

**CREDIT FINANCING AND THE GROWTH OF SMALL AND MEDIUM  
ENTERPRISES IN NAMUNGOONA TRADING CENTER**

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**Abstract:** *The study aimed at credit financing and the growth of small and medium enterprises in Namungoona trading center and it was guided by the following objectives; To assess the relationship between bank loans and the growth of small and medium enterprises in Namungoona trading center, to examine the relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center and to analyze the relationship between bank overdrafts and the growth of small and medium enterprises in Namungoona trading center. The correlation coefficient (0.669) shows a moderate positive relationship between trade credit and growth of small and medium enterprises in Namungoona trading center. This is statistically significant at 95% confidence interval since the P- value (0.35) is less than 0.05 and therefore we reject the null hypothesis and conclude that trade credit had a significant relationship on the growth of small and medium enterprises of Namungoona trading center. Micro Finance institutions should devise means of delivering credit financing facilities and improve terms and conditions under which financial institutions offer various credit facilities to SMEs. The government of the republic of Uganda should partner with other financial institutions to provide subsidized financial/credit assistance to SMEs with little interest rates*

**Key words:** *credit financing, small and medium enterprises*

**Back ground to the study**

Credit financing is a strategy that involves borrowing money from a lender with the understanding that the full amount was paid in future usually with an interest (Stearns, 2017). He further says that credit financing involves any money or financial instrument extended to the borrower by the lender from which the later expects a refund of both principal and interest. The interest rate charged on the borrowed funds reflects the level of the risk that the

lender undertakes when securing the loan. Kakuru (2017) argues that credit financing includes both secured and unsecured loans. He further says that security for the loans involves a form of collateral as an assurance for the loan. Therefore, if the debtor defaults on the loan, that collateral is forfeited to satisfy payment of the debt.

Growth of small and medium enterprises SMEs involves increased level of output, increased number of employee performance, increased level of creativity and innovation, industrial restructuring and wealth generation in both developing and developed economies Uganda Investment Report (UIA, 2018). According to Matly and Westhead (2018), healthy and growing SMEs are perceived to be crucial for sustainable competitive and economic development at local, regional and national levels.

Small and Medium Enterprises (SMEs) covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SMEs, some commonly used criteria are the number of employees, value of assets, value of sales and size of capital (Bataa, 2018). In Uganda, SMEs are officially defined based on both the number of people employed and annual turnover of the enterprise (Turyahebwa, Sunday, & Ssekajugo, 2018). They are small enterprises employing a minimum of 5 people and a maximum of 100 people, with an annual sales/revenue turnover of more than UGX 360 million and total assets of more than UGX 360 million. The contribution of SMEs to Uganda's economy is well over ninety percent (90%) of the total non-farm private sector employment, approximately 2% of the national Gross Domestic Product (GDP), and over 20% of incomes of the labor force (Nyanzi, 2018).

### **Statement of the problem**

Credit financing directly affects the growth of small and medium enterprises (Padey, 2017). Proper management of debts lead to growth and smooth operation of businesses and poor management of debts will not only cripple the ability of commercial banks and other lending institutions to offer credit facilities to small and medium enterprises but threatens their profitability and survival (UIA Report, 2018).

Traders in Namungoona trading center finance their businesses with loans from commercial banks, overdrafts, leasing facilities, trade financing and money lenders. These loans are taken

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in different loan sizes and their repayment period differs depending on the lending authority. Traders either take group or individual loans depending on the size of the loans and the purpose for which these loans are to be put and the progress of each group or individual in the lending cycle. The loan sizes also depend on the collateral security and the capacity of the group or individual to pay (UIA report, 2018).

Despite the fact that a lot of efforts have been put in providing Namungoona traders with bank loans and trade credit as a form of credit financing to promote their growth, this has not been the case as majority lack collateral security, many are offered small loan sizes with high interest rates, short loan periods, the rapidly growing inflation rate and high deficiency. This discourages the financial institutions to offer them credit services thus threatening their profitability survival and ability to grow. As a failure to perform their operations, many traders have lost their businesses since they cannot be sustained with their own equity. It is likely that the cause of low growth of small and medium enterprises could be due to inadequate funding, planning, limited credit financing (UIA Report, 2018). The study therefore sought to investigate the effect of credit financing on the growth of small and medium enterprises.

### **Specific objectives**

The study was guided by the following objectives:

1. To assess the relationship between bank loans and the growth of small and medium enterprises in Namungoona trading center
2. To examine the relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center.
3. To analyze the relationship between bank overdrafts and the growth of small and medium enterprises in Namungoona trading center.

### **Hypothesis of the study**

Ho: There is no relationship between bank loans and the growth of small and medium enterprises in Namungoona trading center

Ha: There is a relationship between bank loans and the growth of small and medium enterprises in Namungoona trading center

Ho: There is no relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center

Ha: There is a relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center

Ho: There is no relationship between bank overdrafts and the growth of small and medium enterprises in Namungoona trading center

Ha: There is no relationship between bank overdrafts and the growth of small and medium enterprises in Namungoona trading center

### **Research questions**

The study was guided by the following questions:

1. What is the relationship between bank loans and the growth of small and medium enterprises in Namungoona trading center?

2. What is the relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center?
3. What is the relationship between bank overdrafts and the growth of small and medium enterprises in Namungoona trading center?

## **Methodology**

### **Research Design**

The study adopted a quantitative correlational and cross-sectional research design. The descriptive correlational design was used to establish whether there is a significant relationship between credit financing and the growth of small and medium enterprises. The ex-post facto design is to be used because respondents were asked things that had already happened. The cross-sectional design was employed because it provides results of the study in a snap shot.

### **Study Population**

The study population constituted mainly the owners of small and medium enterprises in Namungoona. This study involved a total of 50 participants from small and medium enterprises in Namungoona. This population was chosen because it was assumed to have adequate knowledge of the subject under investigation and the research variables under investigation.

### **Sample Size Determination**

The sample size was 30 respondents as determined by the Krejcie and Morgan sample determination table.

### **Sampling Technique**

The researcher employed mainly one technique to select the appropriate sample for the study. In this study a purposive sampling, non-probability sampling was employed in selecting respondents from the population. This technique enabled the study to give an opportunity to only eligible participants by selecting from each unit within the population of the study. In

this case, the researcher ensured that participants from different categories like sales staff, marketing staff of the company have equal chance to participate.

### **Data Collections Instruments**

#### **Survey Questionnaires**

This study used self-administered questionnaires for the respondents. These were distributed among the staff in their respective departments. The justification for using this instrument is that questionnaires were easy to quantify and analyze. In addition, the questionnaire was used because the study focused on opinions, attitudes, feelings and perceptions of the respondents.

#### **Data Analysis, Interpretation and Presentation**

Data was analyzed using SPSS. It was presented in form of tables, graphs, pie charts and triangulation

Qualitative data analysis was done by narrative as was recorded during face to face interview and through observation. The researcher used a quick impressionist summary in analyzing qualitative data; he summarized key findings by noting down the frequent responses of the respondents during the interview on various issues concerning credit financing and how this influences the growth of small and medium enterprises. This technique of qualitative data analysis was chosen because it saved time and it was not very expensive. Interviews were listened to attentively, in order to identify the emerging themes and through sorting, recording, reflection and interpretation of the meaning of data. (Amin, 2013, Souza, 2019, Nsubuga, 2018).

## **Results**

### **Demographic Characteristics of Respondents**

The respondent's basic information was looked at in terms of gender, group (age), number of years working with the SME and level of education

#### **Age group (gender)**

The age group of the respondents was revealed as shown below:

**Table 1: Shows respondents' Gender**

| <b>Gender</b> | <b>Total</b> | <b>Percentage</b> |
|---------------|--------------|-------------------|
| Male          | 13           | 43                |
| Female        | 17           | 57                |
| <b>Total</b>  | <b>30</b>    | <b>100</b>        |

**Source:** *Primary data 2022*

From table 1, 43% of the respondents were males while 57% of them were females. This implies that the data obtained was gender unbiased because the employees of small and medium enterprises are more of females than males.

### **Respondents' age group**

The respondents were categorized into various age groups as illustrated below;

**Table 2 show the number of respondents**

| <b>Group</b> | <b>Number of Respondents</b> | <b>Percentage of respondents</b> |
|--------------|------------------------------|----------------------------------|
| Below 25yrs  | 7                            | 23%                              |
| 26-30yrs     | 15                           | 50%                              |
| 31-35yrs     | 5                            | 17%                              |
| Above 36yrs  | 3                            | 10%                              |
| Total        | <b>30</b>                    | <b>100%</b>                      |

**Source: Primary data 2022**

From table 2, 7 respondents (23%) were below 25 years of age, 15 respondents were between 26-30 years, 5 respondents (17%) were between 31-35 years and 3 respondents (10%) were above 36 years of age. Majority of the respondents were therefore aged between 26-30 years which is a very active and productive age bracket.

### **Level of Education**

The response about the education level of the respondents was presented below:

**Table 3: Shows level of education of respondents**

| <b>Education level</b> | <b>No. of respondents</b> | <b>Percentage (%)</b> |
|------------------------|---------------------------|-----------------------|
| Primary                | 5                         | 17                    |
| Secondary              | 7                         | 23                    |

|              |           |            |
|--------------|-----------|------------|
| Diploma      | 10        | 33         |
| Degree       | 6         | 20         |
| Others       | 2         | 7          |
| <b>Total</b> | <b>30</b> | <b>100</b> |

**Source:** *Primary data 2022*

The findings in the table above show that 17% have primary education qualification, 23% have secondary education qualification, 33% of the respondents are diploma holders, 20% are degree holders, and only 7% have other qualification. This implies that data for the study was obtained from all levels of academic qualification respondents

### **Ownership of the SME**

The response about ownership of the SMEs can be summarized as shown below

**Table 4: Description of respondents by ownership of business**

| <b>Ownership</b> | <b>No. of respondents</b> | <b>Percentage</b> |
|------------------|---------------------------|-------------------|
| Owner            | 21                        | 70                |
| Employee         | 9                         | 30                |
| <b>Total</b>     | <b>30</b>                 | <b>100</b>        |

**Source:** *Primary data, 2022*

Table 4 shows that majority of the respondents 21(70%) were business owners as compared to 9(30%) who were employees. This implies that the respondents were valid and reliable since the owners of the business had key information regarding their business and contribution of credit facilities towards the growth of SMEs as compared to having real information about these dynamics

### **Line category of business**

Businesses were categorized into 5 categories as illustrated below

**Table 5; Description of respondents according to the line category of business dealt in**

| <b>Business category</b> | <b>No. of respondents</b> | <b>Percentage</b> |
|--------------------------|---------------------------|-------------------|
| Retail shop              | 8                         | 27                |
| Hair Salon               | 7                         | 23                |
| Restaurant               | 5                         | 17                |
| Food/beverage processing | 4                         | 13                |
| Furniture workshop       | 6                         | 20                |
| Total                    | 30                        | 100               |

**Source: Primary data, 2022**

Table 5 shows that 8 (27%) of the respondents were running retail shops, 7 (23%) were running hair salons, 5 (17%) were operating restaurant business, 4 (13%) were dealing in food or beverage processing business while 6 (20%) were having furniture workshops. Majority respondents 8 (27%) were therefore running retail shops as compared to food or beverage processing business 4 (13%).

### **Duration the employees have been in the firm**

The respondents were asked for how long they have been working in the firm. However, the responses to the question were tabulated as indicated below:

**Table 6: Shows duration the employees have worked with the SMEs**

| <b>Duration</b> | <b>No. of respondents</b> | <b>Percentage (%)</b> |
|-----------------|---------------------------|-----------------------|
| 1- 2 years      | 2                         | 6                     |
| 3-4 years       | 7                         | 23                    |
| 5-7 years       | 18                        | 60                    |
| Above 7 years   | 3                         | 10                    |
| <b>Total</b>    | <b>30</b>                 | <b>100</b>            |

**Source:** *Primary data 2022*

The findings in the table above show that 60% of employees have worked in the SME for a period of 5-7 years which therefore is an indication of low labor turnover, 23% have worked for the period between 3-4 years 10% have been working for over 7 years and only 6% have been in the firm for a period between 1-2 year. This implies that the data was obtained from respondents who had gotten experience in working with SMEs and were also more familiar with different operations of SMEs.

## Credit financing

According to the conceptual framework in chapter 1, the independent variable was Credit financing conceptualized as Bank loans, Trade credit and Bank overdraft as illustrated below

### Responses on credit financing facilities of Masanafu traders

**Table 7: Responses on credit financing facilities of Masanafu traders**

| Statement                                                                          | Strongly disagree | Disagree | Not sure | Agree    | Strongly agree |
|------------------------------------------------------------------------------------|-------------------|----------|----------|----------|----------------|
| <b>Bank loan</b>                                                                   |                   |          |          |          |                |
| I use bank loans to supplement my capital in operating the business                | 3 (10%)           | 2 (6%)   | 1 (3%)   | 6 (20%)  | 18 (60%)       |
| I can afford the terms and conditions given to me by the bank                      | 10 (30%)          | 5 (17%)  | 0 (0%)   | 4 (13%)  | 10 (33%)       |
| The loan size I get is adequate                                                    | 10 (33%)          | 7 (23%)  | 5 (17%)  | 5 (17%)  | 3 (10%)        |
| The loan period given to me is enough                                              | 10 (33%)          | 5 (17%)  | 2 (6%)   | 4 (13%)  | 9 (30%)        |
| The credit officers have enough skills and experience to handle delinquent clients | 5 (17%)           | 3 (10%)  | 1 (3%)   | 15 (50%) | 11 (37%)       |
| I am always briefed about the bank loan terms and conditions before I get a loan.  | 15 (50%)          | 2 (7%)   | 0 (0%)   | 4 (13%)  | 9 (30%)        |
| Overall evaluation of bank loan                                                    | 9 (30%)           | 4 (13%)  | 1 (3%)   | 6 (20%)  | 10 (33%)       |

Table 7 shows that, 10% of the respondents strongly disagreed that they do not use bank loans to supplement their capital in operating the business, 6% disagreed, 3% were not sure,

20% agreed while 60% strongly agreed. This implies that the majority of the respondents 18 (60%) strongly agree that they use bank loans to supplement their capital.

From table 7 shows that 30% of the respondents strongly disagreed, 17% disagreed, 0% was not sure, 13% agreed and 33% strongly agreed that they can afford the terms and conditions given to them by the bank. It means that majority of the respondents, 14 (47%) disagreed that they can afford the terms and conditions given to them by the bank.

From the table 7 shows that, 33% of the respondents strongly disagreed, 23% disagreed, 17% were not sure, 17 agreed while 10% strongly agreed that the loan size they get is adequate. In all, majority of the respondents (56%) respondents disagreed that the loan size thy get is adequate.

From table 7 shows that, 33% strongly disagreed, 17% disagreed, 6% were not sure, 33% agreed yet 13% strongly agreed that the loan period given to them is enough. The implication from this is, 15 respondents (50%) disagreed that the loan period given to them is enough.

Table shows that, 17% strongly disagreed, 10% disagreed, 3% were not sure, 50% agreed while 33% strongly agreed that the credit officers have enough skills and experience to handle delinquent clients. In all, 15 of the respondents (50%) agreed that the credit officers have enough skills and experience to handle delinquent clients.

From table 7 shows that, 3% strongly disagreed, 7% disagreed, none of the respondents werenot sure, 60% agreed while 30% strongly agreed that they are always briefed about the bank loan terms and conditions before they get a loan. A clear implication is that, 18 respondents (60%) agreed that, they are always briefed about the bank loan terms and conditions before they get a loan.

The overall evaluation of bank loan from table 7 indicated that, 30% strongly disagreed, 13% disagreed, 1% of the respondents were not sure, 20% agreed while 33% strongly agreed with the overall evaluation of bank loan. This clearly implies that 53% of the respondents agreed with the overall evaluation of bank loans.

**An evaluation of the growth of small and medium enterprises of the Namungoona traders**

**Table 8: Responses on the growth of SMEs in Namungoona trading center**

| <b>Statement</b>                                                        | <b>Strongly disagree</b> | <b>Disagree</b> | <b>Notsure</b> | <b>Agree</b> | <b>Strongly agree</b> |
|-------------------------------------------------------------------------|--------------------------|-----------------|----------------|--------------|-----------------------|
| My business continues to expand                                         | 1 (3%)                   | 2 (7%)          | 1 (3%)         | 15 (50%)     | 11 (37%)              |
| Sales volumes of my business are always increasing                      | 3 (10%)                  | 6 (20%)         | 2 (7%)         | 12 (40%)     | 9 (30%)               |
| The profit levels of my business are always increasing                  | 0 (0%)                   | 3 (10%)         | 2 (7%)         | 10 (33%)     | 10 (33%)              |
| I have been able to open more branches for this business                | 3 (10%)                  | 5 (17%)         | 2 (7%)         | 8 (27%)      | 12 (40%)              |
| There is always excess of income over expenditure                       | 8 (27%)                  | 5 (17%)         | 5 (17%)        | 5 (17%)      | 7 (23%)               |
| I have acquired more assets in my business                              | 5 (17%)                  | 6 (20%)         | 0 (0%)         | 10 (33%)     | 9 (30%)               |
| I have added more working capital                                       | 2 (7%)                   | 1 (3%)          | 0 (0%)         | 15 (50%)     | 12 (40%)              |
| I compete favorably with people in the same business                    | 5 (17%)                  | 3 (10%)         | 0 (0%)         | 10 (33%)     | 12 (40%)              |
| I take and make simple records in my business                           | 3 (10%)                  | 7 (23%)         | 0 (0%)         | 8 (27%)      | 11 (37%)              |
| I employ now more people in the business compared to when I started it. | 3 (10%)                  | 3 (10%)         | 0 (0%)         | 10 (33%)     | 14 (47%)              |
| Overall evaluation of growth of SMEs                                    | 3 (10%)                  | 4 (13%)         | 1 (3%)         | 11 (37%)     | 11 (37%)              |

**Source: Primary data 2022**

From table 8 shows that, 3% of the respondents strongly disagree, 7% disagree, 3% are not sure, 50% agree while 37% strongly agree that their business continues to expand. This implies that majority of the respondents (15 respondents) agree that their business continues to expand.

From table 8 shows that, out of the 30 respondents, 10% strongly disagree that sales volumes of my business are always increasing, 20% disagree, 7 % are not sure, 40% agree while 30% strongly agree that sales volumes of my business are always increasing. From the above information, it implies that, 12 respondents (40%) which is the majority of the respondents agree that sales volumes of my business are always increasing.

From table 8 shows that, none of the respondents strongly disagree, 7% disagree, 3% are not sure, 40% agree whereas 33% strongly agree that the profit levels of their business are always increasing. It means that, majority of the respondents (40%) agree that the profit levels of their business are always increasing.

Table 8 shows that, 10% strongly disagree, 17% disagree, 7% are not sure, 27% agree while 40% strongly agree that they have been able to open more branches for this business. In all, 12 out of the 30 respondents agree that they have been able to open more branches for their business

Table 8 shows that, 17% strongly disagree, 17% disagree, 7% are not sure, 23% agree while 33% strongly agree that there is always excess of income over expenditure in their businesses. From this information, it means that majority of the respondents (33%) strongly agree that there is always excess of income over expenditure in their businesses

Table 8 shows that, 17% of the respondents strongly disagree that they have acquired more assets in their businesses, 20% disagree, none of them is not sure, 33% agree whereas 30 strongly agree that they have acquired more assets in their business. It therefore implies that, majority of the respondents agree that, they have acquired more assets in their businesses.

Table 8 illustrates that 17% of the respondents strongly disagree that they can compete favorably with people in the same business, 10% disagree, no one is not sure, 10% agree while 40% strongly agree. This implies that the latter are the majority

Table 8 shows that, 10% of the respondents strongly disagree, 20% disagree, none of them is not sure, 27% agree while 37% strongly agree that they take and make simple records in their business. It implies that, 37% of all the respondents can make simple records of their businesses

Table 8 shows that, 10% strongly disagree, 10% disagree, 0% are not sure, 33% agree while 47% strongly agree that they employ now more people in the business compared to when they started it. All in all, 47% of the respondents strongly agree that they employ now more people in the business compared to when they started it.

The overall evaluation of the growth of SMEs from table 8 indicated that, 3 respondents (10%) strongly disagree, 4 respondents (13%) disagree, 1 respondent (3%) is not sure, 11 respondents 37% agree while 11 respondents (37%) strongly agree with the overall evaluation of bank loan. This clearly implies that majority of the respondents (74%) of the respondents agree with the overall evaluation of the growth of SMEs.

Finding of the study support the literature of Kotler 2000, according to Kotler (2000), “the company’s growth will be determined by the increase in rate of growth of its market share”. The study also proved growth of SMEs in relation to increase in market share among other factors

**Table 9: Respondents' rating on whether there is a relationship between credit facilities and growth of selected small and medium enterprises of traders**

| <b>Statement</b>                                                                   | <b>Strongly disagree</b> | <b>Disagree</b> | <b>Not sure</b> | <b>Agree</b> | <b>Strongly agree</b> |
|------------------------------------------------------------------------------------|--------------------------|-----------------|-----------------|--------------|-----------------------|
| Credit facilities have assisted me to expand my business                           | 3 (10%)                  | 5 (17%)         | 0 (0%)          | 12 (40%)     | 10 (33%)              |
| Trade Credit has been influential in increasing the sales volume of my business    | 4 (13%)                  | 4 (13%)         | 2 (7%)          | 10 (33%)     | 10 (33%)              |
| Bank overdrafts have assisted me to increase the profitability of this business    | 5 (17%)                  | 3 (10%)         | 2 (7%)          | 8 (27%)      | 12 (40%)              |
| Bank loans have helped me to establish new branches                                | 3 (10%)                  | 6 (20%)         | 1 (3%)          | 10 (33%)     | 10 (33%)              |
| Trade credit have helped me to increase the profitability of this business         | 2 (7%)                   | 2 (7%)          | 0 (0%)          | 10 (33%)     | 16 (53%)              |
| Trade credit has helped me to operate even if I do not have enough money           | 5 (17%)                  | 5 (17%)         | 2 (7%)          | 10 (33%)     | 13 (43%)              |
| Bank loans are important in my business growth                                     | 1 (3%)                   | 2 (7%)          | 1 (3%)          | 12 (40%)     | 14 (47%)              |
| Overall evaluation on the relationship between credit financing and growth of SMEs | 3 (10%)                  | 4 (13%)         | 1 (3%)          | 10 (33%)     | 12 (40%)              |

**Source: primary data 2022**

From table 9 shows that, 10% of the respondents strongly disagree, 17% disagree, 0% are not sure, 40% agree while 33% strongly agree that credit facilities have assisted them to expand their business. This means that majority of the respondents (40%) agree that credit facilities have assisted them to expand their business.

Table 9 shows that, 13% of the respondents strongly disagree, 13% disagree, 7% are not sure, while those who agree and those who strongly agree are 33% that trade credit has been influential in increasing the sales volume of their business. This in all implies that, majority of the respondents both agree and strongly agree that trade credit has been influential in increasing the sales volume of their business.

Table 9 shows that, 17% strongly disagree, 10% disagree, 7% are not sure, 27% agree yet 40% strongly agree that bank overdrafts have assisted them to increase the profitability of their business. All in all, 40% (majority) strongly agree that bank overdrafts have assisted them to increase the profitability of their business.

Table 9 shows that 10% of the respondents strongly disagree, 20% disagree, 3% are not sure, 33% agree while 33% also strongly agree that bank loans have helped them to establish new branches. From the above information, it means that, majority of the respondents both agree and strongly agree that bank loans have helped them to establish new branches.

Table 9 shows that, 7% of the respondents both disagree and strongly disagree, none of the respondents is not sure, 33% agree while 53% strongly agree that trade credit have helped them to increase the profitability of their business. It therefore implies that majority of the respondents (53%) strongly agree that trade credit has helped them to increase the profitability of their business.

Table 9 shows that, 17% of the respondents strongly disagree, 17% disagree, 7% are not sure, 33% agree while 43% strongly agree that trade credit has helped them to operate even if they do not have enough money. This clearly implies that majority of the respondents (43%) strongly agree that trade credit has helped them to operate even if they do not have enough money.

Table 9 shows that, 3% of the respondents strongly disagree, 7% disagree, 3% are not sure, 40% agree while 47% strongly agree that bank loans are important in their business growth. This clearly implies that majority of the respondents (47%) strongly agree that bank loans are important in their business growth.

The overall findings on the relationship between credit financing and growth of SMEs from table 9 indicated that, 3 respondents (10%) strongly disagree, 4 respondents (13%) disagree, 1 respondent (3%) is not sure, 10 respondents 33% agree while 12 respondents (40%) strongly agree with the overall evaluation of bank loan. This clearly implies that majority of the respondents (73%) of the respondents agree with the overall evaluation of bank overdraft.

### **The relationship between credit financing and growth of SMEs.**

This section addresses the third objective of the study which was to analyze the relationship between credit financing and growth of SMEs. The results are presented as below;

**Table 10: Correlations**

|                |                |                 | Trade Credit | Growth of SMEs |
|----------------|----------------|-----------------|--------------|----------------|
| Spearman's rho | Trade Credit   | Correlation     | 1.000        | .669*          |
|                |                | Coefficient     |              |                |
|                |                | Sig. (2-tailed) | .            | .035           |
|                |                | N               | 30           | 30             |
|                | Growth of SMEs | Correlation     | .669*        | 1.000          |
|                |                | Coefficient     |              |                |
|                |                | Sig. (2-tailed) | .035.        |                |
|                |                | N               | 30           | 30             |

\*. Correlation is significant at the 0.05 level (2-tailed).

Ho: There is no relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center

Ha: There is a relationship between trade credit and the growth of small and medium enterprises in Namungoona trading center

The correlation coefficient (0.669) shows a moderate positive relationship between trade credit and growth of small and medium enterprises in Namungoona trading center. This is statistically significant at 95% confidence interval since the P- value (0.35) is less than 0.05 and therefore we reject the null hypothesis and conclude that trade credit had a significant relationship on the growth of small and medium enterprises of Namungoona trading center.

## **Conclusion**

The study discovered a strong relationship between credit financing and growth of SMEs. This analysis of credit financing facilities and the growth of small and medium enterprises is an important contribution to the literature of evaluating micro finance activities. The study findings showed that credit financing facilities enable small and medium enterprises improve on performance thus overall growth. From the rank correlation considered in the study, there is a positive relationship between the variables.

## **Recommendations**

Micro Finance institutions should devise means of delivering credit financing facilities and improve terms and conditions under which financial institutions offer various credit facilities to SMEs. The government of the republic of Uganda should partner with other financial institutions to provide subsidized financial/credit assistance to SMEs with little interest rates

There should be assessment of the needs of SMEs so as financial institutions develop credit facilities that best suit the small and medium enterprises. Financial institutions should put in a provision of loan repayment periods extension for Small and Medium Enterprises.

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