



Debt Financing and Sustainable SME Growth in Sub-Saharan Africa: A Qualitative Perspective from Uganda

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Abstract

This research examines the impact of structured debt financing, including loan size, interest rate, and maturity, on the sustainable growth of small and medium-sized enterprises (SMEs) in Lira City, Uganda. Data were collected using a qualitative interpretative phenomenological analysis (IPA) approach through semi-structured interviews with owners and senior managers of SMEs across various sectors. Thematic analysis was performed utilizing Braun and Clarke's six-phase method. The findings indicate that although SMEs can access credit, the loan structure frequently hinders business growth because of limited disbursed amounts, elevated interest rates, and short repayment periods. Participants identified difficulties in obtaining debt, including strict collateral demands and complex loan procedures, along with post-disbursement challenges such as undisclosed fees and rigid repayment terms. In light of these constraints, SMEs exhibited adaptive behaviours including structured repayment planning, financial discipline, and cautious borrowing, which indicate informal financial literacy and strategic decision-making. The behaviours observed correspond with the Trade-Off Theory of Capital Structure and the Sustainable Growth Theory, elucidating how SMEs manage financial risks to maintain operations. The research is confined to SMEs in Lira City and may not comprehensively reflect experiences in other areas; subsequent studies could incorporate quantitative methods or expand geographic scope. The study advocates for inclusive and transparent lending practices, including the relaxation of collateral requirements, stabilization of interest rates, clear disclosure of all loan costs, provision of flexible repayment schedules, and investment in financial literacy programs to enhance the resilience and growth of SMEs.

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Introduction

Small and medium-sized enterprises (SMEs) are crucial to the socioeconomic development of both mature and emerging nations. SMEs make up about 90% of global firms and drive innovation, employment, and national income (OECD, 2023). SMEs drive inclusive growth, job creation, and poverty reduction in Sub-Saharan Africa (World Bank, 2024). They account for 20% of Uganda's GDP and 80% of industrial output (UBOS, 2023). Many businesses collapse after five years due to structural, managerial, and financial issues (Mpora & Katabaazi-bwengye, 2025).

Limited access to proper finance limits the survival and growth of SMEs in Uganda and Sub-Saharan Africa, contributing to the high failure rate. Due to poor record-keeping, limited collateral, and



irregular cash flows, formal financial institutions consider SMEs high-risk (Lagat & Njaramba, 2024). A continual finance gap prevents SMEs from investing in innovation, infrastructure, and capacity growth (Kandurua & Deng, 2024). Debt financing from commercial banks and microfinance institutions is often limited by high interest rates, short repayment periods, and high collateral requirements, which can increase financial pressure (Kato et al., 2024).

There are few SME-specific financial products and few flexible credit assessment methodologies in Uganda's financial sector. Local SMEs in secondary metropolitan regions, such as Lira City, face challenges in accessing structured and affordable finance. Local economic constraints and institutional inefficiencies hinder financial inclusion (Byamukama et al., 2024). Thus, many SMEs struggle to manage their debt, which impacts their sustainability and growth.

The availability of credit and the success of small and medium-sized enterprises (SMEs) have been extensively studied. However, most of these studies are quantitative and do not effectively represent the perspectives of marginalised SME owners. There is also insufficient attention on how debt structure, including loan size, maturity, and interest rates, affects sales performance, employment generation, and long-term profitability (Nyeko et al., 2024). This study examines SME owners in Lira City, Uganda, on how debt financing affects sustainable business growth by examining their lived experiences with loan structure—specifically loan size, interest rate, and maturity—revealing the challenges they face in accessing and managing debt, the strategies they use to cope with financing constraints, and context-specific recommendations.

Empirical Literature Review

SMEs make up about 90% of global firms and drive employment, innovation, and inclusive growth in developed and developing nations (OECD, 2023). Sub-Saharan Africa (SSA) SMEs reduce poverty and boost economic resilience, especially in marginalised communities (World, 2024). SMEs account for nearly 80% of Uganda's industrial output and approximately 20% of the country's GDP. Despite their economic importance, many Ugandan SMEs fail due to structural issues, managerial incapacity, and limited funding choices (Mpora & Katabaazi-bwengye, 2025). The problems have increased interest in debt finance as a way to help SMEs grow sustainably, especially in fragmented financial markets like Lira City.

Empirical studies in Sub-Saharan Africa show that loan structure, not access, affects SME growth. In Ethiopia, SMEs with larger loans and longer payback terms increased sales and profitability (Muhammed et al., 2024). Flexible repayment schedules and moderate borrowing rates helped Tanzanian enterprises create jobs (Badi & Ishengoma, 2021). The findings suggest that context-sensitive lending strategies are necessary, as loans are most effective when they align with the operational dynamics of SMEs. Understanding how Lira City SMEs handle debt in the absence of financial literacy and institutional support requires this information.

South Africa, Kenya, and Nigeria demonstrate the importance of debt structure, particularly in terms of loan term and cost. Long-term lending in South Africa helped SMEs make strategic investments and maintain operational stability, but short-term loans often pressured them and encouraged short-sighted decisions (Kato, 2024). Due to high interest rates and stringent repayment conditions, Kenyan SMEs had limited cash and reinvestment (Lagat & Njaramba, 2024) options. Short debt cycles make it challenging for Nigerian SMEs to hire and generate revenue (Abubakar et al., 2024). This highlights the risks associated with poorly structured loan structures and underscores the need for more flexible financing solutions, particularly in Uganda's semi-urban financial landscape.

SME loan funding success depends on the quality of institutions and their governance. Debt volatility may hurt economic growth without strong financial control and regulatory transparency (Manasseh



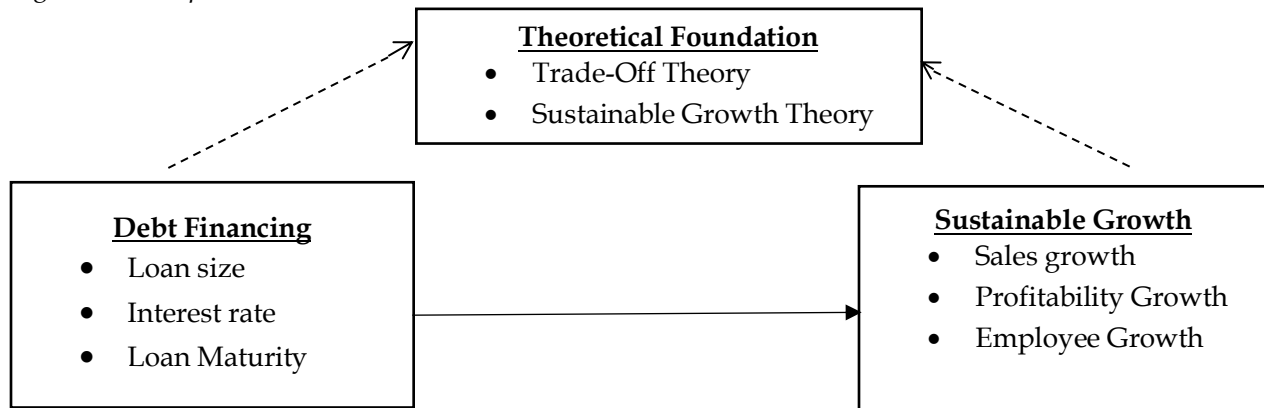
et al., 2022). External debt only benefits development when supported by good fiscal management and public policy (Mugobera & Mahebe, 2024). The macro-level dynamics are especially relevant in Uganda, where financial rules often fail to satisfy the needs of decentralised and informal SMEs. This shows how micro-business behaviour and macroeconomic governance affect SME funding.

Recent research challenges the notion that small and medium-sized enterprises (SMEs) are too risky for formal lending. In Northern Uganda, many informal SMEs with responsible financial practices are excluded from formal financing processes due to inflexible and inadequate credit assessment procedures (Ogunmokun et al., 2024). Researchers recommend relationship-based lending and adaptive risk profiling over traditional methods. Most studies use quantitative data and don't examine SME owners' subjective perceptions of debt, negotiations, and responses. This qualitative study of small and medium-sized business owners in Lira City, Uganda, addresses that gap. Lived experiences with loan size, interest rates, and payback conditions reveal how debt structure affects SMEs' sustainable sales, profitability, and employment growth.

Conceptual Model

This study is grounded in the Trade-Off Theory of Capital Structure and the Sustainable Growth Theory to explain the financial behaviour of SMEs in Lira City. The conceptual model illustrated in Figure 1 utilises the Trade-Off Theory of Capital Structure and the Sustainable Growth Theory to examine how structured debt financing, characterised by loan amount, interest rate, and maturity, affects the sustainable growth of resource-constrained SMEs. Structured debt serves as the independent variable, while the sustainability of SME growth – encompassing sales, profitability, and employment growth – is the dependent variable. Well-designed loans facilitate SMEs' development and enhance their resilience, whereas poorly structured debt increases their vulnerability. The qualitative approach draws on the lived experiences of SME owners to provide context-specific insights that connect academic foundations to real financial applications in Sub-Saharan Africa.

Figure 1: Conceptual Model



This study utilised a qualitative research design grounded in the interpretive paradigm to investigate the lived experiences of SME owners with debt finance and sustainability. The research employed an Interpretative Phenomenological Analysis (IPA) technique. IPA is particularly suitable for assessing how individuals make sense of significant life experiences, making it appropriate for studying debt-related decision-making among entrepreneurs in financially constrained contexts.

Study Population

The target population consisted of owners of small and medium-sized enterprises located in Lira City, Uganda. These included owners from various sectors, such as retail, agribusiness, services, and light



manufacturing. The diversity in industry type, business size, and operational age enriched the qualitative findings. The sample size was determined based on thematic saturation. A total of 9 SME owners participated in the study. The sample comprised five males and four females, aged between 28 and 54 years. The businesses represented included agribusiness (2), retail (3), services (2), and small-scale manufacturing (2). All participants had accessed either bank loans or SACCO loans, among other sources.

Sampling

Purposive sampling was utilised to guarantee relevance and depth, specifically targeting SME owners with prior experience in structured debt financing. This technique enabled the selection of information-rich cases that provide detailed insights into debt access, repayment behaviours, and their effects on sustainable business growth. The purposive strategy facilitated participant diversity across various sectors and enterprise sizes, which is crucial for comparative thematic analysis in qualitative research (Bouncken et al., 2025).

Data Collection

Data collection involved semi-structured, in-depth interviews guided by an interview protocol derived from the study's objectives. The interview guide featured open-ended questions organised around four central themes: perceptions of loan size, interest rates, and maturity; challenges in accessing and managing debt; strategies employed to navigate structural financing limitations; and recommendations for improving access to structured debt. Field notes were taken during and after interviews to capture non-verbal cues, contextual details, and the researcher's reflections, thereby enriching the interpretative depth of the analysis and supporting data triangulation.

Data Analysis

The study employed Braun and Clarke's six-phase thematic analysis paradigm and utilised NVivo 12 for systematic coding, topic formulation, and data traceability. The analytical approach comprises data familiarisation, code development, theme identification and review, category definition and naming, and the production of a comprehensive report with illustrative quotes. This strategy enabled SME owners to identify shared and distinct structured loan financing experiences. Themes included loan size, interest rates, and maturity; debt finance access and management issues; debt-related constraint tactics; and practical advice for enhancing access to well-structured funding systems.

Ethical Clearance

Ethical approval was obtained from the Gulu University Research Ethics Committee (GUREC) under approval number GUREC-2024-1057. Final clearance to conduct the study in Uganda was granted by the Uganda National Council for Science and Technology (UNCST) under registration number SS3676ES. Participants were informed about the study's purpose, their rights to withdraw at any time, and the measures taken to ensure confidentiality and anonymity.

Result

This section presents the results of a thematic analysis of interview data from SME owners in Lira City, guided by Braun and Clarke's six-phase framework. The process began with familiarisation through repeated readings of transcripts and field notes, leading to the generation of initial codes using NVivo 12 that captured patterns related to loan access, debt management, and financial decision-making. Table 1 outlines key initial codes such as "Loan Disbursement Gap" and "Interest Rate Sensitivity." These codes were then grouped into broader thematic categories during the theme identification and review phases, revealing recurring issues such as perceptions of loan structure, barriers to credit access, and strategic financial responses. Table 2 presents the four major themes that emerged: (1) perceptions of loan size, interest rate, and maturity; (2) challenges in accessing and managing debt; (3) strategies adopted to cope with financing constraints; and (4) recommendations



for improving loan accessibility and structure. The themes were refined to ensure analytical clarity and coherence, and were synthesised into a narrative supported by illustrative quotes, anchoring the findings in the real-life experiences of SME owners.

Perceptions of Loan Size, Interest Rate, and Maturity

Loan Size

Participants expressed that loan size significantly influenced their ability to meet business needs and drive growth. Many SME owners reported receiving smaller loan amounts than they had applied for, which disrupted their operational plans. For example, one participant noted, *"I applied for 15 million shillings, but they reduced it to 5 million, which could not meet my business target"* (DF11). To address this limitation, some SMEs began using internal financial assessments, such as sales records and income tracking, to support more realistic loan applications. This approach indicates a shift towards more informed and prudent borrowing practices.

Interest Rate

Interest rates are often seen as a barrier to the sustainable use of debt. Participants described high rates as burdensome, often leading to the rejection of loan offers or opting for smaller amounts to mitigate risk. One participant shared, *"I always study the interest rate very well before applying... high rates break the business"* (DF13). These experiences illustrate how concerns over repayment costs drive risk-averse behaviour and limit SMEs' access to external financing for growth or reinvestment.

Loan Maturity

The repayment period associated with loans was seen as a crucial aspect of financial planning. Short maturity terms were perceived as problematic, especially for businesses with seasonal or irregular cash flows. As one SME owner explained, *"It is hard when the bank gives a short time to pay; sometimes sales are slow, and you cannot meet the repayment"* (DF45). Participants advocated for longer or more flexible repayment schedules that would allow them to manage their finances more effectively and avoid default risks. This subtheme underscores the importance of aligning debt terms with business income cycles.

Challenges in Accessing and Managing Debt Finance

Based on thematic analysis of participant narratives. The findings offer essential insights into the structural and operational limitations that hinder adequate SME financing within the study context.

Participants highlighted several key barriers that limited their access to debt finance from formal financial institutions, with stringent collateral requirements being the most prominent. Many SMEs lacked land titles or other high-value assets required by lenders, effectively disqualifying them from securing adequate financing. As one participant stated, *"Most financial institutions in Lira are complicated to deal with... they asked for a lot of collateral such as land titles, which my business could not meet"* (Participant DF11). In addition to collateral constraints, participants expressed frustration with the bureaucratic and time-consuming loan approval processes that delayed access to critical funding. *"Application forms take too long to be approved by the authority of the bank"* (Participant DF41), one participant complained, noting that these delays often caused missed business opportunities. Moreover, even when loans were approved, the amounts disbursed were frequently lower than requested, forcing SMEs to scale down their operations and abandon planned growth initiatives, thereby undermining business sustainability.

While challenges in accessing credit were widespread, participants also emphasised that managing loans post-disbursement posed equally serious hurdles. Hidden charges, such as management fees, insurance premiums, and account maintenance costs, were commonly encountered, many of which were not frequently disclosed during the loan application process. These additional costs increased



the overall borrowing burden. One participant remarked, *"One challenge that I have encountered with loan repayment is default fees that accumulate after late payment"* (Participant DF15), highlighting how unforeseen penalties compounded financial strain. Furthermore, inflexible repayment schedules did not accommodate the variable nature of SME revenues, particularly during periods of low sales. This disconnect between loan terms and business performance led to missed payments, heightened default risk, and strained relationships with lenders. These repayment difficulties, when coupled with initial access barriers, eroded SMEs' trust in formal financial systems and underscored the need for more transparent and adaptable lending models that align with the realities of small business operations.

Strategies Adopted to Navigate Debt Financing Constraints and Sustain Growth

On the strategies employed by SMEs to address debt financing limitations and maintain business continuity and growth. Debt management strategies and strategic risk evaluation. SMEs adopted several proactive strategies to manage their debt effectively, focusing on consistent repayment and minimising default risk. Participants described implementing structured repayment plans by allocating a fixed portion of their revenue specifically for loan servicing before covering other operational costs. One participant shared, *"I developed a loan repayment plan where I save a percentage of sales weekly towards loan payments"* (Participant DF14), illustrating a deliberate effort to prioritise debt obligations. In addition to disciplined saving, many SMEs reduced non-essential expenses to preserve cash flow and avoid late payment penalties. These financial management practices reflect an increasing awareness among SME owners of the importance of financial discipline in sustaining operations and maintaining good standing with lenders for future credit access.

Participants demonstrated a strategic and risk-aware approach to borrowing, carefully evaluating loan terms, interest rates, and repayment schedules in relation to their business's financial capacity prior to committing to debt. This analytical mindset helped to minimise the risk of overexposure and supported long-term business sustainability. As one participant noted, *"I always look into the terms and conditions for the loan before applying and if my business can afford to pay back"* (Participant DF19), reflecting a deliberate and informed decision-making process. By aligning loan choices with their cash flow realities and anticipated growth, SMEs preserved operational flexibility and maintained profitability. This cautious borrowing behaviour revealed a growing financial literacy among SME owners, highlighting their commitment to responsible debt management as a foundation for resilience and future success.

Recommendations for Enhancing SME Access and Management of Debt Financing

Participants proposed several practical recommendations aimed at improving both access to and the management of debt financing by SMEs. Drawing from their lived experiences, SME owners underscored the importance of aligning financial products and institutional practices with the operational realities of small businesses.

A primary concern was the stringent collateral requirements imposed by financial institutions. Many SMEs lacked land titles or other high-value assets, which effectively excluded them from formal lending channels. As one participant shared, *"It would be easier if banks didn't ask for land titles all the time – most of us don't have that kind of property"* (Participant DF03). Reducing collateral thresholds would increase inclusivity and broaden access to credit, particularly for asset-poor but viable enterprises. Building on the issue of access, participants also emphasised the burden of high and unpredictable interest rates, which further discouraged borrowing among SMEs.

Unstable and excessive interest rates were cited as major deterrents to borrowing and long-term planning. Participants noted that the cost of borrowing under such conditions often outweighed the benefits. One participant asked, *"If the interest is always changing, how can I plan properly?"* (Participant DF29), highlighting the planning difficulties caused by rate fluctuations. Providing affordable and



consistent interest rates would empower SMEs to manage debt more confidently and responsibly. Closely tied to concerns about loan affordability were frustrations regarding hidden charges that increased the actual cost of borrowing, often discovered only after the loan had been disbursed.

Participants called for more transparent communication regarding all fees associated with loans, including management fees, insurance premiums, and account maintenance costs. The lack of upfront disclosure was perceived as misleading and detrimental to trust. "They tell you one thing during application, but later you find extra charges like account fees and insurance" (Participant DF12), explained one SME owner. Improving transparency in loan terms would not only foster trust but also help SMEs accurately assess the actual cost of borrowing before committing to credit. Even when loans were affordable and presented transparently, participants noted that rigid repayment structures often posed challenges during periods of low business performance.

Fixed instalment deadlines were seen as inflexible and unsympathetic to the cyclical nature of SME cash flows. Participants advocated for repayment terms that reflect their revenue variability. One business owner shared, "Sometimes sales are low, but the bank doesn't care. They want their money on time, even when business is down" (Participant DF33). Flexible repayment structures would alleviate financial pressure, prevent defaults, and foster longer-term relationships between small and medium-sized enterprises (SMEs) and lenders. Underlying all these concerns was a broader recognition of the necessity for greater financial knowledge and preparedness among SMEs when engaging with credit markets.

Participants widely agreed that enhancing financial literacy was essential for improved debt management. Many advocated for targeted training programmes and advisory services to assist small and medium-sized enterprises (SMEs) in interpreting loan terms, assessing risk, and planning repayments effectively. "We need to understand loans better before we take them, not just sign and struggle later" (Participant DF27), emphasised one participant. Increasing financial knowledge would empower SMEs to make more informed borrowing decisions, reduce exposure to economic distress, and foster sustainable growth.

Discussion

SMEs' Perceptions of Loan Size, Interest Rate, and Maturity

Loan Size

The results indicate that loan size has a significant influence on SME growth. Participants noted that the requested funding was insufficient, hindering their ability to invest in inventory, equipment, and expansion. This supports Kassegn and Endris (2023), who found that the loan sizes of Sub-Saharan African SMEs impede innovation and capital acquisition. Participants adjust to lender scrutiny by utilising internal sales records and financial forecasts to support their loan applications. This behaviour suggests that SME owners are practising responsible financial planning, supporting the Sustainable Growth Theory, which states that growth must be linked with internal resources. The Trade-Off Theory suggests that SME owners strategically limit borrowing based on expected profits and perceived risk, particularly when the loan amount does not align with business needs.

Interest Rate

SME debt uptake was significantly discouraged by sensitivity to interest rates. High rates are perceived to reduce profits and increase repayment pressure; consequently, many either avoid formal loans or request smaller amounts to minimise risk. This validates Mpora and Katabaazi-Bwengye's (2025) finding that Ugandan SMEs consider formal lending to be punitive due to high interest rates. Participants' risk aversion corroborates Lagat and Njaramba's (2024) finding that high-interest environments restrict loan absorption capacity. This behaviour aligns with the Trade-Off Theory,



which posits that enterprises only incur debt when the marginal gain surpasses the marginal cost. SMEs may resort to self-financing or underutilise credit in high-interest environments to preserve financial stability.

Loan Maturity

Participants emphasised that loan maturity significantly affects financial stress or stability. Short payback durations do not align with the cash flow cycles of most small firms, particularly those in agriculture and retail, which experience fluctuating income. These concerns align with those of Nyeko et al. (2024), who found that SMEs benefit more from longer-term lending arrangements with gradual repayment. Repayment terms should be more flexible and personalised, as one-size-fits-all lending approaches do not work for SMEs. According to the Sustainable Growth Theory, growth should be financed at a rate that does not threaten financial stability. Credit gains may be undermined by hardship and default resulting from short maturities and revenue cycles.

Challenges in Accessing and Managing Debt Finance

The findings indicate that stringent collateral requirements impede SME access to formal finance. Participants stated that many small enterprises lack land titles or other high-value assets that banks require, thereby preventing them from receiving formal loans. Kira and He (2023) found that collateral-based financing disadvantages small businesses in Sub-Saharan Africa. Administrative delays, including slow loan processing and strict approval standards, were also perceived as demotivating and hindering decision-making. "*Application forms take too long to be approved by the authority of the bank*" (DF41) reflects concerns that bureaucratic inefficiencies can impede entrepreneurship. These obstacles hinder access to working capital, prompting entrepreneurs to retreat or liquidate their businesses. This validates previous findings that structural restrictions in the financial system led to the failure of Ugandan SMEs (Mpora & Katabaazi-Bwengye, 2025). These limits theoretically raise the cost of loans, causing SMEs to avoid external financing unless it is essential.

Even with finance, SMEs encounter new hurdles after disbursement. Participants reported hidden fees, insurance costs, and penalties that significantly increased borrowing expenses. "*One challenge that I have encountered with loan repayment is default fees that accumulate after late payment*" (DF15) illustrates how imprecise conditions and inflexible payment arrangements burden repayments. According to Lagat and Njaramba (2024), opaque loan terms undermine borrower trust and cause financial distress. The mismatch between fixed repayment schedules and unpredictable business income, particularly in the retail and farming sectors, heightens default risks. Such rigid frameworks disregard SME revenue cycles and undermine financial resilience during periods of low sales. Consequently, many SME owners become hesitant about borrowing, which may restrict their growth. These findings emphasise the need for transparent, flexible, and SME-specific cash flow lending arrangements.

Strategies SMEs Employ to Cope with Structural Limitations of Debt Finance

The data indicate that SME owners are establishing internal processes to ensure loan repayment and mitigate default risk. Participants employed structured repayment methods, such as allocating a certain percentage of their income to loan servicing. One SME owner said, "*I developed a loan repayment plan where I save a percentage of sales weekly towards loan payments*" (DF14). The transition from reactive to proactive debt management signifies that entrepreneurs are taking conscious actions to maintain liquidity and satisfy their obligations on schedule. To conserve funds, many members have cut non-essential spending in addition to savings. These habits illustrate an increasing culture of financial discipline among SMEs, aligning with Kassegn and Endris (2023), who found that good financial behaviour boosts SMEs' credibility with lenders and future financing. These measures enhance business continuity and lender confidence, which are essential for long-term financial support.



Participants demonstrated a comprehensive, analytical borrowing strategy that extended beyond mere repayment measures. SME owners took cash flow and revenue projections into account when determining loan terms, interest rates, and repayment durations. To avoid overleveraging, one participant remarked, *"I always look into the terms and conditions for the loan before applying and if my business can afford to pay back"* (DF19). Nyeko et al. (2024) found that financially savvy businesses utilise loans more responsibly. SME owners enhanced their financial skills and sustainability planning by tailoring credit options to their business's payback capabilities. These findings suggest that financial literacy is empowering SMEs to cautiously acquire financing, sustain operational flexibility, and mitigate financial vulnerability.

Recommended to Enhance SME Access and Management of Debt Financing

Participants strongly advised banking institutions to revise their collateral practices, as asset-based requirements, such as land titles, exclude many potential SMEs. Insufficient high-value assets were often cited as an impediment to formal financing. Participants noted, *"It would be easier if banks didn't ask for land titles all the time – most of us don't have that kind of property"* (DF03). Literature supports this concern, identifying collateral requirements as a structural constraint for developing country small and medium-sized enterprises (SMEs) (Kira & He, 2023). The suggestion from participants to lower collateral criteria promotes inclusive lending policies that evaluate firm success and cash flow history.

High and unpredictable interest rates also hindered borrowing and financial planning. Participants described these rates as volatile and unsustainable, discouraging loan applications and posing a threat to repayment. Asking, *"If the interest is always changing, how can I plan properly?"* DF29 captures the uncertainty of rate fluctuations. This supports Mpora and Katabaazi-Bwengye's (2025) findings that stable credit terms boost SME confidence and long-term decision-making. Policies that promote affordability and assist SMEs in projecting financial obligations should include lower and more predictable interest rates.

A common suggestion was for banks to be more transparent about loan fees. Mistrust was fuelled by hidden costs such as management, insurance, and account maintenance. *"They tell you one thing during application, but later you find extra charges like account fees and insurance"* (DF12), said a SME owner. According to previous studies (Lagat & Njaramba, 2024), poor disclosure is linked to increased borrower dissatisfaction and repayment difficulties. Providing SMEs with all loan costs at pre-approval would empower them to make informed decisions and foster trust between lenders and borrowers.

Aligning repayment structures with SME revenue cycles was another primary suggestion. Fixed repayment schedules often did not account for fluctuations in small business income, participants indicated. One participant said, *"Banks don't care about low sales. They want their money on time even when business is slow"* (DF33). Flexible repayment plans, such as income-based or seasonal ones, supported financial sustainability. Nyeko et al. (2024) found that adaptive lending models reduce default risks and improve long-term loan performance.

Underlying many of the concerns, as mentioned earlier, was a widespread acknowledgement of the need to strengthen financial literacy among SME owners. Participants advocated for practical training programmes and advisory services to help them understand loan conditions, assess risk, and manage repayments effectively. One participant captured this sentiment: *"We need to understand loans better before we take them, not just sign and struggle later"* (DF27). This finding supports Kassegn and Endris (2023), who argue that improved financial knowledge enables SMEs to make more informed borrowing decisions and avoid over-indebtedness. Enhanced financial literacy was perceived not only as a means of improving individual borrowing outcomes but also as a foundation for broader financial resilience and sustainable growth.



Conclusion

The study found that loan characteristics – particularly size, interest rates, and maturity – significantly influenced SME borrowing behaviour and financial stability in Lira City. Entrepreneurs faced growth limitations due to small loan amounts, high interest rates, and short repayment terms, which were compounded by restricted access to formal credit resulting from stringent collateral demands and bureaucratic procedures. Those who accessed credit often encountered hidden fees and rigid repayment schedules, leading to diminished trust in lenders. In response, many SMEs adopted proactive financial strategies, including structured repayment plans and improved cash flow management. Participants also suggested reforms to improve financial accessibility, such as reducing collateral requirements, increasing loan transparency, offering flexible repayment options, and stabilising interest rates.

The findings have significant implications for policy, practice, and SME development, underscoring the need for reforms that address institutional barriers to finance. Specifically, reducing collateral requirements and enforcing full disclosure of loan terms can enhance equitable access to credit. Financial institutions are encouraged to tailor their services to meet the needs of SMEs by aligning credit products with business revenue cycles, offering flexible repayment options, and providing advisory support to foster trust and nurture long-term relationships. Furthermore, the study emphasises the critical role of financial literacy, advocating for targeted training programmes to empower SME owners with the skills to navigate loan terms, manage debt strategically, and mitigate economic vulnerability, thus strengthening both individual enterprises and the broader entrepreneurial landscape.

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