

**FINANCIAL INCLUSION AND GROWTH OF SMALL AND MEDIUM
ENTERPRISES IN UGANDA: A CASE STUDY OF MUKONO DISTRICT**

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**UGANDA CHRISTIAN
UNIVERSITY**

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DECLARATION

As per the university values of integrity and diligence, I have not received any unauthorized assistance while working on this research. I hereby declare that this research is my original work and has never been submitted to any University or institution for a degree award.

Signed 

Date 09/09/2024

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APPROVAL

I hereby certify that this academic research was conducted under my supervision as the academic supervisor, and has been reviewed and approved.

NAME: Ms. Akinyi Lorraine

SIGNATURE: 

DATE: 09/09/2024

DEDICATION

I dedicate this work to the Almighty God who has enabled me to carry out this research successfully and to my beloved family for their unwavering support and encouragement throughout this journey. May the Almighty God bless you all.

ACKNOWLEDGMENT

First and foremost, I give thanks to the Almighty God for granting me the strength, health and perseverance needed to complete this research. His guidance has been my constant support throughout this academic journey.

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ABSTRACT

The study investigated the relationship between financial inclusion and growth of small and medium enterprises (SMEs) in Mukono District, Uganda. Financial inclusion refers to access to and usage of formal financial services, which are critical to the economic growth of SMEs. The study used a cross-sectional research design to gather both quantitative and qualitative data from 66 SMEs in the district. The findings of the study revealed that while many SMEs had access to savings accounts and mobile money services, barriers such as high account charges, limited collateral for loans, and lack of trust in financial institutions hinder further financial inclusion. The researcher recommended lowering entry barriers for financial services, increasing financial literacy programs, and developing policies to enhance trust in financial institutions. These efforts are expected to promote SME growth, innovation, and overall economic development in Mukono District

CHAPTER ONE

1.0 Introduction

This chapter covers the study's background, problem statement, purpose, objectives, research questions, scope in terms of geography, content/variables, and time, and finally the study's significance, which serves as the introduction to the research paper on the subject at hand.

1.1 Background to the Study

Financial inclusion, or the availability of formal financial services and the usage thereof, remains a critical determinant for economic growth and poverty reduction in Uganda. While progress is steadily being made, with the share of formal financial service-using adults increasing from 28 percent in 2009 to 58 percent in 2018, as estimated by the Bank of Uganda, such progress is made in order to ameliorate the resilience of households, and foster investment, entrepreneurship, and job creation-all very important ingredients for sustainable development. Core barriers to usage persist, however-especially among rural and marginalized communities. For instance, whereas in 2018, 68% of adults in urban areas accessed formal financial services, only 51% of those in rural areas managed to access them in the same period. Moreover, there is still a lingering gender gap, with 62 percent of men having access to formal financial services in 2018, compared to only 54 percent for women. The drivers are multi-dimensional: from limited geographic access and lower levels of income, to lower financial literacy and availability of inappropriate financial products. All these put together mean effort on several fronts: expanding the physical access points through bank branches and agent banking networks in rural areas, developing financial products for rural and marginal groups, undertaking targeted financial education campaigns, and transcending geographical barriers by promoting digital financial services. But it will need the government, the financial sector, and development partners to work in practical collaboration to ensure that all Ugandans have equal access to the formal financial system as a key enabler of inclusive and sustainable development. And yet, despite the progress on average in financial inclusion within the key sector of SMEs for Uganda's economy, that is above 90% of the private sector, very innovative, employs a number of people, considerable gaps remain.

As the 2021 FinScope survey shows, only 55% of SMEs have access to formal financial services, thereby circumscribing the possibility of investing in new equipment and expanding operations and seeing businesses through economic uncertainties. The sector is comprised of

about 40% women-owned SMEs, which adds the barriers of limited collateral, lower levels of financial literacy, and gender-based discrimination, therefore even more restricted in their access to financial services. Smallholder farmers are equally important to the economy of Uganda, with only a 34% access rate to formal financial services.

Consequently, financial inclusion initiatives should, therefore, be directed at realizing the full potential of the SME sector and agricultural economy of Uganda. Attention to financial inclusion imperatives will be attained through a focus on prioritizing digital expansion initiatives within the financial services, special support directed at women-owned enterprises, and consultations on designing financial products suited for agriculture purposes. Empowering SMEs and smallholder farmers-including women-owned enterprises-through better access to financial services may spur jobs, diversification of the economy, and sustainable development.

It will mean that Uganda is on the path to an inclusive economy that is resilient, hence having its broader development agenda move for the benefit of all its citizens irrespective of location or gender.

1.2 Statement of the Problem

Financial inclusion describes both access to and actual use of a variety of financial services, including but not limited to savings, credit, and insurance. It forms an important component of economic development, since it enables the ability to invest in one's future, to mitigate risk, and simply to improve one's well-being.

More than this, access to financial services is believed to be an integral part of the path to growth and success for SMEs. It is believed that with the capability to get access to credit facilities, save money, and eventually apply other financial products, SMEs can make investments in new equipment, expansion of operations, and dealing with economic challenges much easier to handle. Such processes eventually facilitate these in creating more job opportunities, diversifying the economy, and developing the economy altogether.

However, the issue within Mukono District is that most SMEs hardly access any of these financial services. Although there has been a rise in financial inclusion over the past couple of years, with the overall percentage of adults with formal access to financial services increasing from 28 percent in 2009 to 58 percent in 2018, many people, especially from rural and marginalized areas, are not well represented in the utilization of formal financial services. In view of that, lack of access to savings, loans, and insurance has been one of the major predicaments SMEs face in Mukono District, hindering their full growth, expansion, and

development for the region's economic growth. This is according to the Uganda Bureau of Statistics, 2021.

Therefore, this study will investigate financial inclusion and the growth of small and medium enterprises in Mukono.

1.3 Main Objective of the Study

The main objective of this study is to establish the relationship that exists between financial inclusion and the growth of small and medium enterprises in Mukono District, Uganda.

1.4 Specific objectives.

1. To establish whether access to financial services influences SMEs growth in Mukono District.
2. To establish the level at which SMEs in Mukono District are utilizing available financial services.
3. To identify the main barriers and constraints which make the exclusion of SMEs from financial services difficult in Mukono District

1.5 Research Questions

1. What proportion of SMEs in Mukono District has formal savings accounts, credit facilities, and insurance products?
2. How often are the formal financial services provided to SMEs in Mukono District utilised, for instance average account balances, loan amounts, premium paid?
3. What are the major supply-side and demand-side barriers that restrict the financial inclusion of SMEs in Mukono District?

1.6 Scope of the Study

To provide an elaborate content of the study, the researcher will opt to subdivide them into three different categories as described below;

1.6.1 Geographical scope

The study area is the Mukono District, within the central region of Uganda, which lies about 25 kilometers northeast of Kampala, the capital city of Uganda. The area measures approximately 1,900 square kilometers and has been further divided into smaller geographic units, namely, sub-counties, town councils, and municipal divisions, with varying economic, population, and infrastructure contexts. This study will be based on a place-based approach to

the in-depth look at the variation regarding access to formal financial services such as saving accounts, loans, and insurance among SMEs within these different regions and administrative areas within Mukono District.

1.6.2 Time scope

The information collection and analysis shall be carried out within a period of three months during the year 2024, starting from 1st January and up to 31st March of the same year. This target timeline was chosen to capture the most up-to-date information related to financial inclusion and SME growth in the Mukono District, because most of the required data would be readily available within this time. The timeline also coincides with policy review cycles in Uganda; therefore, these findings and recommendations add value to the ongoing efforts towards improving financial inclusion and developing SMEs.

1.6.3 Scope of content.

For this reason, the study will be limited to three themes currently in focus; namely, financial inclusion, SME growth and performance, as well as linkages between them. The researcher will identify SMEs in terms of access to financial services, barriers to inclusion, characteristics of the SMEs, performance, and growth factors in Mukono District. Most importantly, the research will explore the underlying relationship between financial inclusion and SME growth in a bid to give an all-rounded understanding of implications which this may have on the development of the SME sector. Such findings would therefore provide policy recommendations and strategies to trigger financial inclusion in a bid to support the growth of SMEs within the region.

1.7 Significance of the Study

Policymakers and Regulators:

The results from this study are, therefore, expected to help inform the formulation, review, and evolution of policies, laws, regulations, and programs in promoting financial inclusions, and hence, the development of the SME sector in Uganda.

This study is, therefore, intended to bring into perspective the prevailing status of financial inclusion and the emergence of needs and challenges faced by small and medium-scale enterprises in Mukono District.

The realization of this study will provide an insight into the associations existing between financial inclusion and growth-performance linkages among SMEs in Mukono District.

These findings can empower SMEs to make more knowledgeable choices about how to access and use financial services toward their business expansion, investment, and innovation. This will be further adding to the growing knowledge on financial inclusions in addition and their contribution to growth and development in SMEs, which will add to the Ugandan situation.

The research methodology and findings can form the beginning of further studies on this topic and encourage further academic discourse and evidence-based policymaking.

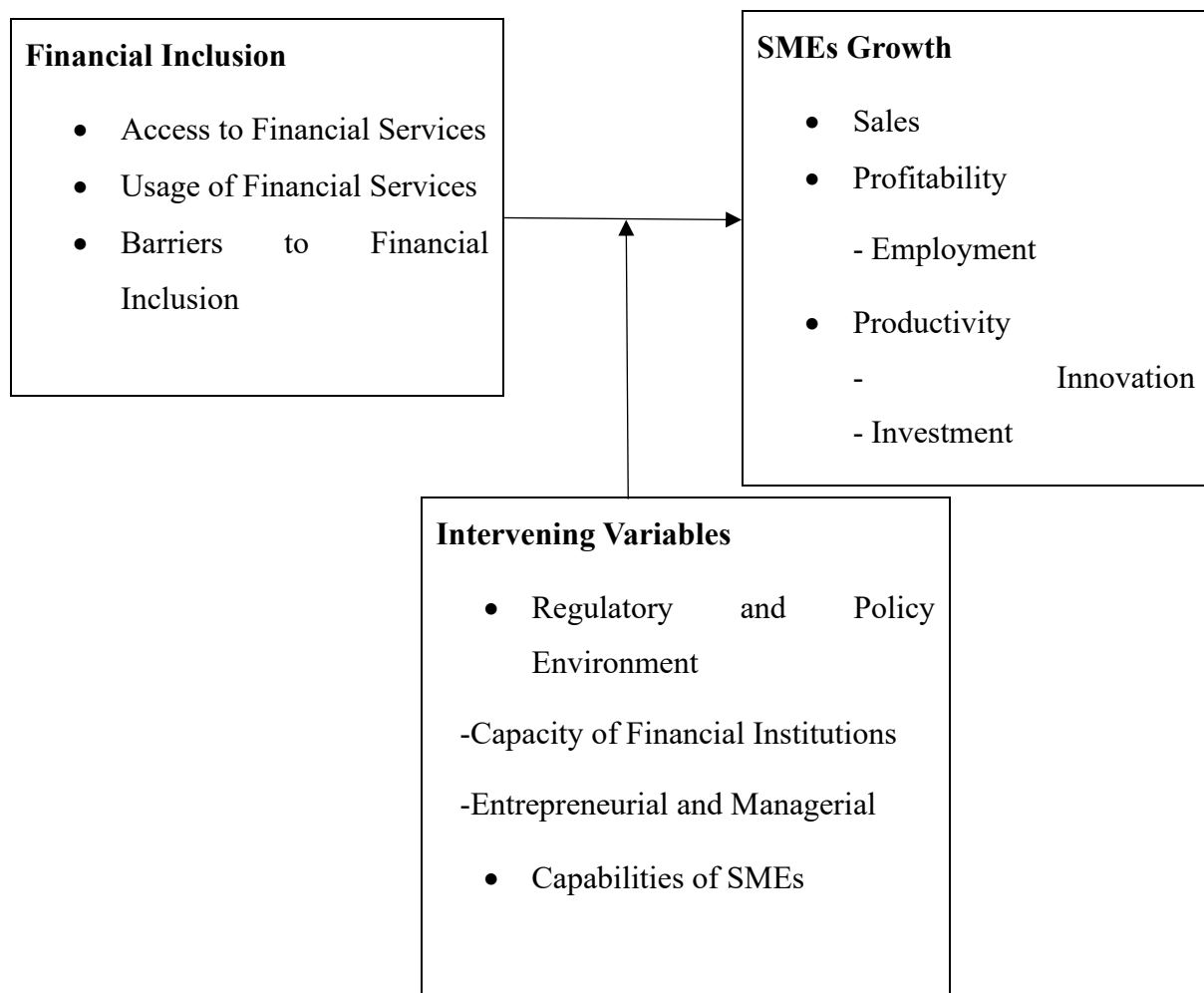
1.8 Theoretical framework

Here, financial inclusion is considered as an independent variable, while SME growth is taken as the dependent variable.

It is hypothesized that financial inclusion has a direct effect on the performance of SMEs in Mukono District according to key indicators: profitability, liquidity, and productivity. Other factors that may intervene in this relationship include the regulatory environment and institutional capacity. This study will provide insight into the financial inclusion landscape in Mukono and its implications for the development of SMEs with a view to informing policy and empowering SMEs in accessing financial services.

Independent Variable

Dependent Variable



Adapted from Brecht & Martin (1996) and modified by the researcher (2022)

In the conceptual framework, financial inclusion is an independent variable. Its dimensions include access to financial services, usage of financial services, and the barriers to financial

inclusion. These dimensions of financial inclusion are hypothesized to directly influence the growth and performance of SMEs in Mukono District, Uganda, which are represented by the dependent variable.

Intervening variables would involve the regulatory and policy environment, capacity of financial institutions, and entrepreneurial and managerial capabilities of SMEs.

CHAPTER TWO: LITERATURE REVIEW

2.0. Introduction

This chapter presents an overview of the literature related to the financial inclusion and growth of small and medium enterprise in Uganda. The sectioning of the chapter into subsections is informed by the specific study objectives. Each section will summarize several current studies that are relevant and provide views of different authors.

2.1 Access to financial services and growth of SMEs in Mukono District.

One of the most important factors in facilitating the growth and development of SMEs in developing economies has been said to be access to formal financial services such as savings accounts, credit facilities, and insurance products. However, most developing regions, such as Uganda, still face a number of challenges in reaching and effectively using such facilities.

Access barriers, such as lack of collateral, complex application procedures, high interest rates, and limited financial literacy, have combined with an uneven distribution of formal financial infrastructure to keep binding SMEs' capacity to build capital, manage risks, and invest in productivity-enhancing activities—a situation which has been limiting their growth potential. Reducing these barriers to financial inclusion will be important for unlocking the potential of the SME sector for sustainable economic development.

A study that was carried out by Sserwanga et al. (2021), gives a number of disturbing insights into low financial inclusions of SMEs in the Mukono District of Central Uganda. According to these findings, only 40% of SMEs in Mukono hold savings accounts with formal financial institutions, while approximately 25% receive business loans or credit. In particular, access to insurance products was very low, with less than 15% of SMEs enrolled in any form of commercial insurance scheme. These financial inclusion constraints, located both in supply-side and demand-side factors, represent an important limitation to the possibility of capital accumulation, risk management, and investment in productivity-enhancing activities that can foster growth and development of SMEs in Mukono. These are challenges whose addressing will require targeted interventions through collaboration from policy makers, providers of financial services, and business development organizations if the growth potential that is represented by the SME sector is to be harnessed for sustainable economic progress in the region.

Financial inclusion challenges facing the small and medium enterprises in Mukono District appear symptomatic of broader national trends in Uganda. Whereas financial inclusion has increased over recent years, a study by Nannyonjo (2019) shows that wide gaps still persist, particularly for small businesses outside the two major urban centers. This is partly because the poor distribution of financial infrastructure, lack of acceptable collateral, and generally poor financial literacy among SME owners have limited access to formal savings, credit, and insurance products. These barriers are almost consistent with the low levels of financial inclusions observed in Mukono: only about 40% of SMEs had savings accounts, about 25% had accessed business loans, and less than 15% had enrolled in commercial insurance schemes. The belief is that overcoming these chronic issues depends on a collaborative multi-stakeholder approach toward increased breadth and depth of customized financial services to SMEs. It also requires improving the financial education and management capacity of small business owners throughout Uganda.

Thus, the limited access to formal finance of small and medium enterprises in Mukono District, for example, as noted by previous studies like Sserwanga et al., 2021, and Nannyonjo, 2019, calls for a wider geospatial knowledge of financial inclusion within the district. In turn, such geographically specific knowledge of the factors and places linked to higher or lower levels of SME financial access can inform targeted interventions aimed at improving inclusion and promoting small business growth. A spatial analysis might indicate various patterns and inequalities within different sub-regions in Mukono regarding bank branch density, access to microfinance and savings, credit, and insurance product usage. More specific location-based data will bring out how infrastructure, population, economic activity, and other characteristics contribute to or hinder financial inclusion. Geospatial data and analyses can anchor holistic, place-based strategies that will improve access to formal finance for SMEs in ways that provide impetus toward growth and resilience within the small business sector, a driver of broad-based economic progress within the Mukono District.

2.2 Use of Financial Services and Growth of SMEs

In a survey conducted among SMEs in Mukono District, Sserwanga et al. (2021) found that only about 30% of the respondents were active users of formal financial services such as bank accounts, loans, and insurance products. A good number depended on informal sources of finance, including personal savings, loans from friends and family, and rotating savings and credit associations. This study indicated different barriers to access and utilization of formal

financial services by SMEs, such as lack of collateral, high interest rates, complicated application procedures, and a lack of financial literacy.

For instance, the issues of geographic accessibility, like a sparse distribution of bank branches and microfinance outlets in rural and remote areas, disturb the use of formal financial services by SMEs in Mukono District. Besides that, there are likely gaps in financial literacy and entrepreneurial skills for the owners of small enterprises too (Nannyonjo, 2019). Most SME owners have a low level of awareness in relation to formal financial products; meanwhile, a shortage of business management capabilities is at hand, and a considerable percentage of enterprises is still in the informal sector, conditions that worsen the situation of getting into the formal financial system. These complex challenges, therefore, call for expanded financial service coverage, targeted financial education, and support for the formalization of such businesses in order to increase both financial inclusion and overall viability of SMEs in Mukono District.

Drawing on the insights of Koku's 2015 review, barriers-which in this context appear notably acute-lack of credit histories, high transaction costs, and perceived risks by lenders-further compound to limit the usage of formal financial services among SMEs in Mukono District. The sparse distribution of financial providers, coupled with low levels of financial literacy and entrepreneurial skills among small business owners, creates a vicious circle impeding financial inclusion. It would require multidimensional barriers to address the issues of expanded access to financial services, targeted training in entrepreneurship, and enterprise formalization so as to include SMEs financially and make them viable within the district.

2.3 The main barriers and challenges facing financial inclusion of SMEs within Mukono District

This is also reflected in geographical accessibility, which remains a concern and acts as a barrier to the financial inclusion of SMEs in the Mukono District. Nannyonjo (2019) indicated that the landscape of financial service providers is disproportionately concentrated within urban and semi-urban centers, with minimal presence in rural areas. This disparity produces significant burdens, as SMEs in outlying areas must drive or ride long distances on inferior infrastructure to get to the nearest provider; costs are thus prohibitively high. The sparse coverage also means a lack of options and bargaining power for rural SMEs. This would require incentives to be offered for expanding the physical presence of financial institutions in unbanked or

underbanked rural areas through the opening of new branch offices, agent banking, and mobile services.

Poor financial literacy and poor entrepreneurial skills are a major hindrance to the financial inclusion of small business owners in Mukono District. According to Nannyonjo, 2019, while there is a general lack of understanding of formal financial offerings among SME operators, generally the management capabilities of these businesses are underdeveloped. This knowledge and skill gap leads to an inability to navigate the formal financial system properly and to make prudent decisions on how to access and utilize the services thereof. In addressing this challenge, there is a need for a more holistic approach that integrates customized financial literacy and entrepreneurship training programs to equip SMEs with the ability and capability to access and utilize the full range of formal financial services available. Another significant barrier in SME access to formal financial services in Mukono District pertains to the lack of formal credit histories. As Koku's work points out, 2015, financial institutions cannot easily ascertain their risk profiles, since the enterprises lack good sources of information as well as established credit histories. Without the records of loan repayment, it is hard for an SME to establish creditworthiness. This lack of credit history poses a barrier to the lender in evaluating the credit extension risk, increasing thereby the perceived risk and leading to loan rejection. Besides, high transaction costs of servicing small-scale borrowers add to difficulties of the SMEs in accessing credit facilities. This requires credit rating bureaus or any other form of credit scoring and lending models and risk management policy changes that are more inclusive of this small enterprise sector.

Another hindrance towards financial inclusion is the high level of informality characterizing SMEs within Mukono District. Most, as Nannyonjo 2019, asserted operate without proper registration and documentation, which goes a long way in making them struggle to comply with the eligibility criteria and application procedures of formal financial institutions. A lack of documentation, such as business licenses and financial statements required for access to formal financial services, characterizes the informal SMEs. This situation is worsened by the inability of informal enterprises to maintain proper accounts and books and their resultant failure to meet application requirements. Overcoming this challenge requires promoting formalization among SMEs and a change in the eligibility criteria of the financial institutions to make them responsive to the realities of informal enterprises.

The high transactions costs associated with servicing small-scale borrowers and the relevant supply of financial services to SMEs are, therefore, major barriers to their access to formal

financial services. According to Koku, 2015, administrative costs and operational overheads related to credit granting and other financial products to small enterprises tend to run the risk of becoming disproportionately high whenever juxtaposed against the possible returns for financial institutions, especially in outlying areas. This adds to the high per-unit costs emanating from the relatively small loan amounts and deposit sizes common among SMEs. Perceived higher risks from lending to small enterprises are also likely to make institutions price their products and services at higher rates, further making the same less affordable for SMEs. With this in mind, meeting this goal may require that financial service providers seek out innovative delivery channels-such as digital banking and mobile money-that lower operating costs, while at the same time policymakers can create incentives for even more affordable solutions better targeted to meet the needs of SMEs.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents a discussion of the research questions and also introduces the process through which collection, analysis, and processing of the data to be collected and used to accomplish the objectives of this research is carried out. In addition, the chapter outlines the techniques to be used to implement the research and gives an insight into the quality of all means to be used throughout the process.

3.1 Research Design

The study will use a cross-section research design approach. The study will consider both quantitative and qualitative research approaches. A quantitative research approach will be used to analyze statistical data. The researcher will use a qualitative approach to yield an unbiased result that can be generalized to a larger population. The qualitative research approach is primarily exploratory research used to gain an understanding of underlying reasons opinions and motivations and provide insight into the problem or help to develop ideas or hypothesis for potential quantitative research (Mugenda and Mugenda, 1999). A qualitative research approach is used to collect non-numerical data.

3.2. Population of the study

The target population is the population to which the study findings will be generalized (Cooper & Schindler, 2003).

The study will be limited to Small and Medium Enterprises in Mukono Central Division. The study targeted the proprietors of mobile money users in Mukono Central Division According to the statistics from the Department of Trade, industry and local economic Development Mukono Municipal council. There are about 250 Small enterprises in Mukono Central Division. And these include mini supermarkets, hard wares, and Stationery, boutiques, and retail shops, restaurants among others. However only 80 out of the 250 Small enterprises will be examined.

3.3 Sample size and selection

3.3.1 Sample Size

A sample size is the total number of sub-elements or individuals randomly selected and assigned from a given population (Amin, 2005). The sample size will be 66 (Krejcie and Morgan' sample size table 1970).

Table 3.2: Sample size

Categories of respondents	Population	Sample size	Sampling Technique
Retail shops	30	20	Simple Random
Hardware shops	22	20	Purposive
Groceries	28	26	Simple Random
Total	80	66	

3.3.2 Sampling Techniques

Both probability and non-probability sampling techniques will be applied in this study. The simple random sampling technique under probability techniques will be applied in picking out from the population a subset of the small and medium enterprises. On the other side, a purposive non-probability technique will select respondents who should be included in the research with informed judgment. This will help the study to capture a representative sample that mirrors diversity in the organization with persons holding relevant expertise.

3.4 Sources of Data

Primary Sources: The primary data will provide the researcher with virgin and new information to establish events. The researcher will interact directly with the respondents through various instruments of data collection such as interviews and questionnaires.

Secondary Sources: The researcher will study the relevant documents, newspapers, online journals, and textbooks concerning the study foriani to ensure that they are well equipped with the necessary data that shall facilitate the research.

3.5 Methods and Instruments of Data Collection

Data collection can be defined as the process of collecting systematic research data regarding a given phenomenon (Amin, 2005). In the study, both primary and secondary data collection methods shall be put into practice by the researcher.

3.5.1 Questionnaire

Kumar, 2005 articulates that the questionnaires are the written list of questions, and the respondents record the answers. The survey will comprise sets of questions that the respondents will fill in and the researcher will, in turn collect for data analysis. Data response is to be collected using self-administered questionnaires covering the aspects of the study variables accompanied by a five-point Likert scale response continuum: 5= strongly agree, 4=agree, 3=undecided, 2=disagree, and 1= strongly disagree. This is a preferred approach, as it grants the anonymity and confidence of the research respondents a high degree of assurance.

3.6 Quality Control

3.6.1 Validity

The validity of a research instrument was attributed by Collis and Hussey (2013) to its capability to collect justifiable and truthful data to that which is being measured. In that light, the construction of the questionnaire shall emanate from the objectives of the study. The supervisor will be presented with the data collection instruments to assess the content validity, including clarity of the question items and their relevance. The questionnaire shall also be pre-tested on 10 respondents to compute the content validity index. If the average percentage is found to be above 0.7 (70%), the content will be considered valid. The formula used in checking the validity of the instrument is:

$$CVI = R / (R + N + IR)$$

Where R is Relevant, N is Neutral, and IR is Irrelevant. The closer the value is to 1, the more valid the instrument (Amin, 2005).

3.6.2 Data Quality Control and Management

Validity of a questionnaire refers to the degree that the instrument actually measures what it purports to measure Mugenda, 2003. To establish the validity, the study will use content-related validity through consultations with the researcher's supervisor and peers. The researcher will prepare the questionnaires and present them to the supervisor for scrutiny and suggestions on the relevance, clarity, and suitability of the information. After that, the final draft shall include the supervisor's feedback. The reliability of a research instrument is defined as the degree in which it yields consistent data or results if there had been successive trials. In determining its reliability, the researcher shall be the one who will have to administer questionnaires, pilot-test

them through different respondents, and make changes, if necessary, to refine the questionnaires in eliciting relevant data.

3.7 Ethical Issues

It shall be introduced by an introductory letter from the University's Faculty of Business to ensure that the information obtained from the research is for academic purposes. The participation will be on a voluntary basis, and the researcher will not coerce the participants. The researcher will also be involved in the debriefing of the recipients before data collection. Also, all the necessary documents used in this work will be cited to recognize the efforts the authors took concerning secondary data.

3.8 Limitations

Sample and Selection Issues:

As it is a type of probability sampling, some errors in sampling can take place as the sample may not be representative of general population or the appropriate population concerned.

Insufficient Sample Size for Statistical Measurement:

The sample size should be sufficiently large to arrive at valid research results. A small sample itself cannot easily detect significant relationships from the data because most of the statistical tests require large sample size to ensure the representativeness of the sample in the population and generalize the statistical results to the population.

3.9 Data quality control and management

Validity of a questionnaire refers to the extent to which a questionnaire measures what it claims to measure (Mugenda, 2003). In testing validity, this study will adopt content related validity through consultations with the researcher's supervisor and peers. The researcher will prepare questionnaires and present them to the supervisor for scrutiny and suggestion on the relevance, clarity, and suitability of the information. The supervisor will then make suggestions that were incorporated into the final draft. Reliability of research instrument refers to the measure of the degree to which research instruments yield consistent result data or data after repeated trials. These instruments will have to be administered as questionnaires and then pilot-tested using various respondents after which the researcher will effect the necessary changes for the questionnaires to give relevant data.

3.9.1 Data processing

Data processing is the collection of data and translation of data into usable information. Collection of data is the first step in the processing. Data is pulled from available sources. The next process will be data preparation; it is the stage at which the raw data will be cleaned up and organized for the following step in the process of data. During preparation, the raw data is thoroughly examined for any mistakes. Data input will be the third process wherein clean data will then be fed into its destination. The fourth will be data processing, interpretation, and lastly, data storage.

CHAPTER 4: DATA ANALYSIS AND FINDINGS

4.0. Introduction

This chapter analyzes data from the questionnaire on financial inclusion and growth of small and medium enterprises in Mukono District, Uganda. The scope of this section includes demographic information, response rate, descriptive statistics, regression analysis, and correlation analysis.

4.1. Demographic Data

This is summarized in Table 1, showing demographic data regarding gender, age, education level, time in business, position held, type of ownership, number of employees, and a number of branches.

Table 1: Demographic Information of Respondents

Demographic Variable	Frequency	Percentage (%)
Gender		
Male	38	57.6
Female	28	42.4
Age Bracket		
Below 25 years	10	15.2
26-35 years	24	36.4
36-45 years	18	27.3
46-55 years	14	21.2

Demographic Variable	Frequency	Percentage (%)
Level of Education		
Certificate	10	15.2
Diploma	20	30.3
Degree	26	39.4
Masters	10	15.2
Duration in Business		
Below 1 year	12	18.2
1-3 years	20	30.3
4-6 years	15	22.7
7-9 years	10	15.2
10 years and above	9	13.6
Position Held		
Owner	30	45.5
Employee	25	37.9

Demographic Variable	Frequency	Percentage (%)
Partner	11	16.7
Type of Ownership		
Sole	35	53.0
Partnership	20	30.3
Company	11	16.7
Number of Employees		
1-5	30	45.5
6-10	20	30.3
11-15	10	15.2
16 and above	6	9.1
Number of Branches		
1	40	60.6
2-5	20	30.3
Above 6	6	9.1

As shown in Table 1, the gender distribution favors males at 57.6%, as opposed to females, who have 42.4%. This may reflect general trends in Uganda, where business ownership is more male-dominated. Such a gender insight could be valuable in pointing out the need for support programs to help women entrepreneurs.

According to the data in table 1, age group distribution is dominated by those of the age bracket 26-35 years with 36.4%; this could then suggest that younger individuals are more engaged with entrepreneurship in this region. It could also be expected that this demographic would be more open toward modern financial technologies and practices, which would hopefully affect their access to financial services.

As reflected in the table above, a substantial portion of the respondents hold degrees, implying a fairly educated entrepreneurial base. Higher education levels can be associated with better financial literacy and awareness of the availability of financial services, thereby having increased business growth.

It follows that 33% of the respondents have been in operation for between 1-3 years. This indicates that, in general, the SME sector is still at its tender age in the Mukono District. Such a finding may suggest that many businesses are still at an early stage of development and, hence, are likely to affect their financial needs and access to services.

The table above, highlights that 45.5% of the respondents are owners themselves, which is important to understand in financial services decision-making processes. Different views on financial inclusion may come out from owners compared to employees or partners.

The businesses are operated as sole proprietorships for 53.0% of the respondents, which in most cases have problems of access to credit facilities and formal financial services on different occasions than partnerships and corporations.

Most SMEs employed 1-5 people 45.5%, showing that many businesses are micro-enterprise in nature. A size which potentially can affect their ability to access certain financial products compared to larger firms.

A greater number of the respondents operated a single branch 60.6%, perhaps indicative of the essentially localized nature of many SMEs in Mukono District, which in turn can have implications for access to wider markets and financial services.

4.2. Response Rates

Table 2: Response Rates of the Survey

Category	Number	Percentage (%)
Total Sampled	80	100
Usable Responses	66	82.5
Non-usable Responses	14	17.5
Response Rate	66/80	82.5

In this study, 80 questionnaires were administered, but only 66 responses were usable and provided valid data, hence can be analyzed. This represents a very good response rate of 82.5%, as a higher response rate enhances credence in the findings in any survey research. There were 14 non-usable responses: this therefore means that only 66 respondents provided full and valid information while 14 did not respond. The findings can be generalized to the target population of SMEs in Mukono District, since the response rate is 82.5%. A response rate of 82.5% is optimum since it removes any possible biases and provides data that actually represents the views of the SMEs sampled.

4.3. Descriptive Analysis

4.3.1 Access to Formal Financial Services

Table 3: Data analysis for objective 1

Statement	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree	Mean score	Standard deviation
1. I can easily access the following banking services where I live.	30%	25%	20%	15%	10%	3.50	1.27
i. Bank accounts							
ii. Microfinance institutions	25%	30%	20%	15%	10%	3.45	1.24
iii. Mobile money services	40%	25%	20%	10%	5%	3.85	1.11
2. I have heard about different financial services like loans and insurance	35%	30%	15%	10%	10%	3.65	1.27
3. I have seen financial service providers visiting my area.	45%	30%	10%	10%	5%	3.95	1.12

The first objective of the study was to find out whether access to financial services affects SMEs growth in Mukono District.

From the table above, at an average score of 3.50, it can be argued that generally the respondents agree that they can have access to bank services. However, the score is just moderate to show that a significant number of SMEs face a little problem in accessing such services. Likewise, a standard deviation of 1.27 shows that a section of the respondents must have found it difficult to access banking services. A mean of 3.45 indicates that the respondents are somehow satisfied with their ability to access microfinance institutions, though there is a need to try more. This indicates that a standard deviation of 1.24 means that while some find such services within their reach, others do not.

From this, the mean score is 8.35, which means there was general agreement to the statement that mobile money services are widely accessible. The standard deviation of 1.11 is low and means most respondents had similar opinions, which were indicating that mobile money services are widely used and available in Mukono.

As shown in the above table, the level of awareness of the availability of such financial services as loans and insurance from those financial institutions is relatively high among the respondents, with a mean score of 3.65. The high dispersion in the standard deviation of 1.27 reflects some variability, meaning while many SMEs are fully informed, others still lack information.

Lastly, with the highest mean score of 3.95, most of the respondents agree that financial service providers do visit their areas. A standard deviation of 1.12 shows a reasonable homogeneity of response. This means that many SMEs get face-to-face services from the financial institutions.

4. 4: Utilization of Financial Services.

The second objective of the study was to investigate the extent to which SMEs in Mukono District are actively utilizing the financial services available to them.

Table 4: Data analysis of objective 2

Statement	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree	Mean score	Standard deviation
1. My business often uses bank services i. loans	25%	35%	20%	10%	10%	3.55	1.22

ii. Savings account	30%	40%	15%	10%	5%	3.70	1.15
2. My business gets advice from banks or financial institutions.	10%	25%	35%	20%	10%	3.05	1.16
3. I have applied for financial service products for my business.	30%	25%	10%	20%	15%		
4. I regularly save money through financial institutions.	40%	35%	10%	10%	5%	3.90	1.10
5. I have received training or education from financial services.	15%	15%	25%	20%	25%	2.75	1.31

As indicated in the above Table 4, with a mean score of 3.55, the responses generally agreed that they make use of loans for their businesses. However, a moderate standard deviation of 1.22 indicates that use of loans is varied; hence, some SMEs are highly dependent on loans, while other SMEs make less use or no use of them.

Hence, this brings up indications that saving is common for SMEs, as it is used most by SMEs at a mean of 3.70. Since the standard deviation is lower at 1.15, there is a larger consistency in responses to show that most SMEs recognize the importance of saving and are actively using savings accounts.

A mean score of 3.05 means that advice from financial institutions is applied but not widely by SMEs. This standard deviation of 1.16 reflects that while some SMEs do solicit advice

regarding operations or investments, a majority of them do not serve them regularly and hence a gap in the financial advisory services.

The maximum mean of 3.95, as can be viewed from the table above, indicates that, yes, SMEs do have a wide practice of regular savings through financial institutions. The small dispersion of 1.10 explains that the majority of the respondents possess this behavior and saving is an integral part of financial planning for many businesses.

The mean is low, at 2.75, which suggests that few SMEs get training or financial education from the financial institution. This could mean that with a standard deviation of 1.31, while there could be certain instances of training given to SMEs, others are bereft of this opportunity. This points toward an increasing need for widespread financial literacy programs targeted at SMEs.

4.5: Key barriers and challenges that hinder the financial inclusion of SMEs in Mukono District.

The third objective of this study was to find out key barriers and challenges that hinder the financial inclusion of SMEs in Mukono District

Table 5: Data analysis of objective 3.

Statement	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree	Mean score	Standard deviation
1. I have found it difficult to open a business account because i. Too many documents	35%	30%	15%	10%	10%	3.70	1.26

	needed							
	ii. High account charges	40%	25%	20%	10%	5%	3.85	1.13
	iii. Minimum amount required	45%	20%	15%	10%	10%	3.90	1.19
	iv. Lack of financial knowledge	30%	35%	20%	15%	5%	3.65	1.18
2.	I have struggled to get financial services because of	30%	25%	15%	20%	10%	3.45	1.31
	i. High interest rates							
	ii. Lack of collateral or security for loans	40%	30%	10%	15%	5%	3.80	1.18

iii.	The services are far from where I operate from	15%	10%	15%	35%	25%	2.40	1.33
iv.	Limited availability of financial services.	10%	20%	35%	15%	20%	2.65	1.25
v.	Lack of trust in financial institutions	40%	30%	15%	10%	5%	3.85	1.17
vi.	Discrimination or unfair treatment	25%	30%	25%	10%	10%	3.40	1.22
vii.	Poor network or mobile banking.	35%	25%	20%	15%	5%	3.55	1.23

As a matter of fact, from Table 5 above, the mean of 3.70 denotes that the need for too many documents is a major issue for many SMEs. A standard deviation of 1.26 means that as SMEs face this issue, others find it not a big problem. The high mean score of 3.85 indicates that many respondents have agreed that high account charges being a substantial barrier for SMEs. With a low standard deviation of 1.13, it indicates that most responses have somewhat been consistent about high fees being a financial burden.

The above table shows a mean score of 3.90, which suggests that the minimum balance required to open an account stands out as a barrier to SMEs. This is supported by the low standard deviation of 1.19, indicating this as a generally shared attitude but with variation in how different SMEs experience this barrier. This means that the majority of the responses agree to a great extent that insufficient financial literacy is one of the serious problems faced by many

SMEs in using financial services effectively. The standard deviation of the mean is at a moderate level of variability around this mean value of 3.65.

The high mean of 3.45 can be interpreted to mean that high interest rates act as a significant deterrent for SMEs borrowing or availing any other credit facility. The higher deviation of 1.31 indicates that experiences with interest rates vary, and for some SMEs, the rates could be reasonably contained. With a mean score of 3.80, inability to provide collateral is a major barrier for most SMEs, while the relatively low standard deviation of 1.18 suggests that this is a widely shared issue.

Fewer SMEs perceive the location of financial services to be a major obstacle; the mean score is lower at 2.40. However, this question also had a higher standard deviation of 1.33, indicating much variation in response. Respondents agree that for some but not most SMEs, limited service availability is a barrier; the mean score is 2.65. The standard deviation of 1.25 indicates that some variation in responses occurred.

From Table 5 above, most of the respondents agree that they face problems of mistrusting financial institutions with a mean score of 3.85 and a standard deviation of 1.17, which is relatively low and shows that this response is consistent across the respondents. Finally, the agreement that some SMEs perceive discrimination or unfair treatment as a barrier, with a mean score of 3.40.

CHAPTER 5: DISCUSSION OF FINDINGS AND CONCLUSIONS

5.0. Introduction

This chapter summarizes the findings of the study and describes what was founded. This chapter also gives findings, conclusion, and recommendations for policy and further research.

5.1. Discussion of Findings

The analysis in Chapter 4 highlighted several key findings about financial inclusion and its impact on SMEs in Mukono District:

5.1.1. Access to Financial Services

The first objective of the study was to establish whether access to financial services affects the growth of SMEs in Mukono District. The findings indicate that, generally speaking, the respondents agreed to the statement that the financial service providers visit their areas, achieving the highest mean score of 3.95. This indicates a strong presence of financial institutions actively engaging in SMEs and therefore making SMEs have access to financial services. Moreover, the availability of mobile money service had an average score of 3.85, an indication that SMEs in the region have access to and utilize this service. This has agreed with the increasing role of mobile financial platforms in expanding financial inclusion, especially for regions with poor penetration of traditional banking services (Munyegera & Matsumoto, 2019). Furthermore, Aker et al. 2020 argue that for better success in service uptake and for the improvement of trust by the SMEs, there is a need for the direct involvement of the financial institutions themselves. This may well be what accrued in the findings.

5.1.2 Utilization of Financial Services

The second objective of the study was to analyze the level of utilization of financial services by SMEs in Mukono District.

The findings reveal that the respondents save through financial institutions regularly, and this has an average score of 3.90, showing that SMEs are on target as far as a good savings culture is concerned. In the case of the use of savings accounts, the average score is 3.70. These findings therefore mean that most of the SMEs have made formal savings an integral component of their business activities and are thus able to appreciate benefits that come from financial planning and security. This was in agreement with the finding by Kalunda, 2021, that frequent saving is associated with increased financial shocks absorbed and enhanced business

growth for SMEs. In similar regard, Egger et al., 2019, note that the use of formal saving product increases financial stability and credit accessibility for sustainable business behavior.

5.1.3 Main obstacles to financial inclusion

In this respect, the findings showed that the minimum amount required to open an account was viewed as a big obstacle, as expressed by the respondents, with an average score of 3.90. High account charges and lack of trust in financial institutions scored 3.85 each. This denotes that high entry costs and perceived unreliability are the all-important barriers which prevent SMEs from full involvement in formal financial services. This is further pointed out by studies such as that of the World Bank, 2020, which noted that too high costs and administrative requirements discourage SMEs from participating in the financial system. Triki and Faye (2022) noted that the lack of trust in financial institutions, inspired most often by perceptions of unfair practices, leads to further barriers toward the effort of financial inclusion in developing regions.

5.2 Recommendations

From these findings, some recommendations are made to improve access and use of financial services among SMEs.

Financial institutions should continually expand the use of mobile money services as this has proved critical in reaching the SMEs. In improving access, banks can collaborate with providers of mobile services to bring the use of physical branches to a minimal level. Policy makers and financial institutions should relax entry barriers by reviewing minimum deposit requirements and account charges. The offering of low-cost accounts with flexible terms would actually encourage more SMEs into the formal financial fold. Efforts at gaining confidence in financial institutions must be increased. Programs on financial literacy must be given to SMEs, underlining the benefits of venturing into formal financial services and presenting transparency and reliability concerns as issues that exist to a minimal extent.

The financial institutions should ease their loan procedures and reduce the many requirements needed to access credit by SMEs. These can include microloans or loans that do not require collateral to increase small business borrowing. This may also involve institutions' collaboration with organizations at the local level in the offering of loan guarantees that reduce the risk.

Implement financial literacy programs on the need and access for financial services by SME owners, which improves their business growth. The workshops and seminars, perhaps with online resources, could reach a larger number of customers. In addition, financial service providers can improve actual quality of service provision and listen to customer concerns to increase satisfaction for SMEs. Regular trainings for staff on customer service and responsiveness create a superior client experience.

Mobile banking and online lending should be encouraged to promote easy access to SME facilities, especially in rural areas. Invest in technology for easy transaction processing and customer engagement.

Development of Insurance Products for SMEs: Financial institutions should develop affordable insurance products for SMEs with flexible payment options and specific coverage for the peculiar risks of SMEs.

5.3 Implication of the Study

The findings have several implications for policy, financial institutions, and owners of the SMEs, among them the following. Policy makers: The need for policies toward financial inclusion by addressing SME barriers to credit and insurance. This includes creating an enabling environment in which financial institutions develop more accessible products and services. In this regard, policy makers may consider regulations that promote micro-finance and community banks-that usually serve under-served SMEs.

Finance Institutions: The design of appropriate financial products for SMEs in areas with limited access; improvement in service delivery and transparency in lending can help gain better trust from SMEs in order to increase usage of formal financial services. Utilizing technology can automate the loan process and thereby increase customer service.

SME Owners: Similarly, SME owners should participate in programs regarding financial literacy in order to recognize the available financial products in the market. Increasing one's knowledge would thus enable him or her to make informed choices about financing; hence, increasing the chances of being financed. Similarly, keeping in network with other owners of businesses and local associations contributes a lot in terms of insight and support.

Community Involvement: The diverse financial institutions should involve the local community in their businesses for an understanding of SME needs and challenges. Building

relationships with local associations offers access to the specific situations of SMEs operating within Mukono District in ways that help shape the financial products to meet these needs.

5.4 Conclusion

The present study underlines the vital contribution of financial inclusion in SME development in Mukono District. Notwithstanding the adequately high access to savings accounts, general barriers connected with credit and insurance obstruct the fuller exploitation of opportunities for SME growth. Targeted policy formulation addressing these issues, coupled with improvements in service delivery and enhanced financial literacy, will pay off substantially in increasing Uganda's SME sector. By fostering financial inclusion, sustainable economic growth is underway, and small businesses can flourish.

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APPENDICES

APPENDIX ONE: RESEARCH QUESTIONNAIRE

TOPIC: FINANCIAL INCLUSION AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN UGANDA.

Dear Sir/Madam,

I am Alinaitwe Desire Sheilla, a student of Uganda Christian University Pursuing a Degree of accounting and finance. I am currently conducting a study on **financial inclusion and growth of small and medium enterprises in Uganda**. The study is purely for academic purposes and the information given will be treated with utmost confidentiality. I therefore, humbly request you to spare some time and answer the following questions.

SECTION A. Background information.

Instruction: Tick or Write answers in full where applicable.

SECTION A: BIODATA

Instruction: (Please circle as appropriate)

1. What is your gender?
 - a) Male
 - b) Female
2. What is your age?
 - a) 18-24 years
 - b) 25-34 years
 - c) 35-44years
 - d) 45 years and above
3. What is your education level?
 - a) Primary
 - b) Secondary
 - c) tertiary (college)
 - d) university (undergraduate)
 - e) Masters
 - f) Others (specify).....

4. Area of education;
- a) Business
 - b) Education
 - c) Medical
 - d) Statistics and engineering
 - e) Others specify.....
5. How long have this business been in existence?
- a) Less than 1 year
 - b) 2years- 4years
 - c) 5years and above
6. Nature of business.
- a) Limited company
 - b) Partnership
 - c) Sole proprietorship
 - d) Family-owned business
 - e) Others (specify)

SECTION B: Access to formal financial services

Instructions:

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2	3	4	5
	Strongly Agree	Agree	Not sure	Agree	Strongly Disagree

Statement	1	2	3	4	5
4. I can easily access the following banking services where I live. <ul style="list-style-type: none"> i. Bank accounts ii. Microfinance institutions iii. Savings groups 					

iv. Mobile money services					
5. I have heard about different financial services like loans and insurance					
i. From Banks					
ii. From Microfinance institutions					
iii. From SACCOs (saving groups)					
iv. From mobile money agents					
6. I have seen financial service providers visiting my area.					
7. My business has an account with a financial institute.					
i. Commercial Bank (like Stanbic, Centenary)					
ii. Microfinance Bank (like PRIDE Microfinance)					
iii. Digital only (mobile money)					
v. Savings groups (SACCO)					
8. Accessibility to information influences my access to financial services					

SECTION C: Utilization of Financial Services.

Instructions:

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2	3	4	5
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree

Statement	1	2	3	4	5
5 My business often uses the following bank services					
i. Loans					
ii. Credit lines					
iii. Savings account					

	iv. Fixed deposits					
6	My business gets advice from banks or financial institutions. i. Business advice ii. Money planning iii. Investment advice iv. Risk management					
7	I have applied for the following financial service products for my business. i. Loan products ii. Insurance products iii. Savings products iv. Investment products					
8	I regularly save money through financial institutions. i. Bank account ii. Group Savings account iii. Mobile money savings iv. Microfinance savings.					
9	I have received training or education from financial services.					

SECTION D. To find out key barriers and challenges that hinders the financial inclusion of SMEs in Mukono District

Instructions:

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2.	3	4	5
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree

Statement	1	2	3	4	5
<p>3. I have found it to open a business account because</p> <ul style="list-style-type: none"> i. Too many documents needed ii. High account charges iii. Minimum amount required iv. Lack of financial knowledge 					
<p>4. I have struggled to get financial services because of</p> <ul style="list-style-type: none"> i. High interest rates ii. Lack of collateral or security for loans iii. The services are far from where I operate from iv. Limited availability of financial services. v. Lack of necessary documents needed vi. Lack of trust in financial institutions vii. Discrimination or unfair treatment viii. Poor network or mobile banking. 					

Thank you very much for your time, cooperation and sincerity. May God bless you.

APPENDEX TWO: Research letter from university

SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **ALINAITWE DESIRE SHEILLA**

Reg. No **S21B33/044**

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

“FINANCIAL INCLUSION AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN UGANDA. A CASE STUDY OF MUKONO DISTRICT.”

We shall be grateful if you could render assistance to **her** in collecting the necessary data for **her** dissertation.

The Uganda Christian University School of Business thanks you in advance



.....
Mukisa Simon Peter

Research coordinator