FINANCIAL INCLUSION AND FINANCIAL PERFORMANCE OF SMEs IN UGANDA: A CASE STUDY OF NAMATABA TOWN COUNCIL

STEVEN GGANZI MUSOKE

M23BO5/088

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY

May, 2026

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I, GGANZI STEVEN MUSOKE, declare that this research report titled "Financial Inclusion and Financial Performance of SMEs in Uganda: A Case Study of Namataba Town Council" was my original work. It had never been submitted to any university or institution for the award of any degree or diploma. All sources of information used in this study had been duly acknowledged through proper citations and references.

Signature: ______________________

Date: 11/05/2026.

APPROVAL

This research report titled "Financial Inclusion and Financial Performance of SMEs in Uganda: A Case Study of Namataba Town Council" had been submitted for examination with my approval as the university supervisor.

Ms. Akinyi Lorraine Otieno

Supervisor

Signature: ______________________

Date: 11/05/2026.

DEDICATION

With special regard I wish to dedicate this piece of work to following people; Dr. Mukulu Fred (DPO Mukono district), Eng. Lutuwama Herbert ,Eng. Nadduli Moses , Kanyike Edward who have supported me throughout my studies at Uganda Christian University . May the Almighty God richly bless you all.

ACKNOWLEDGMENT

I wish to express my sincere gratitude to the Almighty God for His guidance, strength, and wisdom throughout this research journey. Without His grace, this work would not had been possible.

I am deeply grateful to my supervisor, Akinyi Lorine Otieno for her invaluable guidance, patience, and constructive feedback from the proposal stage to the completion of this report. Her expertise and encouragement had been instrumental in shaping this work.

Heartfelt appreciation is hereby extended to the management and employees of the Uganda Christian University especially the Faculty of Business Administration for providing a conducive learning environment and giving me the ability to conduct this research.

I would like to thank those small business enterprise owners and managers in the Namataba Town Council who willingly contributed their views for this research.

Heartfelt gratitude is further expressed to my friends, family, and colleagues who helped me in diverse ways during my academic experience.

Lastly, I would like to thank the authors whose work was referred to in this research. Their contributions to the body of knowledge on financial inclusion and SME performance provided a strong foundation for this research.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

ABSTRACT

The study investigated the impact of financial inclusion on the financial performance of Small and Medium Enterprises (SMEs) in Namataba Town Council of Uganda. Financial inclusion was defined in terms of access, affordability and usage. The study adopted a cross-sectional design and data was obtained from 138 SME owners/managers through structured questionnaires with a response rate of 90.8%.

Descriptive findings revealed that mobile money service access was extremely high, with the majority of respondents stating that mobile money agents were conveniently accessible. But access to online loans and credit was low. In terms of use, mobile money was extensively used to receive customer payments and pay suppliers, but the use of formal savings accounts, credit and financial documents to apply for loans was very limited. The most binding constraint is affordability, with most SMEs finding interest rates unaffordable and high interest rates holding them back from taking loans that could support their businesses.

The research suggests affordability is the most binding constraint to financial inclusion for SMEs in Namataba. So setting up a credit guarantee scheme to reduce interest rates, mandating flexible repayment schedules, providing mandatory financial literacy and record-keeping training, and introducing a mobile money fee discount program for businesses is paramount.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presented the background of the study, statement of the problem, objectives, research questions, scope, significance, and conceptual framework.

1.1 Background of the Study

Over time, the idea of financial inclusion had transformed from basic models of micro-credits introduced in the 1970s and 1980s through the Grameen Bank approach to a more comprehensive network comprising savings, insurance, and digital payment mechanisms (Rahman & Nie, 2011). Globally, it had been stressed that one of the major barriers to SME development was financial exclusion. According to Demirguc-Kunt et al. (2021), although there was an increase in global bank accounts, a huge disparity in credit access still existed, especially for SMEs in emerging countries, who were regarded as high-risk clients by conventional commercial banks.

The past experiences with the financing of Small and Medium Enterprises (SMEs) in Sub-Saharan Africa were associated with what the literature referred to as the missing middle problem. In the past, large corporations have traditionally been serviced by commercial banks while micro-enterprises benefited from informal group lending such as Village Savings and Loan Association, but small and medium enterprises did not have access to any form of financial services through official channels. In Uganda, financial inclusion had a close connection to the economic liberalization policy introduced in the 1990s. After the adoption of the Structural Adjustment Programs, there was a shift from the state banking system towards private banks. Nevertheless, over the following two decades, banking services were only available in urban centers including Kampala.

Historically, however, the most significant point of departure was witnessed in 2009 when Mobile Money entered the Ugandan market. This challenged the prevailing brick-and-mortar concept of banking. As pointed out by Bank of Uganda., 2023, the rise of mobile money services made access to financial services more attainable since small and medium-sized enterprises could engage in financial transactions without the extensive documentation process required by conventional banks. Therefore, small enterprises operating in expanding urban centers such as Namataba on the Kampala-Jinja highway could for the first time conduct business without having to visit bank branches.

However, despite all these developments, the performance of SMEs in Uganda had remained uncertain. According to reports from the Ministry of Trade, Industry and Cooperatives, more than half of Ugandan SMEs fail in their operations within three years (MTIC, 2015). The poor performance was usually associated with inadequate capital and poor financial management practices. To address the situation, the Ugandan government introduced the National Financial Inclusion Strategy between 2017 and 2022, focusing on reducing financial exclusion levels from 15% to 5% (Bank of Uganda., 2017). This study is placed against the background of this period through investigating whether these inclusion policies had led to improved financial performance of SMEs in Namataba Town Council.

1.2 Statement of the Problem

Notwithstanding the fact that the government of Uganda came up with robust initiatives such as the national financial inclusion strategy aimed at minimizing financial exclusion, financial stability and growth in the SME sector could not be fully attained. Despite being supported by statistics that revealed SMEs as the main economic driver providing around 20 percent of GDP, as well as over 2.5 million jobs, the SMEs were still faced with a paradox where access was high, but survival rate was very low. With the advancement in finance sector through digitalization and agent banking, many SMEs continue to struggle. This is proven by (UBOS, 2021), which indicated that more than 70 percent of new businesses fold after three years.

Namataba Town Council, an emerging commercial center situated along the highway connecting Kampala and Jinja, is a case in point. There are a large number of SMEs operating in Namataba ranging from retail outlets, hardware shops, eating places, and furniture workshops. The SMEs provide services not only to the residents but also to the passersby. Despite the rise in mobile money dealers and proximity to banking institutions such as those in the adjacent Mukono Town, there has been poor financial performance among the SMEs in Namataba.

It is worth noting that at the core of the problem mentioned above is the gap between accessing a mobile money account or a bank account and making actual use of such an access to enhance firm performance. The evidence collected in the research conducted by the (EPRC, 2022) demonstrates that although mobile money usage had grown quite significantly, the financial inclusion has been very poor. Indeed, high-interest rates ranging from 19 to 20 percent (Bank of Uganda., 2023), along with demanding collateral requirements, make it impossible for SMEs to obtain cheap credit to expand their operations.

As such, there is an evident gap that remains both academically and in policy development. Current academic studies had concentrated either on the financial inclusion of households or adoption of mobile money in general. There was no enough study conducted to examine how these three dimensions of financial inclusion, namely access, use, and affordability, impact the financial performance of SMEs. This study is meant to address this gap by examining the case of Namataba Town Council.

1.3 Purpose of the Study

The research sought to determine how financial inclusion influences the financial performance of small businesses in Namataba Town Council.

1.4 Specific Objectives

This study was guided by the following specific objectives:

i. To find out how access to financial services affects the financial performance of SMEs in Namataba Town Council.

ii. To find out how usage of financial services affects the financial performance of SMEs in Namataba Town Council.

iii. To find out how affordability of financial services affects the financial performance of SMEs in Namataba Town Council.

1.5 Research Questions

To achieve the stated objectives, the study would answer the following research questions:

i. How does access to financial services affect the financial performance of SMEs in Namataba Town Council?

ii. How does usage of financial services affect the financial performance of SMEs in Namataba Town Council?

iii. How does affordability of financial services affect the financial performance of SMEs in Namataba Town Council?

1.6 Scope of the Study

1.6.1 Geographical Scope

This research focused on Namataba Town Council. The latter was situated next to the Kampala-Jinja Road in Mukono district. Namataba is a growing commercial town with quite a number of SMEs operating in various areas such as retail, hardware, catering, and furniture businesses. The choice of Namataba was based on the fact that it constitutes an emerging semi-urban trading town.

1.6.2 Content Scope

However, this research has been confined to the analysis of Financial Inclusion as an independent variable consisting of three elements: accessibility to financial services, use of financial services, and affordability of financial services. Financial Performance of Small and Medium Enterprises is taken as the dependent variable through such financial performance metrics as profitability, sales, and cash flows. Thus, the present paper pays attention only to these financial performance metrics and not such non-financial performance metrics as customer loyalty or employee retention.

1.6.3 Time Scope

The research will investigate the financial performance of some chosen SMEs during a period of three months, specifically March to May 2026. This is because the information collected and analyzed will be up-to-date with regard to the current economic state of Namataba Town Council.

1.7 Significance of the Study

This research would be important for SMEs in Namataba Town Council since they would be able to gain insights on how to take advantage of mobile money accounts to make better use of financial services in order to benefit from the increased earnings and improved cash flow. By having information on the impact of access, usage and affordability separately on financial performance, owners would be able to take appropriate measures that would assist in lowering business closure rates.

This study would contribute significantly to policymakers at government institutions such as the Bank of Uganda and Ministry of Finance by providing data on how successful implementation of the National Financial Inclusion Strategy was at a local level in areas with rapidly developing semi-urban SMEs.

The findings from this study shall give insights into the specific challenges faced by the customers of commercial banks, SACCOs, and mobile money operators working within Namataba Town Council area. This study will give insights into how various access barriers, usage barriers, and cost factors influence business performances such that these entities may develop products that fit the needs of SMEs.

The research contributes to filling the gap in the current literature on the study of three aspects of financial inclusion and their influence on financial performances of businesses. The study makes significant contributions in testing the two theories, namely the Financial Intermediation Theory and Resource-Based View, in a semi-urban setting in Uganda.

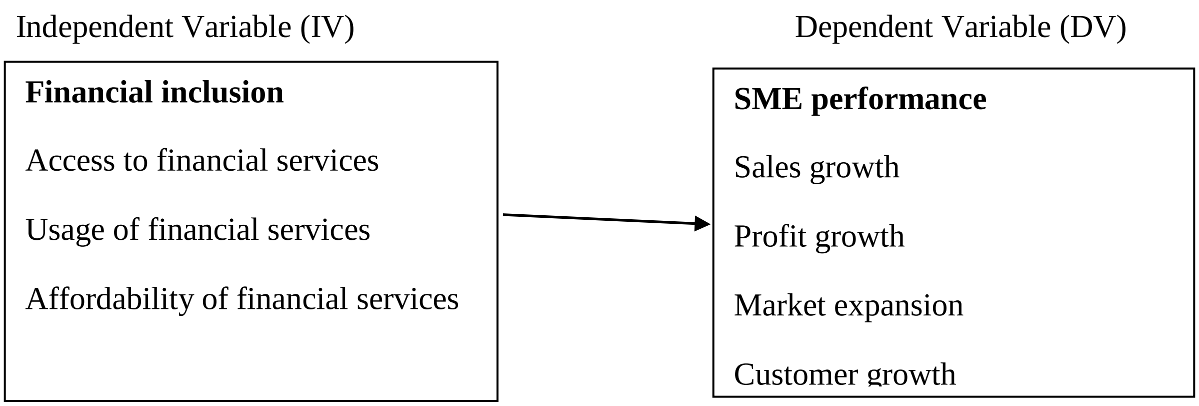
1.8 Justification of the Study

In spite of the swift adoption of mobile money services and agent banking in Namataba Town Council, new research reveals that small and medium enterprise closures have been on the rise with more than 50% shutting down within three years due to inadequate funding and low profitability (MTIC, 2015). The importance of this research is that it explores the impact of individual aspects of financial inclusion such as accessibility, utilization, and cost on financial performance.

1.9 Conceptual Framework

The conceptual framework presented below depicts the association between financial inclusion and the financial performance of small and medium enterprises. The conceptual framework is derived from Financial Intermediation Theory and Resource-Based View that argue that with the availability of financial services to SMEs and when SMEs use them and consider them cost-effective, their financial performance will be enhanced.

Figure 1.1: Conceptual Framework



Source: Constructed by the Researcher based on theoretical grounding from (Barney, 1991; Schumpeter, 1911), with measurement scales adapted from (Eton et al., 2021; Murugesan et al., 2022).

Conceptual framework of this study

This framework highlights the intended association between financial inclusion and the financial performance of SMEs in Namataba Town Council. This framework was based on the Financial Intermediation Theory and the Resource-Based View. Both theories discuss the role played by financial services in helping businesses obtain financial resources and use them to enhance their performance. The financial performance of SMEs improved when these firms accessed and used financial services effectively, and the costs involved were reasonable.

In this research, financial inclusion was analyzed based on three main aspects: access to financial services, utilization of financial services, and the cost of accessing financial services. Access to financial services is associated with the presence of financial institutions and their products within the reach of the SMEs, including banks, SACCOs, mobile money operators, and online lending services. Where there was ready access to financial services, businesses found it easy to deposit funds securely, acquire loans, and execute transactions effectively. In line with Financial Intermediation Theory, enhanced access lowers transaction costs and asymmetries in information, hence enabling financial capital to be allocated to productive ventures.

Utilization of financial services involves not just the presence of the services but also how much the SMEs use those financial services in conducting their daily business transactions. Some examples of utilization of financial services include using the account of the SMEs at banks in transacting business, using mobile money for receiving payments from clients as well as paying suppliers, putting money in formal financial institutions, and taking loans whenever needed. Based on the Resource-Based View, financial services become important resources when the financial services have been utilized in supporting the SME's business activities.

The affordability of financial services deals with the expenses incurred for the access and usage of financial services. It relates to the interest rates that are applied to loans, transaction fees for mobile money transfer, account maintenance fees, and many more expenses related to financial services. Even though financial services could be accessible and utilized by SMEs, they still face a lot of drawbacks due to high costs. They might affect the earnings and limit the growth opportunities of the business.

Performance of SMEs in the current research was evaluated through parameters including profitability, sales growth, and cash flow/liquidity. The measure of profitability showed if the firm was making profits after all expenses were paid. Sales growth depicted the rate at which the firm was growing its client base as well as its revenue stream. Cash flow/liquidity evaluated if the firm was able to meet its current financial needs, such as payments for supplies, payroll, and other operating expenses.

Hence, the theoretical framework suggests that accessibility of financial services would facilitate SME's link with the financial system, utilization of financial services would facilitate efficient management of financial resources, and affordability would ensure that costs associated with utilizing financial services do not overshadow its advantages. If the three facets of financial inclusion perform effectively in tandem, better financial performance was anticipated for SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter gives a discussion of the previous literatures on financial inclusion and its effects on the financial performance of Small and Medium Enterprises. The review is based on the past studies, literature and publications concerning the three objectives of this study, namely financial access, financial utilization, and financial affordability. The chapter was structured in three major sections which include the theoretical framework of the study, the empirical review in line with each objective, and finally the research gap which necessitates this study in Namataba Town Council.

2.1 Theoretical Framework

This study has been grounded on two theories which shed light on the relationship between financial inclusion and the financial performance of SMEs: the Financial Intermediation Theory and the Resource-Based View. These theories form an excellent base from which to analyze the impact of financial inclusion on the business performance of enterprises in Namataba Town Council.

2.1.1 Financial Intermediation Theory

The Theory of Financial Intermediation, which traces its origins back to the works of early economists such as (Schumpeter, 1911) and was further developed by (Diamond, 1984), forms the rationale behind the significance of financial inclusion in relation to business efficiency. According to this theory, the emergence of financial intermediaries like banks, microfinance institutions, and mobile money providers is largely based on their function to fill the void between the surplus of money in the hands of certain people (savers) and people with money needs (borrowers including SMEs).

The theory has been most relevant in the Ugandan environment. For instance, traditional banking institutions had previously experienced challenges lending to small businesses since the costs involved in determining whether a small-scale trader from Namataba would be able to repay the loan could be prohibitive. The costs involved in filling out papers, visiting the business, and monitoring were very high, rendering the transaction unprofitable. Nonetheless, the theory states that the use of contemporary financial technologies such as credit scoring models, mobile money agents, and streamlined account opening processes greatly reduce transaction costs.

In regard to this research, Financial Intermediation Theory will assist in understanding the process through which the first objective of the research is achieved. Financial intermediation in Namataba Town Council would ensure that access to savings and credit services has become easier for SMEs than before, thus resulting in better working capital management, and consequently, improved performance (Auma, 2025).

2.1.2 Resource-Based View

Although the Financial Intermediation Theory describes the process through which SMEs can get their funding, the Resource Based View describes the reason as to why having access to such funds results in improved financial performance. The Resource Based View theory, according to (Barney, 1991), posits that what enables an organization to have a competitive advantage and perform better is not any resource, but rather unique, valuable, rare and difficult to imitate resources.

In the current research, the financial capital acquired as a result of inclusion was considered precisely this kind of strategic resource. As a company in Namataba acquires a business bank account, or becomes eligible for a loan, or adopts mobile money to get paid by its clients, it gets something of great value. The financial capital gained through this act serves as a springboard for acquiring other resources, such as purchasing stocks at wholesale prices, receiving better equipment, or having cash at hand for difficult times when sales drop.

The Resource-Based Theory proved very useful in analyzing two out of the three objectives of this study namely the usage and affordability of financial services by small and medium-sized enterprises. Availability is not sufficient as the enterprise has to actively utilize the financial service for it to gain any competitive advantage. The service provided must also be affordable for it to provide more benefits than costs associated with obtaining the service. High-interest rates or fees that reduce profit margins make the financial resource useless (Turyahikayo, 2015).

Through integrating both theories, this research constructs a comprehensive perspective on the subject matter. The Financial Intermediation Theory is used in understanding the external aspect, which includes the relationship between the financial system of Uganda and the SMEs located in Namataba. On the other hand, the Resource-Based View addresses the internal aspect, which involves the utilization of the financial resource by the SMEs to gain a competitive advantage.

2.2 Access to Financial Services and Financial Performance of SMEs

The first aim of this study was to establish the influence of access to financial services on the financial performance of SMEs. Access, in this case, refers to the existence and proximity of financial services such as bank branches, Automated Teller Machines (ATMs), mobile money transfer services, and online lending sites that enable SMEs to make deposits, withdraw cash, borrow funds, and conduct transactions. Several studies in Uganda have shown that access to financial services played a major role in determining the financial performance of SMEs.

According to Auma (2025), a study on the impact of financial accessibility on financial performance among SMEs conducted in Mukono Municipality, which shared many features with Namataba Town Council, investigated three components of financial accessibility; availability, affordability, and eligibility. The outcome of this research revealed that availability, defined as the closeness of financial service providers and the mobile money networks, positively impacted SME performance. Those businesses situated closer to the bank branches or those that had mobile money agent outlets nearby demonstrated improved performances, as indicated by increased profitability, effective management of debts, and expansion of business operations.

Nonetheless, the same research revealed that the conditions for access to finance were still being restricted by factors like requesting collateral and evaluating credit scores for most of the small enterprises in the area. This reveals the distinction between the availability of a "financial services branch within close proximity" and the "availability of financial services that provide credit facilities to the enterprises." Financial institutions were encouraged to employ better practices for small enterprises to enhance their financial well-being and existence (Auma, 2025).

Findings supported by other studies carried out in different parts of Uganda. Financial inclusion and growth of Small and Medium Enterprises: Case Study of Makindye Urban Division, Kampala. This study was carried out by (Turyahikayo, 2015), where financial accessibility was studied alongside financial technology and financial literacy. With the use of correlation analysis, this research established that there is a positive correlation between financial accessibility and growth of Small and Medium Enterprises. This correlation has been found to be significant at the 0.01 level with a correlation coefficient of 0.203. It was therefore concluded that increased financial accessibility increases growth of small and medium enterprises. Recommendations of the study include promotion of financial inclusion through opening of bank accounts by SMEs.

The study by Byamukama et al. (2024) assessed the availability of credit facilities and the productivity levels of small and medium enterprises in Bushenyi District over a span of five years between 2019 and 2024. The regression analysis revealed an R value of 0.724, suggesting a highly positive correlation between the availability of credit facilities and the performance of the enterprises. Access to credit was found to account for 52.4 percent of the variance in the performance of the SMEs.

With regard to youth ownership of micro, small, and medium enterprises in Mukono District, Immaculate et al. (2024) examined the impact of access to financial services on non-financial performance through analyzing bank branch presence, financial information, credit availability, and fintech. The results showed that all dimensions of access positively and significantly influenced performance among youth-owned MSMEs. Access to financial services, therefore, were found to be important for enterprise performance and a recommendation was made to financial institutions to lower the need for collateral in order to encourage loans by youth business owners.

What emerged from these analyses is that there is a pattern here: Financial service access is critical in determining the financial performance of the SMEs under consideration. SMEs that have easier access to financial services seem to be more financially performing. They make higher profits, manage their cash flows well, and are more able to grow.

At the same time, it is necessary to note the nuances. Access does not depend only on proximity. In addition to proximity, another factor that determines the degree of SME access to financial services is eligibility – whether a certain company is eligible enough to receive these services. Thus, according to the study by (Auma, 2025), a number of SMEs in Mukono do not have access to credit opportunities not because there are no branches of banks around, but because they do not meet the necessary criteria of collaterals or credit history.

This study held significance for businesses operating in Namataba Town Council in particular. Those business establishments with access to financial services, specifically the ability to open bank accounts, access mobile money service providers, and obtain credit when necessary, would most definitely outperform others with constraints in these aspects. The problem is ensuring that the access is actually attainable and meaningful.

2.3 Usage of Financial Services and Financial Performance of SMEs

The second purpose of this research was to investigate the relationship between the utilization of financial services and the financial performance of SMEs. Access means the availability of financial services, while utilization relates to the intensity of the use of these services by organizations in their business. The advantages of financial inclusion have been achieved not only due to the existence of bank accounts but also due to the effective utilization of financial services including savings, borrowing, and financial transactions. Research conducted in Uganda found that the regular and efficient utilization of financial services contributes to the improvement of SME financial performance.

In the study carried out by (Mugabe, 2024), the researcher sought to investigate the association between financial services and financial performance of SMEs in Kampala Capital City. In the study, attention was paid to financial services such as savings, credit, and investment services offered by SME owners. Through the Spearman rank correlation test with a sample size of 278 participants, the results showed that saving services had a significant relationship with financial performance, $r = 0.477$ at $p < 0.01$. Additionally, the study found that saving services contributed to about 25.2 percent of the variability in financial performance of SMEs. SMEs that saved money formally achieved higher financial performance.

In addition to that, the research explored the link between credit services and financial performance. Results revealed a positive and statistically significant link between credit services and financial performance of SMEs, with the correlation coefficient being 0.423 at a 0.01 significance level. It was established that credit services have a significant impact on SMEs' financial performance because they allow them to purchase inventory, grow their business, and meet their working capital needs. Nonetheless, the impact of credit services on financial performance hinged heavily on factors such as interest rates, repayment period, and collateral.

In the study of the cumulative impact of the financial services, it was shown by (Mugabe, 2024) that together savings, credit, and investment financial services impacted the performance of financial services by 31.4 percent. This shows that SMEs which use different financial services show better financial performance than SMEs using one financial service.

Previous research done on financial services through digitalization in Mukono Municipality had similarly emphasized the significance of using the financial services actively. According to (Kyana, 2025), the use of digital financial services such as mobile money services had helped in increasing the financial inclusion of SMEs. Companies that frequently used mobile money for receiving payments from customers, paying suppliers, and conducting business transactions enjoyed ease in managing cash flows and lowering costs of transactions. Moreover, the level of education of the company owners, the age of the owners, and business experience affected the adoption and utilization of digital financial services.

In conclusion, the above results clearly indicate that the use of financial services actively has a significant influence on the financial performance of SMEs. SMEs which regularly saved, received credits, and used financial technology were able to effectively manage their finances. In the case of SMEs which operate within Namataba Town Council, regular use of financial services will enable the improvement of financial performance through enhanced liquidity management, growth of businesses, and financial discipline.

2.4 Affordability of Financial Services and Financial Performance of SMEs

The third purpose of this research was to explore the influence of affordability of financial services on the financial performance of SMEs. Affordability refers to the cost component of financial inclusion, such as the cost of borrowing in terms of interest on loans, transaction costs, fees, and the overall cost-effectiveness of financial services relative to the financial flows of the firm. According to research conducted in Uganda, affordability played a critical role in determining whether financial services were beneficial to SMEs or detrimental to their financial performance.

Directly, the influence of affordability on the performance of SMEs would be felt via the cost of borrowing. According to Turyahikayo (2015), commercial banking rates in Uganda have traditionally remained quite high, with some rates exceeding 20% per annum. Where the cost of borrowing is higher than what the SME earns through its operations, then access to such credit is not beneficial but a burden. Affordability influences the effectiveness of financial inclusion by being the point of divergence between the positive relationship of access and business performance.

As reported in (Auma, 2025), affordability of financial services, which includes interest rates and service charges, proved to be a moderating barrier for most businesses. Although the correlation between financial accessibility and firm performance proved to be positive and statistically significant, affordability was identified as a moderating barrier that prevented some SMEs from enjoying the full benefits of the financial services available to them. The study recommended that financial institutions and policy makers embrace more SME-oriented policies, such as affordable loans.

In addition to the cost of borrowing, the accumulation of transaction fees on SME working capital becomes another issue of affordability. Mobile money became the major source of financing among the Ugandan SMEs, whose transaction volume was much greater than that of banking transactions. Yet the many different transaction fees, including withdrawal fees, transfer fees, and the mobile money tax, can have a huge impact on the bottom line for SMEs performing multiple transactions daily.

Namataba's small store faces transaction fees as a direct reduction of its profit margins, as these expenses became higher than the advantages from using mobile payments. This leads to a negative impact on financial performance, as transaction fees are additional costs without any benefit for the business performance.

In Uganda, the structure of the available credit products adds another element of affordability issues. According to (Tugume, 2025), in his review of the issue of credit products' structures, many micro and small businesses were attracted to borrowing money due to no requirement of collateral security, yet those loan products had a very short period of borrowing, a fast payback period, and high interest that could hardly be repaid. As a result, the accessibility of loans does not improve the financial performance but rather causes additional problems to the financial standing of the enterprise.

It is necessary to note that the question of affordability concerns the entire process of credit transactions and their cost, including fees, repayment periods, and alignment of repayment periods with the enterprise cash flow. Daily repayments can work well for a market vendor, yet can never be applied to a hardware store owner whose sales occur at an interval.

Credit services in Kampala have been analyzed by (Mugabe, 2024) and it was seen that credit has been associated with an improvement in financial performance but the success of credit will highly depend on the terms and conditions. It is suggested that obstacles and hurdles in securing credit by organizations should be smoothed, such as affordable interest rates. It can therefore be inferred that for credit to bring about financial performance, it should be offered at a price that makes profits possible after repaying the loan.

As discussed above, the following is an example of practical steps taken to address affordability challenges. This comes from New Vision (2025), which indicates how more than 450 SMEs in the Mukono municipality participated in an MSME Accelerator Program implemented by the Opportunity Bank together with the Federation of Small and Medium Enterprises. The purpose was to link SMEs to affordable financing opportunities as well as business development services. This made them eager for better opportunities in their business due to the provision of affordable financial products.

According to Ronald Baganda of Treasure Cosmetics Products who took part in the training, it made him realize that most of the obstacles that prevented his company from advancing were due to the absence of business know-how. With his newly acquired expertise, and having access to cheap money, he believed he would be able to run and develop his business successfully. This is an actual case where the issue of affordability meant having good products along with the proper know-how of how to apply them.

From these research efforts emerged an intricate but explicit link between affordability and financial performance in SMEs. Affordable financial services with manageable interest costs, fair fees, and terms of repayment that correspond with business cycles empower SMEs to generate working capital, maintain smooth cash flows, and engage in investments without sacrificing their bottom lines. Conversely, expensive financial services may negatively impact financial performance by consuming profit margins or leaving SMEs over-indebted.

For SMEs operating in Namataba Town Council, the above results indicate that the availability and affordability of financial services have been significant in determining the relationship between financial inclusion and financial performance. Firms that can access credit, conduct transactions, and synchronize their financial actions with their cash flow patterns can be expected to experience financial gains from being included in the financial sector. However, firms with high-interest rates, excessive fees, or repayment schedules that do not correspond with the natural flow of their operations will not derive much benefit from financial inclusion.

In theory, the affordability aspect is highly related to two key models: the Financial Intermediation Theory and the Resource-Based View. According to the Financial Intermediation Theory, the cost-saving role of financial intermediation will be limited if transaction costs remain high, and thus financial intermediation itself cannot provide the intended gains for SMEs. As per the Resource-Based View, financial assets need to be valuable for firms to gain any competitive advantage, and the value of such financial assets becomes zero when the cost of accessing them exceeds their contribution to firm performance. Affordability can be said to represent the critical threshold point where the success of financial inclusion in providing competitive advantage depends on whether it will enhance performance or impose additional burdens on small firms.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provided a discussion of the methodology applied in conducting the research. The research design, study participants, determination of sample size, sampling procedures, data gathering approaches, tools for conducting the research, validity and reliability, data analysis strategies, ethical issues, and constraints of the research were outlined.

3.1 Research Design

A quantitative research design will be used with a cross-sectional survey research methodology. Quantitative research design is the most suitable method in the study because the objective of this study is to investigate the impact of access, usage, and cost of financial services on financial performance of SMEs using numbers. Cross-sectional research methodology was chosen because it enables researchers to collect data at one instance of time from a population of SMEs in Namataba Town Council.

3.2 Study Population

The target population for the study would be Small and Medium Enterprises registered to operate in Namataba Town Council. According to data available at the Namataba Town Council Business Registry and Mukono District Commercial Office, there were 210 SMEs that were registered and currently active in the area. The enterprises include a variety of areas such as retail, hardware dealers, food outlets, furniture manufacturers, and general merchants.

3.3 Sample Size Determination

Sample size determination involved the use of the (Yamane, 1967)Y formula. This formula was selected because of its easy-to-use nature and accuracy in calculating sample sizes from finite populations.

The Yamane formula is:

Where:

· n = Sample size

· N = Total population size (210 registered SMEs in Namataba Town Council)

· e = Margin of error (set at 0.05 or 5% level of significance)

Putting the numbers into the formula:

$$n = \frac{210}{(1 + 210(0.05)\quad ^2}$$

$$n = \frac{210}{(1 + 210(0.0025)}$$

$$n = \frac{210}{(1 + 0.525)}$$

$$n = \frac{210}{1.525}$$

$$n = 137.7$$

As such, the sample size would be about 138 SMEs. To cater for any potential cases of nonresponse, partial forms or businesses that may have ceased operations from the point of recruitment until when the survey was conducted, a margin of 10 percent was added to the sample size, resulting in an overall sample size of about 152 SMEs.

3.4 Sampling Techniques

This sampling technique was considered appropriate since the small and medium enterprises population in Namataba Town Council was diverse, comprising several business sectors that may have had varying financial service requirements and performance trends. Stratified random sampling involves classifying the population into sub-groups before sampling to ensure representation from all sub-groups in the population.

3.5 Data Sources

3.5.1 Primary Data

The primary data used in the study were directly gathered from the field through the use of questionnaires. The questionnaires were distributed among the owners/managers of SMEs in Namataba Town Council. This set of data constitutes the original source data of the analysis being done in this research paper.

3.5.2 Secondary Data

Secondary data would be analyzed to support the presentation of findings and for background information. This secondary data could include research papers published in journals regarding financial inclusion and its effects on the performance of small and medium enterprises, as well as publications from the Bank of Uganda and the Ministry of Trade, Industry, and Cooperatives. Secondary data from other textbooks and databases would also play an important role.

3.6 Data Collection Methods

3.6.1 Survey Method

The study was conducted through the survey design where the structured questionnaire would be administered physically to the chosen SMEs within Namataba Town Council. This was appropriate because the approach enables the collection of quantitative data from relatively large respondent numbers within a limited time and without compromising their anonymity, which may encourage truthful responses especially regarding profits and sales.

The structured questionnaire would be personally administered to each respondent by the researcher with the aid of a research assistant. Depending on the preference of the respondent, the researcher may give them enough time to complete the form or administer the form at a scheduled time convenient to both parties. In case some respondents have problems with reading, then the researcher would do the reading while recording the answers.

3.7 Research Instruments

3.7.1 Questionnaire

The primary method of data gathering used was a structured questionnaire filled out by the respondents themselves. The questionnaire consisted of closed questions to facilitate coding and analysis. The instrument was composed of five parts corresponding to the research objectives:

Part A: Demographic and Business Profile. This part contains the demographic and business profile of the respondents, which includes gender, age, educational attainment, business category, years of business operation, and registration status. This information was utilized in the descriptive analysis and in determining if there are differences in the financial performance among various businesses.

Section B: Availability of Financial Services (Objective One) - This section consists of statements that are supposed to gauge the availability of financial services to the respondent. The emphasis is placed on the availability and proximity of the locations offering financial services, ease in account opening, and accessibility of financial services for business purposes.

Section C: Utilization of Financial Services (Objective Two) - This section consists of statements that are meant to gauge the degree of utilization of financial services by the respondent. Emphasis will be placed on the frequency of conducting transactions, the existence of business accounts, saving behaviors, and borrowing practices.

D: Affordability of Financial Services (Third Objective)

This section is made up of statements which would evaluate the cost of financial services to the client. The statements will look at the costs in terms of interest rate, transaction cost, and general worth for money of the financial service vis-à-vis the running of the business.

E: Financial Performance of the Business Enterprise (Dependent Variables)

The final section of statements is made up of those that would capture the financial performance of the firm. In terms of this study, the indicators would be in terms of profitability, sales performance, and liquidity/cash flow.

Respondents' reactions were determined on a five-point Likert scale such that 1 corresponds to Strongly Disagree, 2 stands for Disagree, 3 represents Neutral, 4 stands for Agree, and 5 is Strongly Agree. This type of scale gives respondents an opportunity to express their level of agreement with the statements presented.

3.8 Validity and Reliability

3.8.1 Validity

In order to guarantee that the instrument will measure what is supposed to be measured, content validity was conducted. In this respect, the researcher will consult the views of the supervisor and two field specialists in the areas of SME research and financial inclusion with regards to relevance and clarity of the items. Their feedback will be considered in refining items and ensuring that each item is reflective of the underlying concept being measured.

Content Validity Index was computed by dividing the number of items considered relevant by the number of experts consulted. The acceptable value for CVI was set at 0.7 and above.

3.8.2 Reliability

In order to achieve consistency in the results, the reliability of the questionnaire was evaluated using Cronbach's Alpha test on SPSS. This was achieved through a pilot survey of 15 Small Medium Enterprise firms in a similar environment in proximity to Namataba Town Council, but excluding the latter in the final survey sample size. Pilot data was evaluated to establish the extent of internal consistency within each part of the questionnaire. Values above 0.7 for each part of the questionnaire indicate that the instrument has internal consistency and is reliable.

3.9 Data Analysis Plan

Following the data collection process, the questionnaire was reviewed for completeness, coded, and entered into the Statistical Package for Social Sciences (SPSS) version 20.

Data analysis would mainly comprise descriptive statistics. The frequency distribution, percentage, mean, and standard deviation was utilized to provide an overview of the background information of the participants and financial inclusion and performance of the SMEs in Namataba Town Council.

For the data analysis on the topics regarding access to financial services, use of financial services, costliness of financial services, and financial performance measures including profitability, sales growth, and cash flow, descriptive statistics was employed. The results obtained were illustrated by means of tables and graphs in order to summarize the information obtained from the respondents.

In this way, the researcher can see patterns in financial inclusion and the perception of the association of financial services with financial performance among SME respondents.

3.10 Ethical Considerations

The following ethical considerations were taken into account during the research:

Informed consent: The researcher would disclose the objectives of the research and obtain verbal or written consent from the respondents prior to administering the survey questionnaires. The cover letter accompanying each questionnaire would indicate the objective of the research and would make it clear to the respondents that participation is voluntary and that confidentiality will be maintained.

Confidentiality: All the respondents were assured of complete confidentiality of information provided by them, including financial performance information. Names of businesses and business owners were not mentioned in the report and were coded.

Voluntary Participation: It was totally voluntary to participate in this research. The participants could leave this study at any time if they wished, without being penalized for their decision, and they could choose to skip any questions that made them feel uncomfortable.

Data Protection: All the data collected, either paper records or computer files, will be safely kept in locked drawers and secured computers. Data will be deleted after five years.

3.11 Limitations of the Study

Sensitivity of Financial Information: SME owners could be unwilling to give accurate information on their profit levels due to fears of taxation or stiff competition. This challenge can be minimized by the researcher through the use of questions on perceptions as opposed to exact figures, stressing the confidentiality of the responses and the research purposes. The survey questionnaire employs opinion scales in place of asking for exact profit levels.

Geographic Context: The survey was conducted within Namataba Town Council only. Thus, it is unlikely that the results will be generalizable to rural SMEs operating in other areas of Uganda with different economic characteristics or even in urbanized regions like Kampala. Nevertheless, the results will offer relevant information to semi-urban business hubs along transportation corridors.

Cross-sectional Design: Data is collected at one point in time. This type of design captures the current reality but fails to observe changes that take place over time and make it difficult to draw conclusions about the causality between the two variables. The longitudinal study design would have been more appropriate if we aimed to identify changes that occurred in access, usage, or cost resulting in better financial results for the business.

Self-reporting: The current study measures financial performance through self-reports rather than verified financial statements. As it was common practice in SME literature where companies usually failed to maintain financial statements, there is a risk of inaccuracy in responses. To address the mentioned issue, the study makes use of multiple items per concept.

Time and Resources: Time and resources are limited as an undergraduate research project. This means that we cannot have as large a sample as we would like, but the calculations performed will ensure that we had sufficient power for our findings.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.0 Introduction

This chapter presents the findings of the research done to investigate the effects of financial inclusion and financial performance of SMEs in Namataba Town Council. In order to conduct the research, 152 SME owners/managers were interviewed through filling of questionnaires, with 138 being filled out (response rate of 90.8%). This chapter will be organized into three sections.

4.1 Response Rate and Respondent Characteristics

4.1.1 Questionnaire Return Rate

Table 1 below shows the distribution of questionnaires administered and returned.

Table 1: Questionnaire Return Rate

Category	Number	Percentage
Questionnaires administered	152	100.0
Questionnaires successfully returned	138	90.8
Questionnaires not returned or incomplete	14	9.2

The 90.8% response rate is deemed impressive for an SME cross-sectional study. Such a high response rate was obtained by delivering the questionnaires physically and conducting personal visits to companies that had not yet filled out their forms. The obtained sample size of 138 SMEs surpassed the required sample size of 138 prior to the increase in the sample size by 10%.

4.1.2 Demographic and Business Characteristics

Table 2 presents the demographic characteristics of respondents and their businesses.

Table 2: Respondents and Business Characteristics

Characteristic	Category	Frequency	Percentage
Gender	Male	82	59.4
	Female	56	40.6
Age	18–25 years	14	10.1
	26–35 years	48	34.8
	36–45 years	42	30.4
	46–55 years	24	17.4
	Above 55 years	10	7.2
Education	Primary	32	23.2
	Secondary	58	42.0
	Diploma	28	20.3
	Degree	16	11.6
	Postgraduate	4	2.9
Business Sector	Retail Shop	52	37.7
	Hardware Dealership	18	13.0
	Restaurant/Food Outlet	26	18.8
	Furniture Workshop	22	15.9
	General Merchandise	14	10.1
	Other	6	4.3
Years in Operation	Less than 1 year	12	8.7

	1–3 years	44	31.9
	4–6 years	38	27.5
	7–10 years	24	17.4
	Over 10 years	20	14.5
Registration Status	Unregistered	56	40.6
	Registered	82	59.4

Source; primary data 2026

The results show that 59.4% of the respondents were male, and 40.6% were female. This means that SMEs in Namataba Town Council tended to be owned by males, although many women also had their own small business enterprises.

Concerning age, the majority of the respondents belonged to either of the ages between 26 and 45 years, 34.8% aged 26-35 years, and 30.4% aged 36-45 years. This implies that the SME owners were young and energetic to engage in entrepreneurial activities.

Education-wise, the dominant level of education among respondents was secondary (42.0 percent), followed by primary (23.2 percent) and diploma (20.3 percent). There were few respondents with a degree (11.6 percent) and even fewer with postgraduate studies (2.9 percent). From this we can infer that most small businesses were owned by educated individuals, but very few had higher education.

The dominant type of business according to business sectors was retail stores (37.7 percent), followed by hotels and restaurants (18.8 percent) and furniture workshops (15.9 percent). Fewer had hardware shops and general merchandise shops. This shows the business-oriented character of Namataba as a market town located on the Kampala-Jinja road.

Regarding the period of operations in years, most of the companies had years in business ranging from 1-6 years. Specifically, 31.9 percent were operating for a period of 1-3 years and 27.5 percent operating for 4-6 years. In addition, 14.5 percent were operating for a period exceeding 10 years indicating there were some mature businesses but mostly new.

In relation to registration, 59.4 percent were registered companies while 40.6 percent were unregistered. There are many unregistered SMEs in Namataba.

4.2 Descriptive Statistics for Study Variables

Table 4.2.0: Interpretation of Mean Scores (5-point Likert Scale)

Mean Range	Interpretation
1.00 – 1.80	Very Low / Strongly Disagree
1.81 – 2.60	Low / Disagree
2.61 – 3.40	Moderate / Neutral
3.41 – 4.20	High / Agree
4.21 – 5.00	Very High / Strongly Agree

Source: Adapted from Oxford University, 2020

4.2.1 Effect of Access to Financial Services on financial performance of SMEs

This was the first objective of the study and its findings were presented in table 3 below.

Table 3: Descriptive statistics on effect of Access to Financial Services on financial performance of SMEs (n=138)

Code	Statement	SD (1) f (%)	D (2) f (%)	N (3) f (%)	A (4) f (%)	SA (5) f (%)	Mean	Std. Dev.	Interpretation
B2	Mobile money agents are located close to my business and are easy to reach.	2 (1.4)	4 (2.9)	8 (5.8)	66 (47.8)	58 (42.0)	4.21	0.76	Very High
B4	I can easily reach a	4 (2.9)	8 (5.8)	22 (15.9	68 (49.3	36 (26.1	3.92	0.88	High

	financial service point whenever my business needs to deposit or withdraw money.			)	)	)			
B1	There is a bank branch or ATM within easy reach of my business premises in Namataba.	4 (2.9)	12 (8.7)	24 (17.4)	62 (44.9)	36 (26.1)	3.87	0.94	High
B6	The distance to financial services does not stop my business from using them regularly.	6 (4.3)	14 (10.1)	26 (18.8)	56 (40.6)	36 (26.1)	3.76	0.97	High
B3	My business was able to	12 (8.7)	24 (17.4)	26 (18.8)	46 (33.3)	30 (21.7)	3.45	1.12	High

	open a formal bank account without too much paperwork or long delays.								
B5	My business has access to digital loans or credit when we need them.	18 (13.0)	28 (20.3)	30 (21.7)	40 (29.0)	22 (15.9)	3.28	1.21	Moderate
Average Access Score							**3.75**		**High**

Source: Primary data, 2026

Objective 3 sought to establish the level of access to financial services by SMEs in Namataba. The data collected is presented in Table 3 below.

The overall findings indicate that there is a relatively high level of access to financial services, as evidenced by a mean of 3.75. This indicates that most of the respondents agreed that financial services were readily available for their business needs.

In particular, the respondents strongly agreed that there are mobile money agents near their places of business and that they are easily accessible (Mean = 4.21, SD = 0.76). There is therefore a very high degree of accessibility, as indicated by the consistency in the responses. Furthermore, the respondents agreed that they could easily reach out to a financial service point whenever necessary (Mean = 3.92, SD = 0.88) and that the financial service points, which may include banks and automated teller machines, were near them and therefore easily accessible (Mean = 3.87, SD = 0.94).

In contrast, there are some elements that show a more challenging situation regarding access. For example, the ease of opening a formal account without unnecessary steps was perceived as moderate (Mean = 3.45, SD = 1.12), suggesting some variance in how the process went for the participants. Additionally, access to digital lending or credit was assessed as moderate (Mean = 3.28, SD = 1.21), hinting that some SMEs struggle with getting digital credit when they need it.

In summary, whereas physical and mobile access to financial services is relatively high, access to formal banking transactions and digital credit is seemingly lower.

4.2.2 Effect of Usage of Financial Services on Financial Performance of SMEs

This was the second objective of the study and its findings were presented in table 4 below.

Table 4: Descriptive statistics on effect of Usage of Financial Services on financial performance of SMEs (n=138)

Code	Statement	SD (1) f (%)	D (2) f (%)	N (3) f (%)	A (4) f (%)	SA (5) f (%)	Mean	Std. Dev.	Interpretation
C2	I use mobile money often to receive payments from my customers.	2 (1.4)	4 (2.9)	4 (2.9)	62 (44.9)	66 (47.8)	4.32	0.71	Very High
C3	I use mobile money often to pay my suppliers or make business purchases.	2 (1.4)	6 (4.3)	12 (8.7)	66 (47.8)	52 (37.7)	4.15	0.79	High

C6	I check my business account balance and transaction history often.	10 (7.2)	18 (13.0)	24 (17.4)	56 (40.6)	30 (21.7)	3.54	1.06	High
C1	My business keeps a separate bank account that is used specifically for business transactions.	16 (11.6)	28 (20.3)	36 (26.1)	38 (27.5)	20 (14.5)	3.18	1.34	Moderate
C4	My business regularly saves money in a formal financial institution.	22 (15.9)	34 (24.6)	36 (26.1)	30 (21.7)	16 (11.6)	2.95	1.28	Moderate
C5	I have used a bank loan or digital credit for my business in the past year.	38 (27.5)	32 (23.2)	28 (20.3)	22 (15.9)	18 (13.0)	2.82	1.41	Moderate
C7	My business uses financial records or bank statements when applying for	34 (24.6)	36 (26.1)	32 (23.2)	20 (14.5)	16 (11.6)	2.76	1.38	Moderate

	loans or credit.								
Average Usage Score							**3.39**		**Moderate**

Source: Primary data, 2026

The above objective focused on assessing the extent of use of financial services by SMEs at Namataba. This can be seen from the summary provided in Table 4 below. From the table, it can be observed that there is moderate usage of financial services, with a mean of 3.39, implying moderate usage. What is significant about this result is the lower score in comparison to the access mean score of 3.75, creating a discrepancy between access and usage.

In particular, respondents indicated an extremely high level of agreement on using mobile money extensively as the channel through which payments by clients are received (M = 4.32, SD = 0.71). Likewise, they had a high level of agreement on the extent to which they use mobile money extensively to make payments to suppliers or purchases (M = 4.15, SD = 0.79) and to monitor their transaction history or the balance of the business account (M = 3.54, SD = 1.06).

Nevertheless, some factors do not have the same degree of popularity. Maintaining a different bank account for business purposes attained a moderate level of agreement (Mean = 3.18, SD = 1.34). Consistent savings in financial institutions were moderate (Mean = 2.95, SD = 1.28), implying the use of informal means of savings. Bank borrowing or digital credit within one year had a moderate level (Mean = 2.82, SD = 1.41). It indicates that SMEs are still not utilizing credit extensively. However, using accounting records or bank statements when seeking loans obtained the lowest mean value (Mean = 2.76, SD = 1.38), revealing a serious deficiency in record keeping.

In conclusion, the transaction use of mobile money is extremely popular, whereas formal banking activities like maintaining a separate bank account, consistent savings in formal financial institutions, credit acquisition, and record keeping are underdeveloped.

4.2.3 Effect of Affordability of Financial Services on Financial Performance of SMEs

This was the third objective of the study and its findings were presented in table 5 below.

Table 5: Descriptive statistics on effect of Affordability of Financial Services on financial performance of SMEs (n=138)

Code	Statement	SD (1) f (%)	D (2) f (%)	N (3) f (%)	A (4) f (%)	SA (5) f (%)	Mean	Std. Dev.	Interpretation
D7	High interest rates have stopped me from taking loans that could have helped my business grow.	2 (1.4)	4 (2.9)	6 (4.3)	64 (46.4)	62 (44.9)	4.21	0.87	Very High
D6	I would use more financial services if they were more affordable.	2 (1.4)	6 (4.3)	12 (8.7)	66 (47.8)	52 (37.7)	4.08	0.92	High
D3	The fees for keeping a bank account are affordable for my business.	10 (7.2)	20 (14.5)	28 (20.3)	54 (39.1)	26 (18.8)	3.42	1.09	High

D2	The transaction fees for mobile money withdrawals and transfers are reasonable.	14 (10.1)	28 (20.3)	34 (24.6)	44 (31.9)	18 (13.0)	3.15	1.18	Moderate
D5	Overall, the cost of using financial services does not outweigh the benefits.	24 (17.4)	34 (24.6)	36 (26.1)	30 (21.7)	14 (10.1)	2.91	1.24	Moderate
D4	The loan repayment schedules offered by lenders are flexible enough to match my business cash flow.	30 (21.7)	38 (27.5)	36 (26.1)	24 (17.4)	10 (7.2)	2.64	1.31	Moderate
D1	The interest rates charged on business	32 (23.2)	46 (33.3)	34 (24.6)	18 (13.0)	8 (5.8)	2.48	1.26	Low

	loans are affordable for my enterprise.								
Average Affordability Score							**3.27**		**Moderate**

Source: Primary data, 2026

The aim of this objective was to determine the extent to which financial services are affordable for SMEs within Namataba. This has been presented in Table 5 below. It is evident that the extent of affordability of financial services is moderate in nature with a mean score of 3.27 implying that affordability is one of the major constraints facing the respondents. Notably, affordability is the lowest score among the three factors of financial inclusion with Access having a score of 3.75 and usage having a score of 3.39.

In particular, it was established that high interest rates have prevented respondents from using loans that could assist in increasing growth in the business (M=4.21, SD=.87). The fact that interest rates are the main obstacle to getting money is also supported by the high consistency of answers provided. Besides, it was determined that respondents agree that if there are cheaper financial services available, they would make use of more services (M=4.08, SD=.92). This indicates high demand for cheaper financial products. Another thing is that it was determined that bank account fees are affordable (M=3.42, SD=1.09).

Nevertheless, some areas of affordability seem unfavorable. Firstly, the affordability of mobile money transaction fees was slightly reasonable (Mean = 3.15, SD = 1.18), which implies that although not too much, it is still unreasonable enough. Secondly, the cost-effectiveness of financial services, compared to the benefits provided by them, was moderately rated (Mean = 2.91, SD = 1.24), which means that many SMEs are skeptical regarding whether financial services are indeed cost-effective. Thirdly, the appropriateness of loan payment terms to meet the cash flow needs was relatively poorly rated (Mean = 2.64, SD = 1.31). Finally, the affordability of interest rates for business loans was the poorest one (Mean = 2.48, SD = 1.26) and, therefore, falls under the category of being low.

However, generally speaking, the fees associated with accounts at banks seem to be relatively acceptable, but the high interest rates and strict payment terms on loans form the biggest affordability problems. Thus, one may see clear indications of the need for more affordable financial services. Consequently, the problem statement can be considered verified.

CHAPTER FIVE: SUMMARY, DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter provides a summary of main findings, highlights findings with regard to the existing body of knowledge, draws conclusions and provides recommendations for policy makers.

5.1 Summary of Findings

These three dimensions accounted for much of the variance in financial performance. Based on the hierarchy of constraints, we have concluded that:

Access is adequate for transactional services (mobile money, deposits, and withdrawals), but not credit.

Service use is extensive for mobile money, but limited for formal saving, credit and accounting.

The most important constraint is cost, particularly interest rate and stringent repayment schedules.

5.2 Discussion of Findings

5.2.1 Access to Financial Services and Financial Performance

The positive and significant effect of access to financial services on financial performance is consistent with a lot of the literature already available. According to Auma (2025), the same was true for Mukono Municipality, where financial services had an effect on the financial performance of SMEs. In addition, the current study adds to it by illustrating the point that whereas access to financial services is good, access to credit is bad.

This seeming paradox is well explained by Beck and Demirgüç-Kunt (2006), who point out that while access to financial services is likely to bring about access to credit, credit access cannot be taken for granted due to additional stringent requirements and asymmetries in terms of information. For example, in the case of Namataba village, whereas mobile money agents have facilitated payment systems through reducing costs associated with making payments, difficulties like collateral requirements, checking credit history, and so forth persist.

The failure of some respondents to open an account without any delays indicates regulatory obstacles which could affect informal firms. This becomes more pronounced given the fact that most of the respondents' businesses were unregistered. The lack of registration could pose another problem since the KYC process requires proper documentation and proof of registration in the business.

These findings can be explained using the Financial Intermediation Theory. According to this theory, financial institutions reduce the cost of transactions between lenders and borrowers. In the current context, the use of mobile money by agents in Namataba has reduced the cost of transactions in the form of money transfers. However, according to the theory, intermediation should enhance credit transactions in productive firms. The relatively poor access to credit suggests that intermediation of credit is still not efficient possibly because of inadequate handling of information problems by mobile money.

5.2.2 Usage of Financial Services and Financial Performance

The significant and positive impact of usage on financial performance where usage matters more than access is in line with the RBV theory where resource utilization is important. This result is also similar to Kyana's (2025) study that showed the positive role played by financial services in improving financial inclusion of SMEs in Mukono Municipality, and Mugabe's (2024) study that showed that saving services had a moderately positive impact on financial performance.

The near universality in the use of mobile money for transaction is a remarkable change in SME behavior. The adoption of mobile money in Uganda since 2009 is considered revolutionary for small business financial transactions. This result is also similar to Jack & Suri (2011)'s pioneering work on mobile money in Kenya, where there has been a dramatic reduction in transaction cost and enhanced financial stability following the advent of mobile money.

Nonetheless, the use of both mediums together is notable: whereas SMEs rely on mobile money to a large extent, the formal use of savings, credits and financial statements when applying for loans happens extremely seldom. This phenomenon provides an explanation of why there is no significant change in SME performance regardless of financial inclusions. Although mobile money allows to pay bills, it cannot help in financing investments through savings and credits.

Thus, this research provides an answer to the formulated question that "there is a disconnect between having access to accounts and using them effectively for business improvements".

A low degree of formal usage of credits is also a cause for concern because a huge number of studies have demonstrated a positive effect of credit on SME development (Banerjee & Duflo, 2014; Karlan & Valdivia, 2011). The present research proves that the lack of usage is not due to a lack of access but affordability, discussed in the next part.

It is surprising that only a few of those surveyed use financial statements when acquiring credit because there is a huge gap in terms of financial statement preparation. These findings align with Karlan and Valdivia (2011) who demonstrated that financial literacy and record keeping courses positively affected business outcomes and access to credit. The absence of any formal records has a domino effect on credit availability, thus limiting formalization which limits credit access.

There is an alarming number of respondents who save through informal methods such as village savings and lending schemes (VSLAs), rotating savings and credit associations (ROSCAs), or simply in cash form. In Kenya, similar results were reported by Dupas and Robinson (2013). Informal savings are more attractive due to lower transaction fees, flexibility and social pressures but are prone to fraud, misappropriation, and lack of interest earnings.

5.2.3 Affordability of Financial Services and Financial Performance

Affordability as the most critical aspect of the three is undoubtedly the major contribution of this study. The low average of the overall dimension of affordability when compared to other two makes us conclude that affordability is the greatest obstacle of financial inclusion among SMES in Namataba Town Council.

It is further confirmed by the findings that while few respondents believed that interest rates are affordable, the majority of the respondents felt that their inability to access loan facilities was due to high interest rates. This result affirms the research hypothesis that high cost of credit leads to poor uptake of credit facilities by SMEs. The results reflect the credit price sensitivity of entrepreneurs – a characteristic of many small businesses in development economics (Banerjee & Duflo, 2014; Karlan & Zinman, 2011).

The large number of respondents who confirmed their willingness to use more financial services if they became cheaper indicates the existence of latent demand for financial services. The implications of this result for policy are important in light of the fact that supply-side interventions such as expanding the availability of banking facilities or mobile money agents would make little difference to credit usage if the issue of affordability is not considered.

That few people experienced flexibility in their payment schedules implies that the repayment schedule expected from financial institutions does not coincide with the cash flow patterns of SMEs. In Namataba, the cash flow pattern of many SMEs, particularly those involved in retail and trading, is not predictable enough to support weekly or monthly fixed installment payments. This parallels the findings of Tugume (2025) that most credit products are structured to provide quick returns, which do not coincide with the cash flows of small businesses.

It is probable that the reason why mobile money charges and bank charges were considered cheaper than interest on loans is because of regulatory shifts in Uganda (for example, abolishing mobile money tax, Uganda Revenue Authority, 2019). However, it appears that a considerable number of respondents who found mobile money charges unreasonable believed that such charges were necessary, especially when it comes to enterprises making many small payments.

That affordability proved to be the strongest predictor of business performance supports the Resource-Based View theory. According to this view, resources should be valuable for competitive advantage to persist. When the price of accessing the resources exceeds their benefit, then the financial services become an expensive burden, which will hinder business growth. Therefore, in Namataba SMEs, borrowing will be unprofitable, hence the reason why many businesses avoid borrowing despite being offered financial services. According to Turyahikayo (2015), financial inclusion is only positively correlated with business performance when financial services are affordable. Otherwise, financial services will negatively correlate with performance when the cost of accessing the services is very high.

5.3 Conclusions

Conclusions are made based on the results and discussion presented in this chapter regarding the research questions.

5.3.1 Access to Financial Services

This research study shows that there is a significant but weak relationship between access to financial services and the financial performance of SMEs in Namataba Town Council. Even though mobile money agents are abundant and accessible to all SMEs in the council, the availability of credit is still a challenge to many firms. There is less significance on the relationship between access and financial performance compared to usage and cost, thus showing that although access is significant, it alone cannot improve the financial performance of firms. With better access to financial services, SMEs have better financial performance, but it does not necessarily mean that increased access results in better performance. The ongoing challenges in accessing credit such as administrative problems when opening a bank account and lack of branch network indicate that the quality of access matters too.

5.3.2 Usage of Financial Services

The study has established that there is a positive impact of financial services usage on the financial performance of the SMEs in Namataba Town Council. This finding should be considered with some qualifications in mind, in the sense that the positive relationship between usage and financial performance can be attributed to the use of mobile money in transactions. There is limited usage of formal savings, formal credit, and recording of accounts for loan applications. Usage is more influential compared to access, which means that usage has a bigger impact on financial performance than access. However, the low usage of savings, credit, and accounting poses a disadvantage to SMEs since the latter uses mobile money for transactions but not formal financial services for business growth. The access-usage gap provides the evidence that there need not be a relationship between access and usage.

5.3.3 Affordability of Financial Services

Affordability of financial services turns out to be a determinant factor behind the performance of SMEs in Namataba Town Council. It is one of the main findings of the research conducted. Indeed, interest rates charged by the financial institutions turn out to be considered unaffordable by the majority of SMEs; moreover, the majority of the sample claims that due to the high level of interest rates they cannot borrow money necessary for business development. Moreover, the non-flexibility of the loan repayment plan becomes another aspect of the cost-related problems for businesses which do not have steady cash flows. Extremely negative views towards affordability of loans and positive correlation between affordability and financial performance demonstrate that cost is the largest limitation when it comes to financial service use by SMEs. Large number of respondents who would use more services if those were cheaper demonstrates a great amount of latent demand among the studied sample.

5.4 Recommendations

The observations made from this study yield four reasonable recommendations. It is important to note that the recommendations are not based on any form of statistical data but rather on qualitative patterns and information from the evidence collected during the study.

Creation of a Credit Guarantee Scheme for SMEs; The Ugandan government through the Bank of Uganda and Ministry of Finance ought to come up with a SME Credit Guarantee Scheme that helps reduce the risk involved for the banks when lending money to SMEs. This is due to the problem of cost that was evident from this study whereby a majority of SMEs found interest rates to be unaffordable hence discouraging borrowing. This would lead to Lower interest rates and increased credit demand.

Regulate and Motivate Flexible Repayment Timetables; The Central Bank of Uganda should direct all licensed financial institutions providing loans to SMEs to provide flexible loan repayment programs that fit their cash flow requirements. Tax incentives should be offered to any banks which provide such services and advertise them to attract more customers. This would result in greater use of credit by SMEs with irregular cash flows and reduced defaults due to cash flow alignment, leading to favorable financial results for the SMEs.

Introduce a Mandatory Training Programme on Financial Literacy and Record-Keeping; The Ministry of Trade, Industry and Cooperatives working with the respective governments and business membership associations can introduce a mandatory training programme in financial literacy and record-keeping for all the SME owners who wish to access formal financing from banks and other sources. This training can be conducted in local languages and can take place at market centers like Namataba. This might contribute towards proper record keeping, usage of formal savings accounts, increased creditworthiness and SMEs' financial performance.

Initiate a Program on Reducing Fees on Mobile Money Transactions for Business Purposes; The Uganda Communications Commission, in collaboration with mobile telephony operators, ought to initiate a fee reduction program for business-related mobile transactions through such means as regulatory caps on fees, exempting mobile money income from taxes, and other similar endeavors. It would lead to Reduced costs for mobile money transactions by SMEs, more mobile money transactions made by SMEs, fewer cash management risks, superior financial performance, and better credit history for borrowing from banks.

5.6 Further Research

Longitudinal Study: It will take three to five years of longitudinal studies on the same small firms to identify if higher affordability and adoption levels boost financial outcomes or vice versa.

Comparative Study: This comparative study can be conducted in several semi-urban markets in different regions in Uganda to find out if the findings in Namataba apply only to that market or are region-specific to design regional financial inclusion programs.

Qualitative Study: Qualitative interviews with the business owners need to delve into the reasons behind the interest rate problem when borrowing.

REFERENCES

Auma, S. (2025). Financial Accessibility and Financial Performance of Small and Medium Enterprises a Case Study of Mukono Municipality. Uganda Christian University. https://scholar.ucu.ac.ug/items/bf81e128-3f7c-4206-9e74-0f8923ff6c14

Bank of Uganda. (2017). National Financial Inclusion Strategy 2017-2022. Ministry of Finance, Planning and Economic Development. https://ugandabankers.org/wp-content/uploads/2024/01/National-Financial-Inclusion-Strategy-2017-2022.pdf

Bank of Uganda. (2023). Bank of Uganda 2022-2023 Report Annual. https://shorturl.at/bfIN4

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. Journal of Management, 17(1), 99–120. https://doi.org/10.1177/014920639101700108

Byamukama, E. M., Komuhangi, J., Miganda, V., & Turyahebwa, A. (2024). Examination of Access to Credit and Performance of Small and Medium Enterprises in Bushenyi District, Uganda. East African Journal of Business and Economics, 7(2), 168–175. https://doi.org/10.37284/eajbe.7.2.2354

Demirgüç-Kunt, A., Klapper, L., Singer, D., & Ansar, S. (2021). Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. The Global Findex Data Base. https://documents1.worldbank.org/curated/en/099818107072234182/pdf/IDU06a834fe908933040670a6560f44e3f4d35b7.pdf

Diamond, D. W. (1984). Financial Intermediation and Delegated Monitoring. The Review of Economic Studies, 51(3), 393. https://doi.org/10.2307/2297430

EPRC. (2022). The Social-Economic impact of COVID-19 on business enterprises in Uganda: Evidence from micro, small and medium size enterprises (No. 161). Economic Policy Research Centre (EPRC). https://eprcug.org/publication/the-socio-economic-impact-of-covid-19-on-business-enterprises-in-uganda-evidence-from-micro-small-and-medium-sized-enterprises-2/?wpdmdl=15288&refresh=69a13f2427dcb1772175140

Eton, M., Mwosi, F., Okello-Obura, C., Turyehebwa, A., & Uwonda, G. (2021). Financial inclusion and the growth of small medium enterprises in Uganda: Empirical evidence from selected districts in Lango sub-region. Journal of Innovation and Entrepreneurship, 10(1), 23. https://doi.org/10.1186/s13731-021-00168-2

Immaculate, N., Muathe, S. M. A., & Maina, S. (2024). Navigating Unchartered Territory: Implication of Access to Financial Services on Non-Financial Performance of Youth

Owned MSMEs in Mukono District, Uganda. Journal of Economics and Business, 7(4). https://doi.org/10.31014/aior.1992.07.04.639

Kyana, E. K. (2025). Digital Financial Services (DFS) and Financial Inclusion of Small and Medium Enterprises (SMEs) in Uganda. Uganda Christian University. https://scholar.ucu.ac.ug/items/510bc967-14d8-4500-9dd2-d0818b5ceec3

MTIC. (2015). Micro, Small and Medium Enterprises (MSME) Policy: Sustainable MSMEs for Wealth Creation and Socio-Economic Transformation. The Republic of Uganda. https://www.mtic.go.ug/wp-content/uploads/2019/09/MSME-Policy-Booklet.pdf

Mugabe, J. (2024). Financial services and financial performance of small and medium enterprises in Uganda: A case of Kampala capital city. Kyambogo University. https://kyuspace.kyu.ac.ug/server/api/core/bitstreams/b23e8947-39d0-4817-adfc-bcc4dca22fcd/content

Murugesan, T. K., Asis, E. R., K.P., J. M., Calderón, J. V., Guerrero, F. J., Picon, J. C., & Diaz, G. P. (2022). Developing and Validating Constructs: A Pragmatic Measurement of Financial Inclusion as a Tool for Sustainable Growth. Sustainability, 14(20), 12955. https://doi.org/10.3390/su142012955

Rahman, R., & Nie, Q. (2011). The Synthesis of Grameen Bank Microfinance Approaches in Bangladesh. International Journal of Economics and Finance, 3(6), p207. https://doi.org/10.5539/ijef.v3n6p207

Schumpeter, J. (1911). The Theory of Economic Development. Harvard University Press.

Tugume, A. (2025). Designing credit that supports MSE growth. Monitor. https://www.monitor.co.ug/uganda/oped/commentary/designing-credit-that-supports-mse-growth-5010676

Turyahikayo, E. (2015). Challenges faced by Small and Medium Enterprises in raising finance in Uganda. International Journal of Public Administration and Management Research (IJPAMR), 3(2).

UBOS. (2021). Statistical Abstract. Uganda Bureau of Statistics. https://www.ubos.org/wp-content/uploads/publications/01_20222021_Statistical_Abstract.pdf

Yamane, T. (1967). Statistics, an Introductory Analysis. Journal of the American Statistical Association, 60(310), 678. https://doi.org/10.2307/2282703

QUESTIONNAIRE FOR SME OWNERS/MANAGERS IN NAMATABA TOWN COUNCIL

Introduction:

Dear Respondent,

I am a student conducting a study on "Financial Inclusion and Financial Performance of SMEs in Uganda: A Case Study of Namataba Town Council." You had been selected to take part because your business was registered and operating in Namataba Town Council. This information was strictly for academic purposes and was treated with the strictest confidentiality. Your honest answers would add valuable insights to this research.

Thank you for your time and cooperation.

SECTION A: DEMOGRAPHIC AND BUSINESS PROFILE

(Please tick the appropriate box or fill in the blank)

A1. Gender of Respondent:

Male	
Female	

A2. Age Bracket:

18–25	
26–35	
36–45	
46–55	
Above 55	

A3. Highest Level of Education:

Primary	
Secondary (O/A Level)	
Diploma	
Degree	
Postgraduate	

A4. Business Sector:

Retail Shop	
Hardware Dealership	
Restaurant/Food Outlet	
Furniture Workshop	
General Merchandise	
Other (Specify):	

A5. Years of Business Operation:

Less than 1 year	
1–3 years	
4–6 years	
7–10 years	
Over 10 years	

A6. Registration Status:

Unregistered	
Registered (URSB/Municipal Council)	

SECTION B: ACCESS TO FINANCIAL SERVICES

This section asks about your ability to reach and obtain financial services for your business. Please indicate how much you agree with each statement.

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Code	Statement	1	2	3	4	5
B1	There is a bank branch or ATM within easy reach of my business premises in Namataba.					
B2	Mobile money agents are located close to my business and are easy to reach.					
B3	My business was able to open a formal bank account without too much paperwork or long delays.					
B4	I can easily reach a financial service point (bank, SACCO, or mobile agent) whenever my business needs to deposit or withdraw money.					
B5	My business has access to digital loans or credit when we need them.					
B6	The distance to financial services does not stop my business from using them regularly.					

SECTION C: USAGE OF FINANCIAL SERVICES

This section asks about how often and how actively you use financial services for your business. Please indicate how much you agree with each statement.

Code	Statement	1	2	3	4	5
C1	My business keeps a separate bank account that is used specifically for business transactions.					
C2	I use mobile money often to receive payments from my customers.					
C3	I use mobile money often to pay my suppliers or make business purchases.					
C4	My business regularly saves money in a formal financial institution (bank, SACCO, or mobile money savings account).					
C5	I have used a bank loan or digital credit (such as MoKash, Wewole, or other lending apps) for my business in the past year.					
C6	I check my business account balance and transaction history often to keep an eye on my business finances.					
C7	My business uses financial records or bank statements when applying for loans or credit.					

SECTION D: AFFORDABILITY OF FINANCIAL SERVICES

This section asks about the cost of financial services and whether they were reasonably priced for your business. Please indicate how much you agree with each statement.

Code	Statement	1	2	3	4	5
D1	The interest rates charged on business loans are affordable for my enterprise.					
D2	The transaction fees for mobile money withdrawals and transfers are reasonable and do not eat into my profits.					
D3	The fees for keeping a bank account (or monthly charges) are affordable for my business.					
D4	The loan repayment schedules offered by banks or lenders are flexible enough to match my business cash flow.					
D5	Overall, the cost of using financial services does not outweigh the benefits my business receives.					
D6	I would use more financial services if they were more affordable.					
D7	High interest rates have stopped me from taking loans that could have helped my business grow.					

THANK YOU FOR YOUR TIME AND PARTICIPATION

Your responses were greatly appreciated and would help in understanding how financial services can better support small businesses in Namataba Town Council.