Lending "Terms, Conditions" and Financial Performance of Small Medium Enterprises in Lira Municipality

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Background: The study sought to establish the effect of lending terms and conditions on the financial performance of small and medium sized enterprises (SMEs) in Lira Municipality. The specific objectives were to ascertain SME's perception of lending terms and conditions offered by financial institutions; determine the effect of lending terms and conditions on the key financial performance of SMEs and to assess the level of financial performance of SMEs in Lira Municipality.

Methods: The study adopted a cross-sectional research design. Purposive and simple random sampling procedures were used to select the respondents. The study considered a sample of 198 respondents which included managers and accountants that represented selected SMEs. Scientific package for social scientists (SPSS v 23) was used for data analysis.

Findings: The findings indicated that SMEs have a negative perception towards lending terms and conditions, borrowing cost, collateral, and loan duration predicted approximately 56.5%, 35%, and 8.5% respectively. Collectively, these measures of lending terms accounted for 60.7% variations in financial performance. While collateral and borrowing costs were significant predictors of the financial performance of SMEs in Lira Municipality, loan duration was not.

Conclusions: The study has significance because it can aid policy-makers in the formulation of policies, which can be effectively implemented for better and easier regulation of SMEs. Further, ROA was revealed as a better indicator of financial performance than ROE and profitability