



**NATURE OF FINANCIAL STATEMENTS; A MAJOR CAUSE OF LOAN  
DEFAULT AMONG SMEs:  
(A CASE STUDY OF STANBIC BANK UGANDA LTD)**

**BY**

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## ABSTRACT

The Research sought to establish the causes of loan default by SMEs with a specific focus on Stanbic Bank Uganda. The objectives of the study were:

- i. To establish the quality of financial statements prepared by SMEs and the role they play in loan defaulting by SMEs in Stanbic Bank Uganda.*
- ii. To assess the extent to which financial statements guard against loan defaulting by the selected SMEs.*
- iii. To assess whether personal character influences loan default by the selected SMEs.*
- iv. To review other causes of loan default by SMEs in Stanbic Bank Uganda other than the ones above.*

The research employed a cross sectional survey design and a mixed methods approach to capture both qualitative and quantitative data necessary to comprehend the findings of the study. The research population consisted of 100 respondents including credit staff, auditors and SME clients. Data were obtained using self-administered questionnaires.

The findings of the study indicate that financial statements prepared by SMEs and presented to auditors are of poor quality however the audited financial statements that are presented to the bank are fairly of good quality. The study revealed that to a large extent financial statements do not guard against loan default. Other factors such as peer pressure, time of loan disbursement and the type of loan product are equally responsible for loan default among SMEs. The research also discovered that some Choleric personality individuals are more predisposed to loan default as opposed to the Sanguines, Phlegmatic and Melancholic personalities. The study recommends that while accessing loan applications for SME clients, credit staff in Stanbic bank need to ask for guarantors as an additional requirement for SMEs to obtain loans, improve turnaround time (TAT) for approving SME loans, include covenants requiring regular client visits and monitoring of disbursed SME loans by relationship managers and only approve loans to SME clients with verifiable and consistent profit margins