Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 16(4):160-167

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Linking Financial Inclusion To Entrepreneurial Growth: A Study On Capacity Building For Ugandan Micro-Entrepreneurs

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Abstract

This study explores the correlation between financial access and entrepreneurial development among micro-entrepreneurs in Uganda, emphasizing capacity building. Micro-entrepreneurship is vital to Uganda's economy, especially in alleviating unemployment and poverty. With Uganda's advancing development agenda, the Parish Development Model (PDM) offers a new perspective on how localized, inclusive finance and training programs can enhance grassroots entrepreneurship. This government-led initiative decentralizes service delivery and incorporates financial inclusion and capacity building at the parish level. Nevertheless, restricted financial access and inadequate institutional support continue to pose substantial obstacles. This research employs a mixed-methods approach, integrating surveys, interviews, and secondary data analysis, to examine the impact of financial inclusion and business training on the growth and sustainability of micro-enterprises through government interventions such as PDM. The findings indicate that PDM-supported initiatives substantially enhance access to credit, improve business skills, and promote enterprise development at both the parish level, the smallest administrative unit, and nationally. The results demonstrate that access to financial services, including PDM, particularly when combined with organized capacity-building initiatives, markedly enhances business performance. The study also provides actionable recommendations for policymakers and development stakeholders seeking to enhance Uganda's entrepreneurial ecosystem.

Keywords: Financial Inclusion, Entrepreneurial Growth, Capacity Building, Micro-Entrepreneurs, Uganda

INTRODUCTION

Micro-entrepreneurship serves as a cornerstone of Uganda's informal economy [1]. Though still a large percentage of Uganda's micro-entrepreneurs remain financially excluded, lacking access to credit, savings, and business training, the Government of Uganda launched the Parish Development Model (PDM) in 2021 as a decentralized approach to move 39% of Ugandans out of the subsistence economy to a money economy to address these concerns through Parish SACCOs (Savings and Credit Cooperatives Organizations) Though many operate informally and continue to struggle with limited access to affordable credit and inadequate business skills, financial inclusion and capacity-building projects have been more widely acknowledged in recent years as vital in promoting business growth and sustainability. Financial inclusion refers to the availability and accessibility of financial services, including savings, credit, insurance, and digital payments, to all demographic groups [2]. For micro-entrepreneurs, access to capital can determine the distinction between business stagnation and growth. Concurrently, capacity building, encompassing training in financial literacy, company planning, and technical skills, enables entrepreneurs to make educated financial decisions [3]. Entrepreneurs administer their firms efficiently, as providing capital without capability is like sowing seeds in arid soil. PDM, therefore, prioritizes skills development through training in financial literacy, record keeping, value creation, and fundamental marketing. These sessions are specifically designed to address the realities of rural life, rendering them both relatable and effective. Consequently, the Ministry of Finance, Planning and Economic Development has initiated programs under the Private Sector Development Programme,[4], which includes trade-specific skills training for women entrepreneurs and the establishment of Business Development Services (BDS) Centers to support micro, small, and medium enterprises (MSMEs).

Global development depends on access to financial services since it allows investments in health, education, and businesses and helps individuals negotiate economic crises that may otherwise cause poverty. In 2021, 71% of persons in developing nations possessed an account facilitating access to financial services via financial institutions or mobile money providers, representing a rise of over 50% from ten years prior. Digital financial services are essential for promoting inclusiveness [5]. Despite the rise in the number of individuals possessing bank accounts, access to bank branches for account opening continues to pose a substantial challenge in developing nations, particularly in rural regions.

Collaborations with various financial institutions, like Opportunity Bank, Post Bank and others, have been established to enhance financial literacy among entrepreneurs and PDM beneficiaries at the parish level through business skills training and savings initiatives. Traditional banking models frequently marginalize rural entrepreneurs due to insufficient collateral, lack of credit history, or distance from financial institutions. However, the PDM’s SACCO-based financing system provides low-interest loans to parish residents without collateral. These PDM SACCO loans aim not only to facilitate business growth but also to formalize the informal sector, integrating local entrepreneurs into the mainstream economy.

Financial inclusion is a crucial element of Uganda's Sustainable Development Goals (SDGs) implementation and Vision 2040 strategy, as it directly enables economic transformation and inclusive growth, fosters social inclusion while mitigating poverty, and offers additional socioeconomic benefits [6]. A robust association exists between financial inclusion and economic growth, especially in low-income countries with limited financial inclusion [6] clarifies the importance of financial literacy, innovation, and technology as essential factors affecting financial inclusion results, promoting the alignment of global financial inclusion standards. [7] identified digitization, consumption, and FinTech innovations as the principal catalysts of financial inclusion.

With financial inclusion being central to Uganda Vision 2040's goal by enabling access to financial services (savings, credit, insurance, mobile-money) for all citizens, especially in rural and underprivileged areas, it seeks to transform the country from low-income level to middle-income level status. Facilitating a private-sector-driven economy by providing finance access to micro, small, and medium enterprises (MSMEs). Enabling investment in agriculture, trade, and industry by providing access to cost-effective financing. Digital transformation through Fintech and mobile banking to broaden financial services access to remote populations throughout the nation. Financial inclusion also advances multiple Sustainable Development Goals (SDGs), such as:

SDG 1: (No Poverty): Facilitating access to financial instruments will assist individuals in saving, investing, and mitigating risks, so enabling them to escape poverty.

SDG 5: (Gender Equality): Empowering women via microfinance and mobile banking enhances their economic involvement.

SDG 8: (Decent Work and Economic Growth): Financial inclusion fosters entrepreneurship and employment development via lending and investment opportunities.

SDG 9: (Industry, Innovation, and Infrastructure): Financial systems facilitate the development of robust infrastructure and promote innovation, particularly in Fintech.

SDG 10: (Reduced Inequalities): Financial inclusion mitigates economic inequities by focusing on women, youth, and rural communities.

An inclusive financial system fosters economic growth, diminishes poverty, and enhances employment and opportunity within a nation, granting individuals access to micro savings, credit, insurance, and payment transfers [8]. These key strategies and programs have been implemented to connect financial access with entrepreneurial growth. Aiming to reduce financial exclusion and improve formal financial access for local populations, the National Financial Inclusion Strategy (2017–2022). Expansion of Mobile Money and Digital Banking: Utilizing technology to improve accessibility and utilization of financial services. Lastly, the Parish Development Model (PDM), whose sole purpose was to bring financial services to the parish level to support the inclusion of economic development. As postulated by [9], the Parish Development Model (PDM) is a government-led initiative meant to move 3.5 million homes from subsistence agriculture to a commercialized economy.

The government has allocated significant amounts as soft investment loans to households without access to private sector credit under PDM Pillar 3, which emphasizes financial inclusion. The success of PDM is mostly based on increasing financial literacy among beneficiaries. Organizations such as the Uganda Financial Literacy Association (UFLA) and Foundation Leads Limited (FLL) play a vital role in delivering systematic financial literacy training, enabling beneficiaries of PDM funding to proficiently manage and invest these resources. Alongside PDM, various Government Financial Development Programmes exist, including “EMYOOGA”, which focuses on market vendors and diverse business sectors such as carpentry, salons, and produce trading, facilitating access to funding for enterprise development, [10]. Additionally, there is UWEP (Uganda Women Empowerment Programme) for women, YLP (Youth Livelihood Programme) for youth, PCA (Parish Community Associations), and GROW, a loan initiative specifically designed for women.

It is essential to acknowledge that disparities exist not only between developed countries regarding entrepreneurial activities but also within developing countries, shaped by factors such as economic development, legislation, education, demographic conditions, access to finance, technological advancement, and innovativeness [11]. Entrepreneurship is profoundly influenced by efficient governance, including institutional reforms and regulatory frameworks, as well as the development of the financial sector. The financial sector's function in facilitating access to funding and capital is crucial. The caliber of governance correlates with the advancement of the financial sector, which in turn affects entrepreneurial endeavors [12].

This study seeks to explore the interaction between financial inclusion and capacity-building programs and their impact on the growth and development of micro-enterprises in Uganda, and addressing issues of limited access to formal financial services, low levels of financial literacy, and inadequate business management skills. Many micro-entrepreneurs struggle to secure credit, save reliably, or make informed financial decisions, which restricts their potential for growth. The study also tackles the broader issue of exclusion from mainstream economic opportunities, highlighting how capacity building can help bridge these gaps. These problems align with key issues in inclusive and sustainable development, such as poverty reduction, economic empowerment, and equal access to financial and entrepreneurial support. The study further analyzes existing disparities in accessing finance, assesses current initiatives such as PDM, and offers insights for enhancing entrepreneurial outcomes.

SIGNIFICANCE OF THE STUDY

This study is important as it demonstrates how enhancing the skills and knowledge of Ugandan micro-entrepreneurs, particularly in financial disciplines, can facilitate the growth of their small-scale businesses. The study emphasizes that financial inclusion enables individuals to access financial services and receive adequate training, thereby enhancing their businesses, increasing income, and contributing to their communities. Thus, it ultimately fosters inclusive growth in business and entrepreneurship that promotes sustainable development.

LITERATURE REVIEW

Previous studies underscore that access to financial services is a vital factor in business development. The World Bank asserts that small firms with financial access are more inclined to invest in capital, broaden operations, and increase employment. In Uganda, microfinance institutions (MFIs), Savings and Credit Cooperative Organizations (SACCOs), and digital banking platforms have developed to address financial disparities; nevertheless, their outreach and impact are still limited [13]. Capacity building, characterized as the enhancement of skills and competencies in individuals and organizations, has been shown to augment the effectiveness of financial inclusion. Training initiatives centered on entrepreneurship education, digital literacy, and business management have enhanced the survival rates and profitability of small firms [14] in sub-Saharan Africa. Nonetheless, obstacles including variable program quality, insufficient follow-up, and cultural impediments to financial literacy persist.

The correlation between financial inclusion and entrepreneurship has been extensively studied. Scholars like [15] asserts that access to finance facilitates entrepreneurs in making investments, expanding operations, and generating employment opportunities. Nevertheless, access alone is inadequate without the enhancement of capability. [16] asserts that training in company management improves loan utilization and enterprise performance. The PDM amalgamates these two components, presenting an innovative framework that localizes capital and training to foster rural entrepreneurship.

Economic Growth and Financial Inclusion

An inclusive financial system is vital for achieving these goals, ensuring timely access to affordable financial services for individuals, businesses, and all segments of society. [17], Identify two key processes via which financial inclusion affects economic growth:

Economically accessible financial services for the impoverished stimulate economic activity, leading to increased production, income generation, and overall welfare, therefore augmenting national output and growth. The availability of deposit and insurance products encourages savings and investment in financial markets, hence enhancing investments, increasing output, creating employment possibilities, and redistributing income. Financial inclusivity diminishes income inequality, mitigates poverty, enhances living standards, and fosters economic growth and sustainability by engaging all societal segments in economic activity [17]. This was corroborated by the case of Asia, specifically regarding the effects of financial inclusion in ten emerging Asian nations [18]. Gender considerations in policy are essential, as women encounter significant obstacles in accessing finance due to factors such as inadequate credit history, insufficient collateral, and limited financial literacy, highlighting the need for inclusive financial systems that will eventually lead to adequate funding for business opportunities [19]. Research highlights the significance of Microfinance Institutions (MFIs) in fostering female entrepreneurship and empowerment. Current theories indicate that improved financial access through Microfinance Institutions (MFIs) enables women to participate more actively in economic endeavors [20].

Economic Growth and Entrepreneurship

Increased entrepreneurship is recognized to foster economic growth, namely through improved living standards, job creation, community advancement, and poverty alleviation [21]. Research indicates that entrepreneurship enhances economic performance by fostering innovation and intensifying rivalry among enterprises. Long-term statistics indicate that heightened entrepreneurship in nations correlates with general economic growth and enhanced employment [22].

Research has identified two phenomena: the "Schumpeter" effect, as noted [23], and the "refugee" impact, identified by [24], among others [25]. The Schumpeter effect states that new enterprises enhance employment rates by generating new job opportunities and stimulating economic activity. The refugee impact posits that unemployed persons pursue self-employment, leading to entrepreneurial endeavors. The Schumpeter effect is predominantly observed in developed economies, whereas the refugee impact is more prevalent in developing nations characterized by weaker economies and inadequate social security systems [25]. Both ideas culminate in diminished unemployment within society, hence facilitating poverty alleviation and enhancing economic activity. Factors Influencing Financial Inclusion: Financial inclusion is influenced by various determinants at both micro and macro levels, affecting the extent of financial inclusion within each community. At the macroeconomic level, variables such as Gross Domestic Product and the proportion of the rural population significantly influence financial inclusion levels within a country. In Uganda, where a substantial portion of the population resides in rural areas, technical developments, especially in mobile money services, have notably developed, underscoring the significance of innovation in enhancing financial access [26].

Microeconomic elements, including demographic and socio-economic determinants, substantially influence financial inclusion in Uganda. The gender gap remains a significant issue, with women encountering more difficulties in accessing and utilizing financial services. Age, educational attainment, and employment status significantly impact financial inclusion, with individuals aged 25 to 65 and those with advanced qualifications and stable employment exhibiting greater levels of financial inclusion [27]. In Uganda, variables such as age, educational attainment, income, and gender were identified as determinants of financial inclusion outcomes [28]. Digital technology, especially mobile phones, could be regarded as a tool for enhancing financial inclusion, particularly in locations with restricted access to conventional banking systems, such as the rural regions of Manafwa, Bududa among others. Inadequate technological and financial knowledge impede the adoption and use of digital financial services [29]. Moreover, economic levels influence access to financial services, and individuals with low income frequently lack both the perceived necessity and the resources to utilize these formal financial services [29].

Financial Inclusion Strategies and Challenges

It was cited by [7] that digitalization, usage, and FinTech innovations is the key drivers of financial inclusion. Research from empirical studies indicates that financial literacy mediates the relationship between these factors and sustainable growth, while financial schemes (financial policy) exert a positive influence.

Digitalization

The development of information and communication technologies (ICTs) and mobile banking has transformed digitalization, offering rapid, cost-effective, and accessible financial services across many countries. For instance, include CELPAY used in Zambia, M-PESA used in Kenya, and WIZZIT used in South Africa [7]. Information and Communication Technology (ICT) is crucial in advancing financial inclusion, particularly in Sub-Saharan Africa, where more than fifty percent of the population is deprived of conventional banking services. Digital technology, including mobile phones, profoundly influences financial inclusion by enhancing the accessibility and affordability of services [29]. Mobile money operations have transformed financial inclusion in Africa, particularly aiding SMEs, impoverished individuals, and rural communities [30]. Mobile money enhances social support networks, enabling younger and affluent individuals to assist family members in underdeveloped regions, [31]. Mobile banking enables users to access financial accounts, transfer funds, and perform different financial operations through mobile devices, [27]. The adoption of digital technology, particularly mobile money transfers, has shown to be rather effective throughout Africa, lowering transaction costs and streamlining financial transactions [29]. Notwithstanding the overall success, economically disadvantaged regions exhibit diminished mobile money uptake, suggesting a correlation between economic status and mobile money utilization. Proximity to bank offices or ATMs diminishes the likelihood of utilizing mobile money services, indicating a correlation between distance to financial institutions and usage patterns. The proximity to mobile network infrastructure markedly affects mobile phone adoption, particularly smartphones, since enhanced coverage results in increased adoption and usage rates, underscoring the significance of infrastructure investment [31].

Fin Tech

Since information and communication technology (ICT) and finance technology (FinTech) are emerging as key drivers of financial inclusion, [32] stress the need of providing financial services through mobile phones and related devices. In many countries, particularly in developing regions like Sub-Saharan Africa, where FinTech is expected to improve financial inclusion, the COVID-19 epidemic has aided the growth of FinTech and financial inclusion. However, simply having access to financial services is insufficient; financial literacy may also be crucial for using these services and determining how FinTech and financial inclusion interact. FinTech and financial inclusion are positively correlated, as evidenced by the fact that a 1% increase in access to FinTech tools leads to a 0.67% increase in the financial inclusion rate in Sub-Saharan Africa countries. However, FinTech penetration is still very low, which means that a significant portion of the population is excluded from traditional financial institutions [32].

Usage

For equitable growth, commercial banks must adopt cost-efficient technology, including zero-balance bank accounts, point-of-sale systems, mobile banking, and ATMs. Prior research examined outreach via access and usage dimensions, concluding that usage is the most significant factor, as it allows clients to execute purchases using a debit card and a savings account. These enable individuals to invest in assets like housing, children's education, and retirement savings, hence fostering financial inclusion and economic development [7]. The accessibility of financial services, quantified by indicators such as the number of ATMs and commercial bank branches per one hundred thousand persons, remains comparatively low in Uganda. This indicates that several persons continue to encounter difficulties in obtaining and utilizing banking services, highlighting the necessity for enhanced physical banking infrastructure and increased financial literacy, particularly in banking. Despite the availability of financial services, their actual usage and penetration, as indicated by metrics such as outstanding deposits and loans to GDP and the number of depositors per thousand individuals with commercial banks, remain limited. This suggests that although certain individuals may have access to banking services, they may not have been fully engaged with them, potentially due to insufficient financial literacy, inadequate banking skills, or a lack of faith in formal financial institutions.

Financial Initiatives & Capacity Building

Limited levels of technology and financial literacy in most African countries have significantly contributed to financial exclusion [29]. The financial literacy (FL) theory posits that FL serves as a national strategy to attain financial inclusion. It provides a platform for teaching individuals on financial management and the benefits of employing formal financial services. The study demonstrated again that financial inclusion is positively influenced by financial globalization and literacy rates [30]. Governments and financial institutions must implement effective policies to enhance financial literacy in both rural and urban areas, particularly regarding the engagement of financial intermediaries. Financial intermediaries and banking channels can successfully provide financial literacy programs [7].

Financial Schemes

Institutional and governmental engagement is crucial for advancing financial inclusion via national initiatives and legislative actions. In India, organizations such as Regional Rural Banks and Microfinance Institutions have significantly contributed to inclusive growth, especially in rural regions. Robust governance and anti-corruption initiatives enhance economic growth and financial inclusion [33]. Policy amendments should focus on increasing bank branch presence in unbanked regions and fostering secure banking practices [7]. To improve financial inclusion in Uganda, institutions must prioritize adolescents and women while bolstering financial knowledge, as these demographics are frequently the most marginalized. Implementing targeted policies, specifically technology-driven financial solutions, could alleviate the particular constraints faced by excluded populations [34]. Financial inclusion measures must encompass the entire populace, including people and SMEs, to attain global financial inclusiveness objectives [35].

Microfinance in Uganda

Microfinancing was started to assist impoverished individuals in escaping poverty [36]. Microfinance credit providers facilitate access to financial services for underprivileged and financially excluded populations, hence promoting financial inclusion and entrepreneurial growth (MFSA, N.D.). The financial market in Uganda includes both official and informal suppliers. Formal providers comply with laws and regulations but frequently fail to meet the requirements of the impoverished people (Paradigm Shift, n.d.). The informal financial sector encompasses various services and schemes, including rotating savings and credit associations (ROSCA), which are informal savings pools prevalent among impoverished populations in Uganda, as well as informal loans from other providers, typically microloans for some of the small-scale entrepreneurs. The informal sector frequently disregards laws and regulations yet flourishes when both clients and providers are content (Paradigm Shift, n.d.).

Literature indicates that a comprehensive strategy that merges financial access with practical training is more efficacious than financial assistance in isolation. This dual-track methodology can simultaneously address capital requirements and operational inefficiencies that impede micro-enterprise growth.

METHODOLOGY

This study employs a mixed-methods research design, combining surveys with interviews conducted in four sampled districts where PDM implementation is still ongoing. Participants included micro-entrepreneurs engaged in agribusiness, retail, and service sectors. Quantitative data were collected from a survey of 150 micro-entrepreneurs across four districts in Uganda: Kampala, Mbale, Kamuli, and Gulu. The survey included questions on access to financial services, business performance, and participation in training programs.

Data Collection

Qualitative data was gathered through in-depth interviews with 20 entrepreneurs, 5 loan officers from microfinance institutions, 3 officials from entrepreneurship support organizations, focus group discussions and key informant interviews with PDM implementers, SACCO leaders, and Parish Chiefs/Town Agents. The goal was to gain nuanced insights into the experiences and perceptions surrounding financial inclusion and capacity development

Data Analysis

Data was analyzed using descriptive statistics for quantitative inputs and thematic coding for qualitative interviews. The mixed-methods design enabled triangulation of findings to improve validity and draw more robust conclusions.

FINDINGS AND DISCUSSION

The findings indicate a strong association between financial accessibility and business growth. Entrepreneurs with loan access reported elevated revenue [38], enhanced business expansion, and expanded employment relative to those without such access. Many entrepreneurs encountered difficulties in fulfilling collateral criteria and maneuvering through intricate application processes. The research revealed that capacity-building programs markedly improved financial literacy and business planning competencies. Individuals engaged in training programs had a higher propensity to utilize financial services efficiently, evade debt pitfalls, and reinvest revenues into their enterprises. Furthermore, the amalgamation of capacity building and financial accessibility inside PDM provides a robust foundation for sustainable entrepreneurship. PDM offers a coordinated, bottom-up methodology for rural economic change, in contrast to previous models that addressed these components in isolation. Nonetheless, obstacles such as political meddling, inadequate coordination, and limited computer literacy continue to impede comprehensive adoption. The results demonstrate a notable enhancement in financial accessibility and entrepreneurial productivity among members involved in PDM-supported SACCOs. Significantly, 78% of participants indicated enhanced business revenue following PDM assistance.

Sixty-four percent (64%) obtained credit for the first time using PDM arrangements. Individuals who had business training were twice as inclined to reinvest in their ventures. A significant number of entrepreneurs indicated a preference for digital financial services over conventional banking, citing convenience and reduced transaction costs as key factors. Mobile money platforms and fintech applications have emerged as essential instruments for financial inclusion, particularly in rural regions. Nonetheless, obstacles persist, as numerous micro-entrepreneurs reported insufficient post-training support, absence of market connections, gender inequities in loan access, and governmental intervention in PDM financial accessibility. These limits indicate a necessity for more comprehensive treatments that tackle both financial and social barriers to entrepreneurship.

CONCLUSION AND RECOMMENDATIONS

Financial inclusion, combined with targeted capacity-building initiatives, is essential for promoting entrepreneurial development among micro-entrepreneurs in Uganda. Financial inclusion improves corporate operations, whereas capacity building guarantees sustainable practices and enduring growth.

Policymakers and development partners should prioritize the expansion of financial services specifically designed for micro-enterprises, particularly in rural regions. Capacity-building activities should be amalgamated with financial programs to optimize their efficacy and some Suggestions include:

1. Strengthening financial literacy programs within local communities, extending to the parish level, the lowest administrative unit.
2. Streamlining credit application procedures and minimizing collateral requirements.
3. Advocating for inclusive financial innovations and digital payment systems.

4. Providing continuous post-training mentorship and support.
5. Advancing gender-sensitive methodologies in finance and entrepreneurship.
6. Equipping entrepreneurs with business management skills such as planning and bookkeeping, among others.
7. Enhance the institutional capability of parish-level SACCOs.
8. Strengthen digital financial literacy initiatives along with the implementation of PDM.
9. Ensure transparency and accountability in the allocation and oversight of funds.

Financial inclusion is essential for economic development, and it continues to pose a difficulty, particularly in developing countries such as Uganda. Notwithstanding progress in digital technology, access to financial services continues to be constrained, especially in rural regions. In Uganda, inequality in income and poverty underscore the necessity of improving financial inclusion. Entrepreneurship is essential for economic development in developing countries; however, in Uganda, it is impeded by inadequate access to financing and governmental assistance. Although the Parish Development Model (PDM) is implemented, its benefits are predominantly accrued by a limited number of households that have established advantageous relationships with Savings and Credit Cooperative Organization (SACCO) leaders. To prevent the recurrent allocation of funds to the same households in each disbursement, rigorous measures such as Community Beneficiary verifications should be instituted. Improving financial inclusion and encouraging entrepreneurship depend much on policy measures. Alternative solutions may encompass strengthening institutional quality, broadening physical and digital banking infrastructure, advancing financial literacy, fostering a change in mindset, and executing specialized programs for marginalized groups. We have found a distinctive impact on economic growth from increased financial inclusion and entrepreneurship.
Future studies should investigate the long-term impacts of combined financial and training interventions, especially their contribution to transforming micro-firms into formal small and medium-sized enterprises.

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