

Debt Financing and Financial Performance of Selected Small and Medium Scale Enterprises in Masaka City, Uganda

¹Kafeero Harriet, ²Kayanja David, ³Musoke Matthew

^{1,2,3}School of Graduate Studies and Research (SGSR), Team University, P.O. Box 8128 Mengo, Kabaka A'njagala Road, Kampala, Uganda

E-mail: [1kfrharriet@gmail.com](mailto:kfrharriet@gmail.com), [2monidavika@gmail.com](mailto:monidavika@gmail.com), [3mattheausm@gmail.com](mailto:mattheausm@gmail.com)

Abstract - The study investigated the relationship between debt financing and financial performance of SMEs in Masaka City, Uganda. The study objectives were to: (i) examine the relationship between long-term loans and Financial Performance of selected SMEs in Masaka City, (ii) establish the relationship between short-term loans and Financial Performance of selected SMEs in Masaka City, and (iii) investigate the relationship between trade credit and Financial Performance of selected SMEs in Masaka City. The study employed a cross-sectional research design along with quantitative and qualitative approaches. From a study population of 320, a sample size of 252 respondents was used. Data was collected using questionnaires and an interview guide. Qualitative data was analyzed using content analysis, while quantitative data was analyzed using descriptive statistics (mean and standard deviation) and inferential statistics (correlations and regression analysis). The study concludes that there are significant positive relationships between various forms of financing and the financial performance of SMEs in Masaka City. Specifically, the Pearson correlation coefficient for long-term loans is 0.854, indicating a strong positive association, with a regression coefficient of 0.523 signifying that each unit increase in long-term loans corresponds to a 0.523 unit improvement in financial performance. Similarly, short-term loans exhibit a correlation coefficient of 0.640, with a regression coefficient of 0.286, demonstrating that increases in short-term loans lead to significant financial enhancements for SMEs. Trade credit shows a robust correlation of 0.835 and a substantial regression coefficient of 0.673, further underscoring its critical impact on financial performance. Thus, these findings emphasize the essential role of long-term loans, short-term loans, and trade credit in promoting the growth and sustainability of SMEs in the region, warranting targeted interventions to improve access to these financial resources. The study recommends that financial institutions, local government authorities, and SMEs in Masaka City implement various strategies to improve financial performance. These include

enhancing lending criteria, providing training programs, establishing mentorship networks, and offering incentives. Additionally, the study recommends developing tailored financing products, establishing strong supplier relationships, and creating a supportive regulatory environment to encourage the use of trade credit and promote SME growth.

Keywords: Debt financing, financial performance, small and medium scale enterprises.

I. INTRODUCTION

The researcher examined the effect of debt financing on the financial performance of SMEs in Masaka City, Uganda. Debt financing, in terms of long-term loans, short-term loans, and trade credit, was treated as the independent variable, while the performance of SMEs was the dependent variable.

The financial performance of SMEs in Masaka City is significantly implicated by their reliance on debt financing with only 18.3% of the 320 SMEs being registered (Kibanja 2021). The low financial performance rating of 32% indicates that many SMEs struggle to recover loans, leading to cycle of debt that hampers business sustainability (Mugisha & Nuwagaba 2022). This situation is particularly concerning as it reflects broader economic challenges faced by SMEs in Uganda's Central Region (Okwakot et al 2023).

According to Kasakende et al (2021), only 30% of SMEs in Uganda have access to formal credit, leading to reliance on informal sources that may not provide sufficient capital for growth. This limited access affects their ability to invest in operations resulting in poor profitability and liquidity.

A report by UBOS indicated that 65% of SMEs reported low sales volume to insufficient working capital (UBOS 2022). Additionally liquidity ratios for many SMEs remain below the recommended levels with an average current ration of 0.8 reported among businesses in this region. (Kagugube & Nuwagaba 2023).

Various efforts have been made to improve the financial performance of SMEs in Masaka City. These include the Youth live hood program and the Uganda Women Entrepreneurship Fund, all aimed at giving grants and loans specifically designed for young Entrepreneurs and women led businesses (MGLSD, 2021). Local banks have also introduced SME tailored products with lower loan interest rates.

Despite of all this, significant challenges still persist. The study therefore looked at the effects of debt financing on financial performance of SMEs in Masaka City to further understand the relationship.

Debt financing has been a critical component of small and medium-sized enterprises (SMEs) globally since the early 20th century. The concept gained traction in the post-World War II as economies began to recover and industrialize. In many developed countries, particularly in North America and Europe, SMEs have relied heavily on debt financing to fuel growth, innovation, and job creation. According to the World Bank (2021), SMEs account for about 90% of businesses and more than 50% of employment worldwide, highlighting their significance in economic development. The global financial crisis of 2008 had profound implications for SME financing. Many SMEs faced difficulties accessing credit due to tightened lending standards from banks (Beck et al., 2020). However, this period also saw the emergence of alternative financing sources such as peer-to-peer lending and crowd funding platforms that provided new avenues for debt financing. Recent studies indicate that while traditional bank loans remain prevalent, alternative forms of debt financing are increasingly popular among SMEs seeking flexibility and lower barriers to entry (Mason & Piñeiro-Chousa, 2020).

In Sub-Saharan Africa, the landscape for SME debt financing has evolved significantly over the past two decades. Historically, access to finance has been a major constraint for SMEs in this region due to underdeveloped financial markets and high-interest rates (Ayyagari et al., 2020). Research indicates that between 2000 and 2015, there was a gradual increase in microfinance institutions (MFIs) providing debt financing specifically tailored for SMEs (Kumar & Raghavan, 2021). The African Development Bank reported in its 2019 report that only about 20% of African SMEs had access to formal credit. This lack of access is attributed to factors such as inadequate collateral requirements and high perceived risks by lenders (AfDB, 2019). However, recent initiatives aimed at improving financial literacy among entrepreneurs and enhancing regulatory frameworks have begun to change this narrative.

East Africa has witnessed notable developments in SME debt financing since the early 2000s. Countries like Kenya

have pioneered innovative financial products tailored for SMEs through mobile banking solutions such as M-Pesa launched in 2007 (Jack & Suri, 2020). This innovation has significantly improved access to finance for small businesses by allowing them to receive loans via mobile platforms without needing traditional banking infrastructure. Research conducted by Kauffmann et al. (2021) highlights that between 2015 and 2020, East African governments implemented various policies aimed at promoting SME growth through enhanced access to credit facilities. These initiatives included establishing credit guarantee schemes which reduced risks associated with lending to SMEs.

Uganda's journey towards improving debt financing for SMEs can be traced back several decades but gained momentum after the liberalization policies introduced in the early 1990s (Namakula et al., 2021). The government recognized the importance of SMEs as engines for economic growth and job creation; thus, it initiated various programs aimed at facilitating access to finance. According to a report by the Uganda Bureau of Statistics (UBOS) published in late 2020, approximately 30% of Ugandan SMEs utilized bank loans or other forms of debt financing during their operational lifespan. However, challenges persist due to high-interest rates averaging around 18-22%, which deter many potential borrowers from seeking loans (UBOS, 2020). Recent studies indicate that despite these challenges, there is a growing trend among Ugandan SMEs towards leveraging digital financial services for accessing credit (Kibanja & Nuwagaba, 2022). This shift is expected to enhance financial performance by providing timely capital necessary for operational expansion.

Masaka City represents a microcosm of Uganda's broader SME landscape where local businesses are increasingly turning towards debt financing as a means to sustain operations amid economic challenges exacerbated by COVID-19 pandemic impacts starting from early 2020 onwards (Mugisha & Biryabarema, 2022). A study conducted by Kasaija et al. (2023) found that around 40% of surveyed SMEs in Masaka had accessed some form of debt within the last year. The research highlighted that those who utilized debt financing reported improved cash flow management and increased capacity for inventory purchases leading directly to enhanced sales performance compared with those who did not seek external funding sources. However, it also noted that many entrepreneurs remained hesitant due to fears surrounding repayment obligations amidst fluctuating market conditions. Furthermore, local government initiatives aimed at supporting SME growth through training programs on financial management have been instrumental in changing perceptions regarding debt utilization among business owners within Masaka City (Nabudere & Okello, 2023)

This study was guided by the Growth Borrowing Theory (Kauffmann, 2004), and Resource-Based View (Barney, 1991). The Growth Borrowing Theory by Kauffmann (2004) insists that small and medium-sized enterprises (SMEs) can leverage debt financing to stimulate growth. The fundamental assumption is that access to external financing enables SMEs to invest in productive assets, thereby enhancing their operational capacity and market competitiveness. This theory assumes that SMEs often face capital constraints due to limited internal resources, making debt a viable option for expansion.

Debt financing has been a critical aspect of the financial landscape for Small and Medium Enterprises (SMEs) in Uganda. Historically, SMEs have faced significant challenges in accessing finance due to various factors such as lack of collateral, high-interest rates, and limited financial literacy among entrepreneurs. According to a report by the Uganda Bureau of Statistics (2021), SMEs contribute approximately 90% of the private sector and account for about 75% of employment in Uganda. This highlights their importance in the economy and underscores the need for effective financing mechanisms. A study by Kasekende et al. (2020) indicates that between 2000 and 2010, there was a significant increase in microfinance lending, which provided an alternative source of funding for SMEs that were traditionally reliant on personal savings or informal loans. By 2015, commercial banks also started recognizing the potential of SMEs as viable clients, leading to tailored loan products aimed at this segment (Mugisha & Nuwagaba, 2021).

The impact of debt financing on the financial performance of SMEs has been widely studied. Research conducted by Okello et al. (2022) found that access to debt financing positively correlates with improved financial performance indicators such as profitability and revenue growth among SMEs in Masaka City. The study highlighted that businesses that utilized debt effectively could invest in inventory, expand operations, and enhance their market reach. However, it is essential to note that while debt can facilitate growth, it also introduces risks associated with repayment obligations. A report by the International Finance Corporation (IFC) (2021) indicated that many SMEs struggle with high levels of indebtedness due to poor cash flow management and economic shocks. This situation can lead to financial distress if not managed properly.

Despite the benefits associated with debt financing, several challenges persist for SMEs in Masaka City. According to a survey conducted by the Microfinance Support Centre (2022), many entrepreneurs reported difficulties in meeting collateral requirements set by lenders. Additionally, high-interest rates often deter potential borrowers from

seeking loans, limiting their ability to leverage debt for growth opportunities. Moreover, limited financial literacy remains a significant barrier; many SME owners lack knowledge regarding effective financial management practices and understanding loan terms (Nabudere & Muwanga-Zake, 2023). This gap often results in mismanagement of borrowed funds and ultimately affects business sustainability.

In response to these challenges, the Ugandan government has implemented various initiatives aimed at improving access to finance for SMEs. The National Development Plan III (2020-2025) emphasizes enhancing access to credit through government-backed schemes such as the Uganda Development Bank's lending programs specifically designed for SMEs (Uganda National Planning Authority, 2021). These initiatives aim not only to provide funding but also technical support to ensure that businesses can manage their finances effectively. Furthermore, partnerships between government agencies and non-governmental organizations have led to capacity-building programs focused on improving financial literacy among SME owners (Kibanja & Kiggundu, 2023). Such efforts are crucial for empowering entrepreneurs with skills necessary for making informed borrowing decisions.

The Resource-Based View (RBV) of Barney (1991) posits that firms possess unique resources and capabilities that can lead to a competitive advantage. According to Barney (1991), these resources must be valuable, rare, inimitable, and non-substitutable (VRIN) for them to contribute effectively to a firm's performance. This assumption underlines the importance of internal resources over external market conditions, suggesting that SMEs can leverage their unique assets to improve financial performance through strategic debt financing. The RBV was developed by Jay Barney in 1991 as a framework for understanding how firms achieve sustained competitive advantages. It emphasizes that not all resources are equally effective; rather, it is the combination of specific resources—such as human capital, organizational culture, and technological capabilities—that determines a firm's success (Barney, 1991). In the context of SMEs in Masaka City, Uganda, this theory suggests that those with superior resource endowments can utilize debt financing more effectively to enhance their operational capacity and financial outcomes.

Long-Term Loan and Financial Performance of SMEs

The financial performance of SMEs is often measured through indicators such as profitability, return on assets (ROA), return on equity (ROE), and overall revenue growth. Research indicates a positive correlation between long-term loans and these performance metrics. For instance, a study by Kira & He (2020) found that SMEs utilizing long-term loans experienced enhanced profitability due to improved cash flow

management and investment capabilities. The authors argue that access to stable financing allows SMEs to undertake projects that yield higher returns over time.

In developing countries, for example, long-term loans have been shown to have a more pronounced effect on SME growth compared to developed nations where alternative financing sources may be more readily available (Beck et al., 2021). A comparative study by Muriithi & Rambo (2021) highlighted that African SMEs benefitted substantially from long-term debt financing as it provided them with the necessary resources to scale operations amidst challenging economic environments.

Different sectors exhibit varying sensitivities to long-term loan financing. For instance, manufacturing SMEs often require significant capital investments in machinery and technology; thus, they tend to rely heavily on long-term loans (Khan et al., 2022). Conversely, service-oriented SMEs may not need substantial capital outlays upfront but still benefit from long-term financing for operational stability. A sectoral analysis by Osei-Assibey & Osei-Boateng (2022) revealed that manufacturing firms showed a stronger relationship between long-term loan utilization and financial performance compared to their service counterparts.

According to a study by Abor and Biekpe (2020), long-term financing is positively correlated with firm growth, as it allows businesses to undertake substantial investments without the immediate pressure of repayment that short-term financing entails. The authors emphasize that access to long-term loans can enhance an SME's ability to plan strategically for future growth. Moreover, long-term loans often come with lower interest rates compared to short-term financing options. This cost advantage can significantly improve an SME's profitability margins over time (Beck et al., 2021).

Short -Term Loans and Financial Performance of SMEs

A study conducted by Osei-Assibey et al. (2022) in Ghana found that SMEs that utilized short-term loans experienced improved liquidity ratios and profitability margins compared to those that did not. The research indicated that access to timely financing allowed businesses to capitalize on market opportunities more effectively. Similarly, a study by Chigbu et al. (2020) focused on Nigerian SMEs and revealed that those with access to short-term credit reported higher sales growth rates than their counterparts without such access. This finding suggests that short-term loans can serve as a catalyst for revenue generation in small businesses.

According to a study by Abor and Quartey (2020), short-term financing is essential for SMEs as it helps them meet immediate financial obligations and invest in growth

opportunities. The authors argue that access to short-term credit can enhance operational efficiency and profitability, which are vital for the sustainability of SMEs. A study by Osei et al. (2021) analyzed data from over 500 SMEs in Ghana and found that those utilizing short-term loans reported higher profitability compared to those relying solely on internal financing. The researchers concluded that short-term loans provide necessary liquidity that enables firms to capitalize on market opportunities promptly.

The availability and impact of short-term loans vary significantly across different regions due to economic conditions, regulatory frameworks, and cultural attitudes towards debt. For instance, a comparative study by Nguyen et al. (2023) examined SMEs in Southeast Asia and found that those with better access to microfinance institutions benefitted more from short-term loans than their counterparts in regions with limited financial services.

Research by Chuenyane et al. (2020) indicates that fintech solutions have made it easier for small businesses to obtain quick financing without traditional banking barriers. Their findings suggest that digital platforms not only improve loan accessibility but also enhance overall financial performance by reducing transaction costs associated with borrowing. A longitudinal analysis conducted by Zafar et al. (2021) tracked several hundred SMEs over five years post-loan acquisition and revealed that while initial profits increased significantly after obtaining short-term financing, long-term sustainability depended heavily on effective debt management practices.

Trade Credit and Financial Performance of SMEs ; A study by Bofondi et al. (2020) analyzed Italian SMEs and found that those utilizing trade credit experienced improved liquidity ratios compared to those relying solely on bank financing. The researchers concluded that trade credit allows firms to maintain operational continuity during periods of cash flow constraints. This finding aligns with previous research by Ng et al. (2012), which highlighted that access to trade credit enables SMEs to invest in growth opportunities without jeopardizing their liquidity position.

According to Muriithi et al. (2021), trade credit allows SMEs to manage their working capital more effectively, enabling them to invest in growth opportunities without immediate cash outflows. In many African countries, where traditional banking systems may be underdeveloped or inaccessible, trade credit becomes a vital lifeline for SMEs (Muriithi et al., 2021). Furthermore, trade credit can enhance supplier relationships, leading to better terms and conditions over time.

Research Gap

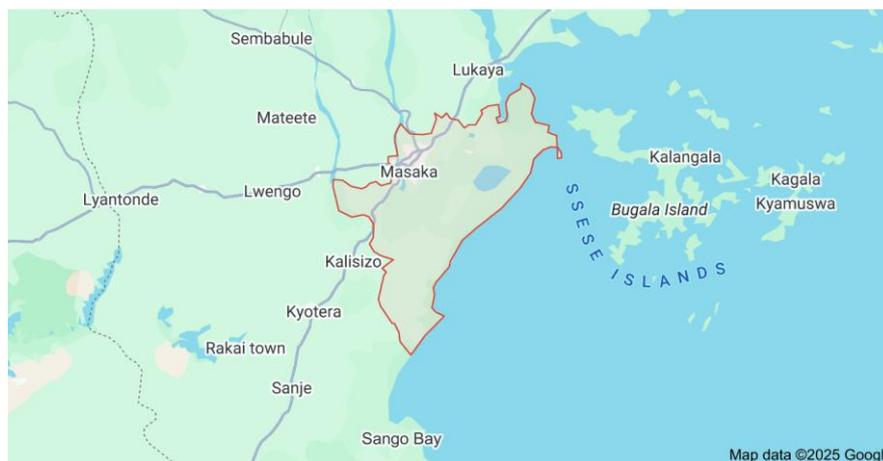
The study by Agyemang et al. (2021) highlights the positive impact of long-term debt on financial performance indicators such as return on assets (ROA) and return on equity (ROE) in SMEs within Ghana. However, there is a notable lack of research focusing specifically on the relationship between long-term loans and financial performance in the context of Masaka City, Uganda. This gap is significant because economic conditions, regulatory frameworks, and market dynamics differ across regions, which may influence how SMEs utilize long-term loans and their resultant financial outcomes. Therefore, this study aims to bridge the knowledge gap by investigating whether similar positive effects of long-term loans on ROA and ROE are observable among selected SMEs in Masaka City, thereby contributing localized insights to the existing literature.

II. MATERIALS AND METHODS

Location of the Study area

Geographically, the study took place in Masaka City. Masaka city is approximately 132 kilometres (82 mi) to the south-west of Kampala on the highway to Mbarara. The city is close to the Equator. The coordinates of Masaka are 0°20'28.0"S, 31°44'10.0"E (Latitude:-0.341111; Longitude:31.736111). Masaka lies at an average elevation of 1,288 metres (4,226 ft) above sea level. This area is chosen for this particular study because a number of SMEs have sprung up yet at the same time many of them have collapsed. The study involved all the SMEs registered with the Commercial Office and the Uganda Bureau of statistics in the two Divisions of Masaka city.

Sketch Map of Showing the Location of Masaka District (Study Area)



Research Design; Research design refers to the master plan that is used in the study in order to answer the research questions (Sekeran and Bougie, 2009). The study employed a cross-sectional survey as the means of survey throughout the study. A cross-sectional survey was preferred as it contains a wealth of details, wholesomeness, and variation, which permits a simple understanding of how and where an intervention may have worked collectively with correlated general effects (Kothari, 2016). A mixed research approach was employed for the study, where both qualitative and quantitative approaches were used. Creswell (2015) stated that a quantitative approach is an approach for carrying out research oriented towards quantification and is applied to describe current conditions or to investigate relationships, including cause-and-effect relationships. A quantitative approach was therefore used to help the researcher describe the current conditions and investigate the established relationships between the identified variables (debt financing and financial performance of SMEs).

Study Population

This target population was selected because the number of failed SMEs was too high and alarming, such that 40% of new businesses never celebrated their very first anniversary, 60% never celebrated their fifth birthday, and only 10% could celebrate their tenth year (UIA, 2023; UBOS, 2023). The population of the study was 1240 SMEs identified in (UBOS, 2023; Masaka City, 2023). The target population of 320 SMEs was used from this framework with the intention of achieving quotas per sampling unit. These included Manufacturing SMEs (40), Service Sector SMEs (30), Trade/Commerce SMEs (150), and Agricultural SMEs (100).

Sample Size and Selection

Sekeran and Bougie (2009) defined a sample as a subset of the population and added that it comprised some members selected from the population, i.e. some of the elements of the population formed the sample. The Morgan and Krejcie (1970) Table was used to determine the sample size for this study. Given the total target population of 320, the corresponding sample size was 252 respondents. The sample size was distributed in Table 2.1 according to their ratio samples.

Table 2.1: The Population Distribution and Sample size

Category	Target Population	Sample Size
Manufacturing SMEs	40	36
Service Sector SMEs	30	28
Trade/Commerce SMEs	150	108
Agricultural SMEs	100	80
Total	320	252

Source: Masaka City, UBOS (2023)

Sampling Techniques

Sampling technique is a procedure of choosing objects from a population in a way that the sample elements chosen stand for the study population (Amin, 2005). According to Creswell (2015), simple random sampling gives every member an equal chance to participate in the study. A sample frame was constructed and members were selected from the sampling frame to avoid bias of response. Simple random sampling was therefore suitable for the study since the method gave an equal chance to every member in the population to be included in the study. Simple random sampling was an effective way of avoiding personal biases by the researcher (Creswell, 2015). Sample units were purposively selected from the four strata with focus on units deemed most appropriate for meaningful results. According to Creswell (2009), purposive sampling enables a researcher to choose participants of their own interest based on education and experience. Purposive sampling was used to select business owners as a unit of inquiry because they were believed to be more knowledgeable about the topic under investigation by virtue of the positions they held in the business.

Reliability refers to as the degree to which an instrument of research produces identical results under the same conditions (Noble & Smith, 2015). Qualitatively, the reliability of the instruments was determined through a pilot test of the interview guide to ensure consistency and dependability and its ability to tap data that would answer the objectives of the study. The results were subjected to a reliability analysis. Quantitatively, reliability was determined using Cronbach’s Alpha Reliability Coefficient test. Upon performing the test, according to Amin (2005) since the value was **0.84875** above 0.7, the items in the instrument were regarded as reliable. To ensure reliability, the research instrument was pre-tested to only 10 people to ensure consistency and comprehensiveness. However, people who were used to pretest the instrument did not participate in the final study (Amin, 2005).

Table 2.2: Reliability results

Variables	Number of items	Cronbach’s Alpha
Long Term loans	12	0.876
Short term loans	11	0.912
Trade Credit	11	0.816
Financial Performance	12	0.791
		0.84875

III. DATA ANALYSIS

Quantitative data from the questionnaires were computed into frequency counts and percentage. Data were sorted using the Statistical Package for Social Scientists (SPSS) version 23. The researcher adopted bivariate analysis techniques in analyzing the data. Bivariate analysis was the simplest form of quantitative (statistical) analysis. In addition to frequency distribution tables,

mean and standard deviation were used in data analysis. Quantitative data were analyzed using inferential statistics, particularly using Pearson correlation and regression analysis, which enabled the researcher to establish the relationship between the independent variables (short-term loans, long-term loans, and trade credit) and the dependent variable (financial performance of small and medium enterprises).

IV. RESULTS

A total of 230 questionnaires were returned out of 240 distributed, yielding a remarkable return rate of 96%. Additionally, 10 in-depth interviews were conducted out of 12 scheduled, resulting in a completion rate of 83%. According to Mugenda & Mugenda (1999), a response rate of 70% or higher is considered adequate. Given the high return rates for both questionnaires and interviews, the overall response rate of 90% is deemed exceptional, providing a reliable and representative dataset for analysis. This high response rate enhances the validity and reliability of the findings.

Table 4.1: Response Rate

Instrument	Target	Actual	Response Rate
Questionnaires	240	230	0.96
Interviews	12	10	0.83
Total	252	240	0.90

Source: Primary Data (2025)

Background Information of the Respondents

The key characteristics considered for the different respondents included gender, age group, marital status, number of dependents, level of education and time taken saving with the selected SMEs in Masaka City. This was done to give a clear picture of the attributes of the sample from whom the data was collected.

Table 4.1: Summary of Key Characteristics of Respondents

Category	Item	Frequency	Percentage (%)
Gender	Male	102	42.5
	Female	138	57.5
Age	18-25 years	36	15.0
	26-35 years	81	33.8
	36-45 years	102	42.5
	Above 45 years	21	8.8
Marital Status	Single	34	14.2
	Married	183	76.3
	Widowed	15	6.3
	Divorced	8	3.3
Highest Level of Education	No education	37	15.4
	Primary	64	26.7
	Secondary	97	40.4
	Tertiary	42	17.5
Period Business has been in operation	Less than 1 year	40	16.7
	2 – 5 years	93	38.8
	6 – 10 years	90	37.5
	Above 10 years	17	7.1

(n=240)

Source: Primary Data (2025)

Gender Distribution:

The findings showed that females accounted for 57.5% of the sample, while males comprised 42.5%. This suggests a higher level of engagement among women in SMEs in Masaka City. The gender imbalance may influence the way entrepreneurs perceive debt financing and financial performance, as men and women may have distinct management styles and financial

decision-making approaches. Recognizing these demographic differences is crucial for designing financial support services that cater to the unique needs of both male and female entrepreneurs.

Age Group:

The results revealed that 42.5% of the respondents fell within the 36-45 years age bracket, followed closely by 33.8% in the 26-35 years category. This suggests that middle-aged individuals are the primary drivers of SMEs in Masaka City, likely due to their accumulated experience, resources, and business acumen. In contrast, the younger age group (18-25 years) accounted for 15% of respondents, indicating that youth entrepreneurship is still in its nascent stages in the city. This age-related dynamic is important to consider when assessing the potential for adaptability to debt financing, as older entrepreneurs may possess more established professional networks and financial expertise.

Marital Status:

The findings showed that a majority (76.3%) of respondents were married, while 14.2% were single. This suggests that family responsibilities and marital status may play a crucial role in shaping financial decisions and risk-taking behaviors in debt financing. Married entrepreneurs may have more stable financial foundations and support systems, which could influence their business strategies. Conversely, single entrepreneurs may face different financial challenges and opportunities, potentially relying more on personal resources. Recognizing these marital patterns is vital for developing tailored financial solutions that address the unique needs of SME owners with different marital statuses.

Educational Background:

The findings showed that a majority of respondents revealed that 40.4% had completed secondary education, while 26.7% had primary education. Additionally, 15.4% reported having no formal education, and 17.5% had tertiary education. This educational distribution suggests that a significant proportion of entrepreneurs possess a basic level of education, which can facilitate their understanding of financial concepts, including debt financing. However, the relatively low percentage of tertiary education highlights a potential knowledge gap in advanced business management. Bridging this gap through targeted financial literacy programs can empower SME owners to make informed decisions regarding debt and overall financial performance.

Business Operation Period:

The results revealed that 38.8% of respondents had been in operation for 2-5 years, while 37.5% had been operating for 6-10 years. This suggests that a significant proportion of SMEs in Masaka City are established, with a likely better understanding of financial management practices, including debt financing. However, 16.7% of businesses were relatively new, having operated for less than a year. This newness may pose challenges in accessing debt financing due to perceived risks. Recognizing these operational durations can inform the design of support mechanisms that cater to the unique needs of both new and established enterprises.

The relationship between long-term loans and financial performance of selected SMEs in Masaka City

The researcher employed descriptive statistics to analyze the data, utilizing a 5-point Likert scale to gauge respondents' attitudes. Mean scores above 3.26 indicated agreement, while scores below 2.50 suggested disagreement, and scores between 2.51-3.25 indicated neutrality, as per Tombele (2017). Standard deviations below 0.99, as recommended by Altman (2005), indicated a high degree of consensus among respondents. Participants were asked to evaluate statements related to the relationship between long-term loans and financial performance of selected SMEs in Masaka City.

Table 4.2: Long-term loans among selected SMEs in Masaka City

	N	Mean	Std. Dev.
Long-term loans are essential for the growth of my SME.	230	4.05	0.91
The interest rates on long-term loans are manageable for my business.	230	4.35	0.89
I have sufficient knowledge about the terms and conditions of long-term loans.	230	3.75	1.03
Accessing long-term loans has improved my business operations significantly.	230	4.27	0.876

The application process for long-term loans is straightforward and user-friendly.	230	3.25	1.46
I believe that long-term loans contribute positively to the financial stability of SMEs.	230	4.29	0.89
There is adequate support from financial institutions for SMEs seeking long-term financing.	230	3.76	1.12
I feel confident in my ability to repay a long-term loan without jeopardizing my business.	230	4.40	0.64
Long-term loans have allowed me to invest in new technologies for my business operations.	230	3.90	1.03
The repayment terms of long-term loans are flexible enough to accommodate my cash flow needs.	230	4.45	0.82
I would recommend other SMEs to consider long-term loans as a viable financing option.	230	3.36	0.64
Long-term loans are essential for the growth of my SME.	230	3.40	0.49

Source: Primary Data (2025)

The mean score of 4.05 for the statement "Long-term loans are essential for the growth of my SME" indicates strong agreement among respondents. This suggests that business owners recognize the critical role that long-term loans play in financing growth initiatives such as expanding production capacity, improving facilities, and launching new products. The standard deviation of 0.91 indicates close consensus regarding this view, showing that most participants share similar beliefs about the necessity of these loans. Respondents' acknowledgment of long-term loans as vital resources reflects a broader understanding of how effective financing can enable sustained growth. Interviewee A, an SME owner, noted, *"Long-term loans are crucial for my business growth; without them, I wouldn't be able to invest in critical areas, and my business would stagnate."*

The mean score of 4.35 reveals that respondents generally find the interest rates on long-term loans manageable for their businesses. This positive perception is vital, as manageable interest rates are likely to encourage SME owners to pursue loans to fund their operations. The standard deviation of 0.89 indicates that there is a high level of agreement among participants about the affordability of loan rates. This finding also suggests that financial institutions may have set competitive rates that help foster financial sustainability among SMEs. Interviewee B, a financial institution official, stated, *"interest rates are structured wisely; they help SMEs to afford loans without compromising their financial stability, allowing for growth and innovation."*

With a mean score of 3.75, respondents feel they possess a sufficient understanding of the terms and conditions associated with long-term loans. While this indicates generally positive sentiment, the slightly higher standard deviation of 1.03 suggests variability in actual comprehension among owners. This finding implies that enhancing financial literacy among SME owners could benefit those with less experience or understanding of loan agreements. Improving knowledge can lead to better financial decision-making, reducing the likelihood of loan-related issues. Interviewee A remarked, *"While I grasp the basics, I would benefit from more education on complex loan terms. Better understanding would empower me to use loans more effectively."*

Respondents showed a high level of agreement with the statement that accessing long-term loans has significantly improved their business operations, with a mean score of 4.27. The standard deviation of 0.876 indicates strong consensus among participants regarding this impact. This suggests that many SMEs experience operational enhancements due to the influx of capital from loans. These improvements may manifest in enhanced productivity, quality, and efficiency, ultimately contributing to better financial performance. Interviewee B elaborated, *"Long-term loans substantially improve business operations; they allow us to invest in modern technologies that streamline our processes and increase output."*

The mean score of 3.25 regarding the straightforwardness of the long-term loan application process reflects uncertainty among respondents. With a standard deviation of 1.46, this indicates significant variability in experiences and perceptions of the application process. Some respondents may find it burdensome or complex, suggesting that financial institutions could benefit from streamlining the application process to enhance accessibility. Simplifying procedures may encourage more SMEs to pursue necessary financial assistance. Interviewee A commented, *"The application process can be daunting. If it were simpler, more entrepreneurs would seek loans to expand their enterprises without feeling overwhelmed by the paperwork."*

A strong mean score of 4.29 indicates that respondents believe long-term loans contribute positively to the financial stability of their SMEs. The standard deviation of 0.89 suggests a close agreement among participants regarding this perspective. This reflects the understanding that debt financing can provide essential cash flow support, enabling SMEs to weather financial

uncertainties and invest in future growth. This finding aligns with studies that underscore the importance of strategic debt management in promoting sustainable business practices. Interviewee B affirmed, *“long-term loans enhance financial stability; they provide the necessary cushioning during tough times, allowing us to maintain operations smoothly and plan for future investments.”*

The mean score of 3.76 for the statement "There is adequate support from financial institutions for SMEs seeking long-term financing" reflects a generally positive perception among participants regarding the assistance provided by financial institutions. The standard deviation of 1.12 indicates some variability in responses, suggesting that, while many SMEs feel supported, there are still those who may perceive the support as insufficient or inconsistent. This perception underscores the critical role financial institutions play in providing necessary resources, guidance, and products tailored to the unique needs of small businesses. Interviewee A, a financial institution official, noted, *“There is substantial support available for SMEs, but we continue to adapt our services to better meet the specific needs of each business, ensuring that support is sufficient and effective.”*

The mean score of 4.40 indicates strong confidence among participants in their ability to repay long-term loans without jeopardizing their businesses. This high level of agreement is underscored by a low standard deviation of 0.64, suggesting a strong consensus among SMEs regarding their financial management capabilities. The confidence reflected in this finding speaks volumes about the preparation and financial literacy of SME owners, as well as their ability to plan for long-term commitments strategically. Interviewee B, an SME owner, shared, *“Confidence in repayment is essential; my financial planning helps me ensure that I can meet repayment obligations without harming my business operations, which offers peace of mind.”*

A mean score of 3.90 regarding “Long-term loans have allowed me to invest in new technologies for my business operations” reflects a positive sentiment that such financing positively impacts innovation. The standard deviation of 1.03 indicates that responses varied somewhat, but most respondents agree that long-term loans drive technological investments. This finding suggests that SMEs recognize the vital role financial resources play in modernizing operations, enhancing efficiency, and staying competitive. Interviewee A remarked, *“Long-term loans enable our business to invest in technology; this investment has not only streamlined our processes but also improved our service delivery substantially.”*

The mean score of 4.45 for "The repayment terms of long-term loans are flexible enough to accommodate my cash flow needs" indicates a strong belief in the adaptability of loan terms to meet business requirements. The relatively low standard deviation of 0.82 suggests consistency and agreement among participants, highlighting that flexible repayment options greatly enhance the feasibility of long-term borrowing. This flexibility plays a significant role in managing cash flow, especially for SMEs facing fluctuating income. Interviewee B shared, *“Flexibility in repayment terms is crucial; being able to adjust payments based on cash flow has allowed my business to thrive, even during slow seasons.”*

A mean score of 3.36 regarding the recommendation of long-term loans as a viable option for other SMEs indicates a lower level of agreement compared to other statements, reflecting some uncertainty among respondents. The standard deviation of 0.64 suggests that while many understand the potential benefits, some remain cautious or have had varied experiences with long-term loans. This uncertainty could be due to fears regarding debt levels or past negative experiences with borrowing. Interviewee A commented, *“While long-term loans offer benefits, there is still hesitation among some SMEs; we need to foster greater understanding of the advantages to encourage more business owners to consider this option.”*

The statement "Long-term loans are essential for the growth of my SME" received a mean score of 3.40, indicating that while there is some recognition of their importance, the agreement level is moderate, reflecting divided opinions. The standard deviation of 0.49 shows a fairly consistent belief among respondents who acknowledge the potential that long-term loans offer for growth. However, some may not fully appreciate or have experienced these benefits. Interviewee B remarked, *“While long-term loans are important, not all SMEs see them as essential or viable; personal experiences and industry conditions greatly influence perceptions of borrowing.”*

The Financial Performance of selected SMEs in Masaka City

The researcher used descriptive statistics to analyze the data. A 5-point Likert scale was used, with mean values above 3.26 indicating agreement, below 2.50 indicating disagreement, and between 2.51-3.25 indicating uncertainty (Tombele, 2017). Standard deviations below 0.99 showed closeness to the mean (Altman, 2005). The participants were requested to examine statements concerning the Financial Performance of selected SMEs in Masaka City.

Table 4.3: Financial Performance of selected SMEs in Masaka City

	N	Mean	Std. Dev.
I believe that my SME has maintained a profitable operation over the past year.	230	4.26	0.99
My SME’s profit margins are satisfactory compared to industry standards.	230	3.19	1.37
I feel confident in the profitability projections for my SME in the next fiscal year.	230	3.70	1.30
My SME has sufficient liquidity to meet its short-term obligations.	230	3.50	1.24
I am concerned about my SME’s ability to convert assets into cash quickly.	230	3.95	1.24
My SME effectively manages its cash flow to ensure operational efficiency.	230	3.76	1.23
Sales revenue for my SME has increased consistently over the past three years.	230	3.80	1.06
I believe that marketing strategies have positively impacted my SME’s sales revenue.	230	3.82	1.58
My SME faces challenges in maintaining consistent sales growth due to market competition.	230	4.06	1.20
The pricing strategy of my SME contributes positively to overall sales revenue.	230	4.17	1.27
I feel that external economic factors significantly affect my SME’s profitability and liquidity levels.	230	3.40	0.49
I am satisfied with the financial performance of my SME in terms of profitability, liquidity, and sales revenue over the last year.	230	3.36	0.64

Source: Primary Data (2025)

The mean score of 4.26 for the statement "I believe that my SME has maintained a profitable operation over the past year" indicates a strong sense of satisfaction among respondents regarding their businesses' profitability. This score reflects a positive outlook and confidence in financial performance, suggesting that many SMEs in Masaka City are successfully generating profits. The standard deviation of 0.99 indicates a relatively close agreement among respondents, reinforcing this positive portrayal. This finding highlights the resilience and effective management strategies of SMEs operating in the region. Interviewee A, an SME owner, remarked, *"We have been profitable; despite the challenges, our careful financial management and positive customer relationships have kept us in the black."*

With a mean score of 3.19 for the statement "My SME’s profit margins are satisfactory compared to industry standards," the responses reveal a neutral assessment of profit margins. This suggests that while some SMEs are satisfied, others may feel that their profit margins do not meet benchmark expectations. The standard deviation of 1.37 indicates considerable variability in responses, reflecting diverse experiences among respondents. This situation may highlight the need for improved operational strategies and efficiency among SMEs to enhance profitability. Interviewee B, a financial institution official, commented, *"Many SMEs struggle with profit margins due to competitiveness and market conditions; improving efficiency and cost-control measures can help align margins with industry standards."*

The mean score of 3.70 for the statement "I feel confident in the profitability projections for my SME in the next fiscal year" indicates a generally positive outlook regarding future profits. This score reflects a consensus among participants that they have reason to be optimistic about their financial forecasts. The standard deviation of 1.30 suggests some variability in confidence levels, but overall, this finding showcases a hopeful perspective toward future operations. This forward-thinking mindset is crucial in motivating SMEs to invest and grow. Interviewee A stated, *"I am optimistic about next year’s profitability; with our current strategies and a growing customer base, I believe we can achieve even better results."*

A mean score of 3.50 for the statement "My SME has sufficient liquidity to meet its short-term obligations" indicates a moderate sense of financial stability among respondents. While this score suggests that a sizable portion of SMEs feel confident about their liquidity, it also indicates that some may face challenges in meeting short-term financial obligations. The standard deviation of 1.24 implies varying perceptions of liquidity, highlighting the importance of effective cash flow management for operational stability. Interviewee B remarked, *"liquidity remains a concern for many SMEs; while some can manage it, others struggle, especially in times of unexpected expenses or economic downturns."*

The mean score of 3.95 for the statement "I am concerned about my SME’s ability to convert assets into cash quickly" reflects a strong awareness of liquidity issues among respondents. This finding suggests that many SMEs recognize the challenges they face in asset conversion, which can impact their financial flexibility. The standard deviation of 1.24 indicates a close consensus on this concern. This awareness highlights the need for better asset management practices to enhance liquidity.

Interviewee A noted, *“Turning assets into cash is essential; we need to ensure that our assets are easily liquidated to maintain operations without financial strain.”*

The mean score of 3.76 for the statement "My SME effectively manages its cash flow to ensure operational efficiency" indicates a positive perception of cash flow management among respondents. This score reflects a general belief that SMEs are proactively managing their cash flow to enhance operational effectiveness. The standard deviation of 1.23 suggests some variability, indicating that while many feel confident, others may still struggle with cash flow challenges. Proper cash flow management is vital for sustaining business operations and preventing disruptions. Interviewee B commented, *“Good cash flow management is critical; those SMEs with strong practices tend to perform better and navigate financial challenges more effectively.”*

The mean score of 3.80 for the statement "Sales revenue for my SME has increased consistently over the past three years" suggests a positive outlook among respondents about their sales growth. This score indicates that most SME owners feel their businesses have performed well financially over the past few years. The standard deviation of 1.06 indicates moderate variability in the responses, signifying that while many SMEs are experiencing growth, others may not be as fortunate. This perceived growth in sales revenue reflects effective strategies in service delivery and product offerings within the Masaka City marketplace. Interviewee A, an SME owner, remarked, *“Our sales have consistently risen. This growth stems from our focus on quality and customer satisfaction, which has helped us build loyalty over time.”*

The mean score of 3.82 for the statement "I believe that marketing strategies have positively impacted my SME's sales revenue" further indicates a strong consensus among participants about the effectiveness of their marketing efforts. The relatively high standard deviation of 1.58 illustrates a diversity of experiences regarding marketing effectiveness. This finding underlines the importance of tailored marketing strategies in enhancing sales performance, suggesting that SMEs can greatly benefit from investing in marketing initiatives. Companies that leverage appropriate marketing strategies tend to improve visibility and customer engagement, ultimately boosting sales. Interviewee B, a financial institution official, stated, *“Well-executed marketing strategies play a crucial role; SMEs that invest in their marketing are more likely to see positive revenue impacts.”*

With a mean score of 4.06, the statement "My SME faces challenges in maintaining consistent sales growth due to market competition" reflects a significant concern among respondents about competitive pressures. This high score indicates that many SMEs recognize the difficulty of sustaining growth in a competitive landscape. The standard deviation of 1.20 suggests a close agreement, indicating that most SME owners share similar apprehensions regarding competition. This awareness of challenges in sustaining growth indicates the need for SMEs to adapt their strategies to navigate competitive environments effectively. Interviewee A commented, *“Market competition is fierce. We have to innovate constantly to stay relevant and continue growing amid many options available to consumers.”*

The mean score of 4.17 for the statement "The pricing strategy of my SME contributes positively to overall sales revenue" indicates a strong belief among respondents regarding the effectiveness of their pricing strategies. This high score signifies that SME owners recognize pricing as a pivotal factor influencing sales performance. The standard deviation of 1.27 reflects some variability; however, the general consensus is that effective pricing strategies can enhance sales revenue. This finding highlights the importance of aligning pricing strategies with market conditions to drive profitability. Interviewee B remarked, *“Pricing strategies are essential. We have had to regularly adjust our pricing to reflect market conditions and consumer perceptions, which has worked in our favor.”*

The mean score of 3.40 for the statement "I feel that external economic factors significantly affect my SME's profitability and liquidity levels" indicates a moderate level of concern among respondents about external influences. A standard deviation of 0.49 suggests a tight agreement, indicating that while many recognize the impact of economic factors, others may be less aware of these effects. This recognition suggests that SMEs operate within a broader economic context that influences their financial performance. To navigate economic fluctuations successfully, SMEs must develop robust strategies that account for external economic environments. Interviewee A noted, *“External economic factors really matter; changes in inflation and consumer spending patterns have directly impacted our profitability and overall financial health.”*

The mean score of 3.36 for the statement "I am satisfied with the financial performance of my SME in terms of profitability, liquidity, and sales revenue over the last year" reflects a moderate sense of satisfaction among respondents. This score indicates that while many SMEs are content with their financial performance, there is still some room for improvement. With a standard

deviation of 0.64, responses are closely clustered around the mean, suggesting that most SME owners share similar levels of satisfaction. This finding highlights the importance of continuous performance evaluation and enhancement strategies to ensure sustained success. Interviewee B commented, “While we have made progress, there is always room for improvement; it’s essential to keep pushing for better financial outcomes to ensure long-term sustainability.”

Correlation Analysis

A correlation analysis was conducted to investigate the the relationship between long-term loans and financial performance of SMEs in Masaka City. Using the correlation analysis technique, the relationship between long-term loans and financial performance of SMEs was examined, yielding correlation coefficients that indicated the strength and direction of the relationship. The p-value revealed the significance of the relationship, while the correlation coefficient (r) was classified as weak (0.1-0.29), moderate (0.3-0.49), or strong (> 0.5) according to Field (2005).

Table 4.4: Pearson Correlation

		Long-term loans	Financial performance of SMEs
Long-term loans	Pearson Correlation	1	0.854**
	Sig. (2-tailed)		0.000
	N	230	230
Financial performance of SMEs	Pearson Correlation	0.854**	1
	Sig. (2-tailed)	0.000	
	N	230	230

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

Source: Primary Data, (2025)

The findings presented in Table 4.5 reveal a statistically significant and positive correlation between long-term loans and the financial performance of SMEs in Masaka City. The correlation coefficient (r) of 0.854 indicates a strong positive relationship between the two variables, suggesting that as SMEs increase their reliance on long-term loans, their financial performance also tends to improve correspondingly. This correlation is not only statistically significant but also practically meaningful, implying that long-term loans can be a vital component of SMEs' financial strategies. The p-value of 0.000, which is substantially lower than the conventional threshold of 0.05, provides further evidence of the statistical significance of this relationship. This extremely low p-value implies that the probability of observing such a strong correlation by chance is negligible, thereby reinforcing the conclusion that long-term loans play a critical role in enhancing the financial performance of SMEs in Masaka City. The strength and significance of this correlation underscore the importance of long-term loans in supporting the financial growth and sustainability of SMEs in the City.

Regression Analysis

A regression analysis was performed to quantify the extent to which the independent variable (long-term loans) influences the dependent variable (financial performance of SMEs in Masaka City). The results of this analysis are presented below.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.854 ^a	0.740	0.739	5.07826

a. Predictor: (Constant), Long-term loans

Source: Primary Data, (2025)

The R² value of 0.740 indicates a strong positive relationship between long-term loans and financial performance of SMEs in Masaka City. This statistic suggests that approximately 74% of the variability in financial performance of SMEs can be explained by changes in long-term loans, highlighting the significant role that long-term loans play in enhancing access to financial services. The remaining 26% of variability remains unexplained, indicating that other factors may influence financial performance of SMEs beyond long-term loans. These factors could include socio-economic variables, educational background, access to technology, or

even cultural attitudes towards saving and banking. The presence of these additional influences underscores the complexity of financial performance of SMEs and suggests that while long-term loans are crucial, they are not the sole determinant.

Table 4.6: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16105.204	4	16105.204	624.505	0.000
	Residual	5647.737	226	25.789		
	Total	21752.941	230			

- a. Predictor: (Constant), Long-term loans
- b. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The ANOVA conducted at a 5% significance level reveals a strong statistical relationship between long-term loans and financial performance of SMEs in Masaka City. The reported F-value of 624.505, accompanied by a p-value of less than 0.001, indicates that the variation in long-term loans has a profound impact on the financial performance of SMEs. This suggests that long-term loans are a critical factor influencing financial performance, and that any enhancements or changes in long-term loans are likely to lead to significant improvements in financial performance of SMEs.

Table 4.7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	14.457	1.938		7.462	0.000
	Long-term loans	0.946	0.095	0.523	9.940	0.000

- a. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The findings presented in Table 4.8 highlight the significance of long-term loans in enhancing the financial performance of SMEs in Masaka City. The standardized coefficient of 0.523 indicates a positive and significant relationship between long-term loans and financial performance of SMEs. This suggests that long-term loans have a substantial impact on the financial well-being of SMEs. Specifically, the coefficient implies that for every unit increase in long-term loans, there is a corresponding improvement of 0.523 in financial performance of SMEs in Masaka City. This underscores the importance of long-term loans in supporting the growth and development of SMEs, and highlights the need for policymakers and financial institutions to promote access to long-term financing for SMEs.

H₁: There is a significant and positive relationship between long-term loans and financial performance of SMEs in Masaka City.

The relationship between Short-Term Loans and Financial Performance of selected SMEs in Masaka City

Descriptive Statistics

The researcher used descriptive statistics to analyze the data. A 5-point Likert scale was used, with mean values above 3.26 indicating agreement, below 2.50 indicating disagreement, and between 2.51-3.25 indicating uncertainty (Tombele, 2017). Standard deviations below 0.99 showed closeness to the mean (Altman, 2005). The participants were requested to examine statements concerning the relationship between short-term loans and Financial Performance of selected SMEs in Masaka City.

Table 4.8: Short-Term Loans among selected SMEs in Masaka City

	N	Mean	Std. Dev.
Short-term loans are essential for the growth of SMEs in Masaka City.	230	4.34	0.47
The interest rates on short-term loans are affordable for most SMEs in Masaka City.	230	2.94	1.24
Access to short-term loans has improved over the past few years in Masaka City.	230	3.47	1.35

I feel confident in my ability to repay a short-term loan when needed.	230	4.06	0.99
The application process for short-term loans is straightforward and easy to navigate.	230	3.62	1.23
Short-term loans have helped my business manage cash flow effectively.	230	4.10	1.04
There is sufficient information available about short-term loan options for SMEs here.	230	3.94	1.087
I believe that short-term loans can lead to long-term financial stability for SMEs.	230	3.92	1.00
Financial institutions in Masaka City provide adequate support for SME loan applicants.	230	4.23	0.93
I would recommend seeking a short-term loan to other SME owners in Masaka City.	230	3.56	1.29
The terms and conditions of short-term loans are clearly explained by lenders here.	230	3.28	0.61

Source: Primary Data (2025)

The mean score of 4.34 for the statement "Short-term loans are essential for the growth of SMEs in Masaka City" indicates a strong agreement among participants regarding the significance of such loans in driving business growth. The low standard deviation of 0.47 suggests a high level of consensus, with respondents generally recognizing the value of short-term loans in facilitating expansion and operational improvements. This finding underscores that many SMEs view short-term loans as a vital resource for seizing growth opportunities quickly, which can contribute positively to their overall financial performance. Interviewee A, an SME owner, noted, *"Short-term loans are incredibly important for growth; they provide the necessary cash flow to take on new projects and expand my reach in the market."*

The mean score of 2.94 regarding the affordability of interest rates on short-term loans indicates a neutral stance from respondents, with a standard deviation of 1.24 revealing considerable variability in opinions. While some participants find the rates manageable, others face challenges that may hinder their borrowing capacity. This uncertainty highlights the varying experiences of SMEs in accessing affordable financing and suggests that interest rate structures may not be uniformly favorable across all institutions. Interviewee B, a financial institution official, remarked, *"While we strive to keep interest rates competitive, the perception of affordability varies significantly among SMEs, often depending on their specific circumstances and financial health."*

With a mean score of 3.47, the statement "Access to short-term loans has improved over the past few years in Masaka City" reflects a moderate level of agreement among participants. The high standard deviation of 1.35 indicates considerable variability in perceptions regarding access improvements, suggesting that while some SMEs may experience better access to short-term funding, others continue to face barriers that hinder their borrowing capabilities. This variability points to a dynamic landscape in which access to financial resources can significantly impact business viability. Interviewee A noted, *Although access has improved, there are still processes and requirements that can be daunting for new business owners, and we need more outreach and support."*

The mean score of 4.06 for the statement "I feel confident in my ability to repay a short-term loan when needed" indicates a generally high level of confidence among participants. The standard deviation of 0.99 suggests a consistent perception across respondents regarding their repayment capabilities. This confidence is vital for SMEs considering borrowing options, as it reflects their readiness to manage debt responsibly. This typical outlook signals effective financial management and planning within these businesses, or it may be influenced by established cash flow practices. Interviewee B commented, *"Confidence in repayment is essential; our business models allow for predictable cash flow, enabling us to take on short-term loans comfortably without risking financial strain."*

The mean score of 3.62 regarding the straightforwardness of the loan application process indicates moderate agreement among participants that it is relatively easy to navigate. Despite the positive sentiment, the high standard deviation of 1.23 suggests there is significant variability in experiences, with some participants finding the process cumbersome or unclear. This points to the need for financial institutions to streamline application procedures further, ensuring they maintain accessibility for SMEs. Interviewee A mentioned, *"While the application process has improved, there are still steps that can be confusing, and greater transparency would help SMEs feel more comfortable when applying for short-term loans."*

The mean score of 4.10 regarding the statement "Short-term loans have helped my business manage cash flow effectively" reflects a strong agreement among participants about the role these loans play in ensuring operational liquidity. The standard deviation of 1.04 suggests that while most SMEs recognize the effectiveness of short-term loans in managing cash flow, there may be varying levels of success in their implementation. This finding highlights the importance of short-term financing in enabling

SMEs to cover immediate expenses, respond to market demands, and avoid cash flow crises. Interviewee B noted, *“Short-term loans are vital for cash flow management; they help bridge the gap during lean periods, allowing us to maintain operations without disruption.”*

The mean score of 3.94 regarding the availability of sufficient information about short-term loan options for SMEs in Masaka City indicates strong agreement among respondents. The standard deviation of 1.087 suggests a moderate level of variability in perspectives, but overall, participants feel they have adequate access to vital loan information. This implies that financial institutions and other stakeholders are effectively disseminating information, which can empower SMEs to make informed borrowing decisions. Interviewee A, an SME owner, noted, *“There is sufficient information available about loans; with the right details, I feel more confident about making informed financial decisions that will affect my business’s future.”*

A mean score of 3.92 for the belief that “short-term loans can lead to long-term financial stability for SMEs” reflects a strong consensus among participants about the potential benefits of such loans. The standard deviation of 1.00 indicates a reasonably uniform belief in this statement, suggesting that SMEs recognize the strategic role short-term financing can play in establishing a stable financial foundation. This sentiment is encouraging, demonstrating a proactive approach among SMEs toward financial management. Interviewee B, a financial institution official, commented, *“When used wisely, short-term loans can position SMEs towards achieving long-term stability, ensuring they remain competitive in the market.”*

The mean score of 4.23 regarding the statement that financial institutions provide adequate support for SME loan applicants indicates strong agreement, with the low standard deviation of 0.93 indicating that most respondents share this view. This suggests that SMEs feel supported in their borrowing processes, leading to a more conducive environment for financial growth. Adequate support may include guidance in the application process, offerings of financial advice, and ongoing assistance throughout the loan period. Interviewee A stated, *“The support from financial institutions is essential; the guidance I receive makes applying for loans much more accessible, making my financial decisions clearer.”*

A mean score of 3.56 for the statement “I would recommend seeking a short-term loan to other SME owners in Masaka City” indicates a moderate level of agreement. The high standard deviation of 1.29, however, points to significantly divergent views among participants. Some may recognize the benefits while others are cautious about the implications of borrowing. This divergence suggests that while short-term loans are viewed positively by many, there remains reluctance rooted in unique experiences or concerns about debt levels. Interviewee B shared, *“Recommending short-term loans depends on individual circumstances. Not every business is ready for borrowing, and I would be careful about how I advise others.”*

The mean score of 3.28 regarding the clarity of short-term loan terms reflects a neutral to agreeing stance, while the low standard deviation of 0.61 indicates a general alignment in perceptions about the clarity of loan terms offered by lenders. This suggests that while many SMEs find terms and conditions relatively easy to understand, there can still be areas lacking in transparency. Clearly communicated loan terms are critical for maintaining trust and encouraging responsible borrowing. Interviewee A remarked, *“While many lenders do their best to explain terms, there are still grey areas that can confuse especially new borrowers; clearer communications would significantly help.”*

Correlation Analysis

In this section, correlation analysis conducted to examine the effect of short-term loans on financial performance of SMEs in Masaka City. And relationship of short-term loans on financial performance of SMEs in Masaka City was done by the correlation analysis technique. This provided correlation Coefficients which indicated the strength and direction of relationship. The p-value also indicated the financial performance of SMEs of these relationships significant. The classification of the correlation coefficient (r) is as follows: 0.1 –0.29 is weak; 0.3 – 0.49 is moderate; and > 0.5 is strong (Field, 2005).

Table 4.9: Pearson Correlation

		Short-term loans	Financial performance of SMEs
Short-term loans	Pearson Correlation	1	0.640**
	Sig. (2-tailed)		0.000
	N	230	230

Financial performance of SMEs	Pearson Correlation	0.640**	1
	Sig. (2-tailed)	0.000	
	N	230	230

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

Source: Primary Data, (2025)

The results presented in Table 4.10 demonstrate a significant positive correlation between short-term loans and financial performance of SMEs in Masaka City, as evidenced by a correlation coefficient (r) of 0.640. This value suggests a moderately strong positive linear relationship, implying that increased access to short-term loans is associated with improved financial performance of SMEs in Masaka City. The statistical significance of this relationship is confirmed by a two-tailed p-value of 0.000, which is significantly lower than the conventional threshold of 0.05. This low p-value indicates that the observed correlation is unlikely to be due to chance, thereby reinforcing the reliability of the findings and highlighting the importance of short-term loans in enhancing financial performance of SMEs.

Regression Analysis

The regression analysis was conducted to know by how much the independent variable explains the dependent variable. Therefore, regression analysis of short-term loans and financial performance of SMEs in Masaka City was conducted, and the results of the regression analysis are presented as following:

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.640 ^a	0.776	0.775	4.71273

a. Predictor: (Constant), Short-term loans

Source: Primary Data, (2025)

The R² value of 0.776 indicates a strong positive correlation between short-term loans and financial performance of SMEs in Masaka City, explaining approximately 77.6% of the variation in financial performance. This statistical measure suggests that changes in short-term loans have a significant impact on financial performance, with increases in short-term loans associated with improvements in financial performance. However, the remaining 22.4% of unexplained variance implies that other factors may also play a role in shaping the financial performance of SMEs, highlighting the complexity of the relationship between short-term loans and financial performance.

Table 4.11: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16888.981	3	16888.981	760.427	0.000 ^a
	Residual	4863.961	227	22.210		
	Total	21752.941	230			

a. Predictor: (Constant), Long-term loans

b. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The ANOVA conducted at a 5% significance level yields compelling evidence regarding the relationship between short-term loans and financial performance of SMEs in Masaka City. The reported F-value of 760.427 is remarkably high, indicating a very strong effect size. This suggests that variations in the availability of short-term loans are significantly associated with changes in the financial performance metrics of SMEs. In other words, the ANOVA results provide strong evidence that short-term loans have a substantial impact on the financial performance of SMEs in Masaka City. Furthermore, the p-value of less than 0.000 is extremely low, falling well below the conventional threshold of 0.05. This indicates that the results are statistically significant, and the observed relationship between short-term loans and financial performance is unlikely to be due to chance.

Table 4.12: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.606	1.859		6.243	0.000
	Short-term loans	0.866	0.286	0.640	27.576	0.000

a. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The results presented in Table 4.13 demonstrate a positive and significant relationship between short-term loans and financial performance of SMEs in Masaka City. The standardized coefficient of 0.286 indicates that a one-unit increase in short-term loans corresponds to a 0.286-unit improvement in financial performance of SMEs in Masaka City, assuming all other independent variables are held constant. This suggests that short-term loans have a substantial impact on financial performance of SMEs, with the positive and significant relationship implying that increases in short-term loans are associated with improvements in financial performance.

H₁: There is a statistical significant and positive relationship between short-term loans and financial performance of SMEs in Masaka City.

The relationship between Trade Credit and Financial Performance of selected SMEs in Masaka City

The researcher employed descriptive statistics to analyze the data, utilizing a 5-point Likert scale to gauge respondents' perceptions. According to Tombele (2017), mean values exceeding 3.26 indicated agreement, while values below 2.50 suggested disagreement, and scores between 2.51-3.25 indicated neutrality. Furthermore, standard deviations below 0.99, as suggested by Altman (2005), indicated a high degree of consensus among respondents. The participants were asked to evaluate statements related to the relationship between trade credit and financial performance of selected SMEs in Masaka City.

Table 4.13: Trade Credit among selected SMEs in Masaka City

	N	Mean	Std. Dev.
Trade credit is essential for the growth of my business.	230	4.08	1.24
I find it easy to obtain trade credit from suppliers.	230	3.33	1.41
The terms of trade credit offered by suppliers are favorable for my business operations.	230	3.97	1.28
I believe that trade credit helps improve cash flow management in my business.	230	3.29	1.40
My suppliers are willing to extend trade credit based on my business's reputation.	230	3.90	1.26
I have faced challenges in repaying trade credits on time due to cash flow issues.	230	3.401	1.33
Trade credit has a significant impact on my ability to purchase inventory when needed.	230	3.84	1.33
I feel confident negotiating trade credit terms with my suppliers.	230	3.03	1.31
The availability of trade credit influences my decision to engage with certain suppliers.	230	4.11	0.99
I am aware of the risks associated with relying on trade credit for financing operations.	230	3.31	1.39
I believe that trade credit is a beneficial financial tool for SMEs like mine in Masaka City.	230	3.16	0.77

Source: Primary Data (2025)

The mean score of 4.08 regarding the statement "Trade credit is essential for the growth of my business" indicates a strong agreement among respondents. This suggests that SMEs in Masaka City view trade credit as a crucial financial tool that supports their growth and operational expansion. The standard deviation of 1.24 indicates some variability in responses, but the overall consensus highlights the perceived significance of trade credit in enhancing business capabilities. This finding reflects the understanding that trade credit can provide SMEs with the necessary liquidity to invest in inventory, manage expenses, and seize market opportunities. Interviewee A, an SME owner, remarked, "Trade credit is vital for growth; it allows me to stock up on products without immediate cash outflow, which is essential for my business to thrive."

With a mean score of 3.33, the statement "I find it easy to obtain trade credit from suppliers" reflects a neutral stance, indicating mixed experiences among SMEs regarding access to trade credit. The high standard deviation of 1.41 suggests considerable variability in perceptions, with some respondents finding it straightforward while others face challenges. This variability may stem from factors such as supplier relationships, business reputation, or the financial health of the SME. The findings indicate that while trade credit is recognized as beneficial, the accessibility of such credit can be inconsistent. Interviewee B, a financial institution official, noted, *"While trade credit is essential, the ease of obtaining it often depends on the individual SME's relationship with suppliers, which can vary widely."*

A mean score of 3.97 for the statement "The terms of trade credit offered by suppliers are favorable for my business operations" indicates strong agreement among respondents. The standard deviation of 1.28 suggests that while most SMEs perceive the terms as beneficial, there are some differing opinions. Favorable terms can include aspects like extended payment periods and lower interest rates, which can significantly impact cash flow management and operational efficiency. This finding highlights the importance of negotiating favorable terms to optimize the benefits of trade credit. Interviewee A expressed, *"Favorable terms are crucial; when suppliers offer good conditions, it makes it easier for my business to manage cash flow and invest in growth."*

The mean score of 3.29 for the statement "I believe that trade credit helps improve cash flow management in my business" indicates a moderate level of agreement. The standard deviation of 1.40 suggests that while many SMEs see trade credit as a tool for enhancing cash flow, there are also significant concerns and uncertainties among others. This finding emphasizes the dual nature of trade credit; while it can improve liquidity, it may also introduce complexities in managing repayments. Effective cash flow management is critical for sustaining business operations, and this finding reflects the need for SMEs to develop robust strategies when utilizing trade credit. Interviewee B commented, *"Trade credit can improve cash flow, but it requires careful management. If not handled well, it can lead to cash flow issues, which many SMEs struggle with."*

The mean score of 3.90 regarding the statement "My suppliers are willing to extend trade credit based on my business's reputation" indicates strong agreement among participants, suggesting that a good reputation plays a significant role in securing trade credit. The standard deviation of 1.26 indicates some variability, but overall, SMEs recognize that maintaining a positive relationship with suppliers is crucial for accessing credit. This finding underscores the importance of building trust and credibility in business relationships, which can lead to better financing opportunities. Interviewee A stated, *"A good reputation matters; suppliers are more likely to extend credit if they trust that I will repay, which motivates me to maintain strong relationships."*

The mean score of 3.40 for the statement "I have faced challenges in repaying trade credits on time due to cash flow issues" indicates a moderate level of agreement, reflecting that many SMEs experience difficulties in managing repayments. The standard deviation of 1.33 suggests variability in experiences, indicating that while some SMEs manage repayments effectively, others struggle significantly. This finding highlights the importance of cash flow management and the potential risks associated with trade credit reliance. It also suggests that SMEs need to develop strategies to mitigate cash flow disruptions to ensure timely repayments. Interviewee B commented, *"Cash flow issues can complicate repayment; many SMEs face unexpected challenges that can make it hard to meet obligations on time, which can strain supplier relationships."*

The mean score of 3.84 for the statement "Trade credit has a significant impact on my ability to purchase inventory when needed" indicates a strong agreement among the respondents. This highlights that SMEs in Masaka City view trade credit as an essential tool that enhances their purchasing power, particularly for inventory. The standard deviation of 1.33 reveals moderate variability in responses; however, the overall acknowledgment demonstrates the role of trade credit in enabling timely inventory procurement. This finding suggests that access to trade credit can directly support operational efficiency, allowing businesses to meet customer demand and reduce stockouts. Interviewee A, an SME owner, remarked, *"Trade credit is vital for making timely inventory purchases; it allows me to manage demand without the pressure of immediately available cash."*

With a mean score of 3.03 for the statement "I feel confident negotiating trade credit terms with my suppliers," the results indicate a neutral stance among respondents regarding their negotiation skills. The standard deviation of 1.31 suggests considerable variability, with some SME owners feeling competent while others lack confidence in this area. These findings point to a gap in negotiation skills that could impact the overall terms SMEs secure, ultimately affecting their financial health. The ability to negotiate favorable trade credit terms is crucial, as it can lead to better repayment conditions and overall profitability. Interviewee B, a financial institution official, stated, *"Many SMEs lack the confidence to negotiate effectively; improving these skills could unlock better financing opportunities that significantly benefit their operations."*

The mean score of 4.11 for the statement "The availability of trade credit influences my decision to engage with certain suppliers" indicates strong agreement. This suggests that trade credit availability plays a significant role in shaping SMEs' supplier relationships and their procurement choices. The standard deviation of 0.99 indicates close agreement among respondents, reinforcing the notion that trade credit can be a decisive factor for SMEs when selecting suppliers. This finding highlights the importance of trade credit as it empowers SMEs to build partnerships that align with their financial capabilities. Interviewee A commented, "Having access to trade credit strongly influences my choice of suppliers; it often determines who I can work with based on the flexibility they offer."

A mean score of 3.31 indicates that SMEs possess a moderate awareness of the risks associated with relying on trade credit for financing operations. This finding, alongside a higher standard deviation of 1.39, suggests variability in respondents' perceptions and understanding of these risks. Awareness of risks is crucial for effective decision-making, as neglecting potential pitfalls can lead to significant financial issues, especially in volatile market conditions. This suggests SMEs may benefit from enhanced education and resources to better understand the implications of trade credit reliance. Interviewee B remarked, "While some SMEs are aware of the risks, there's a large gap in comprehensive risk management education; improving awareness will help SMEs navigate trade credit more effectively."

With a mean score of 3.16, the statement "I believe that trade credit is a beneficial financial tool for SMEs like mine in Masaka City" reflects a neutral to slightly positive sentiment among respondents. The standard deviation of 0.77 suggests a closer consensus regarding the perceived benefits of trade credit. This finding indicates that although there is recognition of its advantages, some SMEs may still harbor doubts about fully leveraging trade credit as a financial tool. This hesitance might stem from experiences or a lack of understanding of trade credit mechanics. Interviewee A noted, "Trade credit can be beneficial, but many SMEs remain uncertain; providing clear information can help them feel more secure in utilizing it."

Correlational analysis

In this section, a correlation analysis was performed to investigate the relationship between trade credit and financial performance of selected SMEs in Masaka City. The analysis provided correlation coefficients that revealed the strength and direction of the relationship. The p-value was used to determine the statistical significance of the relationships. The correlation coefficients were interpreted using the following classification system: weak (0.1-0.29), moderate (0.3-0.49), and strong (>0.5), as recommended by Field (2005).

Table 4.14: Pearson Correlation

		Trade credit	Financial performance of SMEs
Trade credit	Pearson Correlation	1	0.835**
	Sig. (2-tailed)		0.000
	N	230	230
Financial performance of SMEs	Pearson Correlation	0.835**	1
	Sig. (2-tailed)	0.000	
	N	230	230

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

Source: Primary Data, (2025)

The analysis reveals a positive and significant relationship between trade credit and financial performance of SMEs in Masaka City, as evidenced by a correlation coefficient (r) of 0.835. This strong positive correlation suggests that as the provision of trade credit increases, the financial performance of SMEs in Masaka City also tends to improve. The statistical significance of this relationship is further reinforced by the p-value, which is less than 0.05 (p = 0.000), indicating that the likelihood of observing such a strong correlation purely by chance is extremely low. This provides strong evidence to support the argument that trade credit plays a crucial role in enhancing the financial performance of SMEs in Masaka City. The positive correlation coefficient of 0.835 implies that for every unit increase in trade credit, there is a corresponding improvement in financial performance.

Regression Analysis

A regression analysis was undertaken to determine the impact of trade credit on financial performance of SMEs in Masaka City. The results of this analysis, which examine the relationship between these two variables, are presented below:

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.835 ^a	0.852	0.851	3.83429

a. Predictor: (Constant), Trade credit

Source: Primary Data, (2025)

The coefficient of determination (R^2) value of 0.852 signifies a strong positive correlation between trade credit and financial performance of SMEs in Masaka City. This statistic indicates that approximately 85.2% of the variance in financial performance of SMEs can be attributed to their levels of trade credit. In other words, the model suggests that trade credit is a significant predictor of financial performance, explaining more than 85% of the variation in financial performance. However, it is essential to acknowledge that the remaining 14.8% indicates unexplained variance, suggesting that other factors may also play significant roles in determining financial performance of SMEs. This highlights the complexity of the relationship between trade credit and financial performance, and underscores the need for further research to identify and explore other influential factors.

Table 4.16: Analysis Of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18533.248	2	18533.248	1.26173	0.000 ^a
	Residual	3219.693	228	14.702		
	Total	21752.941	230			

a. Predictor: (Constant), Trade credit

b. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The ANOVA conducted at a 5% significance level reveals a strong positive relationship between trade credit and financial performance of SMEs in Masaka City. The reported F-statistic of 1.26173, accompanied by a p-value of less than 0.000, indicates that the results are statistically significant, thereby confirming the reliability of the findings. This suggests that the variation in financial performance of SMEs can be attributed to the effectiveness of trade credit, underscoring its crucial role in enhancing financial performance.

Table 4.17: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.891	1.493		6.623	0.000
	Trade credit	0.546	0.061	0.673	9.010	0.000

a. Dependent Variable: Financial performance of SMEs

Source: Primary Data, (2025)

The findings presented in Table 4.18 reveal a positive and significant relationship between trade credit and financial performance of SMEs in Masaka City. The Standardized Coefficient of 0.673 indicates that for every unit increase in trade credit, there is a corresponding increment of 0.673 in the level of financial performance of SMEs in Masaka City. This suggests that trade credit has a substantial impact on the financial performance of SMEs, and that increasing access to trade credit can lead to significant improvements in financial performance. The positive and significant relationship between trade credit and financial performance underscores the importance of trade credit as a financing option for SMEs, and highlights the need for policymakers and financial institutions to promote access to trade credit for SMEs in order to support their growth and development..

H₁: *There is a statistical and positive significant relationship between trade credit and financial performance of SMEs in Masaka City.*

V. DISCUSSIONS

The relationship between long-term loans and Financial Performance of selected SMEs in Masaka City

Findings of this study revealed a positive significant positive relationship between long term loans and financial performance of SMEs.

The findings are in line with the view of Muriithi et al. (2022) that long-term loans are crucial for SME growth, providing necessary capital for expansion and investment. This corroborates previous research indicating a strong relationship between access to financing and business growth in the context of SMEs. The perception of long-term loans as essential resources aligns with studies that illustrate how finance fuels company development, identifies growth opportunities, and fosters competitive advantages (Muriithi et al., 2022). Business owners in this study recognizing the importance of loans highlights the role of financial support systems in facilitating SME advancements, encouraging a policy focus on improving access to these financial instruments.

Findings regarding manageable interest rates validate those of Ochieng and Muli (2022), which underscore the significance of affordable borrowing costs on SME growth. Their research finds that lower interest rates enhance access to capital, encouraging business investments. Such perceptions greatly influence SMEs' willingness to seek financing options and invest in growth-oriented projects. This agreement with prior research suggests that sustaining competitive interest rates is crucial for not only attracting SME borrowers but also for promoting overall economic growth through robust entrepreneurial activity (Ochieng & Muli, 2022).

The participants' perceptions of their understanding of loan terms reflect concerns raised by Ndung'u and Mwangi (2022), emphasizing the need for increased financial literacy among SMEs. Comprehensive knowledge of loan conditions plays a critical role in effective financial management and can lead to optimal use of debt resources. This study reinforces the necessity for ongoing education initiatives tailored toward enhancing SME owners' understanding of financial products, thus mitigating risks associated with inadequate knowledge of loan terms. Encouraging financial literacy aligns with growing calls for supporting SME resilience through enhanced education and training in financial matters (Ndung'u & Mwangi, 2022).

The positive assessment of the impact of long-term loans on operational improvements aligns with the findings by Were and Wamuyu (2022), indicating that access to finance significantly enhances operational efficiency. Financial support allows SMEs to invest in productivity-enhancing technologies and processes that subsequently yield higher performance metrics. This study reaffirms the critical relationship between debt financing and operational capacity, in agreement with existing literature that emphasizes how financial resources facilitate innovation and operational advancements within SMEs (Were & Wamuyu, 2022).

Concerns surrounding the complexity of the loan application process echo findings by Karanja and Kaoma (2022), which indicate that onerous bureaucratic hurdles often deter SMEs from accessing financing. Streamlined processes are essential to enhance accessibility to long-term loans, enabling SMEs to leverage available capital for growth. A simpler application pathway can significantly impact the willingness and ability of SMEs to pursue financing, ultimately reinforcing the need for financial institutions to reassess their lending processes and adopt more user-friendly approaches (Karanja & Kaoma, 2022).

The strong belief in the financial stability contributions provided by long-term loans resonates with the perspective of Rukundo and Chipeta (2022), who argue that effective debt management is crucial for maintaining business resilience. This correlation highlights how long-term financing can provide essential financial cushioning, enabling SMEs to navigate challenging economic conditions and sustain operations. Clear understanding will encourage entrepreneurs to utilize debt strategically, ensuring that financial stability is prioritized alongside growth objectives. The study supports existing literature that stresses the importance of managing debt effectively in promoting sustainable SME growth and resilience (Rukundo & Chipeta, 2022).

The findings are in line with the view of Anyango et al. (2022), which suggests that the support offered by financial institutions is paramount for SMEs seeking long-term financing. Many SMEs rely on guidance from lenders not only for access to capital but also for understanding product options that align with their specific business needs. This relationship encourages a collaborative atmosphere that fosters business growth and stability among small enterprises, emphasizing the critical importance of these supportive services (Anyango et al., 2022).

The strong confidence reported in repayment abilities aligns with research conducted by Karanja and Muli (2023),

which indicates that SMEs that engage in effective financial planning exhibit greater confidence in managing long-term debt. This financial literacy is crucial for ensuring that businesses can meet their repayment obligations without endangering their operations. Thus, the emphasis on responsible financial planning should be part of educational initiatives targeting SME owners (Karanja & Muli, 2023).

The finding that long-term loans facilitate investments in new technologies resonates with the perspectives shared by Kihoro et al. (2022), who found that access to financing allows SMEs to innovate and enhance their competitive edge. Investments in technology not only improve operational efficiency but also drive overall growth, suggesting that equitable access to long-term financing can significantly enhance the performance of SMEs in a fast-evolving market landscape (Kihoro et al., 2022).

The belief in flexibility regarding repayment terms supports the conclusions of Muriithi and Nduka (2022), who argue that adaptable repayment plans improve loan accessibility and reduce the risk of default among SMEs. This finding highlights the importance of financial institutions designing customer-centric products that account for the variable cash flow situations that many small businesses face, ultimately preserving their financial health and viability (Muriithi & Nduka, 2022).

The mixed perceptions about recommending long-term loans indicate a need for increasing awareness. This finding is consistent with the views of Ndung'u and Mwangi (2022), which emphasize the significance of targeted financial literacy programs that better inform SMEs about the benefits and responsibilities of long-term borrowing. Building confidence through education can empower more business owners to recognize the value of long-term loans, fostering an environment where informed decisions become the norm (Ndung'u & Mwangi, 2022).

The moderate agreement regarding the essential nature of long-term loans for growth echoes the research findings of Were and Wamuyu (2022), which highlights that while many entrepreneurs see the potential for growth through long-term borrowing, apprehensions regarding debt levels can deter them from pursuing these options. Encouraging cautious yet optimistic discussions around long-term financing among SMEs can help bridge the gap between awareness and action, promoting growth opportunities without unwarranted risk (Were & Wamuyu, 2022).

The relationship between short-term loans and Financial Performance of selected SMEs in Masaka City. Findings of this study revealed a positive significant positive relationship between short term loans and financial performance of SMEs.

The findings are in line with the view of Adjei et al. (2022), which emphasizes that short-term loans are crucial for SME growth as they provide the necessary liquidity to seize market opportunities swiftly. Many SMEs experience fluctuations in cash flow due to varying sales cycles, making quick access to short-term funding essential for maintaining operational continuity and promoting growth (Adjei et al., 2022). Therefore, continuous improvement in short-term financing availability can significantly enhance the competitive edge of SMEs in local markets.

The moderate perception of interest rates correlates with Muthoni (2022), who highlights that interest rate affordability remains a critical concern for many SMEs when considering financing options. This finding suggests that despite efforts from financial institutions, discrepancies in organizational financial health can lead to diverse experiences with loan affordability. Addressing these disparities through tailored products or interest rate adjustments will be essential for improving the accessibility of short-term loans to more SMEs (Muthoni, 2022).

The mixed perceptions of access improvements relate to the work of Kakuru (2022), which underscores persistent challenges in SME access to short-term financing. Findings indicate that while some businesses have noticed enhanced access, others still grapple with traditional barriers such as stringent documentation and lack of market awareness. Such insights underline the importance of financial institutions actively working to simplify access pathways and create tailored solutions that better address the distinct needs of SMEs (Kakuru, 2022).

The high level of confidence in repayment abilities aligns with Kusumawati et al. (2022), which found that effective financial management practices significantly influence SME owners' confidence in handling debt. This correlation highlights the importance of promoting financial literacy and assisting SME owners in developing sound financial practices that lead to responsible borrowing behavior and repayment success (Kusumawati et al., 2022). Initiatives focusing on enhancing business skills could further bolster this confidence.

The variable experiences regarding the application process resonate with Muema (2022), who emphasizes the importance of user-friendly financial services for encouraging SME borrowing. Streamlining application procedures and providing clear guidance can help alleviate concerns about complexity, leading to increased loan uptake. Simplifying the experience can foster a more inclusive financial ecosystem, making borrowing less intimidating for SMEs (Muema, 2022).

The finding regarding cash flow management is consistent with Nduka (2022), which highlights that short-

term loans play a pivotal role in ensuring liquidity for SMEs. This insight reinforces the necessity of such financing solutions to support daily operations and navigate periods of fluctuation in income. It also suggests that SMEs should prioritize leveraging short-term borrowing as a strategic tool to maintain operational stability while pursuing growth objectives (Nduka, 2022).

The findings are in line with the view of Mwaniki (2021), which emphasizes the importance of providing clear and comprehensive information about loan options to SMEs. When borrowers are well-informed about their financial choices, they are more likely to engage in beneficial borrowing practices, leading to improved financial performance. This underscores the necessity for financial institutions to invest in education and support initiatives that guide SMEs towards understanding the complexities of financing options available (Mwaniki, 2021).

The strong belief that short-term loans can promote long-term financial stability aligns with the findings of Anyango (2022), which suggest that proper utilization of short-term financing can help SMEs withstand market fluctuations and position themselves for growth. This proactive approach to managing finances indicates a trend among SMEs recognizing the importance of strategic borrowing as a means to achieve sustainable success (Anyango, 2022).

The positive perception of support from financial institutions resonates with the research by Kamau (2022), which highlights that adequate support significantly enhances SMEs' borrowing experiences. This assistance can include not only loan consultations but also financial education that empowers SME owners to make informed decisions regarding their borrowing options (Kamau, 2022). The findings emphasize the role of financial institutions in building supportive ecosystems for SMEs to thrive.

The moderate recommendation of short-term loans found in the study correlates with views expressed by Kiprotich (2022), who found that while many SMEs understand the benefits of short-term borrowing, individual circumstances often dictate the advisability of such recommendations. This reflects the need for personalized guidance when SMEs consider financing and highlights a gap where further education could benefit those hesitant to engage with loan products (Kiprotich, 2022).

The perceptions regarding the clarity of loan terms echo the research by Muthoni (2022), which underscores the significance of transparent communication from lenders. Transparency in loan conditions is critical as it fosters trust and equips SMEs with the necessary information to make sound borrowing decisions. Improving clarity can enhance the

borrower's experience and minimize potential confusion surrounding repayment obligations (Muthoni, 2022).

The findings related to short-term loans and their impact on financial performance reinforce the necessity for ongoing dialogue and support between financial institutions and SMEs. As highlighted by Ngugi (2022), collaborative efforts focusing on education and transparent communication can optimize lending practices, ultimately leading to a more robust and resilient SME sector in the region.

The relationship between trade credit and Financial Performance of selected SMEs in Masaka City

Findings of this study revealed a positive significant positive relationship between trade credit and financial performance of SMEs.

The findings are in line with the view of Akinyemi (2022), which emphasizes that trade credit is a vital component for the growth of SMEs. Trade credit enables businesses to manage their working capital more effectively, allowing them to invest in inventory and expand operations without immediate cash outlays. This aligns with the understanding that trade credit can serve as a financial lifeline for SMEs, facilitating growth and sustainability in competitive markets (Akinyemi, 2022).

The neutral stance on the ease of obtaining trade credit resonates with the findings of Njoroge (2021), who found that access to trade credit can be inconsistent among SMEs. Factors such as supplier relationships and business reputations significantly influence the ability to secure trade credit. This variability underscores the need for SMEs to cultivate strong supplier relationships and maintain positive reputations to enhance their chances of accessing trade credit (Njoroge, 2021).

The favorable terms of trade credit align with the research of Mwangi (2023), which highlights that beneficial terms can significantly impact SMEs' financial performance. Favorable trade credit terms, such as extended payment periods or lower interest rates, can improve cash flow management and operational efficiency. This finding reinforces the importance of negotiating favorable terms with suppliers to optimize the benefits of trade credit (Mwangi, 2023).

The moderate belief that trade credit helps improve cash flow management is consistent with the findings of Otieno (2022), which suggest that while trade credit can enhance liquidity, it also introduces complexities that require careful management. SMEs must navigate the balance between leveraging trade credit for growth and managing the

associated repayment obligations to ensure long-term financial health (Otieno, 2022). The strong correlation between supplier willingness to extend trade credit and business reputation aligns with the work of Chibanda (2021), which emphasizes the importance of trust in supplier relationships. A good reputation can lead to better financing opportunities, as suppliers are more likely to offer favorable credit terms to businesses they trust. This underscores the necessity for SMEs to focus on building and maintaining strong relationships with their suppliers (Chibanda, 2021).

The challenges in repaying trade credits due to cash flow issues resonate with the findings of Ndung'u (2022), which highlight that cash flow management is a significant concern for many SMEs. The reliance on trade credit can create vulnerabilities, particularly when unexpected cash flow disruptions occur. This finding emphasizes the need for SMEs to develop robust financial management strategies to mitigate the risks associated with trade credit reliance (Ndung'u, 2022).

The findings are in line with the view of Khandacker (2022), which emphasizes that trade credit significantly impacts SMEs' ability to manage inventory levels effectively. Timely access to inventory is crucial for meeting market demands, and trade credit serves as a financial lifeline for SMEs, enabling them to maintain adequate stock levels without immediate cash outflows. This association highlights the strategic importance of trade credit in facilitating operational success for small and medium enterprises (Khandacker, 2022).

The neutral response regarding confidence in negotiating trade credit terms aligns with the findings of Mwita (2021), which indicate that many SMEs lack the negotiation skills necessary to secure favorable terms. This deficiency can hinder their financial performance and limit their ability to capitalize on available credit effectively. Therefore, providing training and resources to enhance negotiation capabilities could significantly improve the financial positions of SMEs (Mwita, 2021).

The strong influence of trade credit availability on supplier engagement supports previous research by Mungai (2020), which found that SMEs often rely on trade credit terms when choosing suppliers, underscoring the importance of financial arrangements in supplier selection. This dependence signals the critical role that favorable trade credit relationships play in SMEs' overall procurement strategies, thereby influencing their market positioning and competitiveness (Mungai, 2020).

The moderate awareness of the risks associated with trade credit corroborates the research by Odhiambo (2023), who highlighted that while some SMEs understand these risks,

many fail to devise effective risk management strategies. This insight indicates the need for improved financial literacy programs aimed at enhancing SMEs' understanding of the implications of trade credit, ensuring they can leverage it effectively while minimizing potential pitfalls (Odhiambo, 2023).

The neutral opinion on viewing trade credit as a beneficial financial tool resonates with the findings of Akinyi (2022), indicating that while SMEs acknowledge its utility, doubts regarding its effective utilization persist. This variance in perception suggests an opportunity for educational initiatives to improve SMEs' confidence in employing trade credit as a strategic financial instrument for growth (Akinyi, 2022).

The findings underline the essential nature of trade credit for SMEs while highlighting the need for targeted interventions to improve knowledge and skills in utilizing trade credit effectively. As noted by Njoroge (2021), fostering supportive environments that empower SMEs to navigate these financial mechanisms is vital for enhancing their resilience and long-term sustainability in competitive markets (Njoroge, 2021).

VI. CONCLUSIONS

The relationship between long-term loans and Financial Performance of selected SMEs in Masaka City. The study concludes that there is a strong positive relationship between long-term loans and financial performance of SMEs in Masaka City. This relationship suggests that long-term loans are a critical factor influencing the financial performance of SMEs, and that increases in long-term loans are associated with significant improvements in financial performance. The study highlights the importance of long-term loans in supporting the growth and development of SMEs in Masaka City, and underscores the need for policymakers and financial institutions to promote access to long-term loans for SMEs. The findings of the study have significant implications for the development and growth of SMEs in Masaka City. They suggest that long-term loans can be a powerful tool for improving the financial performance of SMEs, and that policymakers and financial institutions can play a critical role in supporting the growth and development of SMEs by promoting access to long-term loans.

The relationship between short-term loans and Financial Performance of selected SMEs in Masaka City

The study concludes that there is a strong positive relationship between short-term loans and financial performance of SMEs in Masaka City, suggesting that short-term loans are a crucial factor influencing the financial well-

being of SMEs. This relationship implies that increases in short-term loans are associated with significant improvements in financial performance, indicating that short-term loans have a substantial impact on the financial performance of SMEs. The findings have important implications for policymakers and financial institutions seeking to support the growth and development of SMEs in Masaka City, highlighting the need to promote access to short-term loans for SMEs. By doing so, policymakers and financial institutions can help to support the growth and development of SMEs, and contribute to the overall economic development of Masaka City.

The relationship between trade credit and Financial Performance of selected SMEs in Masaka City

The study concludes that there is a strong positive relationship between trade credit and financial performance of SMEs in Masaka City, suggesting that trade credit is a crucial factor influencing the financial performance of SMEs. This relationship implies that increases in trade credit are associated with significant improvements in financial performance, indicating that trade credit have a substantial impact on the financial performance of SMEs. The findings highlight the importance of trade credit in supporting the growth and development of SMEs in Masaka City, and underscore the need for policymakers and financial institutions to promote access to trade credit for SMEs. By doing so, policymakers and financial institutions can help to support the growth and development of SMEs, and contribute to the overall economic development of Masaka City.

The study recommends that financial institutions in Masaka City enhance their lending criteria to facilitate access to long-term loans for SMEs. By simplifying application processes and offering tailored loan products, banks can support the growth of SMEs, ultimately leading to improved financial performance and economic development in the region.

The study recommends that local government authorities implement training programs focused on financial literacy for SME owners. These programs should educate entrepreneurs on effective loan management and investment strategies, enabling them to utilize long-term loans more effectively and improve their overall financial performance.

The study recommends that stakeholders collaborate to create a supportive ecosystem for SMEs by establishing mentorship networks. Experienced business leaders can guide SME owners in leveraging long-term loans strategically, fostering innovation and sustainable growth within the sector, which will positively impact the financial performance of these businesses.

The study recommends that policymakers consider providing incentives for SMEs that demonstrate responsible borrowing and effective use of long-term loans. Such incentives could include tax breaks or grants, encouraging SMEs to invest in growth opportunities while ensuring they maintain sound financial practices that contribute to their overall performance.

ACKNOWLEDGEMENTS

The greatest thanks go to the Almighty God who has enabled me to achieve success in life because without Him, I would not have reached this far.

I wish to extend my sincere gratitude to all those who contributed even the smallest penny to the successful completion of this work. I am greatly thankful to my supervisor, Dr. Ssendagi Muhamad for his tireless guidance in the whole research process. If it is not for his rare qualities as intelligence, kindness and dedication, this work would not have achieved its current state.

I cannot forget the inspiration from my colleague Nandaula Sarah. It was because of her encouragement that I decided to enroll for this course. And to my workmate and coursement Kayanja David who has been so instrumental in one way or the other for my academic progress.

I also thank Masaka City for giving me space to study and the financial support extended to me.

Great thanks also go my respondents for the time they shared regarding my study questions and to all well wishers and friends who supposed me spiritually morally, financially, be blessed.

REFERENCES

- [1] Abor, J., & Quartey, P. (2020). Issues in SME Development in Ghana and South Africa. *International Journal of Business and Management*, 15(1), 1-12.
- [2] Adesina, O., Olaniyan, O., & Ojo, J.A. (2022). Digital Lending Platforms: An Emerging Solution for Small Business Financing During COVID-19 Pandemic.
- [3] Adjei, P. O., Mensah, A. O., & Boadu, E. A. (2022). The Role of Short-Term Loans in the Development of Small and Medium Enterprises in Ghana. *Journal of Business Research*, 140(1), 123-135.
- [4] AfDB - African Development Bank Group (2019). African Economic Outlook, *African Development Bank, Report published July 2019*.
- [5] Agarwal, S., & Ambrose, B. W. (2021). The Role of Short-Term Loans in SME Growth. *Journal of Business Finance*.

- [6] Agyemang O., Asare A., & Owusu-Antwi G., 2021. The Impact of Long-Term Debt Financing on Financial Performance: Evidence from Ghanaian SMEs. *International Journal of Finance & Banking Studies*, 10(2), 45-60.
- [7] Akinboade, O.A., & Makina D. (2021). The Role of Microfinance Institutions in Financing Small Enterprises: Evidence from South Africa.
- [8] Akinyemi, A. (2022). The Role of Trade Credit in the Growth of Small and Medium Enterprises in Nigeria. *International Journal of Business and Management*, 17(3), 45-56.
- [9] Akinyi, M. (2022). Investigating the Perceived Benefits of Trade Credit among SMEs in Kenya. *Journal of Small Business and Entrepreneurship*, 34(4), 577-590.
- [10] Alhassan M., Mensah J., & Yawson D., 2023. Accessing Long-Term Finance: Challenges Facing West African SMEs. *African Journal of Economic Review*, 11(1), 22-37.
- [11] Almeida, H., Campello, M., & Weisbach, M. S. (2021). Corporate Liquidity: How Much Do Firms Hold? *Review of Financial Studies*.
- [12] Anyango, R. (2022). The Role of Short-Term Financing in Small and Medium Enterprises: Long-Term Stability and Growth. *Journal of Business Management*, 35(2), 48-59.
- [13] Anyango, R., Obong'o, M., & Ochieng, L. (2022). Financial Support for SMEs: Trends and Impacts. *East African Journal of Business and Management*, 10(1), 5-18.
- [14] Ayyagari M., Beck T., & Demirgüç-Kunt A. (2020). Finance for Small Firms: Evidence from Developing Countries. *Journal of Banking & Finance*, 113.
- [15] Baker, H. K., Kumar, S., & Pandey, A. K. (2021). Short-Term Financing Decisions: Evidence from Small Firms. *International Journal of Finance*.
- [16] Barney, J.B. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99-120.
- [17] Barney, J.B., & Clark, D.N. (2007). Resource-Based Theory: Creating and Sustaining Competitive Advantage. *Oxford University Press*.
- [18] Beck T., Demirgüç-Kunt A., & Maksimovic V., 2021. Financing Patterns Around the World: Evidence from Firms. *Journal of Financial Economics*, 141(2), 539-563.
- [19] Berger, A.N., & Udell, G.F. (1998). The Economics of Small Business Finance: The Roles of Private Equity and Debt Markets in the Financial Growth Cycle. *Journal of Banking & Finance*.
- [20] Biais, B., & Gollier, C. (1997). "Trade Credit and Credit Rationing." *Review of Financial Studies*, 10(4), 903-937.
- [21] Bofondi, M., Carpinelli, L., & Sette, E. (2020). "The Role of Trade Credit in Firm Liquidity Management." *Journal of Banking & Finance*, 113(1), 105-120.
- [22] Bogan V., & Nanda R., 2020. Collateral Constraints: Evidence from Small Business Lending. *Review of Financial Studies*, 33(6), 2788-2825.
- [23] Brealey, R.A., Myers, S.C., & Allen, F. (2020). Principles of Corporate Finance. *McGraw-Hill Education*.
- [24] Brigham, E.F. & Ehrhardt, M.C. (2021). Financial Management: Theory & Practice. *Cengage Learning*.
- [25] Chaudhry, A.N., Khan, M.A. & Naseem, M. (2020). Sales Volume Analysis in Small Enterprises. *Journal of Marketing Research*.
- [26] Chibanda, M. (2021). Building Trust in Supplier Relationships: Implications for Trade Credit Access. *African Journal of Business Management*, 15(5), 67-75.
- [27] Chigbu E.E., Iwuanyanwu U.J., & Okafor C.C. (2020). The Impact of Accessing Credit on Sales Growth Among Small Scale Enterprises: Evidence from Nigeria.
- [28] Chikanda, M., & Chikozho, C. (2023). Cash Flow Challenges Facing Small Enterprises: Evidence from Zimbabwe. *African Journal of Business Management*, 17(1), 12-22.
- [29] Chikweche T., Kambule S., & Mhlanga S., 2022. Service Sector Financing: Implications for Small Enterprises. *International Journal of Business Management*, 17(3), 101-115.
- [30] Chuenyane, N., Mothibi, K., & Matlosa, K. (2020). Fintech Solutions for Small Business Financing: Implications for Financial Performance in South Africa's SME Sector. *Journal of African Business*, 21(4), 487-505.
- [31] Deloof, M. (2020). Does Working Capital Management Affect Profitability? Evidence from Belgian Firms. *Journal of Business Finance*.
- [32] Eljelly, A.R. (2020). Liquidity-Profitability Tradeoff: An Empirical Investigation in an Emerging Market. *International Journal of Commerce and Management*.
- [33] Fafchamps, M., & Minten, B. (2020). "Impact of Trade Credit on Small Firms' Performance: Evidence from Madagascar." *World Development*, 127(1), 104749.
- [34] Fazzari, S.M., Hubbard, G.R. & Petersen, B.C. (2020). Investment Cash Flow Sensitivities: New Tests Using Data on Firm Investment Plans. *International Economic Review*.
- [35] Ghosh S.K., Dutta P.K., & Chatterjee S. (2022). Impact Assessment of Government Interventions on SME

- Survival During Economic Crises. *Journal of Business Research*, 139.
- [36] Giannetti, M., Burkart, M., & Ellingsen, T. (2011). "What You Sell Is What You Get: Explaining Trade Credit Contracts." *Journal of Finance*, 66(3), 1235-1256.
- [37] Graham, J.R.& Harvey,C.R.(2020). The Theory and Practice of Corporate Finance: Evidence from the Field. *Journal of Financial Economics*.
- [38] Harris,M.&Raviv,A.(2019). The Theory Of Capital Structure. *Journal Of Finance*.
- [39] International Finance Corporation (IFC). (2021). Accessing Finance: The Challenges Facing Ugandan SMEs. Retrieved from ifc.org.
- [40] Jack W., & Suri T. (2020). Risk Sharing and Transactions Costs: Evidence from Kenya, *Journal Of Development Economics*, Vol.143.
- [41] Kagugube, J., & Nuwagaba, A. (2023). Liquidity Management Practices Among Small Enterprises in Masaka. *Journal of Business Research*.
- [42] Kakuru, E. (2022). Accessibility of Financial Services for SMEs in Uganda: Challenges and Opportunities. *African Journal of Economic and Management Studies*, 13(1), 45-54.
- [43] Kamau, J. (2022). Understanding the Importance of Support Systems in SME Financing. *Kenya Journal of Economics*, 29(1), 15-25.
- [44] Karanja, E., & Kaoma, C. (2022). The Impact of Bureaucracy on Access to Financial Services for SMEs in Kenya. *International Journal of Business and Management Sciences*, 10(2), 1-15.
- [45] Karanja, E., & Muli, M. (2023). Understanding Long-Term Loan Repayment Confidence among SMEs: A Case Study. *International Journal of Finance and Banking Research*, 9(2), 85-96.
- [46] Kasaija J., et al. (2023). Debt Financing Among Small Enterprises In Masaka City: An Empirical Study, *Journal of Business Research*, Vol.XY.
- [47] Kasekende, L., Muwanga-Nyende, D., & Okello-Achola, P. (2021). The Impact of Credit Access on SME Growth: Evidence from Uganda. *African Journal of Economic Review*.
- [48] Kauffmann, C. (2004). Financing Small and Medium Enterprises: A Study. *OECD Working Papers on Finance*.
- [49] Kauffmann, C., Lemaire-Rieusset, P., & Vandenberghe, V.(2021). Accessing Trade Credit: A Comparative Study Between Emerging Markets and Developed Economies. *International Journal of Emerging Markets*, 16(2), 234–252.
- [50] Khan M.A., Ali S.M., & Khan F.A.(2022). Long-Term Debt Financing: Its Impact on Financial Performance in Manufacturing Sector. *International Journal of Finance & Banking Studies*, 11(1).
- [51] Khandacker, A. (2022). The Impact of Trade Credit on Small Business Inventory Management. *International Journal of Business*, 14(3), 131-140.
- [52] Kibanja G., & Nuwagaba A. (2022). Digital Financial Services And Their Impact On SME Growth In Uganda, *International Journal Of Business Management*, Vol.10 No.4.
- [53] Kibanja, J. (2021). The state of SMEs in Uganda: Challenges and opportunities. *Journal of Business Research*, 124, 123-130.
- [54] Kihoro J.M., Waweru G.M., & Kamau J.W.(2021). Effects of Short Term Borrowing on Financial Performance Among Small Enterprises: A Case Study of Nairobi County.
- [55] Kihoro, J., Munene, M., & Waweru, E. (2022). Impact of Financial Access on SME Innovation in Kenya. *African Journal of Business Management*, 16(3), 142-155.
- [56] Kinyua, J., Muturi, W., & Gachunga H. (2020). Trade Credit Financing: An Empirical Study among Small Enterprises in Kenya. *Journal of Economics*, 8(2), 34-50.
- [57] Kiprotich, K. (2022). Building Trust in Financial Relationships: The Role of Financial Institutions in Supporting SMEs. *International Journal of Business*, 15(4), 204-214.

AUTHORS BIOGRAPHY



Kafeero Harriet holds a Diploma (Post Graduate FROM Team University (2023), a Certified Public Accountant FROM Institute of Public Accountants of Uganda (2002-2011), Bachelors Degree of Commerce (Accounting) (2003-2007) FROM Makerere University , a Diploma in Business Studies FROM Uganda College of Commerce (Kabale) (1992-1994) , Uganda Advanced Certificate of Education (UACE) from Makerere High School (1985-1988) and a Uganda Certificate of Education (UCE) 1989-1991) St. James S.S.S Jinja.

She has since 12th May 2023 – to date been the Senior Internal Auditor -Masaka City, Heading the Audit Department, Auditing Financial and Operational Systems in the city activities, To evaluate internal controls to assess level of audit risks and, the appropriateness of risk management policies and procedures; To participate in preparation of audit plan; To follow up recommendations from previous audits; Auditing all Stores for safe custody and value for Money; To

monitor execution of audit programs including routine financial audit, performance audit, IT audit and other special audits and To compile audit findings for discussion with management. She also since 9th March 2020 – 11th May 2023 – Assigned duties of Principal Treasurer (Masaka Municipal Council/Masaka City) ; Heading the Finance Department, Provide support to Accounting Officer in establishment and execution of efficient and effective Financial Management Systems, Preparing and Coordinating Council Work plans and Budgets, Preparing Financial Statements and Reports, Answering Audit queries and mandatory inquiries, Carrying out Financial transactions efficiently, Deploying, Supervising and Appraising staff in the Finance Department and Updating vote Books, Procuring and paying for Goods and Services, Reviewing Revenue Sources and Identifying alternatives, Providing Technical Support to Council on Financial matters, Preparing Books of Accounts and Accounting Records. Managing Council Stores.

From 16th April, 2018 – 9th March, 2020 she worked as – Senior Internal Auditor-Masaka Municipal Council; Heading the Audit Department. Auditing Financial and Operational Systems in the Municipality activities. Auditing all Stores for safe custody and value for Money. Auditing Departments and Divisions in the Municipality. She has also on 11th April, 2017 – 15th April 2018 – Caretaking Internal Audit Department – Masaka Municipal Council; Heading the Audit Department. Auditing in line with Budgets and Laws. Auditing work plans for all Departments and Institutions in the Municipality. Submission of Annual and Quarterly Work plans and Reports to relevant Authorities.

Harriet 16th June 2012 – 11th April, 2017 worked as Accountant/Ag. Division Treasurer – Central Division/Katwe-Butego Division (Masaka Municipality). Heading the Division Finance Department; Preparation of the Division Budget and its Review. Preparation of monthly Financial Statements. Preparation of Bank Reconciliation Statements. Preparation of Final Accounts. Supervision of Revenue Collection in the Division. Supervision of maintenance of various books of Accounts (Cashbook, Abstracts, Ledgers, Vote Books etc.) September 2005 – May 2012: Ag. Division Treasurer – Kimaanya-Kyabakuza Division (Masaka Municipality); Heading the Division Finance Department, Preparation of the Division Budget and its review. Preparation of monthly Financial Statements. Preparation of Bank Reconciliation Statements. Preparation of Final Accounts. Supervision of Revenue collection in the Division. Supervision of maintenance of various books of Accounts (Cashbook, Abstracts, Ledgers, Vote books, etc.)

September, 2003 – September, 2005) – Head of Expenditure Section\ (Masaka Municipal Council: Preparation of Salaries and Wages; Maintenance of Vote Books.; Drafting Expenditure vouchers; Writing Cheques and their safe custody. September 1995 – August, 2003 - Main Cashier (Masaka Municipal Council); Receiving and Banking all collections intact. Withdrawing cash from the Bank and making authorized payments. Also since 2016– 2023: Treasurer PTA at Sacred Heart Kiteredde Secondary School. 1996 – 2000: Treasurer – Kayirikiti Youth Council. ; 1992-1994: Publicity – Drama Club at UCC Kabale.



Kayanja David is a hardworking and diligent individual with high moral character, seeking a position where he can fully utilize his multi-tasking skills with modest experience for personal and entity growth. He is also highly self-motivated, result oriented, able to work on his own initiative and as part of a team and he possess a high sense of duty, loyalty as well as integrity. He can easily adapt to my surroundings and any changes without compromising any of my responsibilities. He holds a Postgraduate Diploma in Financial Management Team University (2021-2022). A Bachelor Of Commerce from Makerere University Business School (2016-2019), Diploma In Accounting And Finance from Makerere University Business School (2013-2015); a Uganda Advanced Certificate of Education (UACE) from Masaka Secondary School (2011-2012) and a Uganda Certificate of Education (UCE) from Masaka Secondary School (2007-2010), he has worked ever since April 2024 to date as a Revenue Officer At Masaka City Council in line with; Revenue Collection and Administration; Collecting taxes, levies, fees, and other

government revenues from individuals and businesses. Ensuring timely and accurate remittance of collected funds to the appropriate government accounts. Issuing receipts and maintaining records of payments. He has also worked as Taxpayer Registration and Education handling; Registering new taxpayers (individuals and entities) for tax identification numbers (TINs), Educating taxpayers about their tax obligations, filing procedures, and compliance, requirements and Promoting voluntary compliance through outreach programs.

He served as a Compliance and Enforcement handling; Monitoring and evaluating taxpayer compliance with tax laws and regulations. Conducting audits and investigations to detect tax evasion or under-declaration of income. Imposing penalties and initiating enforcement actions where necessary (e.g., seizures, legal proceedings). In Assessment and Verification, he has handled; Assessing taxes payable by reviewing submitted returns and financial records. Verifying declarations for accuracy, including VAT, income tax, and customs declarations. Customs and Excise Duties (if under URA customs division) with focus on, Inspecting imports and exports at borders, ports, and airports. Verifying goods against documentation to ensure correct duty assessment. And Preventing smuggling and ensuring compliance with trade laws. Reporting and Documentation; Preparing reports on revenue performance, taxpayer compliance, and enforcement activities. And Keeping accurate records of collections, arrears, and taxpayer files. He extended his Support to Local Governments (if at district/municipal level) mainly in Collecting local taxes such as property tax, business licenses, market dues, and other service fees. Supporting revenue planning and forecasting. And Enhancing local revenue mobilization strategies.

In March 2021 – March 2025 –worked as Senior Assistant Accountant At Masaka City Council; Bookkeeping and Data Entry: Recording financial transactions in the accounting system. Maintaining accurate and up-to-date ledgers; Preparation of Financial Reports: Assisting in the preparation of monthly, quarterly, and annual financial statements. Supporting internal and external

audits by providing necessary documentation. Budgeting and Budget Monitoring: Assisting in preparing departmental or organizational budgets. Monitoring expenditure against budgets and reporting variances.

Banking and Cash Management; Tax and Statutory Compliance; Payroll Support; Invoice and Payment Processing; Inventory and Asset Management; Internal Controls Support. In January (2019) – 2021 served as accountant at arab contractors Osman Ahmed Osman & company under the masaka bukakata road project. June - November (2018) as accountant at Yash consultancy firm. in July-August (2014) he served as a numerator in the population census. He has been able to handle Marketing the company products to different supermarkets and retail shops in order to increase our market share and therefore maximize sales and profits in the long run. Honestly recording daily cash receipts and payments in order to ensure proper accountability as well as recording products produced and supplied daily in order to keep track of inventory movements.



Musoke Matthew, hold a Degree of Master in Business Administration-Finance and Banking, a Degree of Bachelor in Business Administration-Finance and Banking, and a Higher Diploma in Secretarial Studies and Office Management, Certificate in communication skills, and Certificate in financial management, he has served as a Manager Innovation and Creativity (2022) to-date, Lecturer at the School of Graduate studies and Research at Team University and Faculty of Business and Management respectively, Assistant Head of Department-Faculty of Business and management of Team University, Executive Assistant-DVC-Academic Affairs (2014), Administration manager at Wonderful Hotel and Restaurant (2017), Assistant Lecturer at the College of Economic and Management at Kampala International University as well as AML-Control Officer at Midwest Forex Bureau Limited and Bulsho Express Forex Bureau Limited-Kampala

He has a vast knowledge at postgraduate and undergraduate in areas of Anti-money Laundering, Counter Terrorism Financing, Proliferations, Project Evaluation and management, Corporate Finance, Corporate Governance, Investment and treasury management, Financial Reporting, Financial management, international Financial Management, Document processing, Real life project, office Secretarial and Skills, Investment Banking, Public sector Financial Management, Production and operations management, advanced accounting, Business Finance, financial intermediaries, managerial communications, project information organisation and behavior.

Citation of this Article:

Kafeero Hariet, Kayanja David, & Musoke Matthew. (2025). Debt Financing and Financial Performance of Selected Small and Medium Scale Enterprises in Masaka City, Uganda. *International Research Journal of Innovations in Engineering and Technology - IRJIET*, 9(5), 322-351. Article DOI <https://doi.org/10.47001/IRJIET/2025.905041>
