, the findings suggest that lender

monitoring played an important role in encouraging SMEs to meet their loan obligations. This was corroborated by qualitative narratives from the field. One key informant stated,

*“Our regular monitoring keeps clients alert. When we visit them regularly and discuss their loan status, they become more committed to keeping up with their repayment schedules because they know we are following up closely and will intervene early if any signs of financial stress appear.”*

The analysis also revealed that 55.9 percent agreed and 27.5 percent strongly agreed that regular monitoring by MSC encouraged timely loan repayment. The mean was 4.05 with a standard deviation of 0.69. A small proportion (5.9 percent) disagreed, while 10.8 percent were neutral. This means that regular engagement with SMEs through monitoring visits and follow-ups contributed to repayment timeliness. Since the level of agreement was high, the results imply that continuous lender supervision fostered borrower accountability. This observation was echoed in the qualitative interviews, where key informants elaborated on how timely visits shaped borrower behaviour. One key informant commented,

*“When we keep showing up at their business premises and reviewing their sales records with them, SMEs feel the pressure to remain compliant with their loan obligations. They know we are watching their business health, not just the loan balance.”*

Further examination of the data showed that 48.0 percent agreed and 19.6 percent strongly agreed that the technical support provided by MSC enhanced their SME’s business management capabilities. However, 18.6 percent disagreed and 13.7 percent were neutral. The mean score for this item was 3.69 with a standard deviation of 0.84. This means that while a majority perceived positive impacts from technical support, a considerable minority expressed dissatisfaction. Since the level of agreement was relatively lower and variability higher compared to other items, the findings suggest that the effectiveness of business management support varied across SMEs, with some requiring more customised or sector-specific interventions. This interpretation aligns with qualitative findings where key informants acknowledged gaps in coverage. One key informant from the credit section explained,

*“We have tried to build SME capacity through group trainings and individual advisory sessions, but honestly, some SMEs need more focused, sector-specific support which we are not always able to provide due to staffing and resource limitations.”*

The study also established that 52.0 percent agreed and 23.5 percent strongly agreed that MSC offered relevant business guidance that helped their SME overcome financial challenges. The mean was 3.86 with a standard deviation of 0.76, while 11.8 percent disagreed and 12.7 percent were neutral. This means that most SMEs valued the financial and operational guidance provided by MSC. Since the majority agreed, the findings suggest that advisory support contributed to improved financial decision-making and loan repayment capacity among SMEs. This conclusion is strengthened by qualitative feedback from key informants, who described the advisory process. One key informant stated,

*“Whenever we notice that a client is struggling, we engage them one-on-one to review their business operations. We discuss areas where they can cut costs, improve sales, and reorganise cash flows so they can meet their loan obligations without destabilising their businesses.”*

Considering the overall average across all six statements, 78.3 percent of respondents either agreed or strongly agreed that monitoring and technical support positively affected their SME loan performance. The overall mean was 3.93 with a standard deviation of 0.74. This means that monitoring and technical support were generally perceived as important contributors to loan performance. Since the average mean approached 4.0 and variability remained modest, the findings suggest that these lender interventions played a meaningful role in supporting SME financial management and enhancing loan repayment outcomes.

#### **4.4.4.2: Inferential Statistics**

This section presents inferential statistics used to test the third research hypothesis, which stated that monitoring and technical support have no significant influence on SME loan performance in Uganda. The analysis involved correlation and regression procedures to examine the strength and predictive influence of monitoring and technical support on loan performance outcomes.

#### **Correlation Analysis**

A Pearson correlation analysis was also conducted to evaluate the relationship between monitoring and technical support and SME loan performance. This procedure examined whether the frequency and quality of lender support were associated with differences in loan repayment performance among SMEs.

**Table 4.11: Pearson Correlation Results between Monitoring and Technical Support and Loan Performance of SMEs in Uganda**

		Monitoring and Technical Support	Loan Performance of SMEs
Monitoring and Technical Support	Pearson Correlation	1	.413**
	Sig. (2-tailed)		.009
	N	101	101
Loan Performance of SMEs	Pearson Correlation	.413**	1
	Sig. (2-tailed)	.009	
	N	101	101

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

Source: *Primary Data 2025*

The results in Table 4.11 show a moderate positive and statistically significant relationship between monitoring and technical support and SME loan performance ( $r = .413$ ,  $p = .009$ ). This indicates that increased levels of monitoring and technical support provided by the Microfinance Support Centre were associated with better loan repayment performance among SMEs. The p-value (.009) is less than the conventional significance level of 0.01, confirming that the observed relationship was statistically significant and unlikely to have occurred by chance.

### Regression Analysis

A simple linear regression analysis was conducted to determine the extent to which monitoring and technical support influenced SME loan performance in Uganda and to test the corresponding hypothesis that these interventions have no significant effect on loan performance.

**Table 4.12: Regression Model Summary for Monitoring and Technical Support and Loan Performance of SMEs in Uganda**

Model	R	R Square	Adjusted R Square	Std. Error	Change Statistics				
					R Square Change	df 1	df 2	<i>F</i>	<i>Sig F</i>
1	.413	.359	.316	.097366	.359	1	101	3.9725	.000

a. Predictors: (Constant), Monitoring and Technical Support

The regression results presented in Table 4.12 indicate that monitoring and technical support had a statistically significant influence on SME loan performance, with an R value of 0.413 and an R Square of 0.359. This means that approximately 35.9 percent of the variance in loan performance was explained by monitoring and technical support provided by the Microfinance Support Centre. The model was statistically significant ( $F = 3.9725$ ,  $p < .01$ ), indicating that these interventions were meaningful predictors of SME loan performance. Given that the significance level ( $p = .000$ ) was less than 0.01, the null hypothesis, which stated that monitoring and technical support have no significant effect on SME loan performance in Uganda, is rejected.

## CHAPTER FIVE

### SUMMARY, DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of the key findings, a discussion of the results in relation to existing literature, conclusions drawn from the study, and practical recommendations for policy and practice. The content is structured according to the specific objectives that guided the research, focusing on the relationship between the loan appraisal process, loan terms, monitoring and technical support, and the loan performance of SMEs in Uganda. The chapter concludes with suggestions for further research to address areas not fully covered within the scope of the present study.

## **5.2 Summary of the Findings, Discussions, and Conclusions**

### **5.2.1 Loan Appraisal Process and Loan Performance of SMEs in Uganda**

The study established that the loan appraisal process had a significant influence on SME loan performance in Uganda. The Pearson correlation results demonstrated a moderate positive and statistically significant relationship between the quality of loan appraisal and SME loan performance ( $r = .479, p < .01$ ). This indicates that improvements in financial analysis, risk assessment, and transparency during the appraisal process were associated with stronger repayment outcomes among SMEs.

The regression analysis further revealed that the loan appraisal process accounted for 43.4% of the variance in SME loan performance ( $R^2 = .434, F = 4.2762, p < .01$ ). These results confirm that rigorous and well-structured loan appraisal mechanisms enhance borrowers' repayment behaviour and reduce default risks within the SME loan portfolio.

### **5.2.2 Loan Terms and Loan Performance of SMEs in Uganda**

The findings also demonstrated that loan terms significantly influenced SME loan performance. Correlation analysis indicated a strong positive and statistically significant relationship between loan terms and loan performance ( $r = .639, p < .01$ ), implying that more favourable loan conditions were linked to better repayment outcomes. Factors such as interest rates, loan tenure, and repayment flexibility emerged as important determinants.

The regression analysis showed that loan terms explained 58.4% of the variance in SME loan performance ( $R^2 = .584, F = 4.3682, p < .01$ ). This confirms that SMEs with well-aligned loan terms demonstrated higher levels of loan repayment consistency and lower default rates.

### **5.2.3 Monitoring and Technical Support and Loan Performance of SMEs in Uganda**

The study further established that monitoring and technical support had a significant effect on SME loan performance. The Pearson correlation coefficient revealed a moderate positive and statistically significant relationship between monitoring, technical support, and SME loan performance ( $r = .413, p = .009$ ). This suggests that SMEs receiving more frequent monitoring and

relevant technical support from the Microfinance Support Centre reported better loan repayment behaviour.

The regression analysis indicated that monitoring and technical support accounted for 35.9% of the variance in loan performance ( $R^2 = .359$ ,  $F = 3.9725$ ,  $p < .01$ ). These findings confirm that lender interventions beyond financial disbursement meaningfully contribute to improving SME loan repayment outcomes.

## **5.2.4 Conclusions**

### ***5.2.4.1 Loan Appraisal Process and Loan Performance of SMEs in Uganda***

The study found that the loan appraisal process had a statistically significant and positive influence on SME loan performance in Uganda. The association between thorough financial analysis, credible risk assessment, and transparent communication of credit criteria with better loan repayment behaviour was consistently demonstrated. Based on these findings, the study concludes that enhancing the quality and rigour of the loan appraisal process is essential for improving SME loan performance and reducing default rates.

### ***5.2.4.2 Loan Terms and Loan Performance of SMEs in Uganda***

The findings revealed that loan terms significantly influenced SME loan performance, with favourable conditions such as manageable interest rates, appropriate loan tenure, and flexible repayment schedules associated with stronger repayment outcomes. The statistical results confirmed that well-structured loan terms explained a substantial proportion of the variance in SME loan performance. Consequently, the study concludes that designing loan terms responsive to SMEs' financial capacities and operational realities is fundamental for sustaining timely loan repayments and minimising credit risk.

### ***5.2.4.3 Monitoring, Technical Support, and Loan Performance of SMEs in Uganda***

The study established that monitoring and technical support had a significant and positive effect on SME loan performance. Regular monitoring visits and targeted technical assistance from the Microfinance Support Centre were associated with improved borrower repayment behaviour and stronger financial discipline. In view of these findings, the study concludes that continuous lender

engagement through monitoring and provision of tailored technical support is a necessary strategy for enhancing SME loan performance and reducing the incidence of loan defaults.

### **5.3 Recommendations**

1. The management of the Microfinance Support Centre should strengthen the capacity of its credit staff by providing regular training in advanced loan appraisal techniques, with particular emphasis on field-based borrower verification and financial risk analysis. This should include equipping credit officers with skills in interpreting SME financial statements, assessing cash flow patterns, and conducting business site visits to validate client information. Such training could be scheduled quarterly and conducted at both the head office and regional branch levels to ensure coverage across all lending points.
2. The Microfinance Support Centre should further strengthen its loan restructuring mechanisms to provide timely relief to SMEs facing unforeseen financial difficulties. This would involve establishing a fast-track loan restructuring committee at each regional office to handle urgent client requests for repayment rescheduling, refinancing, or grace period extensions. The committee should meet at least once a month to assess restructuring applications and provide feedback within five working days, ensuring that distressed SMEs receive support without unnecessary delays.
3. The Centre's management should develop and implement sector-specific technical support packages tailored to the operational realities of different SME categories. This would involve designing separate training modules for SMEs in agriculture, retail, manufacturing, and services, focusing on financial literacy, business planning, cash flow management, and inventory control. These training sessions should be offered quarterly and coordinated through MSC's Business Development Services department, with delivery at both district and regional levels to maximise accessibility.
4. In the area of loan monitoring, the Microfinance Support Centre should invest in digital loan monitoring tools that allow real-time tracking of SME repayment performance and business operations. This could involve adopting mobile-based borrower monitoring applications and integrating them with the Centre's existing management information systems. Such tools should enable credit officers to conduct virtual check-ins with SMEs, generate automated repayment reminders, and flag early signs of financial distress.

Implementation of these digital solutions should be prioritised within the next financial year to enhance institutional efficiency and borrower accountability.

#### **5.4 Areas for Further Research**

Given the scope and limitations of the current study, two areas are recommended for further research to address gaps beyond the present analysis:

1. The long-term impact of technical support on SME loan performance. While this study established a positive link between technical support and loan repayment behaviour, it did not assess the sustainability of this effect over time. Future researchers should undertake longitudinal studies to examine whether SMEs continue to demonstrate improved loan performance three to five years after receiving technical assistance from lenders such as the Microfinance Support Centre.
2. The influence of sectoral differences on SME loan performance. Since the current study did not disaggregate findings by SME sector, further research should examine how sector-specific factors, such as cash flow patterns and market risks in agriculture, manufacturing, and trade, affect the relationship between lending practices and loan performance across different regions in Uganda.

#### **5.5 Limitations of the Study**

This study encountered several limitations that may have influenced the interpretation and generalisation of the findings.

Firstly, there was a risk of response bias, particularly from SME borrowers who may have felt compelled to provide socially desirable answers. Given the sensitive nature of questions regarding loan repayment behaviour and default history, some respondents may have withheld unfavourable information, potentially affecting data accuracy.

Secondly, the study experienced difficulties in accessing comprehensive financial records and detailed credit performance reports from the Microfinance Support Centre. This restricted the

scope of secondary data available for triangulation with primary data, limiting the ability to conduct a more detailed institutional-level analysis of SME loan performance.

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## APPENDICES

### Appendix I: Questionnaire for the SME owners and Managers for Each selected SME

Dear respondent,

I am a student of Uganda Christian University, pursuing a Master's Degree in Business Administration. As part of my academic research, I am conducting a study to **examine the factors determining the loan performance of SMEs in microfinance institutions in Uganda, with a focus on the Microfinance Support Centre Limited**. The responses will remain confidential and will only be used for academic purposes. Thank you for your time and cooperation.

#### SECTION A: BACKGROUND INFORMATION

Please select the most appropriate option.

1. Name of SME: ..... (optional)
2. Loan Amount Acquired from MSC (UGX): .....
3. Loan Tenure in Months .....
4. Please indicate your payment history for the loan acquired from MSC. How often has your SME missed or defaulted on a loan payment?
  - Never
  - Rarely (1–2 times)
  - Occasionally (3–5 times)
  - Frequently (More than 5 times)
5. If there have been defaults, how would you rate the overall frequency of these missed payments?
  - Very Low
  - Low
  - Moderate
  - High

- Very High

6. Have you faced any penalties due to missed payments?

- Yes
- No

## SECTION B: FACTORS INFLUENCING SME LOAN PERFORMANCE

**Instructions:** For each statement, please indicate your level of agreement based on your experience as the Head of Operations of this SME. Use the following scale: **5 - Strongly Agree (SA) | 4 - Agree (A) | 3 - Neutral (N) | 2 - Disagree (D) | 1 - Strongly Disagree (SD)**

### 1. Credit Appraisal Process

Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1. MSC's loan appraisal process includes a thorough financial analysis of our SME.					
2. The risk assessment process at MSC accurately reflects our SME's creditworthiness.					
3. MSC's credit appraisal process positively influences our SME's loan performance.					
4. MSC clearly communicates the criteria used in credit evaluations to our SME.					
5. The credit appraisal process at MSC effectively identifies our SME's strengths and weaknesses.					
6. MSC's loan appraisal process is transparent and fair in its evaluation of our SME's financial status.					

### 2. Credit Terms

Statement	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
1. The repayment schedules set by MSC are flexible enough for our SME.					
2. The interest rates charged by MSC are fair and manageable for our SME.					

3. The loan tenure provided by MSC allows our SME to meet repayment obligations effectively.					
4. The loan terms provided by MSC align with our SME's financial capacity.					
5. MSC provides enough flexibility to adjust loan terms in case of unforeseen financial difficulties.					
6. The overall loan conditions offered by MSC support the long-term financial health of our SME.					

**3. Monitoring and Technical Support**

<b>Statement</b>	<b>1 (SD)</b>	<b>2 (D)</b>	<b>3 (N)</b>	<b>4 (A)</b>	<b>5 (SA)</b>
1. Our SME receives regular monitoring from the Microfinance Support Centre (MSC).					
2. The technical support provided by MSC meets our SME's needs.					
3. MSC’s monitoring efforts have a positive effect on our loan repayment performance.					
4. Regular monitoring by MSC encourages timely loan repayment by our SME.					
5. The technical support provided by MSC enhances our SME's business management capabilities.					
6. MSC offers relevant business guidance that helps our SME overcome financial challenges.					

#### 4. Questions on Loan Performance (Dependent Variables)

<b>Statement</b>	<b>1 (SD)</b>	<b>2 (D)</b>	<b>3 (N)</b>	<b>4 (A)</b>	<b>5 (SA)</b>
1. Our SME consistently meets its loan repayment obligations on time.					
2. The rate of loan default in our SME is low, indicating effective loan management.					
3. Our SME has a high debt repayment rate, demonstrating good financial discipline.					
4. The number of days without paying back the loan is minimal, and our SME is prompt in repayments.					
5. Our SME rarely requests loan restructuring, as we effectively manage repayment schedules.					
6. The Portfolio at Risk (PAR) in our SME is low, indicating strong repayment capacity and risk management.					

**Thank you for your time**

## Appendix II: Interview Guide (For Top Management)

Dear Key Informant,

I am **Tumuhimbise Remigio**, a student at Uganda Christian University pursuing a Master's Degree in Business Administration. As part of my academic research, I am conducting a study on *the factors determining the credit performance of SMEs in microfinance institutions in Uganda, focusing on the Microfinance Support Centre Limited*. Your insights and experiences are invaluable to this study, and I appreciate your willingness to participate in this interview. Please note that all information provided will be treated with the utmost confidentiality and will be used solely for academic purposes. Thank you for your time and cooperation.

1. Can you describe the key aspects of the loan appraisal process at the Microfinance Support Centre (MSC)?
2. How does MSC assess the financial health and creditworthiness of SMEs before extending loans?
3. In your opinion, what impact does a thorough credit appraisal have on the repayment behavior of SMEs?
4. How does MSC ensure transparency in the credit appraisal process to foster trust with SMEs?
5. To what extent does MSC's credit appraisal process take into consideration the specific challenges SMEs face in Uganda?
6. How flexible are the repayment terms provided by MSC to SMEs, especially in cases of unforeseen financial challenges?
7. How does MSC determine the appropriate interest rate and loan tenure for each SME?
8. Can you elaborate on how the loan terms at MSC are designed to align with the financial capabilities of SMEs?
9. How often are SMEs able to adjust their loan terms based on their financial performance or challenges?
10. In your experience, how do favourable credit terms influence timely loan repayments by SMEs?

11. How does MSC monitor the financial performance of SMEs after loan disbursement, and how often does this monitoring take place?
12. Can you share your thoughts on how the technical support provided by MSC helps SMEs overcome financial difficulties and meet their loan obligations?