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Credit Terms and the Performance of Micro Small and Medium Enterprises in Uganda: A Case Study of Rubaga Division

The study was about the credit terms and performance of Micro Small and Medium Enterprises (MSME), hence it aimed at finding out whether they had a bearing on the performance of MSMEs. The researcher studied credit terms in terms of loan size, loan tenure, loan charges and interest rate which constituted the independent variable and how they affected the performance of MSMEs. Performance was categorised in terms of business assets and input acquisition, liquidity, profitability and business expansion, thus, it constituted the dependent variable. Credit officials and MSME proprietors comprised the population of study; both qualitative and quantitative methods were used to collect data from the respondents. Sixty questionnaires were issued to MSME proprietors to find out the effect of credit terms on their performance of which 47 were returned. Ten credit officials were selected of whom 9 were interviewed, which enabled the researcher acquire important facts about bank risk management, profitability and the determinants of credit terms. The researcher achieved a response rate of 80 per cent which made the data become reliable and thus a basis upon which the conclusions were made. The data were collected using the questionnaire and analysed using the Statistical Package for the Social Sciences (SPSS). The results of the study confirmed that majority of the respondents were not affected by the credit terms much as they were harsh. This was due to the good practice by the credit officials of disclosing their credit terms to the MSME proprietors at the very first encounter. This enabled MSMEs proprietors make informed decisions about the loans they acquired and to incorporate the information given into their budgets and comparing credit terms among lenders, thus, selecting those who offered better terms. According to the findings of the study, credit terms have no effect on the performance of MSMEs. However, the researcher recommends that Bank of Uganda should use all forms of communication to sensitise borrowers about their credit rights. It should also publish the credit terms and conditions using all communication channels as this will beef up competition among lending institutions thus compelling them to relax on their credit terms. The results will guide policy makers in coming up with practical solutions that will enable MSMEs acquire loans at friendly terms. A detailed study is contained in the subsequent chapters. The researcher feels that the findings will be significant in adding new ideas to the existing body of knowledge.

Key words: Credit, Performance, Enterprise,