

**FINANCIAL LITERACY AND ADOPTION OF FORMAL FINANCIAL SERVICES
AMONG SMALL BUSINESS TRADERS: A CASE STUDY OF NAKAWA MARKET**

BY

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DECLARATION

I declare that this dissertation is my original work and has not been published or submitted to any university or institution of higher learning for any award.

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APPROVAL

This work has been done under our supervision and has met the research requirements of Kyambogo University and is now ready for submission.

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DEDICATION

I dedicate this dissertation to my family who have stood with me all the way through this academic journey up to the end.

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The journey towards producing this research report has received support from various persons that cannot go unappreciated. But before it all, I thank God for His mercies and favor upon my life throughout this academic process.

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LIST OF ABBREVIATIONS/ ACRONYMS

SMEs	:	Small and Medium Enterprises
FSD	:	Financial sector deepening
OECD	:	Organisation for Economic Co-operation and Development
G2P	:	Government to person
MSMEs'	:	Micro, Small, and Medium-Sized Enterprises
GDP	:	Gross domestic product
ACCA	:	Association of Chartered Certified Accountants
BBB	:	Business Bank
TAM	:	Technology Acceptance Model
UBOS	:	Uganda Bureau of Statistics
ODK	:	Open Data Kit
SPSS	:	Statistical Package for Social Sciences

ABSTRACT

The study analyzed the relationship between financial literacy and adoption of formal financial services among SMEs in Nakawa. More specifically, the study was intended to (i) Analyse the relationship between financial knowledge and adoption of formal financial services among SMEs in Nakawa market, (ii) Analyse the relationship between financial skills and adoption of formal financial services among SMEs in Nakawa market and (3) Analyse the relationship between attitude about formal financial services and adoption of financial services. The study was based on a cross sectional research design targeting 380 Small and Medium Business men and women in Nakawa market. The analysis of the relationship between the different components of financial literacy and adoption of formal financial services was done using Pearson correlation tests and the logistic regression model. The main findings of the study are that financial knowledge has a significant positive relationship with the adoption of formal financial services (Correlation coefficient=0.252 p=0.000). Similarly, financial skills also have a significant relationship with adoption of formal financial services at all conventional levels (Correlation coefficient=0.467 p=0.000). The study also found a significant relation between attitude towards financial services and adoption of the formal financial services (Correlation coefficient=0.364 p=0.000). As a way forward, the study recommends that financial literacy programmes should not only focus on sensitizing the population about the available financial services. If significant results are to be achieved, the programmes should offer a complete set that includes sensitization about the available financial services as well as training the population with the hands-on skills to be able to use the available financial services. Lastly, banks and other financial services providers should also be deliberate about improving their public image especially when it comes to the manner in which they demand for loan repayments. This will result into positive attitudes towards banks.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

With the increasing complexity of financial processes, there is need for educators to introduce financial literacy programmes at all levels of the education system. Access to formal financial services is key for growth of SMEs (Sitharam and Hoque (2016), Chowdhury and Alam (2017) and Lukuma et al. (2019). Yet, majority of SMEs lack access to formal financial services provided by formal sectors and only access financial services from informal service providers such as money lenders and microfinance institutions, Mweheire (2014). Many SMEs are not ready to use the available financial services because of lack of necessary skills and knowledge, (Hussain, Salia and Karim, 2018). With the increasing complexity of financial processes, there is need to introduce financial literacy programmes for SMEs. Despite the fact that many educated people are now switching from using informal to formal financial services, the use of formal financial services among small business traders and the less educated generally is still low across the globe.

In the past few years, many countries have indeed experienced a financial sector revolution. A variety of financial services are now widespread and closer to the people than they were say twenty years ago. Yet, the use of the financial services remains low. The World Bank Global Findex database 2021 indicates that in sub-Saharan Africa, on average, only 27% own an account in a formal financial institution compared to 90% in high income countries, 43% in south Asia, 44% in Latin America & Caribbean. The proportion that has access to financial credit is even much lower at only 7% in Sub Sahara Africa, compared to 37% in high income countries, 10% in south Asia, 16% in Latin America & Caribbean, (World Bank 2021)

In Uganda, the Finscope survey of 2018 reported only 11% of Adults used bank services and a higher proportion of adults (56%) used informal financial services such as village saving groups and money lenders (FSD Uganda, 2018).

The low levels of utilisation of formal financial services motivated this study. The aim of the survey was to investigate the association between the financial literacy and adoption of formal financial services among small and medium traders in Nakawa market.

1.1 Background to the Study

1.1.1 Historical Background

During the early years of commercial development in Africa, no formal banking institutions existed. Entrepreneurial opportunities of ‘money’ lending and transfers emerged through exchange of commodities. As trade expanded across the continent, exchange across the African continent, regional markets developed, serviced by indigenous currencies and exchanging commodities, slaves, and manufactured goods from the craft guilds (Hopkins, 1973; Austen, 1987).

Indigenous ‘financial’ institutions emerged to facilitate the conclusion of transactions between creditors and debtors. The trade in the Mediterranean paved the way for the development of formal institutions to facilitate the accumulation of money. In those early days, modern financial services were designed to serve the capitalist colonial economies. This changed over the years and today, formal financial services are promoted as the only safe option for all including the vulnerable groups such as the less educated and those without collateral security such as operators of small and micro businesses.

The adoption of these formal financial services necessitated the need for financial literacy- a concept that is as old as money. This concept can be traced to the old days of barter trade where

individuals needed to understand commodities to produce, how to produce as well as how much to produce, consume, exchange, and save for periods of no harvests, (Zytek, 2019). Interests and efforts by both public and private actors to improve financial literacy are also not new and the concept of financial literacy has extensively been researched. Schools, universities and organisations have provided financial literacy education for decades. Various courses titled individual/personal finance, personal financial management, and financial education among others are common. For centuries, academicians/ researchers have carried out extensive research on how to best help individuals improve financial management skills and develop standards for adult financial education, (Zytek, 2019). The findings from various researchers have been similar across the globe pointing out that majority of individuals across the globe are financially illiterate and consequently, they are unable to make financial decisions for themselves that are in their best interests, (Perry 2008). Concerns of financial illiteracy cut across various groups. Both young and old, developed countries or underdeveloped, educated or uneducated lack the basic skills and knowledge needed to make informed financial decisions. For instance, available international evidence indicates that developed countries such as Japan, Korea, America and developed European countries were found to have high levels of financial illiteracy (Chen & Volpe, 1998); Chen and Liu, 2006; Lusardi and Mitchel, 2007; OECD, 2005)

The importance of having financial knowledge is well recognised especially after the 2007 financial crisis that shifted the attention of policy makers across the globe towards enhancing financial literacy (Adbullah and Chong, 2014; Kebede and Kuar, 2015). Therefore, given the importance of small and medium enterprise in growth of economies through employment creation, the need for financial literacy for players in SMEs is more urgent.

1.1.2 Theoretical background

Two theories of financial inclusion constituted the foundation of the research study, the financial literacy theory, and vulnerable group theory of financial inclusion that were recently advanced by Perterson Ozili, (2020). While top policy makers give little attention to theories on financial inclusion on grounds that theories lack relevance to practitioners and that developing of theories is a waste of time, Ozili argues that theories lay a framework for understanding financial inclusion, how it can be achieved and its beneficiaries.

1.1.2.1 Financial literacy theory of financial inclusion

This theory underscores financial literacy's function in enhancing financial services adoption and accessibility. It postulates that financial literacy increases the willingness of individuals to join the financial sector as well as the fact that financial inclusion can be attained through programmers that target training citizens on financial matters. Financial literacy improves the awareness of formal financial services among the populace that can support them to join the formal financial sector by owning a formal bank account. Financially literate people are also equipped with skills and knowledge to benefit from other financial services such as mortgage products, investments among others. Besides, people who are financially literate can learn to differentiate between needs and wants, build and manage budgets, save money so they can pay their bills on time, and make retirement plans. The theory therefore postulates that the more finically literate the SME owners are, the more likely that they will make use of the formal financial services. This theory lays the basis the foundation of this study as it seeks to examine the relationship between different indicators of financial literacy on the use of formal financial services.

1.1.2.3 Vulnerable group theory of financial inclusion

This theory postulates that vulnerable groups of society that suffer most from financial hardships should be the target of financial inclusion programs. Majority of small business traders would therefore be candidate for the financial inclusion programmes. This is because there is a high

involvement of the elderly, women, young people, and the less educated in the small informal businesses such as in markets. Ozili, (2020) argues that financial crises and economic recessions affects the vulnerable groups more and therefore should be the first priority of financial inclusion programs to bring them into the formal sector. He suggests a government to person (G2P) program where governments give a social cash transfer through formal bank accounts. By doing so, many citizens are compelled to open bank accounts in order to benefit from the social cash transfer program. The government of Uganda has on a number of occasions extended financial assistance to certain sections of society especially organized business groups. To improve financial inclusion, these funds should be paid through formal bank accounts. By doing so, other vulnerable people will be motivated to open formal accounts to take advantage of the G2P financial assistance programmes.

1.1.3 Conceptual Background

The main goal of all individuals from the monetary point of view is to attain financial freedom and autonomy. Financial freedom and autonomy however vary from one individual to another because of differences in their level of awareness, skills and knowledge of the different available financial services as well as their attitude towards the services.

Bayar, Sezgin, Ozturk and Sasmaz(2017) opine that for business men and women, financial literacy must result into skills needed by business owners to understand and to be able to interpret financial reports of their businesses and empowered to make sound and well informed financial decisions in their investment aspirations.

Knowledge and awareness of financial services and products need to be prioritized among the SMEs. The numerous means of business such as the internet and cell phones coupled with limited

utilization derail the use of financial services. services. Similarly, SMEs 'operators and those who manage as well as own should be in position to establish the pros and cons associated with the said financial services.

Researchers such as Van Rooij, Lusardi, and Alessie, 2007, Bernheim, Garrett, and Maki (2001), Hilgert, Hogarth, and Beverly, 2003 among others reveal that there is a positive connection between financial literacy in terms of awareness of available financial products and services and the skills and knowledge to use the services and the adoption and utilisation of the services. The linkage between financial literacy indicators and adoption of financial services is that once an individual is aware and therefore knowledgeable about the services, he/she is more likely to use the services.

1.1.4 Contextual Background

Given the increasing recognition of MSMEs' involvement in growth of economies, various actors in government, development partners, civil society organisations, and international non-government organisations among others have increased their efforts and interest in boosting MSMEs. Young (2009) observes that growth of economies especially in Africa has a strong relationship with nature and growth of MSMEs. MSMEs are widely perceived to be the engine of growth and innovation for most economies, (Martin Bergner et.al, 2017). In Sub-Saharan Africa, the informal sector contributes about 80% of labour force and up to 60% of GDP (Jibao, Taxation of SMES in Africa Good Practices and Lessons Learned, 2014)

In Uganda, SMEs are recognised as the major source of income and employment and thus main tools for alleviation of poverty. MSMEs account for 90% of the private sector in Uganda, 18% of the country gross domestic product, over 80% of the value added and manufactured output and

employ more than 2.5 million Ugandans. MSMEs also form the largest percentage of domestic investors in Uganda, (Kasekende & Opondo, 2003).

While the need for an attractive business environment for SMEs is widely agreed upon, it is less apparent how to create it. More specifically, MSMEs face disadvantages with regard to access to financial services. Access to credit remains a major obstacle to sustainability of MSMEs, (Fouejier, Sydorenk , & Blancher , 2020); World Bank 2013).

As a result, in the past decades, SMEs' access to finance has been central in policy discussions. This is due to the fact that access to finance contributes significantly to progression as well as survival of SMEs, (ACCA 2009). Small businesses are empowered to make profitable investments that advance growth and development of economies and alleviation of poverty through access to finance (Beck and Demirguc-Kunt, 2006). External finance for SMEs is important to boost business start-ups. Similarly, with limited access to finance, SMEs cannot compete in international markets and are also not in position to expand their businesses and strike linkages with large firms. Olomi and Urassa, 2008 state that the most significant barrier to growth and survival of SMEs is limited access to credit. It is estimated that roughly 25% of SMEs in Kampala fail because of financial related challenges, (Nangoli et al, 2013).

Adoption of formal financial services remains low in Uganda. According to the Finscope survey of 2018, Uganda lags behind regional peers in terms of access to financial services. It was reported that in 2018 only 11% of adults used services from banks as compared to 13% in Tanzania, 42% in Kenya, 26% in Rwanda and 77% in south Africa. Of the 11% that had accessed bank services, 9% had bank accounts and 2% did not own a bank account but just used over the counter bank services such as paying utility bills and school fees. Kampala had more banked adults (42%)

followed by Wakiso with 20%. In Karamoja, the survey did not capture any banked adult respondent. Active usage of bank services was among those employed in the formal sector (90%), followed by business owners (57%) and least among farmers/fishers (49%), (FSDUganda 2018). The survey also indicated that compared to bank services where only 11% of adults in Uganda used the services, a higher proportion of adults (56%) use informal financial services such as village saving groups, money lenders etc and 58% use non-bank formal services such as formal Saccos services, Micro finance Institutions etc, (FSD Uganda 2018).

The enterprise survey conducted by the World Bank found that only 2.3% of SMEs had access to credit from banks for investment less than half the average for Sub-Sahara Africa, (World Bank, 2013). The limited access to finance by SMEs in Uganda is attributed to the fact that formal banks prioritise large firms and rich individuals than SMEs. In cases where funds are given to SMEs, they are mostly on a short-term basis and exposing firms to interest rate risks and discouraging them from making long term investments.

Another explanation for low use of official commercial facilities among MSMEs is limited financial knowledge. Financial illiteracy is still a major issue across the world and worse in Africa. The few available studies conducted in developing countries have indicated that financial literacy is very low and that personal financial programmes are not yet sufficiently embraced in many countries. Xu & Zia, 2012 found that larger proportions of the population on Mozambique, Nigeria and Malawi lack basic financial knowledge like saving account, interest on saving, insurance and loans. In Uganda, the results are similar. The Finscope survey of 2013, indicated that majority of adult Ugandans lack basic financial concepts and cannot understand concepts such as interest, saving, discount rates etc, (FSD Uganda, 2013).

The aim of the study is to analyse the relationship between financial literacy and adoption of formal financial services in Nakawa Market. Nakawa is a suburb in Kampala the main business hub of Uganda. It is selected as a case study because the market has also types of small and medium businesses. It is also easy to reach and thus less costly to the researcher.

1.2 Statement of the problem

The importance of access to financial services as a key driver for business growth is widely acknowledged. Yet, despite efforts by governments and financial service providers to bring services closer to the people, the level of adoption of formal financial services is not yet impressive in developing countries generally and Uganda in particular. For instance, the World Bank Global Findex database 2021 indicates that in sub-Saharan Africa, on average, only 27% own an account in a formal financial institution compared to 90% in high income countries, 43% in south Asia, 44% in Latin America & Caribbean. The proportion that has access to financial credit is even much lower at only 7% in Sub Sahara Africa, compared to 37% in high income countries, 10% in south Asia, 16% in Latin America & Caribbean, (World Bank 2021)

Adoption of formal financial services in Uganda remain very low at only 11% as compared to regional peers such as Tanzania with 13%, Rwanda with 26%, Kenya with 42% and South Africa with 77%, (FSD Uganda 2018). Higher proportions of adults (56%) use informal financial services such as village saving groups, money lenders which pose significant risks to the business community (FSD Uganda 2018). Important actors in national development and employment such as SMEs remain largely excluded from the formal financial services. SMEs in particular suffer from access to finance and finance services where over 70% of SMEs have unmet demand for credit, (IFC, 2021). The low adoption of formal financial services for the main employers (SMEs) in Uganda motivated this study.

So far, various studies have been conducted on factors that determine SME's access to finance. However, a bulk of this literature has focused on factors related to business characteristics and possession of collateral security. There is currently scanty research evidence on the association between financial literacy and adoption of formal financial services. Similarly, a lot of focus has been on access to finance or credit, yet financial services include quite a number of services such as saving, insurance, mobile/ internet banking among others.

This study is thus set to assess the relationship between financial literacy and adoption of different formal financial services among SMEs.

1.4 Purpose of the Study

The major objective of the study was to analyse the relationship between financial literacy and adoption of formal financial services among SMEs

1.5 Specific Objectives

The study was intended to;

- i.** Analyse the relationship between financial knowledge and adoption of formal financial services among SMEs in Nakawa market.
- ii.** Analyse the relationship between financial skills and adoption of formal financial services among SMEs in Nakawa market.
- iii.** Analyze the relationship between attitude about formal financial services and adoption of financial services.

1.5 Research Hypotheses

The study was guided by the following research hypotheses:

- i) Financial knowledge has a positive significant relationship with the adoption of formal financial services
- ii) Financial skills has a positive significant relationship with the adoption of formal financial services
- iii) Individual's attitude about formal financial services has a positive significant relationship with the adoption of financial services

1.6 Conceptual Framework

The conceptual framework was constructed based on available literature. Bongomin et al., (2017) conducted a study in Uganda where they assessed the role of knowledge, skills, attitude and behavior in enhancing financial inclusion of low-income individuals. The study confirmed the impact of these variables on financial inclusion. Based on these findings, Al-sarraf, Irani and Weerakkody, 2018 constructed a conceptual framework which will also be the basis of this study. The conceptual framework is as shown in figure 1.1.

According to this study, financial literacy is conceptualized as a set of knowledge, skills, attitudes and behaviour that enable someone to make wise financial decisions, such as choosing which financial services to utilize, by being well-informed and effective. These dimensions of measuring financial literacy have equally been used by various researchers such as Mukokoma et.al 2018, (Huston , 2010), OCED 2013 among others.

On the other hand, adoption of formal financial services will be measured using four indicators including the ownership of an account, access to saving services, access to credit services, and the use of electronic services to transact.

The linkage between financial literacy indicators and adoption of financial services is that once an individual is aware and therefore knowledgeable about the services, he/she is more likely to use the services. Similarly, individuals with positive attitudes and behaviour about the financial services are more likely to adopt and use the services. As they use the services, their skills are enhanced which will result into more effective use of the services

FINANCIAL LITERACY

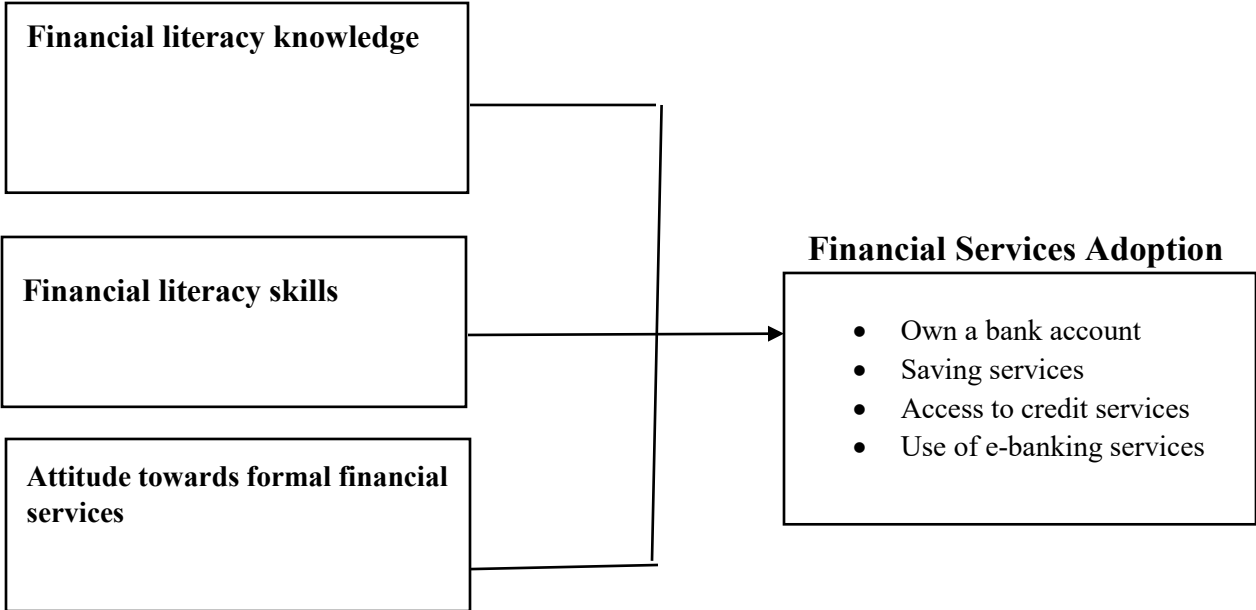


Figure 1.1:A conceptual framework for financial Literacy and Financial Services adoption

Source: Adopted from Al-Sarraf, Irani and Weerakkody, 2018;); and Bongomin et al. (2017) and modified by the researcher.

1.8 Scope of the study

1.8.1 Content Scope

The study intended to investigate the relationship between financial literacy and adoption of formal financial services. Three indicators of financial literacy were investigated and how each of these influences the adoption of formal financial services. These include knowledge, skills and attitude.

The study covered five indicators of adoption of formal financial services including ownership of a bank account, whether people save or not, access and use of credit services, use of payment services, and the use of e-banking services. The indicators of adoption of financial services are chosen because they are ideally the easy-to-use services for SMEs whose proprietors are largely less educated and less exposed to the formal financial system. Indicators such as use of mortgages; insurance services are less likely to be adopted by SMEs.

1.8.2 Geographical Scope

This was Nakawa division, one of the largest divisions of Kampala district. Nakawa division lies to the east of Kampala. Nakawa is selected for two main reasons. First, it has a large number of small and medium enterprises which formed a representative sample for the study. Second, Nakawa is near and thus less costly to the researcher.

1.8.3 Time Scope

The study was based on recent literature covering ten years from 2009 to present. Recent literature is vital because it shows the current position of SMEs, their literacy levels and the rate of adoption of financial services. The period from 2009 because it is reported that in Uganda, formal financial inclusion has nearly doubled since 2009, increasing from 28 percent in 2009 to 58 percent in 2018. Similarly, in 2011, Bank of Uganda joined the Alliance for Financial Inclusion (AFI) and made commitments to financial inclusion under the inaugural Maya Declaration. Lastly, it is also in 2009 that the Bank of Uganda issued a letter of no objection to the country's first mobile money service provider (MTN Uganda) to partner with Stanbic Bank(U) Limited to offer financial services through mobile money, (Alliance for Financial Inclusion, 2019).

1.9 Justification for the study

The study addresses a gap in the literature on the relationship between financial literacy indicators and the adoption of various formal financial services. Available literature had focused on how business characteristics and collateral security are connected to with access to finance. This study expands the scope beyond just access to finance to cover other financial services such as saving, online services, and payments among others. Existing literature does not also provide sufficient information on the link between financial literacy and adoption of formal financial services among SMEs in Uganda. As a result, after it is published, the study will serve as a resource for other researchers on the nexus between financial literacy, adoption of formal financial services, and the growth of SMEs. Decision makers of financial institutions as well as policy makers and activists for financial inclusion will gain from the study's findings by better understanding the role of being financially literate in enhancing adoption of formal financial services. This will significantly aid them in developing effective strategies.

1.10 Chapter Summary

This includes the historical, contextual and theoretical background of the study. It also outlines the summary of available literature on the importance of SMEs in the health of developing economies and the relationship between financial literacy and adoption of formal financial services. It further outlines research problem, the study purpose/ objectives and the conceptual framework showing the relationship between the dependent and independent variables and the moderating variables are affect the relationship.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers an understanding of financial literacy, adoption of financial services, conceptual literature, theoretical literature review and empirical literature showing the relationship between financial literacy and adoption of financial services. The chapter also summarizes the gaps in the existing literature that makes this study relevant.

2.1 Financial Literacy

Financial literacy and efforts to improve it has been in place for many years. However, designing initiatives to improve financial literacy among the population is a still a new phenomenon, (Braustein & Welch, 2002).

The OECD defines financial literacy as having the capacity to comprehend financial terms, services, and products, to evaluate financial risks and possibilities, to make wise financial decisions, and to know where to turn for financial assistance, (OECD 2005). OECD in 2011 widened the scope of what constitutes financial literacy as knowledge of making informed decisions concerning financial matters including investments, insurance, saving, tax planning and retirement, (OECD, 2011). Financially literate people are well equipped for difficult times by adopting measures that mitigate financial risks such as increased savings, purchase of insurance, and investment diversification among others. It inculcates individuals with knowledge that is essential for developing individual and household budgets, developing saving plans and making informed investment decisions, (Greenspan, 2002)

Kefela, 2010 defines financial literacy as a set of skills and knowledge that empowers individuals to make informed financial decisions such as when to save, how much and when to spend, management of budgets, choosing the appropriate financial services or products and the ability to address other financial related issues such as planning for retirement among others. Kefela claims additionally that the advantages increase with financial literacy as it helps individuals giving them more financial autonomy and assisting them in making wiser financial decisions. This consequently leads to economic development of economies, (Kefela, 2010).

Financial literacy is the ability to know and understand financial concepts, (Remund, 2010). Decision making relating to finances is shaped by the level of financial knowledge. Individuals that are financially literate make better financial decisions, (Mori et al, 2017).

Available empirical literature suggests that financial illiteracy is a global problem even in well developed economies. (Atkinson, McKay, & Kempson, 2007) found that most of the low-income adults in the United Kingdom were at the bottom levels of financial literacy. High levels of financial illiteracy were also found in Netherlands, Sweden, Germany, New Zealand, United States of America and Russia, (Lusardi & Mitchel, 2011). Available studies found similar patterns such as women being more illiterate than men, more educated individuals being more financially literate than the less educated and that ethnicity, race and regional differences had a significant effect on financial knowledge.

2.2 Financial services adoption

For decades, the financial sector has remained exclusive despite massive transformations and globalizations of financial services from both emerging markets and within Africa, (Beck 2015; Derreumaux, 2013). A study conducted by Global Findex in 2014 found that in Sub-Sahara Africa,

between 2011 and 2014 ownership of bank accounts increased from 24% to 34% but access to credit marginally increased from 4.8% to 6%, (Global Findex 2014). This is an indicator of financial underutilisation in the region. Various stakeholders including World Bank, the G20s, national governments, civil society organisation as well as financial institutions have devoted efforts to improving access to financial services to the unbanked (AFI, 2013).

Possess and are capable of using adoption of financial services is when individuals irrespective of their income status possess and are capable of using appropriate financial products and services to better their wellbeing, (World Bank 2018). It is a state where individuals have access to financial services/products at reasonable costs, delivered conveniently, and treated with respect and dignity, (CFI, 2018).

Financial inclusion is now a key topic for discussion among policy makers both at national and global levels. For instance, at the 2009 Pitts summit, G20 included financial inclusion as the main pillar, (Cull, Ehrbeck, &Holle, 2014).

Technology advances have improved of formal financial products/services. Platforms such as mobile banking, internet banking among others have made it easy and convenient to use financial products/ services, (GSMA, 2017). Financial institutions have in the past few decades developed various products/services which they now offer with great outreach, helping to reduce inequality in access to financial services, (Sarma and Pais, 2011).

2.3 Contextual Literature Review

SMES are the engines of growth, provide the much-needed jobs, help reduce increasing poverty levels especially in Africa and help in improving household welfare. As a result, various scholars have advocated for governments support for SMEs. One major challenge of SMEs is access to

financial services. If financial constraints among SMEs are relaxed, it would increase employment and worker productivity, promoting economic expansion and advancement, (Ayyagari et.al, 2016). Financial inclusiveness of SMEs is crucial for the development of SMEs especially in Sub-Sahara Africa, (Beck & Cull, 2014)

UNIDO, 2015 opines that in Africa, many SMEs do not attempt applying for financial credit from banks due to excessive interest rates, lack of collateral security and lack of adequate knowledge about financial products/ services.

In Uganda's case, performance of SMEs is significantly hindered by limited financing due to high interest rates charged, (Abanis and Arthur, 2013). Similarly, the Uganda National Small Business Survey of 2013 indicated limited finance is the major constraint to SMEs. The survey revealed that stringent requirements by banks and other financial institution such as collateral security is a fundamental challenge which most of the SMEs are not able to meet, (FSD Uganda 2013).

In assessing the rate of financial adoption among SMEs, it is worth noting that access and actual use of financial services are different concepts. Although one can access the service, one might decide not to use it due to various factors such as religion, culture, past dissatisfaction among others.

This research intends to analyse the level of financial literacy in terms of skills to use the services, knowledge about different services and attitudes towards use of financial service and how the different components of financial literacy relate with actual use of the services.

2.4 Theoretical Literature Review

Theories on financial inclusion are limited despite increasing research on the subject. Yet, differences in financial inclusion practices across countries necessitate a set of principles (theories) to explain the differences. In his recent paper titled “Theories of financial inclusion”, Ozili,2020 advances several financial inclusion theories. He categorises these into three broad categories including (a) theories of financial inclusion beneficiaries, (b) theories of financial inclusion funding, and (c) theories of financial inclusion delivery. This study will be based on two theories including (1) the vulnerable group theory of financial inclusion and (2) the financial literacy theory of financial inclusion

2.4.1.1 Vulnerable group theory of financial inclusion

The vulnerable group’s theory is relevant to this study because in terms of access to formal financial services, SMEs remain among those that are largely excluded from the financial services. These, mostly use informal financial services. This theory postulates that vulnerable groups of society that suffer most from financial hardships should be the target of financial inclusion programs. Majority of small business traders would therefore be candidate for the financial inclusion programmes. This is because there is a high involvement of the elderly, women, young people, and the less educated in the small informal businesses such as in markets. (Ozili, 2020) argues that financial crises and economic recessions affects the vulnerable groups more and therefore should be the first priority of financial inclusion initiatives to integrate people into the formal sector. He suggests a government to person (G2P) program where governments gives a social cash transfer through formal bank accounts. By doing so, many citizens will be forced to open up bank accounts in order to benefit from the social cash transfer program. The government of Uganda has on a number of occasions extended financial assistance to certain sections of society

especially organized business groups. To improve financial inclusion, these funds should be paid through formal bank accounts. By doing so, other vulnerable people will be motivated to open formal accounts to take advantage of the G2P financial assistance programmes, (Ozili 2020).

2.4.1.2. Financial literacy theory of financial inclusion

This theory is particularly important to this study because the overall goal of the study to ascertain if financial literacy results into the acceptance of the monetary amenities. This theory emphasizes how crucial financial literacy is to increasing financial inclusion. It asserts that economic literateness will boost individuals' readiness to join the recognized monetary region. According to this argument, educating people increases their financially literacy which leads to financial inclusion. If someone is financially literate, they will look for formal financial services wherever they can find them, (Ozili, 2020). Fiscal knowledge can help get informed about proper monetary facilities that are available that can help boost his/her welfare. This awareness can support to be a part of the recognized fiscal group through giving them accounts in such banks. Increased financial literacy can also allow people profit from extra advantages in the proper monetary part including investments and mortgage products among others. Besides, People who are financially literate may learn to draw the difference existing amidst desires and necessities, come up with suitable budgets, and redeem resources in order to meet their utilities timely as well as make retirement plans. (Ozili 2021).

2.4 Empirical Literature Review

2.4.1 Financial Literacy and adoption of Financial Services

Theoretical literature suggests that financial literacy promotes partaking of corporations in the proper monetary shops (Van Rooji & Alessie, 2011). As such, financial literacy is widely recognized as a foundational element of financial inclusion (Chibba, 2009) (Center for Financial

Inclusion Action, 2013). Nalini (2011) pointed that financial literacy is a crucial step for financial inclusion, which encourages people to seek out and use financial products and services. Using the National financial access survey dataset of 2009. Kihiu 2012 employed the multinomial logistic regression model to study financial literacy's effects on usage and access of financial services in Kenya. She found that utilization and accessibility of financial services does not rely just on the degree of financial literacy but on other elements like levels of income, accessibility to banks, age, marital status, gender, household size and level of education. However, she discovered that the likelihood of a financially illiterate individual being denied access to financial services is significant, urging additional funding for financial literacy programs to buck the trend, (Kihiu, 2012).

Van Rooij, Lusardi, and Alessie,(2007) conducted a study among Dutch adults and showed that families with low financial literacy were less likely to invest in equities and were more likely to base their decisions on financial advice from friends than those that were more financially literate.

Business owners/managers that are financially literate are more proactive in selecting the best financing sources by analyzing the costs, advantages, and dangers of prospective sources of funding. The British Business Bank (BBB) asserts that enterprises' understanding of alternative funding sources is positively correlated with their engagement in the financial market (The British Business Bank, 2015).

Bernheim, Garrett, & Maki, (2014) Using the Merrill Lynch survey and education records on whether a personal finance management course was taught during the time the respondents attended high school, discovered that discovered that middle-aged people who attended a high

school course on personal finance preserved a greater percentage of their income than those who did not undertake a financial management related course.

2.4.2 Financial Knowledge and Skills and adoption of Formal Financial Services

(Hilgert, Hogarth, & Beverly, 2003) Found that there is a positive significant relationship between financial knowledge and use of financial services. Morshadul, Thi and Ariful (2021) analyzed the effect of financial literacy on financial access using data from the rural population of Bangladesh. They used complementary log-log regression, probit regression, and logistic regression. They found that knowledge of various financial services has a major effect on acquiring access to financial resources. Many variables, particularly occupation, economic status, comfort with making deposits and withdrawals of funds as well as rate of interest, had a substantial effect on the overall level of financial access. Yates (2016) used survey data on consumer finances to investigate determinants of electronic banking adoption rates. He found that financial knowledge is associated with a high probability of adoption of electronic banking.

In a study of postgraduate students in India, Bapat (2019) discovered evidence that financial knowledge is positively related with adoption of financial services. Königsheim, Lukas, and Nöth (2017) 1,700 clients of a German retail bank were polled, and the results revealed that the chance of using digital financial services is strongly positively connected with both financial literacy and risk tolerance.

It could be expensive to acquire the expertise and information needed to cope with unfamiliar financial services. Haliassos and Bertaut (1995), using the stock market as an example, contend that information costs, such as those associated with learning about institutional factors, the abilities of various advisors, and the stock investment process, may deter households without stock

holdings from making stock market investments. Similar to that, raising financial literacy could be expensive. According to Jappelli and Padula (2013), acquiring more financial knowledge requires both time and money, which puts a trade-off between its advantages and disadvantages.

Data from the 2018 U.S. National Financial Capability Study were used by Chen and Xiang (2021) to explore the relationship between financial literacy with internet payments by using integration regression model. The results indicated a poor relationship between financial literacy and phone money. Also, they discovered that users with larger economic literacy were much more inclined to use conventional financial methods, which has implications for the adoption of mobile payment and transfer.

Ky et al. (2017) argue that it is difficult for consumers with less knowledge to understand the diverse financial services available, and they are more likely to lack confidence which holds them back from formal financial branches. Mandell (2008) proposed two hypotheses to attempt to reconcile findings between Bernheim, Garrett, and Maki (2001) (Bernheim, Garrett, & Maki, Education and saving: The long-term effects of high school financial curriculum mandates, 2001), which indicated a favorable influence on savings from high school financial education, and the Jump\$start surveys, which indicated little to no benefit. The first was that some of the lessons that children learn in high school financial education programs would not be fully incorporated in their thoughts until much later in life, when they have the resources to do so.

In this case, unless the information is really utilized, a course in personal financial management or personal finance may not have an immediate influence on financial literacy. The second theory relates to the research by Bernheim, Garrett, and Maki (2001). Respondents to their poll completed their high school education between 1964 and 1983, a period in which households had less

disposable cash and before the emergence of simple-to-use loan instruments like credit cards. Additionally, many of these children' parents had distinct views on saving since they had experienced the challenging years of the Great Depression and World War II. The results of a training on individual finance or individual economic control in this situation may be influenced by the economic conditions at the moment the program was taken.

2.4.3 Attitudes and adoption of Formal Financial Services

Attitude is an individual's feelings about a particular behaviour. The attitude hypothesis states that a person is more likely to purchase or utilize a good or service if they have a positive attitude about it (Ajzen and Fishbein, 1980). Over time, attitudes change as a result of a learning process that is influenced by reference group influences, prior experience, and personality traits (Assael, 1981). According to Byers and Lederer (2001), the adoption of online banking is driven more by shifting customer behavior and attitudes than by banks' cost structures.

The acceptability of electronic banking by consumers in industrialized vs developing countries was examined by Yuen, Yeow, Lim, and Saylani in 2010. They discovered that customer attitudes about adopting electronic banking are the key determinant of consumer acceptability in both developed and developing countries. But they discovered that the perceived legitimacy of electronic banking only matters in industrialized nations. According to Maduku (2013), perceived simplicity of use, perceived utility, and trust all have a favorable impact on bank customers' attitudes in South Africa. Premalatha (2016) looked at non-users in Pakistan and discovered that these customers did not understand the advantages of electronic banking and were happy with traditional banking.

The Technology Acceptance Model (TAM) contends that a potential user's general attitudes or sentiments regarding utilizing a certain technology-based system or method are key predictors of whether or not he or she would actually utilize the system. In Malaysia, the link between consumer sentiments and the use of online banking was examined by Ndubisi and Sinti in 2006. They discovered that the adoption of online banking is significantly influenced by attitudinal characteristics.

2.5 Summary of gaps in existing literature

Empirical evidence on the relationship between financial literacy and adoption of formal financial services is still in its infancy. A very limited number of studies examine the effect of financial literacy and use of different formal financial services. A bulk of available literature in this regard is in the developed economies. Very little is published in Africa generally and Uganda in particular. What is available in literature is mainly on the challenges of SMEs in accessing financial credit, how financial knowledge affects business performance, how access to finance affects performance of small business among others. Studies focusing on the connection between financial literacy and different components of use of financial services is very scanty. In Uganda's case, to the best of my knowledge, I am yet to see one such study. Even then, these studies have looked at financial inclusion in general and put little emphasis on the distinction between access and real use of fiscal facilities. Yet, even if the two terms are connected, they have different inferences. This study is therefore timely to bridge the literature gap on the different indicators of financial literacy and how they relate with different indicators of adoption of financial services in Uganda.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter includes the methods used to achieve the research objectives. It includes the research design, study population, sampling methods and sample size, data and sources, data collection methods and the methods of analysis. It also includes tests for validity and reliability, ethical considerations and limitations for the study.

3.2 Research Design

The study was based on a cross sectional survey research design, the data is collected at one a single site timely and multiple variable can be analysed and compared. The study employed both qualitative and quantitative approaches. Quantitatively, the study examined the extent of financial literacy and adoption of different formal financial services and how different financial literacy indicators affect utilization of financial services. Quantitative data was gathered with structured questionnaires. Under qualitative approach, the study sought to establish the perceptions, attitudes and behaviors of respondents towards use of different financial services. Methods such as interview guides were used to collect this kind of data.

3.3. Study area and target population

Nakawa division was the target area for the survey targeting businessmen and women operating small and medium enterprises. Nakawa division is one of the largest divisions of Kampala district lying to the East of Kampala. Nakawa is selected for two main reasons. First, it has a large number of small and medium enterprises which will form a representative sample for the study. Second, Nakawa is near and thus less costly to the researcher. The target respondents were the business owners. In cases where workers were found at the premises, such were not considered in the

survey. The study targeted different business sectors such as retail traders, metal fabricators, market vendors, street vendors among others.

The Uganda Bureau of Statistics in collaboration with the World Bank undertook a census of business establishment in 2010/11. There was a total of 458,106 business in the country. Of these 90% had annual turnover less than 10 million Uganda shillings implying that roughly 412,295 businesses are grouped as SMEs. Kampala accounted for 29% of the business establishments which is equivalent to about 119,565 SMEs. Between 2001/02 and 2010/11 the number of businesses was estimated to have grown by 184.7 percent, (UBOS 2011). This study used this same growth rate and estimated that there are about 220,837 SMEs in Kampala district. Assuming equal representation from the five divisions in Kampala, it was thus estimated that there are about 44,167 SMEs in Nakawa. Therefore, the population of this study was about 44,167 SME business owners.

3.4 Sampling Size and Selection Methods

3.4.1 Sample Size

The sample size for the study was selected based on the Krejcie and Morgan sample size table. To simplify the process of determining the sample size for a finite population, Krejcie and Morgan (1970), developed a table using sample size formula for a finite population (see appendix 5).

Using this approach, the appropriate sample size for a population of 44,167 was therefore 380 SME business owners.

In addition to business owners, a total of 5 key informant interviews were selected for the study. These included staff of different financial institutions.

3.4.2 Sampling Methods

Purposive sampling and simple random sample were the two sampling techniques used in the investigation. A representative sample of traders was chosen using simple random sampling. These were chosen at random and there were no any replacements, so each respondent was only questioned once. Every respondent had an equal chance of being chosen for the sample when using simple random sampling. For this study, it was preferable because it minimizes risks of selecting a biased sample. On the other side, a purposive sample technique was used to choose key informants from financial institutions. In this instance, informants with pertinent information are carefully chosen.

3.5 Data

The study was based on primary data. Primary data is that which is collected from the original source in this case the traders. In other words, it is first-hand information. The data included responses to the different questions in the questionnaires as well as the responses from the interview guides

3.5.1 Data Collection Tools

Questionnaires and interview guides were the two major instruments utilized in this study. Data from traders was gathered using questionnaires. Closed-ended questions were created in accordance with the study's objectives. In this situation, questionnaires are chosen specifically because they are simple to deliver to a bigger population. As a result, they contributed to the quick data collection. The ability to quantify the impact of the many explanatory variables on the choice to use financial services is made possible by the ease with which quantitative data gathered through surveys can be analysed.

To ease the data collection process as well as cutting data entry costs and time, the questionnaires were programmed in a mobile based data collection software known as Open Data Kit (ODK). This means that data was collected using mobile gadgets such as phones or tablets. Data in ODK is received in a real time basis and can easily be downloaded in Ms Excel for analysis in other statistical software such as SPSS.

Contrarily, interview guidelines contained a few open-ended questions that were posed to the chosen banks' officials. They are helpful for gathering a lot of in-depth data from a small sample of respondents.

3.6 Procedures of Data Collection

Approval from the Graduate school was obtained. An introductory letter from the graduate school to the business community leaders was obtained. The researcher then engaged the business community leaders to seek for permission to conduct the survey on their members. The researcher first conducted a pilot study in Banda business areas before rolling out of the survey. This is useful for ensuring that the tools capture the questions well and that the questions are clear to the respondents.

3.7 Validity and Reliability of Instruments

3.7.1 Reliability of the instruments

For reliability, consistency was measured through internal consistency reliability, (Sekara & Bougie, 2010) as well as split-half reliability using Cronbach's alpha (Chronbach 1951). All the variables under study had a coefficient greater than 0.7 a cutoff recommended by (Nunnally, 1978) as seen in table below

Table 3.1: Reliability test results

Variable	Cronbach Alpha Coefficient
Adoption of financial services	0.984
Financial Knowledge	0.927
Financial skills	0.925
Attitudes towards formal financial services	0.772

Source: Primary data

3.7.2 Validity of instruments

Construct validity test was conducted for the research variables using factor analysis. Construct validity is the extent to which a particular item relates to other items. All the key study variables had a factor loading greater than 0.5 and therefore considered to be valid for the research study as recommended by Nunnally (1978) as seen in table 3.2 below

Table 3.2: Factor Analysis of the Study variables

Study variables	Score
Adoption of financial services	0.9
Financial Knowledge	0.7
Financial skills	0.8
Attitudes towards formal financial services	0.6

Source: Primary data

3.8 Data Processing and Analysis

3.8.1 Data Entry

The collected data was then exported from ODK to a statistical software known as Statistical Package for Social Scientists version 20 (SPSS v20) for analysis. SPSS is a more user-friendly software for conducting data management and analysis.

3.8.2 Data Cleaning and Transformations

Data was cleansed after entering to guarantee correctness and completeness. This is especially crucial if you want precise findings. There was also the generation of additional variables that can be derived from the data collected, particularly those that the respondents cannot or find very difficult to answer.

3.8.3 Data Analysis

SPSS Version 20 was used for data analysis. Three steps were completed, including univariate, bivariate, and multivariate analysis. Analyzing a single variable is known as a "univariate analysis." Running descriptive statistics, such as mean, minimum and maximum was done. Additionally, graphs and frequency tables displaying frequency counts and the proportion of respondents providing various replies were generated. On the other hand, bivariate analysis examines two variables. Running association and correlation tests was done to check for relationships between the research variables. Additionally, cross tabulations between various variables were produced.

Deeper examination of the results is provided by multivariate analysis. Analysing three or more variables is required. In this case, the study examined how various independent variables and influencing factors affect the choice to use financial services.

3.8.4 Model specification

The study used a logit regression model to estimate the effect of different independent variables on the outcome variable (use of financial services). The following model was used.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where $Y = \begin{cases} 1 \\ 0 \end{cases}$ where 1 means that a respondent uses the financial services and 0 means otherwise.

β_0 -is a constant and β_1 , β_2 and β_3 are slope coefficients

X_1 was whether one had financial knowledge

X_2 - was whether one had financial skills

X_3 - attitude towards formal financial services (1 if positive and 0 if negative)

E- Error term.

3.8.5 Measuring Financial Literacy

As elaborated in the conceptual framework, financial literacy was measured using three indicators knowledge, skills, and attitudes. Respondents were asked to evaluate their level of knowledge, skills in using different services as well as their attitude and behaviors on a five-points Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The average score for each respondent was calculated to obtain their overall financial knowledge. Average scores below 3 will be interpreted as low financial literacy while those above 4 will be interpreted as high financial literacy levels.

3.8.6 Measuring Adoption of Formal Financial services

Similar to financial literacy, the level of adoption of formal financial services was measured using various indicators including the ownership of an account, access to saving services, access to credit services, and the use of electronic services to transact. Each of these indicators was measured using binary responses with a yes if the services are used and no if otherwise. Individuals using more than 3 of the 4 services were grouped under high levels of adoption while those using 1 or 2 services were grouped as low users of financial services

3.9 Ethical Considerations

In this study, the following ethical considerations were adhered to;

As part of the research design, data collection tools were approved by my supervisors while approvals were sought from the local leaders in Nakawa Market to conduct data collection from the businessmen and women. Permission from local leaders specifically was sought before conducting the exercise.

The principles of voluntary participation, confidentiality, do no harm, and respect were upheld. Individuals had to first agree to participate in the study out of their own free will and informed consent was sought before the start of an interview and after the enumerator has explicitly and honestly explained the nature of the research to the respondents and informed them that their participation is fully voluntary, and they can withdraw from the study at any time.

All personal information collected throughout data collection is kept confidential. Data will not be shared with anyone, and all data will be shared as reports and no names will be included in the reports. Data will be published and stored in a way that does not allow any data to be traced back to the respondent. The research will not involve any situation that might result in physical or emotional harm to the respondents.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

The chapter presents the results of the study. It is divided into four sub sections. Section 4.1 presents the demographic characteristics of the respondents. Section 4.2 presents the characteristics of the businesses that were surveyed. Section 4.3 presents results on the relationship between financial knowledge and adoption of formal financial services among SMEs in Nakawa market. Section 4.4 presents results on the relationship between financial skills and adoption of formal financial services among SMEs in Nakawa market while section 4.5 analyses the relationship between attitude about formal financial services and adoption of financial services. Lastly section 4.6 summarizes the results.

4.1 Demographic Characteristics of the Respondents

The demographic characteristics of the respondents including gender, age, marital status and education level are presented in table 4.1 below

Table 4.1: Demographic Characteristics of the respondents

Variable	Frequency	% share
Gender of respondents		
Female	165	45%
Male	201	55%
Age of respondents		
Below 20	9	2%
20 – 30	173	47%
31 – 40	99	27%
41 – 50	57	16%
51 – 60	23	6%
Over 61	4	1%
Marital status		
Married	191	52%
Separated/divorced	29	8%
Single	133	36%
Widowed	13	4%
Highest level of education		
No formal education	22	6%
Primary school	48	13%
Secondary school (O Level)	76	21%
Secondary school (A Level)	81	22%
Post-secondary qualification, other than university (e.g. diploma or degree from a polytechnic or college)	22	6%
Vocational training	63	17%
University Education (Bachelor's degree)	42	11%
Post graduate education (Master's degree)	7	2%
Doctorate degree	5	1%

Source: Primary data

Results in table 4.1 above indicated that slightly more women (55%) than men (45%) were surveyed for the study. In part, this is because most of the SMEs are operated by women. Most of the business owners were in their youthful age with almost half (47%) aged between 20-30 years and 27% aged between 31 to 40 years. Only 7% were aged above 50 years. More than half of the business owners (52%) were married while 36% were single. There were 8% that were separated/divorced and 4% that were widowed.

Majority of the business owners were educated. Only 6% reported to have no formal education. A good number of them (43%) studied up to secondary level (21% with O-level and 22% with A-Level qualification). About 13% had primary education, 17% had vocational training and 11% had a university bachelor degree as seen in The demographic characteristics of the respondents including gender, age, marital status and education level are presented in table 4.1 below

4.1 above.

4.2 Business Characteristics

This subsection presents the characteristics of the businesses surveyed including the type of the business, ownership, business sector and years of business establishment.

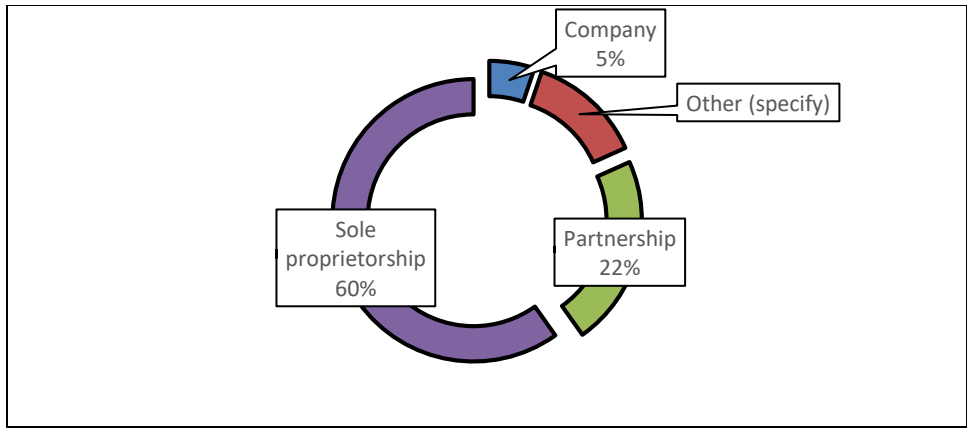


Figure 4.1: Type of Business

Source: Primary data

Figure 4.1 above indicates that majority of the respondents (60%) had businesses that are sole proprietorships. Only 22% indicated that the businesses were partnerships while 5% of respondents indicated that they were operating companies as seen in figure 4.1 above.

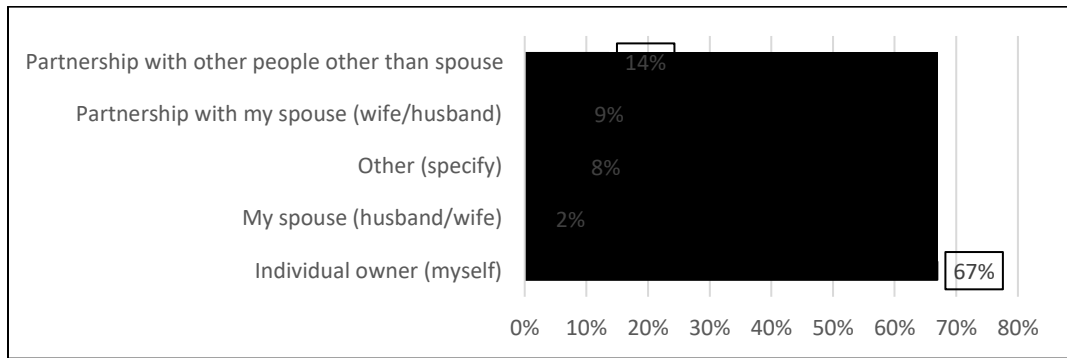


Figure 4.2: Business Ownership

Source: Primary data

Figure 4.2 shows that most of the businesses (67%) are owned by the individuals that were operating them. About 2% operated businesses that belong to their spouses, 9% reported that they operated partnerships with their spouses while 14% reported that they were operating the businesses in partnership with other people other than their spouses

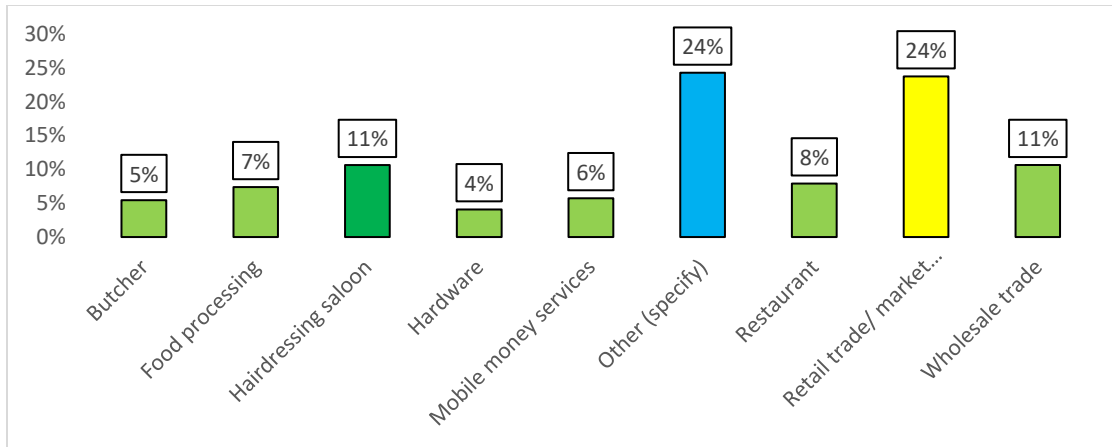


Figure 4.3: Nature of Business operated

Source: Primary data

Figure 4.3 reveal that the most common businesses were small retail businesses and market stalls (24%), wholesale shops (11%), hair dressing saloons (11%) restaurants (8%) and food processing (7%). Other businesses included butchers, maize roasting, chapatti sellers, and tailors among others.

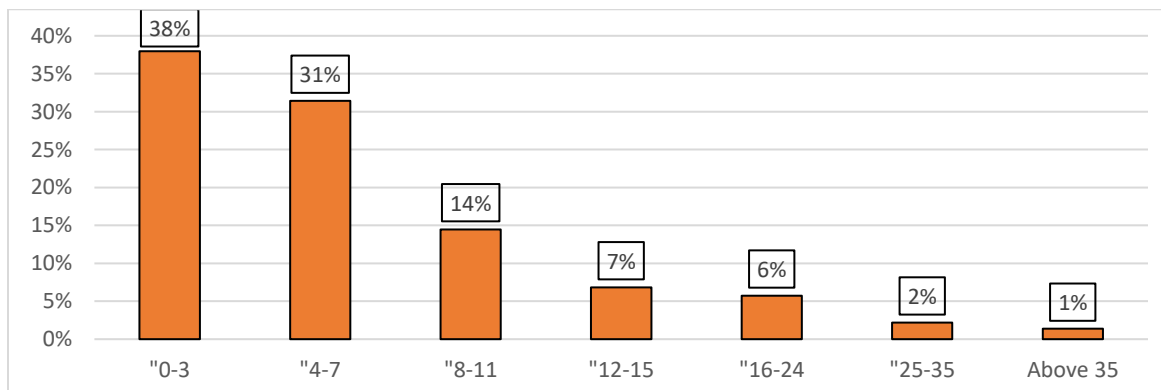


Figure 4.4: Years of Business Establishment

Source: Primary data

A good number of businesses were generally new with 38% of respondents stating that the businesses have been in operation of utmost 3 years and another 31% for 4 to 7 years. A few respondents had businesses which have been in operation for more than 11 years as seen in figure 4.4 above.

4.3 Descriptive Statistics of the Study variables

4.3.1 Adoption of Formal Financial Services

The study assessed whether respondents were utilizing 14 different financial services such as ownership of a bank account, access to loans, use of ATMS, use of mobile banking, use of internet banking, insurance among others. Respondents were first asked their main sources of financial services. Results are presented below.

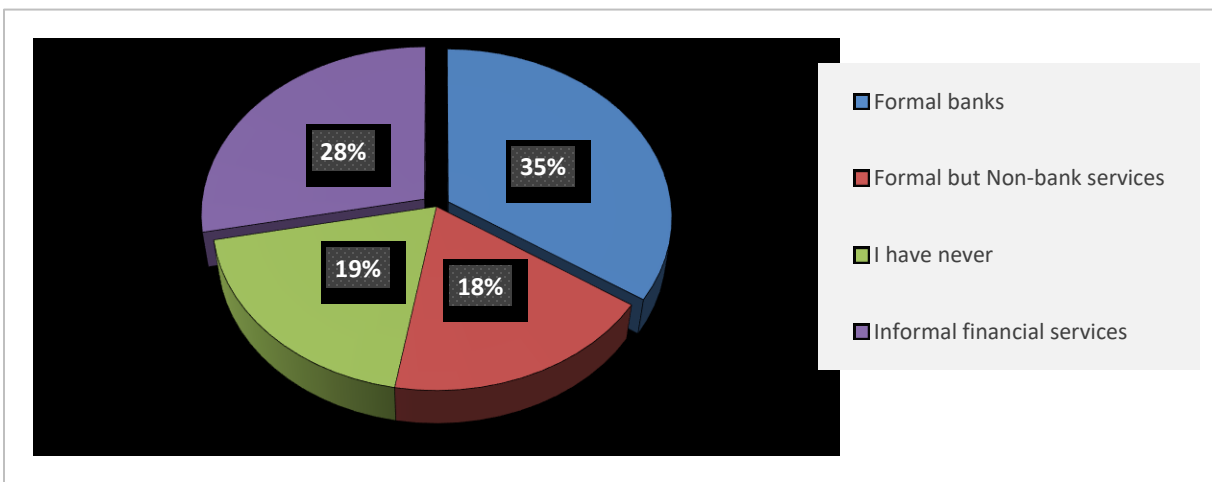


Figure 4.5: Main source of Financial Services

Source: Primary data

Figure 4.5 shows that adoption of formal financial services is still low among SMEs as only 35% stated that they normally go to formal banks to access financial services. About 28% stated that they use informal financial services such as unregistered money lenders while 18% stated that they use formal non-bank services such as Saccos. About 19% of the respondents had never accessed financial services as seen above.

Table 4.2: Mean number of financial services utilized by SMEs

	Mean	Standard Deviation	N
Adoption of formal financial services	2.90	1.84	366

Results above indeed suggest low level of adoption of different financial services. The average number of financial services used was only 2.9 with a standard deviation of 1.84 as seen in table above.

To further understand the level of utilization of financial services, adoption of formal financial literacy was rated high if the number of services utilized was 7 or more, and moderate if the number of services utilized was between 4 to 7. Respondents that were using less than four services were rated as low in adoption of formal financial services.

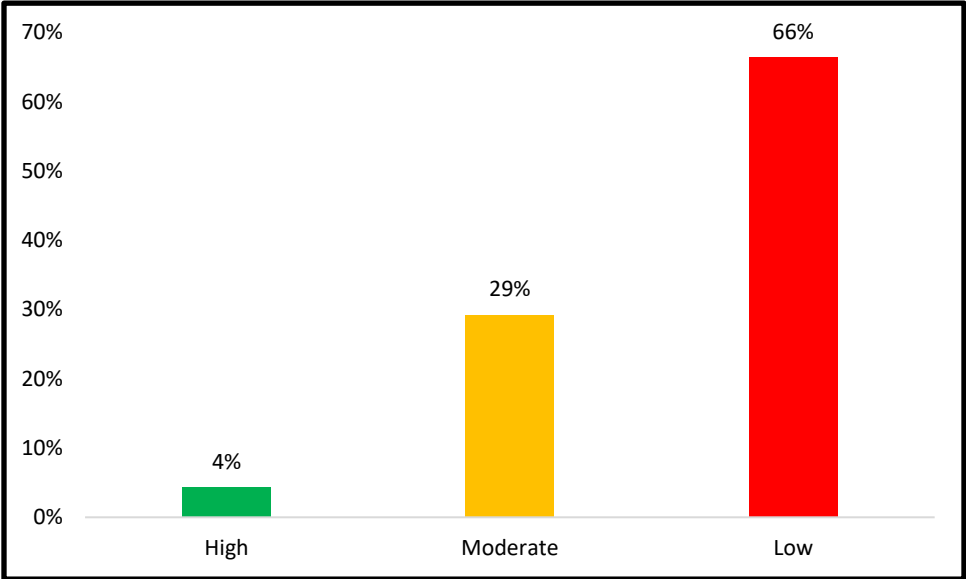


Figure 4. 6: Level of adoption of financial services

As figure 4.6 above indicates, there is generally low utilization of financial services among SMEs. More than two thirds (66%) of respondents had low adoption of formal financial services and 29% were rated moderate. Only 4% of the respondents were rated as high in regard to use of different financial services.

The assessment of the level of utilisation of different financial services is presented in figure below.

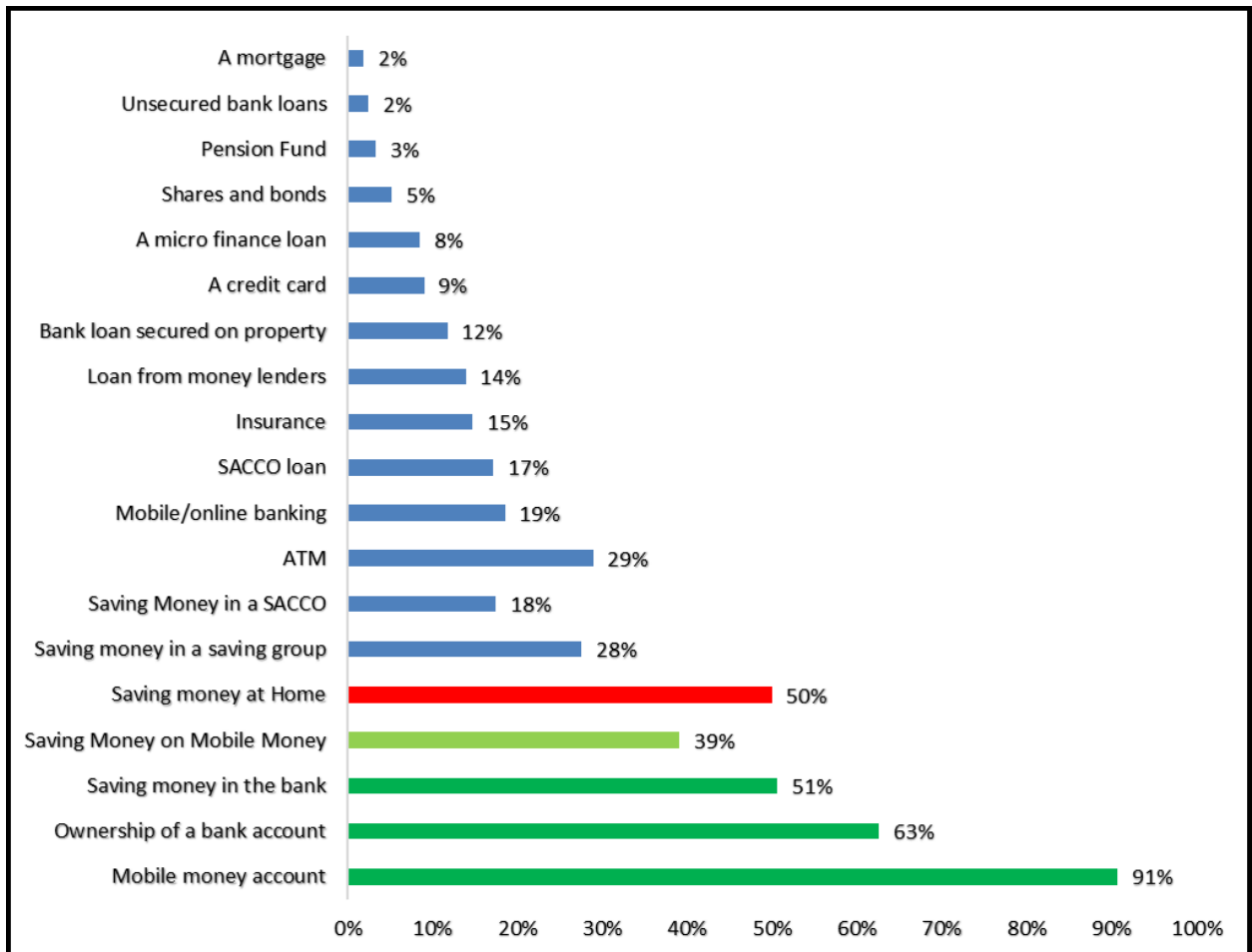


Figure 4.7: Utilization of different financial services among SMEs

Source: Primary data

The results in figure 4.7 above reveal that mobile money is most dominant financial services among SMEs as almost all (91%) business owners interviewed reported to be registered for mobile money. However, while almost all of them are registered on mobile money only 39% stated that they save their money on mobile money.

In regard to formal financial services, more than half (63%) of the business owners surveyed reported that they opened up bank accounts. Similarly, more than half (51%) reported that they save their money in the bank.

Access to other formal financial services such as mortgages, pension funds, shares and bonds, access to secured and unsecured loans, credit cards, internet/mobile banking is still very limited among SMEs as seen in figure above.

The results above also show that half of the SME businessmen and women still save their money at home. Even when Saccos and saving groups are common among SMEs, the proportion of SME business owners saving their money in Saccos and saving groups is still low. For instance, only 28% and 18% stated that they save money in a saving group and Sacco respectively.

The limited use of saccos and saving groups was due to lack of trust in the financial management systems of most Saccos and saving groups.

“I used to save in a saving group but one member ran away with our money. He got a loan and disappeared. I now save my money in banks. Banks are safer than these small saving groups” (Interview response from a business owner)

4.3.2 Level of Financial Knowledge among SMEs

To assess the level of knowledge for the different financial services, respondents were asked the extent to which they know the different financial services. The responses were coded from 1 to 5 where 1 was strongly disagree and 5 was strongly agree that they know about the different services. A mean score of 4 and above implies high level of knowledge of a particular financial service, a mean score between 3-4 implies moderate knowledge about the financial service while a mean

score below 3 implies low knowledge of the financial service. The results are presented in table below.

Table 4.3: Knowledge about different financial services

Financial Services	N	Mean	Std. Deviation
Mobile money account	417	4.46	0.90
A saving account	416	4.30	1.14
Sacco loan	416	3.73	1.43
Loan from money lenders	416	3.52	1.45
Mobile/online banking	366	3.43	1.53
ATM	366	3.35	1.62
A micro finance loan	416	3.31	1.53
Bank loan secured on property	417	3.11	1.71
Insurance	366	3.08	1.59
Current account	417	2.87	1.60
A credit card	417	2.85	1.59
Pension Fund	417	2.78	1.67
Shares and bonds	366	2.69	1.56
Unsecured bank loans	417	2.65	1.60
A mortgage	417	2.26	1.41

Source: Primary data

Results in table 4.3 above suggest that the respondents had high knowledge on only mobile money and saving accounts. The mean score for mobile money was 4.44 and standard deviation of 0.90. This was followed by saving accounts with a mean score of 4.3. Therefore, the level of adoption of formal financial services is still limited among the SMEs

Respondents had moderate knowledge on Sacco loans, mobile/online banking, ATMs, Bank loans secured on property and insurance with means scores above 3 but less than 4. This therefore calls for more formal trainings for SMEs to increase their uptake of these financial services.

Financial services that are least known among the business community include mortgages (2.26), unsecured bank loans (2.65), shares and bonds (2.65), pension funds (2.78%), credit cards (2.85) credit cards (2.85) and current accounts (2.87) as seen in table 4.3 above. The trainings on formal financial services should therefore be expanded to cover the different services available and not only be limited to opening up bank accounts and savings.

4.3.3 Level of Financial Skills among SMEs

Business owners were then asked if they have skills necessary to access some key financial services such as depositing money on their account, withdrawing money and the use of mobile and internet banking services among others. Responses were coded from 1-5 where 1 was for strongly disagree and 5 strongly agree that they have the skills to complete and or access different financial services. Similar to assessment of financial knowledge, the mean score was computed. A mean score of 4 and above implies high level of skills to access a given financial service, a mean score between 3-4 implies moderate skills about the financial service while a mean score below 3 implies low level of skills to access the financial services. The results on the level of financial skills are shown in table below.

Table 4.4: Descriptive statistics for level of financial skills

Level of financial skills	N	Mean	Std. Deviation
I can use it to deposit the money to my account	366	3.67	1.50
I know the process of opening a bank account	366	3.53	1.60
When I get a loan, I know how the interests are calculated	366	3.44	1.56
I can use the ATM to withdraw money from my account	365	3.03	1.67
I can use the ATM to deposit money to my account	366	3.03	1.64
I can use mobile banking well	365	3.00	1.61
I can use internet banking well	365	2.56	1.51
I can use the ATM to get my bank statement	365	2.39	1.53

Source: Primary data

Overall, the level of financial skills among SME business owners is still moderate. On all the dimensions assessed, the mean score was below 4. The financial services that more respondents are able to complete by themselves include the ability to deposit money on their account with a mean score of 3.67 and standard deviation of 1.5. This is followed by the ability to open up bank accounts (mean=3.53 and SD=1.6) and the ability to know how to calculate interests on loans (mean=3.44 and SD=1.56). Fewer business owners are able to use the Automatic Teller Machine (ATM) to withdraw money from their account (mean=3.03 and SD= 1.67), to deposit money on their accounts (mean=3.03 and SD= 1.67) and to use the ATM to obtain a bank statement (mean=2.39 and SD= 1.53). Hands on trainings in how to use these services is therefore needed among the SME business owners.

Lastly, the level of skills among SME business owners is low in regards to use of mobile banking (mean=3.00 and SD= 1.61) and internet banking (mean=2.56 and SD= 1.51) as seen in table above.

The following responses was captured from the interviews:

“I take my money to the bank and deposit it to my account. I do this physically in the bank. I fear using the ATM. In fact, I have never used the ATM to deposit money. I don’t even know how to use it” Response from a business owner

“Those things of internet banking are risky. I can’t trust them”. Response from a business owner

4.3.4 Attitude towards financial Services among SMEs

The study assessed the attitudes of SME business owners towards formal financial services using various parameters as presented in table below.

Table 4. 5: Attitudes towards formal financial services

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Formal banks are for large businesses	37.98%	30.87%	1.09%	10.38%	19.67%
Formal financial institutions such as banks have complicated process that are hard to understand	16.12%	25.96%	5.46%	21.31%	31.15%
I fear using formal financial institutions	36.61%	28.69%	5.19%	9.56%	19.95%
I do not have all requirements for me to make use of the formal bank services	37.16%	27.05%	1.91%	11.48%	22.40%
Banks have excessive charges; I would rather keep my money in a Sacco or at home than taking it to the bank	18.31%	27.05%	3.83%	21.58%	29.23%
Bank officials are very rough when demanding for their money- I can't risk taking their loans	17.21%	14.21%	8.47%	16.12%	43.99%

The study finds mixed reactions about formal financial services among the SME community as summarized above.

The study revealed that majority of the SME business owners (69%) agree that formal banks are not just for large business while about 30.1% feels that they are only for large businesses and not SMEs. However, more than half (52.5%) of SMEs interviewed, stated that formal banks have complicated processes that are difficult to understand while 42.08% think the processes are not difficult and 5.46% were neutral. Simplifying business process to access the formal financial services that suit owners of SMEs is therefore vital as most of these are illiterate. As it was revealed in one of the interviews, the lack of collateral security is still a major challenge for SMEs

“Those banks are for the rich. We the small traders cannot get loans because we don’t have assets to use as collateral security. So, we end up going to money lenders here in the market that charge us unfair rates” Response from a business trader

Close to two thirds of the respondents (65.3%) also indicated that they do not fear using formal financial services while 29.5% stated that they fear using formal financial services and 5.2% were neutral about the statement. Majority of the respondents (64.2%) also revealed that they have all requirements for them to make use of the formal bank services while about 34% feel they do not have the requirements to access formal financial services. While majority stated that they do not fear to access the services and that they have what it takes to access the services, the proportions that stated that they fear and that they do not have the requirements to access the services need to be focussed on the financial service providers.

Half of the SME business owners (50.8%) stated that banks have excessive charges and that they would rather keep their money in a Sacco or at home than taking it to the bank while 45.4% feel the bank charges are not excessive and thus are rather willing to use banks than saccos or keeping money at home. Lastly, majority of the survey respondents (60.1%) stated that bank officials are rough especially when demanding for their money and therefore that they cannot risk taking their loans. The implication is that if we are to achieve financial inclusion among the vulnerable groups such as SMEs, the transaction charges need to be as low as possible.

4.4 Correlation Analysis.

The study examined the relationship between adoption of formal financial services and financial Knowledge, skills and attitudes towards formal financial services using the Pearson correlation test. Results are presented in table below.

Table 4.6: Relationship between financial knowledge and adoption of financial services

Pearson correlations

Variables	Adoption of formal financial services	Financial Knowledge	Financial skills	Personal attitudes
Adoption of formal financial services	1.000			
Financial Knowledge	0.252*** (0.000)	1.000		
Financial Skills	0.467*** (0.000)	0.332*** (0.000)	1.000	
Personal attitudes	0.364*** (0.000)	0.253*** (0.000)	0.532*** (0.000)	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Pearson Correlation results in table above reveal a significant relationship between knowledge of financial services and utilization of financial services ($p < 0.05$). This implies that the more people are aware of the available services the higher are the chances of adopting the services. Similarly, there is also a significant relationship between financial skills services and utilization of financial services ($p < 0.05$).

The study based on the responses to the different statements to split attitude into positive and negative attitude. Respondents that had three or more positive responses out of the 6 parameters assessed were considered to have a positive attitude towards formal financial services while respondents that had more negative statements or less than three positive responses to the statements were considered to have negative attitude towards formal financial services.

Results above indicates that there is a significant relationship between attitude towards formal financial services and the adoption of the financial services ($p < 0.05$). Respondents with a positive attitude towards formal financial services are more likely to adopt the services.

4.5 Regression analysis: Effect of financial literacy (knowledge, skills and attitudes) on adoption of formal financial services

To estimate the effect of financial literacy (knowledge and skills) and attitude on adoption of formal financial services, the study adopted a logit model. Regression results are presented in table below.

Table 4.7: Regression analysis results: Effect of financial literacy (knowledge, skills and attitudes) on adoption of formal financial services

Adoption of formal financial services	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Financial knowledge	0.167	0.084	1.98	0.048	0.001	0.333	**
Financial skills	0.512	0.08	6.37	0.000	0.354	0.67	***
Personal attitudes	0.13	0.046	2.80	0.005	0.039	0.221	***
Constant	0.371	0.296	1.25	0.210	-0.211	0.954	
Mean dependent var		2.899		SD dependent var		1.846	
R-squared		0.645		Number of obs		366	
F-test		39.136		Prob > F		0.000	
*** $p < .01$, ** $p < .05$, * $p < .1$							

Results in table below indicate that financial knowledge has a positive significant effect on adoption of formal financial services ($\beta=0.167$ and $p<0.05$). The probability to adopt formal financial services increase by 0.167 for a unit increase in the mean score of financial knowledge.

Similarly, probability to adopt formal financial services increases with the ability to use the services (skills). The effect of financial skills on adoption of financial services was positive and significant ($\beta=0.512$ and $p<0.05$). This implies that a unit increase in the mean score of financial skills would on average lead on 0.512 increases in the probability to adopt formal financial services. Put differently, business owners with skills to access different financial services are more likely to adopt the financial services than those that were not skilled.

Lastly, attitude towards formal financial services also has a significant effect on adoption of financial services ($\beta=0.13$ and $p<0.05$). Respondents with a positive attitude towards formal financial services are more likely to adopt the services than those with a negative attitude towards formal financial services.

4.6 Summary of findings

The study intended to analyse the relationship between financial literacy (knowledge, skills and attitudes) and adoption of formal financial services. The decision on the research hypotheses is summarised in table below.

Table 4.8: Summary of the results

Objective	Hypothesis tested	Decision	Conclusion
Analyse the relationship between financial knowledge and adoption of formal financial services among SMEs in Nakawa market.	Financial knowledge has no significant impact on the adoption of formal financial services	Rejected	Relationship is positive and significant
Analyse the relationship between financial skills and adoption of formal financial services among SMEs in Nakawa market.	Financial skills have no significant impact on the adoption of formal financial services	Rejected	Relationship is positive and significant
Analyze the relationship between attitude about formal financial services and adoption of financial services.	Individual's attitude about formal financial services has no significant effect on the adoption of financial services	Rejected	Relationship is positive and significant

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the findings of the study in relation to existing literature. It also includes the conclusions and the recommendations for the way forward.

5.1 Discussion of the findings

The main objective of the study was to analyse the relationship between financial literacy and adoption of formal financial services among SMEs. Financial literacy was assessed in terms of knowledge about the services, skills to access or utilize the different financial services and attitudes towards formal financial services.

Financial literacy knowledge and adoption of formal financial services

The results revealed a positive effect of financial knowledge on adoption of formal financial services. The implication is that as people are sensitized about the different services, the chances of adopting those increases. Making people aware about the available formal financial services is therefore important to increase uptake of the services. The results of the positive relationship between financial knowledge and adoption of formal financial services are consistent with existing literature such as Hilgert, Hogarth, and Beverly, 2003, Morshadul, Thi and Ariful (2021), Yates (2016).

Financial literacy skills and adoption formal financial services

The study also finds that having financial skills increases the probability of utilizing the available financial services. The impact of financial skills on adoption of financial services was statistically significant at conventional levels. Therefore, in addition to sensitizing the public about the

available services, they should be empowered with the skills to be able to do the transactions themselves. By doing so, it will reduce on the costs they have to incur to access the services through the use of “brokers”.

The study also found a positive significant effect of attitude towards formal financial services on adoption of the formal financial services. This is consistent with theory and empirical literature. As Ajzen and Fishbein, suggest, a person is more likely to purchase or utilize a good or service if they have a positive attitude about it (Ajzen and Fishbein, 1980).

5.2 Conclusions

The role of financial literacy in enhancing financial inclusion especially among the excluded population such as SMEs, the uneducated among others is significant. This is consistent with literature and the hypothesis of this research. However, it is important to note that, financial literacy should not only focus on sensitizing masses about the available services but rather go an extra step to equip the population with the skills to access the services. By offering a complete set of awareness about the formal financial services and financial skills to make transactions, more and more will be empowered to adopt the services. Improving the image of the providers of financial services such as banks is equally important as this helps to change the attitude of the population towards the institutions which is an important determinant of the decision to utilize the services.

5.3 Recommendations

The following recommendations are proposed going forward.

First, financial literacy programmes should not only focus on sensitizing the population about the available formal financial services. If significant results are to be achieved, the programmes should

offer a complete set that includes training the populations with the hands-on skills to be able to access the available financial services.

Second, banks and other financial services providers should be deliberate at improving their public image especially when it comes the manner in which they demand for loan repayments. As the study results indicated, more respondents stated that bank officials are rough when demanding for their money. When one person is harassed, it has spillover effects to other individuals around him or her and in the end, these other individuals can be scared to accessing formal banks to access the services.

Third, while it is understandable that businessmen and women are “always” busy, for sustainability of their businesses, they need to prioritize attaining formal trainings in the management of finances and how to access formal financial services.

Lastly, on the policy side, financial literacy should be streamlined in the formal education system and perhaps made a compulsory subject. This is because we all wake up every day to go to work to get money such that we attain a good wellbeing. It therefore makes sense that everyone gets some form of basic training in the management of finances.

5.4 Possible areas for further research

This study has tackled the role of financial literacy in enhancing the uptake of formal financial services. One important finding is that skills are very important in this regard. Related to this is the need to investigate how easy the public finds it to use the available services and if simplification of financial services has a positive relationship with adoption of the services.

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APPENDIX 1: QUESTIONNAIRE

FINANCIAL LITERACY AND ADOPTION OF FORMAL FINANCIAL AMONG SMALL BUSINESS TRADERS: A CASE STUDY OF NAKAWA MARKET

Introduction

Good day. I am a student pursuing a Master of Business Administration at Kyambogo University. I am working on a study on the Relationship between Financial Literacy and adoption of Formal Financial Services among small business traders in Nakawa. The study is part of the requirements to complete a degree of Master of Business Administration at Kyambogo University.

Your business has been chosen by chance. This research will not result in any direct benefits to you or your business. However, it could help to support reforms in financial services. Similarly, the risks involved in your participation in the study are minimal. I will ensure that no information that you provide me will be directly attributable to you and all the information you provide will be kept on a password-protected computer, which will only be accessible by me alone.

The interview is expected to take about 30 minutes. Your participation in this study is voluntary. It is your choice to be part of the study or not. Even if you consent to take part in this study, you can withdraw your consent at any point during the interview. Any information that you will have given us will be destroyed if you decide to withdraw. If you do not feel comfortable about answering some of the questions, you do not have to answer them. Your responses to the other questions will still be included in the study.

Provide a tick(☑) where appropriate

<u>CONSENT:</u>			
		Response	Code
Do you agree to participate in the study?	Yes		1
	No		2

INFORMATION ABOUT RESPONDENT

Provide a tick(☑) where appropriate

		Response	Code
Q1 Gender	Female		1
	Male		2
Q2 What is your approximate age?	Below 20		1
	20 – 30		2
	31 – 40		3
	41 – 50		4
	51 – 60		5
	Over 61		6
Q3 What is your Marital status?	Single		1
	Married		2
	Separated/divorced		3
	Widowed		4
Q4 What is the highest education level you have attained?	No formal education		1
	Primary school		2
	Secondary school (O Level)		3
	Secondary school (A Level)		4
	Vocational training		5
	Post-secondary qualification, other than university (e.g. diploma or degree from a polytechnic or college)		6
	University Education (Bachelors degree)		7
	Post graduate education (Masters degree)		8
	Doctorate degree		9

BUSINESS CHARACTERISTICS

Provide a tick(☑) where appropriate

		Response	Code	
Q5 What type of business do you run?	Company		1	
	Partnership		2	
	Sole proprietorship		3	
	Other (specify)		4	
Q6 Who owns this business?	Individual owner (myself)		1	
	My spouse (husband/wife)		2	
	Partnership with my spouse (wife/husband)		3	
	Partnership with other people other than spouse		4	
	Other (specify)		5	
Q7 What sector is the business?	Hairdressing saloon		1	
	Wholesale trade		2	
	Retail trade/ market stall		3	
	Restaurant		4	
	Mobile money services		5	
	Food processing		6	
	Butcher		7	
	Hardware		8	
	Other (specify)		9	
Q8 How long has your business been in operation?				
	During a good month such as Christmas season	During a bad month	During a normal month without any special activities taking place	Average incomes (to be automatically calculated)
Q9. Thinking about your main business how much on average do you earn during the following seasons				

ADOPTION OF FORMAL FINANCIAL SERVICES

Provide a tick(☑) where appropriate

		Response	Code
Q52 Where do you normally go for financial support/services	Formal banks		1
	Formal but Non-bank services (mobile money, saccos, micro finance institutions etc)		2
	Informal financial services such as money lenders, friends and relatives, saving groups		3
	I have never/don't see for financial services		4
Do you have a bank account?	Yes		1
	No		2
How do you mainly access your bank account?	Through the bank branch		1
	ATM		2
	Mobile banking		3
	Internet banking		4
	Bank Agent		5
Have you ever applied for a loan?	Yes		1
	No		2
What credit mechanisms have you ever used?	I use only formal banks		1
	I use mainly informal money lenders		2
	I used a registered Sacco		3
	Rely on family and friends		4
	Never borrowed		5
What motivated you to open up a bank account? (select all that apply)	To save money		1
	To keep my money safe		2
	To get a loan		3
	To make payments/receive money		4
	Other		5
What saving mechanisms do you use? (select all that apply)	Saving cash at home		1
	Save cash in our saving group		2
	Save cash in a bank		3
	Save cash in a Sacco		4
	Save the cash with a relative/friend		5
	Save on mobile money		6
	I don't save		7
When making payments either for goods or services, what payment methods do you normally use	I pay in cash		1
	I pay through the bank		2
	I use mobile money		3
	I use internet banking		4

FINANCIAL LITERACY (KNOWLEDGE AND SKILLS)

		Response	Code
Q 10 Who is responsible for day to day decisions about money in your household?	My self		1
	My spouse		2
	Me and other family members		3
	Another family member(s) other than spouse		4
	Someone else		5
Q11 Does your household have a budget?	Yes		1
	No		2

On a scale of 1-5 with 1 being strongly disagree and 5 strongly agree to what extent do you agree to the following

Q12. To what extent do you agree that you know the following financial products/services Codes SD-Strongly disagree D- Disagree N- Neutral A- Agree SA- Strongly agree		SD	D	N	A	SA
	Bank loan secured on property					
	Unsecured bank loans					
	Pension Fund					
	A mortgage					
	A credit card					
	Current account					
	A saving account					
	A micro finance loan					
	Sacco loan					
	Loan from money lenders					
	Mobile money account					
	Mobile/online banking					
	Insurance					
Shares and bonds						
ATM						
Q13. Tell me whether you currently hold any of these types of financial products Codes SD-Strongly disagree D- Disagree N- Neutral A- Agree SA- Strongly agree		SD	D	N	A	SA
	Bank loan secured on property					
	Unsecured bank loans					
	Pension Fund					
	A mortgage					
	A credit card					
	Current account					
	A saving account					
	A micro finance loan					
	Sacco loan					
	Loan from money lenders					
	Mobile money account					
	Mobile/online banking					
	Insurance					
Shares and bonds						
ATM						

Are you able to do the following yourself?	Strongly agree	Agree	Neutral	disagree	Strongly disagree
I know the process of opening a bank account					
When I get a loan, I know how the interests are calculated					
I can use deposit the money to my account					
I can use the ATM to deposit money to my account					
I can use the ATM to withdraw money from my account					
I can use the ATM to get my bank statement					
I can use internet banking well					
I can use mobile banking well					

ATTITUDE ABOUT FINANCES

I am going to read out some attitude statements. I would like to know how much you agree or disagree with them				
Statement	Strongly agree	Agree	disagree	Strongly disagree
Before I buy something I carefully consider whether I can afford it				
I tend to live for today and let tomorrow take care of it self				
I find it more satisfying to spend money than to save it for the long term				
I am prepared to risk some of my money when saving or making an investment				
I keep a close personal watch on my financial affairs				
I set long term financial goals and strive to achieve them				
Money is there to be spent				
Formal financial institutions such as banks have complicated process that are hard to understand				

ATTITUDE ABOUT FORMAL FINANCIAL SERVICES

I am going to read out some attitude statements. I would like to know how much you agree or disagree with them				
Statement	Strongly agree	Agree	disagree	Strongly disagree
Formal banks are for large businesses				
Formal financial institutions such as banks have complicated process that are hard to understand				
I fear using formal financial institutions				
I do not have all requirements for me to make use of the formal bank services				
Banks have excessive charges, I would rather keep my money in a Sacco or at home than taking it to the bank				
Bank officials are very rough when demanding for their money- I cant risk taking their loans				

END OF INTERVIEW

SCRIPT: Thank you for your participation.

APPENDIX 2: INTERVIEW GUIDE

**FINANCIAL LITERACY AND ADOPTION OF FORMAL FINANCIALSERVICES
AMONG SMALL BUSINESS TRADERS: A CASE STUDY OF NAKAWA MARKET**

Introduction

Good day. I am a student pursuing a Master of Business Administration at Kyambogo University. I am working on a study on the Relationship between Financial Literacy and adoption of Formal Financial Services among small business traders in Nakawa. The study is part of the requirements to complete a degree of Master of Business Administration at Kyambogo University.

The interview is expected to take about 30 minutes. Your participation in this study is voluntary. It is your choice to be part of the study or not. Even if you consent to take part in this study, you can withdraw your consent at any point during the interview. Any information that you will have given me will be destroyed if you decide to withdraw. If you do not feel comfortable about answering some of the questions, you do not have to answer them. Your responses to the other questions will still be included in the study.

Name of Institution:

Date of Interview:

Position of Respondent:

Questions:

1. What financial services do you have for SMEs?
2. For each of the financial services stated, what are the requirements for the SMEs to access them?
3. Based on your assessment, to what extent have SMEs adopted the various financial services?
4. What factors explain the level of adoption of the different financial services?
5. Are there any specific challenges that you are facing in extending financial services to the SMEs? If so, what are these challenges
6. Would you say that there is more demand for financial services by SMEs from formal banks?
7. In your opinion, how can SMEs be supported to access formal financial services?

APPENDIX 3: BUDGET

	Activity	Unit	Unit Cost (Ugx)	Amount (Ugx)	Justification
1	STATIONERY AND EQUIPMENT				
	Pens, pencils and notebooks		20,000	20,000	For data recording
	Internet(data)			30,000	For data collection
	Final report printing and binding	5 copies	100,000	500,000	Copies for submission
	Sub – total			550,000	
	DATA COLLECTION				
	Training Research Assistants (RAs)	03 RAs x 1days	30,000	90,000	Support in data collection
	Costs for data collection	3 RAs x 5 working days	20,000	300,000	For data collection
	Cost of conducting Interviews	2 days	50,000	100,000	To collect quality data
	Sub – total			490,000	
	DATA ANALYSIS				
	Data entry/Transfer to SPSS	01	25,000	25,000	For data management
	Sub-total			25,000	
	OTHER COSTS				
	Transport costs at the field	5 days	30,000	150,000	Facilitate coordination of data collection
	Meals at the field	5 days	30,000	150,000	To boost energy levels
	Sub-total			300,000	
	GRAND TOTAL			1,365,000	

APPENDIX 4: THE WORKPLAN

ACTIVITIES	TIME (MONTHS 8)							
	June	July	August	October	November	December	January	February
1. Research proposal writing and presentation								
3. Development of research instruments and pilot study								
4. Data collection, data input, data analysis and writing of the draft report								
5. Compilation and submission of the final report								

APPENDIX 5: SAMPLE SIZE DETERMINATION TABLE

<i>Table for Determining Sample Size of a Known Population</i>									
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	283	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384
<i>Note: N is Population Size; S is Sample Size</i>					<i>Source: Krejcie & Morgan, 1970</i>				