

# SACCO Practices and Multidimensional SME Performance in Uganda: Evidence from Kabale District

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## ABSTRACT

Small and Medium Enterprises (SMEs) play a critical role in employment generation, poverty reduction, and local economic development in Uganda. However, many SMEs continue to experience limited access to affordable finance, weak managerial capability, operational instability, and low enterprise sustainability. Savings and Credit Cooperative Organizations (SACCOs) have increasingly emerged as important financial institutions supporting SMEs through savings mobilization, financial literacy programs, and credit extension services. This study examined the influence of SACCO practices on multidimensional SME performance in Kabale District, Uganda. The study adopted a convergent parallel mixed-methods research design integrating quantitative and qualitative approaches. Quantitative data were collected from 336 SME operators using structured questionnaires and analyzed using descriptive statistics, Pearson correlation analysis, multiple regression analysis, and Structural Equation Modeling (SEM). Qualitative data were obtained through interviews with SME owners and SACCO stakeholders and analyzed thematically. The study was guided by Human Capital Theory and Financial Intermediation Theory. The findings revealed that credit extension had the strongest positive and statistically significant effect on SME performance ( $\beta = 0.115$ ,  $p < 0.001$ ;  $r = 0.567$ ,  $p < 0.01$ ). Saving mobilization demonstrated a positive relationship with SME performance ( $r = 0.481$ ,  $p < 0.01$ ), although regression analysis revealed a significant negative coefficient ( $\beta = -0.077$ ,  $p < 0.001$ ), suggesting temporary liquidity constraints among SMEs with limited working capital. Financial literacy demonstrated a moderate positive relationship with SME performance ( $r = 0.507$ ,  $p < 0.01$ ), although its direct regression effect remained statistically insignificant ( $\beta = -0.032$ ,  $p = 0.093$ ). The study concludes that SACCO practices significantly influence multidimensional SME performance through integrated financial and entrepreneurial support mechanisms. It recommends strengthening flexible SACCO lending systems, practical financial literacy programs, and enterprise-responsive saving policies to improve SME sustainability and local economic development in Uganda.

Keywords: SACCO practices, SME performance, financial literacy, credit extension, savings mobilization, Uganda

## INTRODUCTION

Small and Medium Enterprises (SMEs) are widely recognized as critical drivers of economic growth, employment creation, innovation, poverty reduction, and industrial development across both developed and developing economies (Carvajal & Didier, 2024; Fajarika et al., 2024). SMEs contribute substantially to national productivity by stimulating entrepreneurship, expanding market participation, and supporting local economic transformation. In developing countries, SMEs play an even more significant role because they provide livelihoods for large segments of the population, particularly within rural and semi-urban communities where formal employment opportunities remain limited (Diallo et al., 2023). In Uganda, SMEs constitute a dominant proportion of the private sector and significantly contribute to employment generation, household income, and economic activity (UBOS, 2023). Despite their importance, many SMEs continue to experience persistent operational and financial challenges including limited access to affordable finance, weak managerial capability, unstable cash flows, inadequate business skills, low innovation capacity, and poor long-term sustainability (Kisubi et al., 2022; Nor, 2024).

Limited access to finance remains one of the most significant barriers constraining SME growth and competitiveness in developing economies (Kanga et al., 2024; Omotoso & Oni, 2026). Conventional commercial banking institutions often impose stringent collateral requirements, high interest rates, rigid lending conditions,

and complex administrative procedures that exclude many SMEs from formal financial systems (Wanzala & Obokoh, 2025). As a result, SMEs increasingly depend on alternative cooperative financial institutions such as Savings and Credit Cooperative Organizations (SACCOs) to access financial services and enterprise support mechanisms. SACCOs provide relatively affordable and accessible financial services through savings mobilization, financial literacy programs, and credit extension initiatives aimed at promoting financial inclusion and enterprise development (Kamau et al., 2025).

In Uganda, SACCOs have become increasingly important in supporting SMEs, particularly within rural and semi-urban districts where penetration of formal banking services remains low. Through cooperative financial systems, SMEs are able to access loans, cultivate saving cultures, improve financial discipline, and acquire financial management knowledge necessary for enterprise continuity and sustainability. SACCOs therefore function not only as financial intermediaries but also as entrepreneurial support institutions that strengthen financial inclusion, operational continuity, and local economic transformation. Credit extension provided through SACCOs enables SMEs to finance working capital, acquire inventory, expand business operations, and improve market participation, while financial literacy programs strengthen budgeting practices, loan management, and entrepreneurial decision-making (Kaazara & Matovu, 2025; Omeke et al., 2019).

Despite the growing importance of SACCOs in SME development, existing empirical literature presents several important conceptual and methodological limitations. First, many studies focus predominantly on isolated dimensions of SACCO practices such as credit access while neglecting integrated examination of savings mobilization, financial literacy, and credit extension within a unified analytical framework (Musiita et al., 2023). Second, most studies conceptualize SME performance narrowly in terms of profitability and enterprise growth while giving limited attention to multidimensional performance outcomes such as operational efficiency, sustainability, innovation capability, and social contribution. Third, empirical findings regarding the effectiveness of SACCO practices remain inconsistent. While some studies report positive enterprise outcomes associated with SACCO participation, others identify liquidity constraints, debt burdens, ineffective loan utilization, and weak managerial capability among SMEs operating within financially constrained environments (Amadias et al., 2025; Vuong, 2025).

Furthermore, limited empirical attention has been directed toward rural and semi-urban contexts such as Kabale District where SMEs rely heavily on SACCO systems due to limited access to conventional banking institutions. Existing studies also rely predominantly on quantitative cross-sectional designs that provide limited contextual understanding regarding how SACCO practices influence enterprise performance within dynamic operational environments. Consequently, important gaps remain regarding the integrated influence of SACCO practices on multidimensional SME performance within localized Ugandan contexts (Ambrose, 2021).

This study therefore examined the influence of SACCO practices on multidimensional SME performance in Kabale District, Uganda. Specifically, the study focused on savings mobilization, financial literacy, and credit extension as key SACCO practices influencing SME performance. The study contributes to existing literature by integrating financial and entrepreneurial dimensions of SME development within a mixed-methods framework while providing localized empirical evidence from a rural Ugandan context.

## LITERATURE REVIEW

### 2.1 SACCO Practices and SME Performance

SACCO practices refer to the financial and non-financial mechanisms through which cooperative financial institutions support enterprise development and financial inclusion among SMEs. Major SACCO practices commonly identified in literature include savings mobilization, financial literacy provision, and credit extension. These practices are considered important because they enhance entrepreneurs' access to financial resources, strengthen managerial capability, and improve enterprise sustainability.

#### Saving Mobilization and SME Performance

Empirical literature generally demonstrates that saving mobilization contributes positively to SME stability, liquidity management, and enterprise resilience. The Organisation for Economic Co-operation and Development (2023) established that structured saving systems improve financial preparedness, operational continuity, and

enterprise sustainability among SMEs. Similarly, (Prameshti, 2025) found that SMEs actively participating in SACCO saving schemes demonstrated stronger financial resilience and improved business continuity compared to enterprises operating outside cooperative financial systems (Evinita et al., 2025).

However, empirical findings also reveal contradictory outcomes regarding savings mobilization. Sagala & Óri, (2026) established that compulsory saving obligations may reduce short-term liquidity among SMEs with unstable cash flows, thereby constraining operational flexibility and working capital availability. These findings suggest that while savings contribute positively to long-term financial resilience, they may simultaneously create short-term operational constraints for financially vulnerable enterprises (Khoza, 2025; Sagala & Óri, 2026).

### **Financial Literacy and SME Performance**

Financial literacy has increasingly been recognized as an important determinant of entrepreneurial capability and enterprise sustainability. Existing studies indicate that financial literacy improves budgeting practices, record keeping, cash-flow management, investment planning, and financial decision-making among SME owners. (GLORIA, 2017) found that financially literate entrepreneurs demonstrated stronger operational management and improved business growth compared to financially less literate entrepreneurs.

Similarly, Nyeko et al., (2024) established that SACCO-based financial literacy programs improved loan utilization efficiency, financial discipline, and enterprise sustainability among SMEs in Uganda. Nevertheless, some studies argue that financial literacy alone may not sufficiently improve enterprise performance where SMEs continue to face financing constraints, weak markets, and unfavorable operational environments.

### **Credit Extension and SME Performance**

Credit extension remains one of the most important SACCO practices supporting SME development in developing economies. Existing literature demonstrates that access to credit improves working capital availability, enterprise expansion, inventory acquisition, and operational continuity. Buyinza et al., 2018; Widyastuti et al., (2023) found that SMEs with access to affordable finance demonstrated stronger productivity and business growth compared to financially excluded enterprises.

Within Uganda, Nzibonera & Waggumbulizi, (2020) established that SACCO credit facilities significantly improved enterprise productivity and market participation among SMEs. However, some studies indicate that poorly managed loans and rigid repayment systems may expose SMEs to financial vulnerability, repayment difficulties, and debt burdens. Consequently, effective credit utilization depends not only on loan accessibility but also on entrepreneurial capability and financial management competence.

## **2.2 Integrated Conceptual Perspective**

The reviewed literature demonstrates that SACCO practices influence SME performance through integrated financial and entrepreneurial mechanisms. Savings mobilization strengthens financial discipline and enterprise resilience, financial literacy enhances managerial capability and decision-making, while credit extension provides financial resources necessary for operational continuity and business expansion. These SACCO practices therefore interact collectively in shaping multidimensional SME performance outcomes including financial performance, operational efficiency, sustainability, innovation capability, and social contribution.

However, despite growing literature on SACCOs and SMEs, important gaps remain unresolved. Many studies rely predominantly on quantitative cross-sectional designs, focus narrowly on financial performance indicators, and inadequately integrate financial capability and enterprise development dimensions within cooperative financial systems. Furthermore, limited empirical evidence exists regarding how SACCO practices influence multidimensional SME performance within rural and semi-urban Ugandan contexts such as Kabale District.

## **THEORETICAL FOUNDATIONS**

This study was guided by the Human Capital Theory and Financial Intermediation Theory. These theories were considered appropriate because they collectively explain how financial knowledge, entrepreneurial capability, and access to financial resources influence SME performance within cooperative financial systems.

### 3.1 Human Capital Theory

Human Capital Theory was originally developed by Theodore Schultz (1961) and later advanced by Gary Becker (1964). The theory posits that investment in education, training, knowledge, and skills enhances individuals' productivity, efficiency, and economic performance. Human capital therefore represents the accumulated competencies and capabilities that enable individuals to perform tasks effectively and improve economic outcomes.

Within entrepreneurship and SME development literature, Human Capital Theory explains that entrepreneurs possessing financial knowledge, managerial skills, and business competencies are better positioned to manage enterprise resources, evaluate investment opportunities, make informed financial decisions, and sustain business growth (Becker, 1964). The theory further argues that training and knowledge acquisition improve entrepreneurs' ability to adapt to changing business environments and utilize available resources more productively.

In the context of this study, Human Capital Theory is particularly relevant in explaining the role of financial literacy provided through SACCOs. Financial literacy programs strengthen entrepreneurs' budgeting practices, record keeping, loan management, financial planning, and investment decision-making capability. SMEs with higher levels of financial knowledge are therefore more likely to utilize SACCO services effectively, manage borrowed funds responsibly, and sustain enterprise operations. The theory helps explain why financial literacy contributes indirectly to SME performance through enhancement of managerial capability and entrepreneurial competence.

However, despite its relevance, Human Capital Theory has been criticized for overemphasizing individual capability while giving limited attention to structural and institutional constraints affecting enterprise performance. In developing economies, entrepreneurs may possess financial knowledge and managerial competence but still experience limited growth due to inadequate access to finance, weak markets, and unfavorable business environments. Consequently, Human Capital Theory alone cannot sufficiently explain SME performance without considering financial access mechanisms and institutional support systems.

### 3.2 Financial Intermediation Theory

Financial Intermediation Theory was advanced by Gurley and Shaw (1960) and later expanded by subsequent banking and finance scholars. The theory explains the role of financial institutions in mobilizing savings from surplus units and allocating financial resources toward productive investment activities within the economy. Financial intermediaries reduce transaction costs, improve resource allocation efficiency, facilitate credit accessibility, and promote financial inclusion among economically active groups. According to the theory, financial institutions such as banks, microfinance institutions, and SACCOs play a critical role in economic development by bridging the gap between savers and borrowers. Through savings mobilization and credit extension, financial intermediaries provide enterprises with access to financial resources necessary for business investment, operational continuity, and enterprise expansion.

In the context of this study, Financial Intermediation Theory explains the role of SACCOs as cooperative financial institutions supporting SMEs through savings mobilization, financial literacy initiatives, and credit extension services. SACCOs mobilize savings from members and channel financial resources toward SMEs that often face exclusion from conventional banking systems due to collateral limitations and high borrowing costs. Through affordable credit facilities and cooperative financing arrangements, SACCOs enhance SMEs' access to working capital, inventory financing, and operational support necessary for enterprise growth and sustainability. The theory is particularly relevant in explaining the strong positive relationship observed between credit extension and SME performance in this study. Access to SACCO credit enables SMEs to finance operational activities, expand business operations, acquire productive assets, and improve market participation. Similarly, savings mobilization strengthens financial discipline, liquidity reserves, and borrowing eligibility among SMEs participating in cooperative financial systems.

Nevertheless, Financial Intermediation Theory has also been criticized for focusing predominantly on financial access while underestimating the importance of entrepreneurial capability, managerial competence, and contextual business realities affecting enterprise success. Access to credit alone may not automatically improve

SME performance where entrepreneurs lack financial management skills or where loans are diverted toward non-productive activities.

### 3.3 Integration of the Theories

The integration of Human Capital Theory and Financial Intermediation Theory provides a comprehensive framework for understanding how SACCO practices influence multidimensional SME performance. Human Capital Theory explains how financial literacy enhances entrepreneurial capability and managerial competence, while Financial Intermediation Theory explains how SACCOs improve access to financial resources through savings mobilization and credit extension. The combined application of these theories therefore supports the argument that SME performance depends not only on financial access but also on entrepreneurs' ability to effectively manage and utilize available financial resources. The integrated framework further explains why SACCO practices influence SME performance through interconnected financial and capability-enhancing mechanisms rather than isolated financial interventions alone.

## METHODOLOGY

### 4.1 Research Paradigm

This study was guided by the pragmatic research paradigm, which emphasizes the use of multiple methods and approaches to generate practical and contextually relevant knowledge. The pragmatic paradigm was considered appropriate because the study sought both measurable statistical evidence and contextual explanations regarding how SACCO practices influence multidimensional SME performance in Kabale District. Pragmatism recognizes that complex socio-economic phenomena such as SME performance cannot be fully understood using a single methodological orientation. Consequently, the study integrated quantitative and qualitative approaches to generate comprehensive and triangulated findings regarding savings mobilization, financial literacy, credit extension, and SME performance. The paradigm further allowed the researcher to combine positivist assumptions associated with quantitative measurement and statistical testing with interpretivist assumptions emphasizing participants' experiences, perceptions, and contextual realities. This integration was particularly important because SACCO practices influence SMEs through both measurable financial mechanisms and subjective entrepreneurial experiences that require contextual interpretation.

### 4.2 Research Approach

The study adopted a mixed-methods research approach involving both quantitative and qualitative methods. The mixed-methods approach was considered suitable because the study intended to examine both the statistical relationships among SACCO practices and SME performance as well as the contextual experiences of SME owners and SACCO stakeholders. Quantitative methods enabled objective measurement of relationships among variables using statistical techniques, while qualitative methods provided deeper understanding regarding how SACCO services influence enterprise operations, financial management practices, and business sustainability within the Kabale District context. The quantitative approach focused on hypothesis testing and examination of relationships among savings mobilization, financial literacy, credit extension, regulatory environment, and multidimensional SME performance. The qualitative approach emphasized exploration of participants' lived experiences regarding SACCO participation, financial challenges, borrowing experiences, saving practices, and managerial transformation resulting from SACCO interventions. The integration of quantitative and qualitative evidence enhanced methodological triangulation, improved validity, and strengthened interpretation of findings by enabling convergence and complementarity across different forms of evidence.

### 4.3 Research Design

The study adopted a convergent parallel mixed-methods research design. In this design, quantitative and qualitative data were collected concurrently, analyzed independently, and later integrated during interpretation and triangulation of findings. The convergent design was considered appropriate because it enabled simultaneous examination of measurable statistical relationships and contextual explanations regarding the effectiveness of SACCO practices on SME performance. Under the quantitative component, structured questionnaires were administered to SME operators affiliated with SACCOs in Kabale District. Quantitative analysis enabled the researcher to examine statistical relationships among study variables using descriptive statistics, Pearson

correlation analysis, multiple regression analysis. The qualitative component involved interviews with SME owners, SACCO managers, and relevant stakeholders. Qualitative interviews generated detailed contextual insights regarding saving behavior, financial literacy experiences, credit utilization patterns, loan management practices, operational challenges, and perceptions regarding the regulatory environment. The convergent design therefore enhanced credibility, complementarity, and comprehensiveness of the findings by enabling direct comparison and integration of quantitative and qualitative evidence regarding SACCO practices and SME performance.

#### 4.4 Study Area

The study was conducted in Kabale District, located in Southwestern Uganda. Kabale District was selected because it has a high concentration of SMEs operating in sectors such as retail trade, agriculture-related businesses, agro-processing, tourism, and small-scale manufacturing. The district also hosts numerous SACCOs actively involved in savings mobilization, financial literacy initiatives, and credit extension services targeting SMEs. Kabale District was considered appropriate for the study because SMEs within the district continue to experience performance challenges including limited access to affordable finance, weak managerial capability, low innovation, and high enterprise failure rates despite increasing SACCO expansion. The district therefore provided a suitable context for examining how SACCO practices influence multidimensional SME performance.

#### 4.5 Study Population and sample size

The study population comprised SME owners affiliated with SACCOs in Kabale District, SACCO managers, and relevant stakeholders involved in cooperative financial services and SME support activities. SMEs were selected because they are the primary beneficiaries of SACCO financial services including savings mobilization, financial literacy programs, and credit extension mechanisms. The target population included SMEs operating across various sectors such as retail trade, agriculture, manufacturing, services, and agro-processing within Kabale District. SACCO managers and stakeholders were included to provide institutional perspectives regarding SACCO operations, financial services delivery, credit management practices, and regulatory challenges affecting SME performance. The study population was heterogeneous in nature, thereby enabling comprehensive assessment of SACCO practices across different enterprise categories and operational contexts. The study utilized a total sample size of 336 SME respondents for the quantitative component. The sample size was determined using Yamane's formula for finite populations based on the estimated SME population within Kabale District. For the qualitative component, purposive sampling was used to select SACCO managers, SME owners, and key stakeholders with substantial knowledge and experience regarding SACCO operations and SME financing practices. Stratified sampling was employed during quantitative sampling to ensure representation across different SME categories and sub-counties within Kabale District. Within each stratum, simple random sampling techniques were used to select respondents for questionnaire administration. The use of stratified sampling improved representativeness and reduced sampling bias by ensuring proportional inclusion of SMEs from different sectors and geographical areas.

#### 4.7 Data Collection Instruments

The study utilized structured questionnaires and interview guides as primary data collection instruments. Structured questionnaires were administered to SME owners to collect quantitative data regarding savings mobilization, financial literacy, credit extension, regulatory environment, and multidimensional SME performance. The questionnaire utilized closed-ended items measured on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The questionnaire was divided into sections covering: demographic characteristics, SACCO practices, regulatory environment, and SME performance indicators. The questionnaire enabled standardized data collection suitable for statistical analysis. Also, semi-structure interview guides were used to collect qualitative data from SME owners, SACCO managers, and stakeholders. The interview guide focused on: saving experiences, financial literacy programs, loan accessibility, operational challenges, financial management practices, regulatory influences, and perceptions regarding SACCO effectiveness. The semi-structured format allowed flexibility for probing participants' experiences while maintaining consistency across interviews.

#### 4.8 Data Analysis

Quantitative data were coded, entered, and analyzed using Statistical Package for Social Sciences (SPSS Version 25). Descriptive statistics including frequencies, percentages, means, and standard deviations were used to summarize respondent characteristics and study variables. Pearson correlation analysis was conducted to examine relationships among SACCO practices, regulatory environment, and SME performance. The findings revealed significant positive relationships among major study variables. Qualitative interview data were analyzed thematically. Interview responses were transcribed, organized into themes, and interpreted in relation to study objectives. Themes emerging from interviews included: liquidity stabilization through savings, managerial transformation through financial literacy, operational continuity through SACCO credit, and institutional and regulatory constraints affecting SMEs. Qualitative findings were integrated with quantitative results during triangulation to provide contextual explanations supporting statistical relationships observed in regression and correlation analyses.

#### 4.9 Ethical Considerations

Ethical clearance was obtained from Kabale University Research Ethics structures and relevant authorities before commencement of data collection. Participants were informed about the purpose of the study and voluntarily consented to participate. Confidentiality and anonymity were maintained by avoiding collection of personally identifiable information and securely storing research data. Participants were informed of their right to withdraw from the study at any stage without penalty. The researcher further ensured that interviews and questionnaire administration were conducted respectfully and without coercion.

### RESULTS

#### 5.1 Response Rate and Respondent Characteristics

A total of 345 questionnaires were distributed to SME operators affiliated with SACCOs in Kabale District. Out of these, 336 questionnaires were successfully completed and returned, representing a response rate of 97.4 percent. The high response rate was considered adequate for statistical analysis and interpretation because it exceeded commonly recommended response thresholds in social science research. The respondents were drawn from various SME sectors including retail trade, agriculture, agro-processing, manufacturing, and service enterprises. Most respondents had operated their businesses for more than three years, indicating substantial enterprise experience and familiarity with SACCO financial services. The majority of respondents possessed at least secondary or post-secondary education, suggesting adequate literacy levels necessary for participation in SACCO financial activities and enterprise management.

#### 5.2 Reliability and Validity Assessment

Reliability analysis was conducted using Cronbach’s Alpha coefficients to assess internal consistency of the measurement scales. The results revealed satisfactory reliability coefficients for all constructs, with values exceeding the recommended threshold of 0.70. SME performance recorded the highest reliability coefficient ( $\alpha = 0.874$ ), followed by financial literacy ( $\alpha = 0.846$ ), credit extension ( $\alpha = 0.831$ ), saving mobilization ( $\alpha = 0.812$ ), and regulatory environment ( $\alpha = 0.801$ ). These findings confirmed acceptable reliability of the research instruments. Construct validity was assessed using Exploratory Factor Analysis (EFA). The Kaiser–Meyer–Olkin (KMO) Measure of Sampling Adequacy exceeded the acceptable threshold, while Bartlett’s Test of Sphericity was statistically significant ( $p < 0.001$ ), confirming suitability of the dataset for factor analysis. Factor loadings for major constructs exceeded acceptable thresholds, indicating satisfactory convergent validity. The SEM measurement model further demonstrated acceptable fit indices, including Comparative Fit Index (CFI = 0.931), Tucker–Lewis Index (TLI = 0.918), Root Mean Square Error of Approximation (RMSEA = 0.056), and Standardized Root Mean Square Residual (SRMR = 0.049), confirming adequacy of the measurement and structural models.

#### 5.3 Descriptive Statistics for SACCO Practices and SME Performance

**Table 1: Demographic Characteristics of Respondents (N = 336)**

Variable	Category	Frequency	Percentage (%)
Age Bracket	20–39 years	185	55.1

	40–59 years	109	32.4
	60 years and above	42	12.5
<b>Gender</b>	Male	156	46.4
	Female	180	53.6
<b>Level of Education</b>	High School	57	17.0
	College Certificate	56	16.7
	Diploma	56	16.7
	Degree	83	24.7
	Postgraduate	84	25.0
<b>Number of Employees</b>	1–5	199	59.2
	6–10	70	20.8
	11–15	36	10.7
	16–20	17	5.1
	21 and above	14	4.2
<b>Legal Form of Business</b>	Family Business	166	49.4
	Sole Proprietorship	106	31.5
	Partnership	52	15.5
	Limited Company	12	3.6
<b>Sector of Business</b>	Manufacturing	106	31.5
	Service	230	68.5
<b>Business Location</b>	Central Division	206	61.3
	Southern Division	130	38.7
<b>Years in Business</b>	1–3 years	62	18.5
	4–6 years	78	23.2
	7–10 years	65	19.3
	11 years and above	131	39.0

Source: Field Data (2026).

The demographic findings presented in Table 1 indicate that SMEs in Kabale District are largely dominated by economically active young and middle-aged entrepreneurs, with respondents aged between 20–39 years constituting the majority (55.1%). The relatively balanced gender distribution, with female entrepreneurs slightly outnumbering male entrepreneurs, suggests increasing participation of women in SME ownership and management within SACCO-supported business environments. The educational profile further reveals that a considerable proportion of SME owners possess tertiary education qualifications, including degree and postgraduate credentials, indicating relatively high literacy levels among respondents. This educational background may positively influence financial decision-making, business management capability, and effective utilization of SACCO financial services such as savings mobilization, financial literacy programs, and credit facilities. The findings further demonstrate that most enterprises surveyed operate within the micro and small enterprise category, with the majority employing between 1–5 workers. Family businesses and sole proprietorships dominate the SME sector, reflecting the informal and owner-managed nature of many enterprises in developing economies. In addition, service-oriented businesses constitute the largest proportion of enterprises,

suggesting that SMEs in Kabale District are largely concentrated in activities requiring relatively lower start-up capital and operational complexity. The concentration of businesses within the Central Division further highlights the importance of urban market access and proximity to financial services. Moreover, the substantial proportion of enterprises operating for more than 11 years suggests that many SMEs possess considerable entrepreneurial and operational experience, which may contribute positively to enterprise resilience, business continuity, and effective engagement with SACCO financial systems.

Descriptive findings further revealed generally positive perceptions regarding SACCO services among SMEs in Kabale District. Respondents largely agreed that SACCOs provide important financial support mechanisms that enhance enterprise continuity and operational sustainability.

**Table 1: Descriptive Statistics for predictive factors**

	N	Minimum	Maximum	Mean	Std. Deviation
Government rules for businesses are easy to understand.	336	1.00	5.00	3.2411	.92957
It is easy to register and license a business in Kabale.	336	1.00	5.00	3.5804	1.15878
Paying taxes reduces my business profits.	336	1.00	5.00	3.5446	1.16840
Rules change too often and disturb my business plans.	336	1.00	5.00	4.0298	.73241
Local government gives us enough help to follow business rules.	336	1.00	5.00	4.0982	.75263
Fees and charges required by the government are too high for my business.	336	1.00	5.00	4.1607	.78668
All businesses are treated the same when it comes to rules and regulations.	336	1.00	5.00	3.8274	.93997
Good rules help my business grow.	336	1.00	5.00	3.3750	.85475
I understand how to follow the laws needed to run my business.	336	1.00	5.00	4.1220	.73301
The business environment in Kabale is friendly for small businesses like mine.	336	1.00	5.00	2.4583	1.13744
Valid N (listwise)	336				

Respondents generally agreed that local government provides support in helping businesses comply with regulations (Mean = 4.10) and that they understand the legal requirements necessary for operating their businesses (Mean = 4.12). Similarly, respondents strongly agreed that government fees and charges are high for small businesses (Mean = 4.16) and that business regulations change frequently, disrupting enterprise planning (Mean = 4.03). The findings further show moderate agreement that taxation reduces business profits (Mean = 3.54) and that businesses are relatively treated equally under existing regulations (Mean = 3.83). However, respondents expressed relatively low agreement regarding the friendliness of the business environment for SMEs in Kabale District (Mean = 2.46), suggesting persistent operational and regulatory challenges affecting enterprise growth and sustainability. Overall, the findings imply that although SMEs possess awareness of regulatory requirements and receive some institutional support, administrative costs, policy instability, and an unfavorable business environment continue to constrain SME performance within the district. Saving mobilization indicators demonstrated moderate to high mean scores, suggesting that SMEs actively participate in SACCO saving schemes and perceive savings as important for financial stability, borrowing eligibility, and emergency preparedness.

Financial literacy indicators revealed that SACCOs provide training related to budgeting, record keeping, loan management, and financial planning, although the depth and consistency of training programs varied across SACCOs. Credit extension indicators recorded relatively high mean scores, indicating that SACCO loans are widely perceived as critical sources of enterprise financing. With regard to SME performance, the findings revealed moderate levels of enterprise performance across financial performance, operational efficiency, sustainability, innovation capability, and social contribution dimensions. Many SMEs reported improvements in operational continuity, financial management, and business stability resulting from SACCO participation.

#### 5.4 Correlation Analysis and Regression Analysis for SACCO Practices and SME Performance

The findings revealed that saving mobilization significantly influences SME performance in Kabale District through both direct and indirect financial mechanisms. Correlation analysis showed that savings mobilization has a moderate positive and statistically significant relationship with SME performance ( $r = .481, p < .01$ ), suggesting that SMEs actively participating in SACCO saving schemes tend to achieve better operational stability, financial resilience, and overall enterprise performance. Savings mobilization further demonstrated a strong positive relationship with SACCO practices ( $r = .722, p < .01$ ), indicating that saving behavior constitutes a major component of SME engagement within cooperative financial systems. The findings therefore suggest that savings contribute positively to enterprise continuity, financial preparedness, and business sustainability.

The qualitative findings strongly reinforced these quantitative results. Participants consistently described saving mobilisation as a foundational mechanism that supports liquidity management, business continuity, and resilience during periods of economic uncertainty. Many respondents explained that accumulated savings help enterprises survive temporary business downturns, delayed customer payments, and seasonal fluctuations. Respondents further indicated that savings support emergency expenditures, stock replenishment, and operational continuity while reducing dependence on expensive informal borrowing. In addition, savings were widely associated with improved financial discipline, budgeting practices, and long-term business planning. Several participants emphasized that regular saving promotes accountability and strengthens entrepreneurs' confidence in handling future financial uncertainties and operational risks

**Table 2: Regression Results for the Effect of Saving Mobilization on SME Performance**

Predictor Variable	Unstandardized Coefficient (B)	Std. Error	Standardized Coefficient ( $\beta$ )	t-value	Sig. (p)
Savings	-0.078	0.020	-0.077	-3.828	0.000

**Dependent Variable:** Performance of SMEs

**Model Summary:**  $R^2 = 0.923, F = 660.685, p < 0.001$

However, regression analysis produced a statistically significant negative effect of saving mobilization on SME performance ( $\beta = -0.077, p < 0.001$ ) after controlling for financial literacy, credit extension, and regulatory environment factors. The regression model itself was statistically significant ( $F = 660.685, p < 0.001$ ) and explained approximately 92.3% of the variation in SME performance ( $R^2 = 0.923$ ). The negative regression coefficient suggests that although savings generally contribute positively to enterprise resilience and financial discipline, intensive or compulsory saving obligations may temporarily constrain liquidity available for immediate business operations such as inventory acquisition, supplier payments, and working capital financing. This finding indicates that the short-term operational demands of SMEs may conflict with mandatory saving commitments, particularly among enterprises operating with limited financial capacity.

The qualitative findings further helped explain this negative regression effect. Some respondents acknowledged that maintaining regular SACCO saving obligations occasionally creates financial pressure and reduces cash available for daily business operations. Participants explained that while savings improve borrowing eligibility and long-term financial security, excessive saving requirements may temporarily limit operational flexibility and immediate business reinvestment..One participant stated:“*When business is slow, it is the savings that help me*

*push through.*” Another respondent explained: *“Saving every week makes us disciplined and prepared for emergencies.”* Participants further emphasized that savings improve borrowing eligibility and strengthen financial credibility within SACCO systems. However, some respondents acknowledged that excessive compulsory saving obligations occasionally constrain operational liquidity and reduce available working capital. One respondent noted: *“Sometimes too much saving affects the money I need for daily business operations.”* These findings support the quantitative results indicating that savings contribute positively to long-term enterprise resilience while potentially constraining short-term operational liquidity.

Overall, the integrated findings suggest that saving mobilization contributes positively to SME performance primarily through long-term enterprise resilience, financial discipline, and borrowing capability, although intensive saving commitments may simultaneously create short-term liquidity constraints among financially vulnerable SMEs

### 5.6.2 Financial Literacy and SME Performance

The findings revealed that financial literacy has a moderate positive and statistically significant relationship with SME performance ( $r = 0.507, p < 0.01$ ), suggesting that SME owners with stronger financial knowledge and managerial skills tend to achieve better enterprise outcomes. Financial literacy was also positively associated with financial performance ( $r = 0.562, p < 0.01$ ), SACCO practices ( $r = 0.521, p < 0.01$ ), savings mobilization ( $r = 0.302, p < 0.01$ ), and credit extension ( $r = 0.186, p < 0.01$ ).

**Table 3: Correlation analysis for Financial Literacy and SME Performance**

Variables	Financial Literacy	Financial Performance	SME Performance
Financial Literacy	1	0.562	0.507
Financial Performance	0.562	1	0.951
SME Performance	0.507	0.951	1

These findings indicate that financial literacy strengthens entrepreneurs’ ability to budget, keep records, control costs, manage loans, and utilize SACCO financial services more effectively. The qualitative findings strongly reinforced these results, with participants consistently reporting that SACCO financial training improved budgeting practices, bookkeeping, financial planning, and enterprise management. Respondents explained that financial literacy enhanced their ability to separate business and household finances, monitor expenditures, make informed investment decisions, and interact more confidently with SACCO financial systems. Qualitative evidence further supported this interpretation, as respondents emphasized that the benefits of financial literacy emerge gradually through improved planning, financial awareness, and responsible resource utilization rather than through immediate increases in profitability. One participant stated: *“After attending training, I now keep records and I know how to budget. My business is different.”* Another respondent explained: *“Before, I used to misuse money, but financial training helped me see mistakes.”*

Overall, the integrated findings suggest that financial literacy remains an important capability-building mechanism within SACCO systems, although its direct contribution to SME performance is conditional upon broader financial and operational factors.

### 5.6.3 Credit Extension and SME Performance

The findings revealed that credit extension has a strong positive and statistically significant relationship with SME performance ( $r = 0.567, p < 0.01$ ), indicating that increased access to SACCO credit facilities is associated with improved enterprise performance in Kabale District. Credit extension was also positively related to financial performance ( $r = 0.489, p < 0.01$ ), saving mobilization ( $r = 0.207, p < 0.01$ ), financial literacy ( $r = 0.186, p < 0.01$ ), and the regulatory environment ( $r = 0.629, p < 0.01$ ).

**Table 4: regression analysis for Credit Extension and SME Performance**

Predictor	Unstandardized Coefficient (B)	Std. Error	Standardized Coefficient (β)	t-value	Sig. (p)
Credit Extension	0.126	0.022	0.115	5.715	0.000

These findings suggest that SACCO credit services significantly strengthen working capital availability, operational continuity, inventory acquisition, enterprise expansion, and overall business sustainability among SMEs. Regression analysis further confirmed that credit extension has a positive and statistically significant effect on SME performance ( $\beta = 0.115$ ,  $p < 0.001$ ) as shown in table 4, making it the strongest positive predictor among all SACCO practice variables included in the model. The results therefore indicate that access to SACCO credit directly improves enterprise productivity, liquidity management, market participation, and business growth.

The qualitative findings strongly reinforced the quantitative evidence by consistently identifying credit extension as the most immediate and visible SACCO intervention influencing SME performance. Respondents described SACCO loans as essential for enterprise survival, operational stability, and business expansion, particularly within financially constrained environments where access to conventional banking services remains limited. Participants explained that timely access to SACCO loans enables them to purchase inventory, finance transportation, expand business premises, acquire productive assets, and sustain operational cash flow. Flexible repayment arrangements and predictable borrowing conditions were also identified as important factors enhancing enterprise stability and reducing financial pressure during periods of low sales or temporary business downturns. Credit extension was consistently identified as the most immediate and visible SACCO mechanism influencing enterprise performance. Participants described SACCO loans as essential for maintaining business operations, acquiring inventory, financing working capital, and supporting enterprise expansion. One respondent stated: *“Credit is our lifeline. Without loans, many of us would close.”* Another participant explained: *“When SACCOs give us money on time, we grow. Delays or too many conditions kill businesses.”* Overall, the integrated findings demonstrate strong convergence between quantitative and qualitative evidence, confirming that SACCO credit services significantly strengthen enterprise resilience, operational continuity, growth capacity, and long-term SME sustainability in Kabale District.

## DISCUSSION OF RESULTS

This study examined the influence of SACCO practices on multidimensional SME performance in Kabale District, Uganda, focusing on saving mobilization, financial literacy, and credit extension. The findings demonstrated that SACCO practices significantly influence SME performance through interconnected financial and entrepreneurial mechanisms, although the magnitude and nature of the effects varied across different SACCO interventions. The discussion integrates the quantitative and qualitative findings with existing empirical literature and the theoretical perspectives underpinning the study.

The findings revealed that saving mobilization significantly influences SME performance, although the relationship demonstrated both supportive and constraining effects. Correlation analysis showed a positive and statistically significant relationship between saving mobilization and SME performance, suggesting that SMEs actively participating in SACCO saving schemes tend to experience improved financial discipline, operational continuity, and enterprise resilience. Qualitative findings further confirmed that savings enhance business preparedness during periods of low sales, delayed customer payments, and financial uncertainty. Respondents consistently explained that accumulated savings improve liquidity management, strengthen emergency response capability, and increase borrowing eligibility within SACCO systems. However, regression analysis revealed a statistically significant negative coefficient for savings mobilization, indicating that intensive or compulsory saving obligations may temporarily constrain operational liquidity among SMEs with limited working capital. These findings suggest that while savings contribute positively to long-term sustainability and financial resilience, they may simultaneously reduce short-term operating capital required for daily business activities. The findings are consistent with (Chebet et al., 2024; Dupas & Robinson, 2013) and the Organisation for Economic Co-operation and Development (2023), who found that savings mobilization strengthens financial preparedness and enterprise continuity among SMEs. However, the findings also support Hossain et al. (2023),

who observed that excessive saving obligations may create liquidity pressures among financially constrained enterprises. From a theoretical perspective, the findings support Financial Intermediation Theory by demonstrating that savings mobilization strengthens financial resource accumulation and enterprise stability within cooperative financial systems.

The study further established that financial literacy contributes positively to SME performance primarily through indirect capability-enhancing mechanisms rather than immediate direct financial outcomes.

Although regression analysis revealed a statistically insignificant direct independent effect of financial literacy on SME performance, both correlation and qualitative findings demonstrated that financial literacy significantly improves budgeting practices, financial discipline, bookkeeping, cash-flow management, and entrepreneurial decision-making. Respondents explained that SACCO financial literacy programs improved their ability to separate household and business finances, manage expenditures, monitor cash flows, and utilize loans more responsibly. These findings suggest that financial literacy enhances managerial capability and entrepreneurial competence, thereby improving how SMEs utilize available financial resources rather than directly increasing profitability. The findings are consistent with Kato and Tsoka (2020), who found that financial literacy strengthens entrepreneurial decision-making and enterprise management capability. Similarly, Bindeeba et al. (2025) established that SACCO-based financial education improves financial discipline and loan utilization among SMEs. However, the findings also support (Lestari et al., 2025; Molosiwa & Molosiwa, 2025; Osman et al., 2026) who argued that financial literacy alone may not significantly improve enterprise performance in contexts characterized by financial constraints, market instability, and limited operational capacity. The findings strongly support Human Capital Theory, which emphasizes that enterprise success depends not only on financial access but also on entrepreneurs' knowledge, skills, and managerial competence.

Credit extension emerged as the strongest and most significant predictor of multidimensional SME performance within the study. Both quantitative and qualitative findings consistently demonstrated that access to SACCO credit significantly improves working capital availability, inventory acquisition, operational continuity, enterprise expansion, and overall business sustainability. Regression analysis confirmed that credit extension had the strongest positive effect on SME performance, indicating that SACCO loans remain critical for supporting enterprise productivity and growth within financially constrained environments. Qualitative findings strongly reinforced these results, with participants repeatedly describing SACCO loans as indispensable for maintaining stock levels, financing transportation, paying workers, expanding business operations, and responding to market opportunities. Respondents further emphasized that timely loan disbursement, flexible repayment arrangements, and supportive SACCO lending practices significantly improve enterprise stability and reduce financial pressure. These findings are consistent with Kabagambe & Agaba, (2026), who found that access to finance significantly enhances enterprise productivity and business growth in developing economies. Similarly, Norah, (2014) established that SACCO credit services improve enterprise continuity, operational efficiency, and business expansion among SMEs in Uganda. The findings strongly support Financial Intermediation Theory, which explains how financial institutions mobilize resources and channel affordable financing toward productive investment activities. However, the findings also revealed that restrictive lending conditions, delayed loan processing, and poor loan utilization may weaken the developmental impact of SACCO financing. This suggests that effective credit systems require not only financial accessibility but also responsive lending practices, financial discipline, and entrepreneurial capability among borrowers.

## 6.1 Integrated Interpretation of SACCO Practices and SME Performance

The integrated findings of this study demonstrate that SME performance is shaped not by isolated financial interventions but by interconnected financial and entrepreneurial support mechanisms operating within SACCO systems. Credit extension provides immediate operational financing necessary for enterprise continuity and growth, savings mobilization strengthens long-term resilience and financial discipline, while financial literacy enhances managerial capability and enterprise decision-making. The findings therefore suggest that SACCO practices operate complementarily rather than independently. Financial literacy improves entrepreneurs' ability to utilize credit productively and manage savings effectively, while savings strengthen borrowing eligibility and financial preparedness necessary for sustainable enterprise growth. SACCO systems consequently contribute to multidimensional SME performance through integrated financial inclusion and entrepreneurial capability enhancement mechanisms. The study further demonstrates that multidimensional SME performance extends

beyond profitability alone to include operational continuity, sustainability, innovation capability, and social contribution. The findings therefore broaden existing understanding of SME development by emphasizing that cooperative financial systems influence enterprises through both financial and non-financial pathways.

Overall, the study contributes important empirical evidence demonstrating that SACCOs play a critical role in supporting SME sustainability and local economic development within rural and semi-urban Ugandan contexts where access to formal financial systems remains limited.

## CONCLUSION

This study examined the influence of SACCO practices on multidimensional SME performance in Kabale District, Uganda, focusing specifically on saving mobilization, financial literacy, and credit extension. The findings demonstrate that SACCOs play a significant role in supporting enterprise sustainability, operational continuity, financial resilience, and business growth among SMEs operating within financially constrained environments. The study established that credit extension is the strongest predictor of SME performance because access to SACCO loans improves working capital availability, enterprise expansion, inventory acquisition, and operational continuity. SACCO credit therefore remains a critical financial mechanism supporting enterprise growth and competitiveness within rural and semi-urban economies where access to formal banking services remains limited. The findings further revealed that saving mobilization contributes positively to enterprise resilience, financial discipline, and long-term sustainability. However, excessive saving obligations may simultaneously constrain short-term operational liquidity among SMEs with limited working capital. The study therefore concludes that savings contribute more strongly to long-term enterprise stability and preparedness rather than immediate operational profitability. Financial literacy was found to contribute indirectly to SME performance through improvement of budgeting practices, managerial capability, financial discipline, and entrepreneurial decision-making. Although financial literacy did not demonstrate a statistically significant direct independent effect within the regression model, the qualitative findings confirmed that financial training strengthens entrepreneurs' ability to utilize financial resources more effectively and sustainably.

Overall, the study concludes that SACCO practices influence multidimensional SME performance through interconnected financial and entrepreneurial support mechanisms rather than isolated financial interventions. Credit extension provides immediate operational financing, savings mobilization strengthens resilience and financial preparedness, while financial literacy enhances entrepreneurial capability and managerial effectiveness. The findings therefore demonstrate that SME performance depends not only on access to finance but also on entrepreneurs' ability to manage resources effectively within cooperative financial systems. The study further concludes that SACCOs remain important institutions promoting financial inclusion, enterprise sustainability, and local economic development within Uganda. Strengthening flexible lending systems, practical financial literacy programs, and enterprise-responsive saving mechanisms may therefore significantly improve SME performance and contribute to broader socio-economic transformation within developing economies.

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