FINANCIAL LITERACY AND FINANCIAL PERFORMANCE OF MICRO AND SMALL SIZED ENTERPRISES IN KIRA MUNICIPALITY

BY

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DECLARATION

I **Sowedi Zirabamuzale**, declare that this research report is my original work and has not been submitted to any University or Institution of higher learning for any partial fulfillment of any award.

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APPROVAL

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

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DEDICATION

I dedicate this report to my mother, father, siblings, my Kyambogo University and the Master’s class who have stood with me all the way through this academic journey up to the end.

ACKNOWLEDGMENT

It would not have been an easy journey to come up with this research report if it was not because of the efforts and support received from different people and therefore can't go unappreciated.

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TABLE OF CONTENTS

DECLARATION ..... **i**

APPROVAL ..... **ii**

DEDICATION ..... **iii**

ACKNOWLEDGMENT ..... **iv**

TABLE OF CONTENTS ..... **v**

LIST OF FIGURES ..... **xi**

LIST OF ABBREVIATIONS ..... **xii**

ABSTRACT ..... **xiii**

CHAPTER ONE **1**

INTRODUCTION **1**

1.0 Introduction 1

1.1 Background of the study 1

1.1.1 Historical Background 1

1.1.2 Theoretical Background 3

1.1.3 Conceptual background 3

1.1.4 Contextual background 5

1.2 Statement of the problem: 6

1.3 The purpose of the study. 7

1.4 Objectives of the study 7

1.5 Research hypotheses 7

1.6 Scope of the study 7

1.6.1 Content scope 7

1.6.2 Geographical scope 8

1.6.3 Time scope 8

1.7 Significance of the study 8

1.6 The Conceptual Framework 9

1.9 Definition of key terms 10

CHAPTER TWO 12

LITERATURE REVIEW 12

2.1 Introduction 12

2.1 Theoretical Review 12

2.1.1 Transaction cost theory 12

2.1.2 Resource-Based Theory (RBT) 13

2.2 Conceptual Review 16

2.2.1 Financial literacy 16

2.2.2 Financial Performance of Micro and Small Medium Enterprises. 19

2.3 Empirical literature on study objectives. 20

2.3.1 Investment literacy and financial performance of MSEs 20

2.3.2 Budgeting literacy and financial performance of MSEs 21

2.3.3 Borrowing Literacy and financial performance of MSEs. 23

2.4 Summary of Literature Review and the literature gap 24

CHAPTER THREE 26

RESEARCH METHODOLOGY 26

3.0 Introduction 26

3.1 Research Design 26

3.2 Study area and Population. 27

3.3 Sample Size determination 27

3.4 Sampling Technique. 28

3.5 Data Collection Methods 29

3.6 Data Collection Instruments 29

3.6.1 Self-Administered Questionnaire 29

3.6.2 Interview guide 30

3.7 Data collection procedure 30

3.8 Validity and reliability of research instruments. 31

3.8.1 Validity and reliability. 31

3.9: Measurement of study variables 33

3.9.1 Dependent variable 33

3.9.2 Independent variable 33

3.10 Data Analysis 33

3.10.1 Quantitative data analysis 34

3.11 Ethical considerations 35

CHAPTER FOUR 36

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF FINDINGS.... 36

4.1 Introduction 36

4.2 Response rate 36

4.3 Respondents' characteristics 36

4.4 Characteristics of the enterprises 38
4. 5 Descriptive statistics of the study variables 41
4. 5.1 Descriptive analysis on investment literacy levels among MSEs 41
4. 5.2 Descriptive analysis on budgeting literacy levels among MSEs 43
4. 5.4 Descriptive analysis on borrowing literacy levels among MSEs 45
4. 5.5 Descriptive analysis on financial performance levels among MSEs 47
4.6 The relationship between Investment literacy, budgeting literacy, borrowing literacy and financial performance. 49
4.7 Normality tests 51
4.7.1 Regression analysis of investment literacy effect on financial performance of MSEs 53
4.7.2 Regression analysis for budgeting literacy effect on financial performance of MSEs 55
4.7.3 Regression analysis of borrowing literacy effect on financial performance of MSEs 57
4.7.4 Regression analysis of financial literacy effect on financial performance of MSEs 59

CHAPTER FIVE 62
SUMMARY OF KEY FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS OF THE STUDY 62
5.1 Introduction 62
5.2 Summary of key findings 62
5.3 Discussion of findings 64
5.3.1 The effect of Investment literacy on financial performance of MSEs 64
5.3.2 Effect of budgeting literacy on the financial performance of MSEs 65
5.3.3 The effect of borrowing literacy on the financial performance of MSEs 67
5.4 Conclusions 68

5.5 Recommendations 69

5.6 Suggestions for further research 71

REFERENCES 72

APPENDIX I: 86

SURVEY QUESTIONNAIRE 86

APPENDIX II: KEY INFORMANT INTERVIEW GUIDE 93

LIST OF TABLES

Table 3. 1: Population and sample distribution 28

Table 3. 2: Reliability of the research variables. 32

Table 4. 1: Respondents characteristics 37

Table 4. 2: MSE' Characteristics 39

Table 4. 3: Reported response levels on investment literacy among MSEs 42

Table 4. 4: Reported response levels on budgeting literacy among MSEs 44

Table 4. 5: Reported response levels on borrowing literacy among MSEs 46

Table 4. 6: Reported response levels on book keeping literacy among MSEs 48

Table 4. 7: Correlation analysis 50

Table 4. 8: Test of Normality 51

Table 4. 9: Variance Inflation Factor 52

Table 4. 10: Regression model summary and coefficients for the effect of investment literacy on financial performance of MSEs 54

Table 4. 11: Regression model summary and coefficients for the effect of Budgeting literacy on financial performance of MSEs 56

Table 4. 12: Regression model summary and coefficients for the effect of borrowing literacy on financial performance of MSEs 58

Table 4. 13: Regression model summary and Coefficients for the effect of financial literacy on financial performance of MSEs 60

LIST OF FIGURES

Figure 1: Conceptual framework showing link between financial literacy and financial 9

LIST OF ABBREVIATIONS

BOU	:	Bank of Uganda
FSDC	:	Financial Stability and Development Council
KM	:	Kira Municipality
MoFPED	:	Ministry of Finance Planning and Economic Development
MSEs	:	Micro and Small Sized Enterprises
NPA	:	National Planning Authority
PSFU	:	Private Sector Foundation Uganda
RBT	:	Resource Based Theory
UIA	:	Uganda Investment Authority
USA	:	United States of America

ABSTRACT

The aim of this study was to investigate the effect of financial literacy on financial performance of Micro and small sized enterprises in Kira Municipality. The study specifically addressed the following study objectives; to examine the effect of investment literacy on financial literacy on Micro and Small sized enterprises in Kira municipality, to examine effect of budgeting literacy on financial literacy on Micro and Small sized enterprises in Kira municipality and to examine the effect of investment literacy on financial literacy on Micro and Small sized enterprises in Kira municipality. Three null hypotheses were tested based on the objectives. This study was guided by the Resource Based Theory. A cross-sectional survey design was adopted where both quantitative and qualitative data were collected using questionnaires and interviews respectively. A study population of 420 MSEs was considered for collection of quantitative data using questionnaires where a sample of 201 was used and determined using Krejice and Morgan table (1970).Both stratified and simple sampling technique were used to determine the sample. Quantitative data collected was analyzed using regression analysis and descriptive statistics with support of SPSS version 23.0 while qualitative data was analyzed using content analysis. Prerequisite tests were carried out where data was tested for normality and multi-collinearity, all data was normally distributed and lacked collinearity effects. The study used regression analysis to address the study objectives that sought to establish the effect between the variables. Findings from the regression showed that investment literacy and borrowing literacy positively and significantly affect financial performance of MSEs. However, budgeting literacy insignificantly affects financial performance of MSEs in Kira Municipality. In general, the study found out that financial literacy positively and significantly affects financial performance of MSEs. The study therefore concludes that financial literacy positively and significantly affects financial performance and recommends that government and other development partners like African Development Bank (ADB) should organize specific financial literacy trainings based on whether a company is Small, Micro or Medium sized other than organizing general financial literacy trainings yet companies have different needs and face slightly different challenges and also massive sensitization of MSEs by financial agencies as these companies lack sufficient information on what and where to invest for bigger returns and less risks. The researcher suggests that other studies be based on other dimensions of financial literacy like savings, accountability and with a slightly larger sample size bigger than that of a municipality so as to make a generalization of the effect of financial literacy and financial performance of MSEs in Uganda.

Key terms; Financial literacy, Investment literacy, borrowing literacy, budgeting literacy and financial performance

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background of the study describing the historical, theoretical, and conceptual and the contextual background, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, significance and definition of key terms used in the study.

1.1 Background of the study

This was presented in the form of historical background, theoretical background, conceptual background and contextual background.

1.1.1 Historical Background

Globally, during and after the industrial revolution, there was an emergency of market economies which increased opportunities for consumers, workers, investors and firms by engaging in multiple businesses. This caused the business environment to grow from having one single enterprise to industries and then multinational firms. As a result, Small and medium sized businesses or enterprises and big corporations which operated across the globe and Overseas continued to be incorporated and this was mainly because of each firm's financial and management capabilities (Turyahikayo, 2015). Still the majority of these enterprises performance was beheld along with the full share of strategic, structural and financial development. Different Development agencies globally and governments have recently extended Financial services to these enterprises and in most cases made them free accessible or at least affordable terms. However, their operational success has been dependent on how they understand their investment choices and decisions.

The socio economic function executed by enterprises is broadly known in less developed and developing economies. However, in the recent times, majority of the countries have put more emphasis on the level of financial literacy of the people who engage in any business venture while looking at their competences, skills and knowledge on how business enterprises are run in areas of budgeting, borrowing and investment not forgetting the management of internal and external debt (Dewi & Rahman, 2018).

Different countries have developed different strategies aimed at boosting and instituting financial literacy levels through providing financial management skills and knowledge among managers, owners and other operators in making informed financial decisions. For example, USA established a consumer financial protection bureau that aimed at stimulating financial knowledge and skills in supporting the owners and managers of enterprises in making the right financial decisions. India established a financial stability and development council (FSDC) that has over the years been tasked to train and counsel different entrepreneurs on the various sources of finance initiatives so as to enhance their performance (Chepkemoi, Patrick and Njoroge, 2017).

In Uganda, MSEs were stretched way back in the early 1990s when there was an intrusion of the early traders on the East African costs and the occupation of the Indians in Uganda which brought a more business mindset among Ugandans. However, irrespective of all the above, many MSEs have failed to thrive through the rapidly changing economic situations and therefore most of them fail during or before celebrating their first or second birthdays due to the poor financial performance inform of very low sales growth market expansion and profitability (WTO, 2012).

1.1.2 Theoretical Background

This particular study was drawn on the resource based theory. The Resource Based term was first coined by Wernerfelt in 1984. However, Jay Barney is considered as the father of modern Resource Based View (RBV) of the firm. It is based on a premise that firm resources are fundamental determinants of competitive advantage and performance. According to the theory, firm resources are its major assets and strengths where firms have full control by enabling it to plan and implement strategies aimed at improving organization's efficiency and performance (Grant, 1991). Therefore, this financial literacy is viewed as a resource inform of a skill, a competence or knowledge that induces success of any organization both financially and in operational terms. (Adomako & Danso, 2014)

1.1.3 Conceptual background

According to GEM Special Report, (2015), Uganda is considered to be among the world's entrepreneurial countries dominated by new business startups. However, the majority of these enterprises remain micro and others develop small whereas others completely fail (MoFPED/UNPF, 2017). Financial literacy is one of the key competences business owners need to make decisions in a competitive environment and attain business sustainability.

Majority of the scholars have attributed this to high levels of financial illiteracy where the majority of the business minded people in Uganda lack adequate entrepreneurship skills and therefore fail to make wise investment, production and management decisions (PSFU Annual Report, 2018). Therefore, the guiding concepts in this study are financial literacy as an independent variable and financial performance of micro and small enterprises as a dependent variable. These concepts have been applied and conceptualized to different studies by previous scholars.

According to Hennart (2010), financial literacy refers to the knowledge of financial matters required to execute informed judgments and decisions on the managing financial resources more especially money). Barney (2001) asserts that financial literacy is an organization's value for money. Barney (1995) further explains that any enterprise’s success depends on how best it deploys its financial and non-financial resources in creation and accumulation of its wealth and attainment of sustainable growth and survival.

Performance of any firm is most inclined to how financially literate its human resources are and therefore organizations must invest in more resources especially in insisting financial literacy if it is to win a competitive age over other firms. Therefore, the concept of financial literacy simply means the training intended to improve financial management skills even before they access financial support in form of debts or credit from financial institutions (OECD, 2011).

Dewi and Rahman (2018) urge that financial performance is both inherent and extrinsic economic monetary benefits that accrue to an enterprise from its engagements or activities. It’s an organization’s value for money. It is how best an enterprise is in wealth creation and accumulating resources the organization's success solely depends on its ability to make use of its both financial and organizational resources effectively and efficiently to achieve its set goals.

Therefore, basing on the above concepts therefore, this study was guided by definition derived from study done by Eniola and Entebang (2014) who assert that financial literacy is the knowledge of financial matters required to execute informed judgements and decisions on the managing financial resources more especially money and the concept will be explained in major three dimensions of investment knowledge , saving as well as cash management skills as adopted from previous studies to predict their effect on the financial performance of MSEs in Uganda (Chepkemoi, Patrick and Njoroge, 2017)

1.1.4 Contextual background

The study context is Micro and Small sized enterprises in Uganda. Over 90% of Uganda's private sector is mainly concentrated in these enterprises with contribution per sector standing at 33% in the service sector, trade and commerce at 49%, manufacturing contributing 10% in manufacturing and 8% in other sectors (PSFU Annual Report, 2018). This means that MSEs play a very significant role in growing Uganda's economy through providing employment to both nationals and non-nationals, improving household incomes, supporting import substitution strategy producing import substituting products, reducing on rural-urban migration and its negative effects and mobilization of local resources.

The MSEs in Kira Municipality are largely concentrated in the urban area and the gazette industrial parks. These carry out business in various sectors like education, manufacturing, trade and commerce, finance and accounting, Information and Communication, hospitality and entertainment. However according to PSFU Annual Report (2018), majority of these enterprises face high insolvency rate as they fail to operate and others close within the second year in operation and BoU Annual Report (2018) attributes it largely to very high levels of financial illiteracy among the owners and managers of these enterprises.

Therefore, this study focused on studying MSEs in Kira Municipality that are involved in the various sectors of manufacturing, service, retail, construction and real estate yet they continue to experience continuous fall in financial performance. These MSEs are involved in the study in order to discourse the question on how financial literacy with detailed emphasis on borrowing literacy, investment literacy and Budgeting affects financial performance in terms sales growth, profit growth and market expansion (PSFU Annual Report, 2018).

1.2 Statement of the problem:

As Uganda focuses on achieving its 2040 vision, its policies are majorly embarked on supporting micro, small and medium sized enterprises as a measure aimed at driving the country to middle income status by year 2040 (NPA, 2019). Despite the increasing focus on these MSEs by the government of Uganda and other development partners by providing a reasonable substantial financial support, reports continue to indicate, many of these enterprises are struggling, do not break-even, and generally characterized by stunted growth and this has led to low financial performance in terms of low profit margins as well as limited market expansion (BoU report, 2018; PSFU Annual Report, 2018; UIA Report, 2017). For instance, NPA (2019) report provide evidence that Kira Municipality which is confined with over 40% of vibrant MSEs of the Kampala metropolitan area has only 30% of every 10 MSEs established every year live to celebrate their third birthday with many enterprises being characterized by stunted sales and profit growth. This has been purportedly attributed to financial illiteracy that may result to irrational decision making. Amidst these performance and operational challenges faced by MSEs in Kira Municipality, little is still known by owners and managers of the enterprises on the contribution of financial literacy to their financial performance yet previous studies such as Eniola and Entabang (2017) urge that financial literacy is a significant strategic area through which these enterprises can enhance their financial stability and ensure persistent performance. Therefore, based on that insight this study sought to establish the effect of financial literacy on financial performance of MSEs in Kira Municipality, Wakiso district.

1.3 The purpose of the study.

The study purpose was to examine the effect of financial literacy on financial performance on Micro and Small sized enterprise in Kira Municipality.

1.4 Objectives of the study

i. To examine the effect of investment literacy on financial performance on Micro and Small sized enterprise in Kira Municipality.

ii. To examine the effect of budgeting literacy on financial performance on Micro and Small sized enterprise in Kira Municipality.

iii. To examine the effect of borrowing literacy on financial performance on Micro and Small sized enterprises in Kira Municipality.

1.5 Research hypotheses

Following the study objectives, the null hypotheses below were tested

$H_{1:}$ Investment literacy has no significant effect on the financial performance of MSEs in Kira Municipality

H_2: Budgeting literacy has no significant effect on the financial performance of MSEs in Kira Municipality

$H_{3:}$ Borrowing literacy has no significant effect on the financial performance of MSEs in Kira Municipality

1.6 Scope of the study

1.6.1 Content scope

The study aimed at establishing the effect of financial literacy on financial performance of MSEs in Uganda specifically looking at Kira Municipality. The independent variable was financial literacy looking at constructs of investment literacy, borrowing literacy and budgeting literacy while dependent variable being financial performance measured by profit growth, market expansion and sales growth

1.6.2 Geographical scope

The study population was drawn from MSEs in Kira municipality Wakiso district in central Uganda. This study area was selected because according to PSFU Annual Report (2018), Wakiso district was named among the districts with worst performing MSEs regardless of the financial support from both government and other development partners.

1.6.3 Time scope

The study used literature and scenarios over the period 2014-2020. Period 2014 was considered a benchmark; given that this is when the phenomenon under study started to become vibrant.

1.7 Significance of the study

The findings of this study would inform the policy makers such as PSFU, Bank of Uganda, government and parliament to develop a concrete policy and support strategies to enhance performance of these enterprises in Kira Municipality.

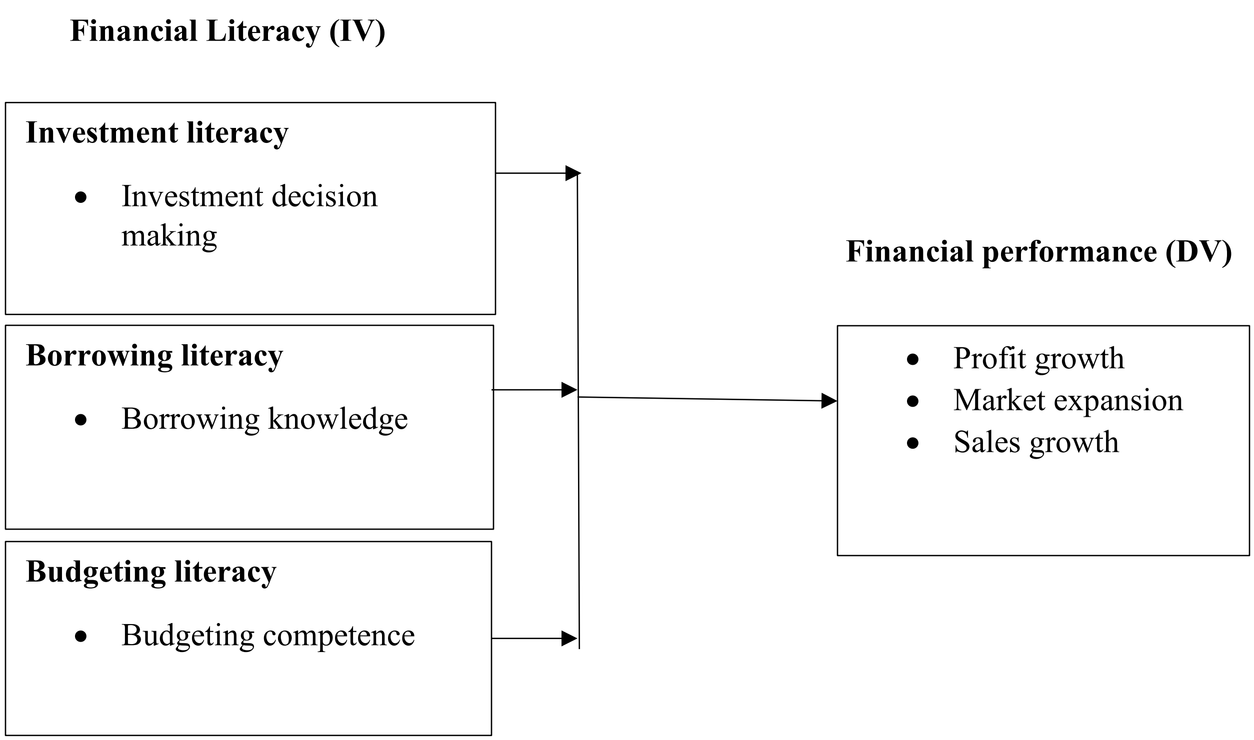
It would also provide an opportunity for future researchers to examine the relationship between Financial Literacy and financial performance while looking at parameters like Bookkeeping literacy, entrepreneurship skills and budgeting competences and knowledge.

The study would significantly add to the already existing theories and the body of knowledge by examining the effect of Financial literacy and financial performance that is to say how bookkeeping literacy, entrepreneurship and budgeting competences affect the financial performance.

It's also intended to expand on the scope of opportunities for financial literacy professionals who would like to practice their expertise in the education arena.

1.6 The Conceptual Framework

The conceptual framework draws relationships among variables and the dependent and independent variables relate (Miles & Huberman, 1994). This conceptual framework was guided by the theoretical perspective of Resource based theory. The conceptual framework below highlights the variables of the study the investigation is to concentrate on and the hypothesized link between the variables examined in the study.



Source: Eniola and Entabang (2014) as modified by the researcher.

Figure 1: **Conceptual framework showing link between financial literacy and financial**

From the model in figure 1, financial literacy is a multidimensional construct that predicts performance of these enterprises. This was conceptualized to three which include investment literacy, Budgeting Literacy and Borrowing literacy.

The researcher specifically looked at the investment knowledge of an entrepreneur and how they influence the performance, Budgeting literacy specifically looked at Budgeting competence and Borrowing literacy specially comprised of borrowing knowledge and skills of an entrepreneur. Based on the study done by Derbyshire (2016), the financial performance was conceptualized in both accounting based performance measures which included sales growth and profit growth and market based performance indicators which included market expansion.

1.9 Definition of key terms

Financial Literacy as the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security. Under this knowledge" means having an understanding of personal financial issues; "skills" means being able to apply that knowledge to manage one's personal finances; and "confidence" means feeling sufficiently self-assured to make decisions relating to one's personal finances (BoU report, 2018).

Enterprise describes the actions of someone who shows some initiative by taking a risk by setting up, investing in and running a business. A person who takes the *initiative* is someone who "*makes things happen*". He or she tends to be decisive. A business opportunity is identified and the person does something about it. Showing initiative is about taking decisions and being bold – not everyone is like that!

Micro and Small Sized Enterprises (MSEs): There is no universally agreed definition of MSEs, these may be defined on the basis of employee count, annual turnover and annual capital employed.

The Uganda Investment Authority (UIA) websites defines a ‘Micro Enterprise’ as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. On the other hand, Small enterprises employ between 5 to 49 people and have assets exceeding UGX: 10 million but not exceeding UGX 100 million. This definition based on the number of employees will be adopted for this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This literature presents literature on empirical studies, theoretical studies on financial literacy and financial performance for MSEs. This will cover scholarly work from both local and international sources of literature, reading materials like reports, articles and journals among others and this will be highly considered a source of information about the variables in the study.

2.1 Theoretical Review

There are a number of theories that explain the link between financial literacy and any firm's financial performance: However, to concretely illustrate and explain the effect between the two study variables, Resource Based Theory (RBT) was used and this was supported by transaction cost theory

2.1.1 Transaction cost theory

This theory of transaction cost was expounded by Williamson (1981) as cited by Williamson (2017). The theory explains that there will always be costs associated with any business activity that is aimed at utilizing business resources and attaining a business goal or objective.

These economic or organizational costs are incurred both within and outside the business. In addition, these costs are a means of measuring efficiency and effectiveness of different organizational designs used to achieve economic benefits in a given business environment (Cherugong, 2015). Therefore, for any business to thrive through a competitive and dynamic environment, individuals or managers must be able to manage the costs of doing business or transaction costs effectively and this requires one to be well equipped with skills, experience, knowledge and even competence on how to manage and operational costs. Based on the framework of this theory, lack of such financial and management skills will therefore escalate transaction costs incurred hence negatively affecting business performance. Therefore, based on the logic of this theory, it is the financial literacy skills which will enable the management and personnel of the firm to execute different transactional activities which may influence the financial performance of the firm (Williamson, 1981). This theory is highly in support of Resource Based Theory due its suggestive way that managers, employees and owners of the organization need to possess strategic skill, competence as well as knowledge on how to manage financial matters (costs, revenues, management) so as to attain a set financial and operational goal and objective.

This theory is highly beneficial to the study in that most MSEs' owners in Kira Municipality, due to limited knowledge, skills and competence, do not professionally execute their transactions. This is due to their belief that they will 'remember' all the transactions and also transactions involving low amounts of money have no need to be monitored. This tends not to be true as it affects the financial performance, for example through overspending, and also bad borrowing habits. Hence adoption of this theory will be recommended.

2.1.2 Resource-Based Theory (RBT)

This particular study was drawn on the resource based theory. The resource based term was first coined by Wernerfelt in 1984. However, Jay Barney is considered as the father of modern RBV of the firm. It was based on a premise that firm resources are very fundamental in determining the firm's competitive advantage and performance.

According to Barney (2011), RBT explains that a successful organization is a bundle of unique, immobile and scarce resources that are both tangible and intangible in nature which are effectively and efficiently managed. These resources include knowledge, information, skills, competencies that an organization needs to possess a competitive edge over other organizations. He also proposed that organizations are ‘combiners’ of valuable, heterogeneous, imperfect and mobile resources. The overall gist of this theory is that if an entity acquires and effectively controls its scarce valuable, rare, permanent or real resources and capabilities, it can achieve competitive advantage that is sustainable than other competing firms and steady growth and performance, given that it has the ability to absorb and apply these particular resources (Barney, 1991).

Barney (2011) explains furthermore that what separates successful organizations from struggling organizations is the way they utilize their unique tangible and intangible assets for example information, knowledge, competence, skills capabilities as well as their organizational processes. The effective utilization of these resources strengthen a sustainable competitive advantage for the firm and therefore Barney (1991) illustrated that the proper deployment and utilization of a firm's capabilities create a synergy that enables a firm to pursue its growth and objectives efficiently. Therefore, basing on the above explanations, these Micro and small-sized enterprises can depend on resource immobility as well as transferability difficulty of financial knowledge, skills and competence to generate and sustain their economic benefits inform of market expansion that in long run increase sales growth leading increased profitability levels of the firm (Ittner & Larcker, 2003).

Therefore, based on the logic of RBT, Financial literacy is viewed by many scholars as a competence, a pool of knowledge and competence is a resource alongside others like assets, organizational processes, technology among others that a firm utilizes to pursue growth (Eniola & Entabang, 2014). The theory looks at financial literacy as knowledge a firm or a manager needs to make appropriate financial and business decisions in order to achieve a competitive edge and growth in a competitive environment over other firms (Barney, 2011)

This study was therefore guided by the concept of this theory since it explains well financial literacy as a resource, a competence and different empirical studies have used Resource Based theory to examine the financial and general performance of firms and enterprises.

Eniola and Entabang (2014) used RBT in assessing the effect of financial literacy on SME firm performance and concluded that any firm possessing such unique and immobile skills and competence as a resource to run its operations possesses a competitive edge over and above other competing firms.

Okeyo, Gathungu and Obonyo (2014) used the same theory in establishing the association between entrepreneur financial literacy, financial access, transaction costs and performance of micro-enterprises in Nairobi City County in Kenya and recommended that financial literacy is an important intangible asset a firm must possess and guard jealously so as to win a sustained competitive advantage over other organizations and the findings from this study result signified that a strong relationship exists between the two study variables.

In the study conducted by Bongomin, Ntayi, Munene and Nabeta (2014), Resource Based Theory was used to study Financial Inclusion in rural Uganda, testing interaction of the effect of financial literacy and networks and later found out that networks significantly and positively explain the relationship between financial literacy and financial inclusion.

In the study conducted by Thapa (2015), RBT was used to examine the influence of managerial foresight on microenterprise performance in Nepal and concluded that managerial foresight had an important role in strengthening the performance of these microenterprises.

2.2 Conceptual Review

The financial performance of MSEs is a dependent variable and utilizing a resource-based theory in support of the transaction theory, it is conceptualized to be predicted by financial literacy. From the earlier sections presented, the key aspects derived for empirical studies include investment literacy, Borrowing literacy and budgeting literacy as well as the financial performance. These concepts are well explained and their link is highlighted.

2.2.1 Financial literacy

The conception of financial literacy has of recent attained a significant focus from many scholars, individual and institutional investors, financial institutions, pensioners, government entities. A number of scholars have come up to define what Financial literacy means (Morgan & Long, 2020; Al-Tamimi & Kalli, 2009; Almenberg & Säve-Söderbergh, 2011; Panos & Wilson, 2020; OECD, 2016; Nicolini & Haupt, 2019; Allesie et al. 2011;; Subha & Priya, 2015).

Morgan and Long (2020) abridged all definitions from many scholars and debated that financial literacy can be defined in a summary as "the ability to make informed judgments and to take effective decisions regarding the use and management of money." Emergency of globalized economy and global financial markets has influenced financial literacy to attract the interest of many groups including government agencies, bankers, employers, community, financial markets and other organizations (Al-Tamimi & Kalli, 2009).

In the study done by Fredenberger, Dethomas and Ray (1993) aimed at establishing the financial information accessibility levels among small enterprises found out that over sixty-one percent of the respondents acknowledged the fact that the financial statements are source of information managers need for effective decision making and planning with around 11 percent providing that they had partially based on the information provided to make decisions.

In the study to examine how financial knowledge affects performance of small and medium enterprises in Nigeria conducted by Esiebugie, Agwa and Asenge (2018), the findings revealed that financial knowledge and attitude actually affect performance of these enterprises both positively and significantly. The study further explains that an individual who possesses such knowledge and the ability to apply it portrays a good gesture of making well informed decisions and that may drive the organization into sustainable growth, survival and development.

Almenberg and Säve-Söderbergh (2011) also conducted a study to examine the levels of financial knowledge among the Small and medium enterprise owners and the study revealed that these owners and managers are insufficiently knowledgeable in areas of managing financial matters and do lack skills and are less experienced especially in record keeping, budgeting as well as financial planning. Bitature (2010) further explained that most individuals from developing economies including Uganda possess limited knowledge and skills in terms of financial management matters and such managers and owners are most unlikely to execute well informed decisions on different money matters.

Many development agencies and government bodies across the world have come up to carry out empirical studies to establish the level of financial literacy among different groups of people. For example, A study by the OECD (2016) found out that there are high levels of financial literacy in European countries and USA but in eastern Europe, financial literacy is very low for most of the adults especially in USA as compared to Eastern Europe and this has brought a negative effect on how investment decisions are made and recommended that the government needed to invest more in instituting financial literacy in order to enable individuals participate in globalized economy and financial markets.

Eniola and Entebang (2017) conducted an empirical study to examine how financial literacy affects investment decisions, after taking a sample size of 20 entities in Washington, DC. Regression analysis was run and the findings indicated that there is positive correlation between the level of financial literacy and investment decisions of firms. Conclusions were made in that financial literacy had a significant effect on the financial performance of firms since firms that had access to financial information invested in more profitable ventures.

In an empirical study conducted by Morgan and Long (2020) where its main purpose was to examine the level of financial literacy among the youth. The study focused mainly on how socio-economic and demographic factors, such as age, gender, marital status and income, influence financial literacy level of youth and more so to establish the interrelationship among financial knowledge, financial attitude and financial behavior. Based on the study findings, the researcher concluded that the continuous effort of the world economies to improve the financial health of their citizens has backed the rising importance of financial literacy as it prepares managers and business owners to make quality financial and management decisions to ensure business growth.
Akoto, Nkrumah, Benjamin and Antwi-Adjei (2020) also conducted a study on individual financial literacy among cocoa farmers in the Assin Foso and Twifo Praso districts of the Central region of Ghana. From a survey where 569 cocoa farmers were subjected to an empirical analysis, the study findings indicated that the majority of farmers (73%) have lower levels of financial knowledge, which affects their performance.

Dahmen and Rodríguez (2014) conducted a survey on 14 small business owners in Florida in order to determine their level of financial understanding and their usage habits of financial statements in making management decisions. The questionnaire used only focused mainly on financial knowledge and financial behavior. The study findings concluded that a concrete link exists between limited financial literacy and financial difficulties among business people (Dahmen & Rodriguez, 2014).

Grohmann (2018) also conducted an empirical study aimed at examining financial records keeping behavior of small-scale businesses in the Bolgatanga Municipality and the findings revealed that the major factors responsible for these business failure include improper bookkeeping due to limited accounting knowledge, unskilled personals employed as well as weak internal controls that majorly manipulated. The study further concludes that these enterprise's performance is mainly attributed to poor record and bookkeeping in a sense that these enterprises cannot tract their past operations in terms or both incomes and expenditures.

2.2.2 Financial Performance of Micro and Small Medium Enterprises.

The definition of performance has attracted diverging views from different backgrounds.

Different scholars have come up to attach definitions on what constitutes the performance of any enterprise. According to Eniola and Entabang (2014) a concept of performance tends to have low strategic outcomes which are usually denoted in literature as an organization's successes or failure. In the management field, Banfield, Jennings and Beaver (1996) defines firm performance as measures of good or indifferent management, but it may occur for other reasons such as luck.

The indicators of any organisation's performance depend on the extent at which it has achieved its goals or not (Davidsson, 2005). Firm performance is a focal phenomenon in business management as it has been proposed in the literature (Borchert, 2008). The general performance of the organization depends on the correct management at the three levels of management (Eniola & Entabang, 2015). Performance can be characterized as the firm's ability to create acceptable outcomes and actions. However, performance seems to be conceptualized, rationalized and measured in different ways, thus making cross- comparison difficult.

Lusch & Laczniak (1989) defines financial performance as both inherent and extrinsic economic monetary benefits that accrue to an enterprise from its engagements or activities. It is how best an enterprise is in wealth creation and accumulating resources. The organization's success majorly depends on its ability to make use of its both financial and organizational resources effectively and efficiently to achieve its set goals.

Al-Matari (2014) in his study aimed at examining and establishing different measures of financial performance in the organization found out these indicators are categorized into accounting financial performance related and market based financial performance measures. The study further discussed that accounting based performance measures mainly include Return on Assets, Return on Equity, Profitability growth, sales growth and market based accounting measures majorly include Market expansion, customer satisfaction. These findings were also supported by Iqbal, Nawaz, & Ehsan (2019).

2.3 Empirical literature on study objectives.

2.3.1 Investment literacy and financial performance of MSEs

Investment according to Cheptemoi (2017); Mahdzan, Zainudin and Yoong (2020); Halim et al. (2021) refers to the process where resources are put in something expecting a return in either short term or long run. Individuals, organizations pull and put together resources which include human resources (labor), money (Capital), machinery and even time in transforming an input into an output with the main purpose of making a gain or expecting a reward.

Mahdzan, Zainudin and Yoong (2020) conducted an empirical investigation to assess the interconnection between investment decision making and success of enterprises in Ethiopia. 200 enterprises were sampled and subjected to analytical study where it was found out that effective investment decision making positively and significantly affects success of any enterprise. The student concluded that for success of any organization or an enterprise depends on how best the investment decision is executed in terms of determining and selecting the right business alternative to invest in as well as the risk associated with each investment alternative.

In an empirical study conducted by Halim et al. (2021) with the aim of examining different factors that affect effective investment decision making, it was found out that understanding the goals of investment in a given venture determines how much to invest is a crucial factor to be considered. Risk analysis also plays a big role and therefore investors must first analyze risk levels. This is provided that high risky ventures have higher returns than investments with less risk.

2.3.2 Budgeting literacy and financial performance of MSEs

The budgeting area has provided fertile ground grounds for most scholars and researchers and this has attracted many to come up and conduct empirical studies on how budgeting literacy and processes affects firm’s performance (Shahrabani, 2012; Chepngetich, 2016, Mah, 2020; Gonçalves, 2014; Onduso, 2013)

Shahrabani (2012) conducted an empirical study aiming at establishing the correlation between budgeting and performance of Remittance companies in Somalia. The study found out that there exists a positive and a significant correlation between budgeting and firm performance implying that effective budgeting increases performance.

Adomako and Danso (2014) conducted an empirical study to examine how budgeting affects performance of non-financial institutions in Ghana. During this study, qualitative study design was adopted and primary data was collected from 89 non-bank institutions by use of a questionnaire tool so as to importance of budgets as a financial management tool among these institutions. Step wise method was applied for model generation and regression analysis adopted to quantify the extent of the cause and effect of budgeting on the performance. The study found out that budgeting influences performances as most of the respondents were in agreement with the subject matter indicating that effective budgeting increases profits, enhances ROI by shareholders and streamlines growth of the market hence increase in firm's sales. Therefore, the study concluded that budget processing has a statistical significance on the performance of the firms.

The study conducted by Gonçalves (2014) concluded that participating in budgeting is a complex process which is influenced by many conditions and therefore it is hardly easy to ascertain its absolute effect on the performance of employees.

Onduso (2013) also conducted an empirical investigation to analyze how budgets affect financial performance of companies in Nairobi County and concluded that any company's financial performance is mainly measured by the return on assets and this has significant influence on the budget usage on its performance.

Chepngetich (2016) concluded that formal budgeting planning escalates higher growth in sales of these particular parastatals after examining how budgeting process affects performance of manufacturing parastatals in Kenya. He further explained that these controls enhance profit growth and leads to effective managerial performance.

A study done by Sugioko (2010) aiming at assessing the impact of the budgeting process on SME Performance in China found out that this process positively affects their level of performance. it also revealed that more formalized processes in budgeting results in increased sales revenue as well as affects budgetary performance of these enterprises hence clearly indicating that clear and attainable budget goals lead to firm's goal attainment while difficulty but achievable enhance employee motivation to attain budget standards. The study also found out that such budgetary control tends to lead to a higher growth in profit of a firm.

2.3.3 Borrowing Literacy and financial performance of MSEs.

Gathergood (2012) relates borrowing to defined Debt management and defines it as the capability of making calculated and informed decisions concerning debt acquisitions, usage and basic mathematical knowledge application concerning interest compounding to everyday financial choices with effective and timely repayments.

Mah (2020) also conducted a study aiming at evaluating borrowing strategies in terms of combative financing and combative investing borrowing approaches. Pearson and Spearman's correlations were applied, pooled ordinary least squares and the fixed effects regression models were used to analyze data. The findings indicated that there is a negative but highly significant relationship between profit realization time and cash collection time from customers.

Several researchers have studied about borrowing and performance of firms and enterprises; Barnard et al., 2010; Hieltjes & Petrova, 2013) and these have established a positive relationship between borrowing literacy and financial performance of these enterprises and reveal that individuals who are less financially literate always find challenges in ways how they manage borrowed money as well as in making strategic business choices and in a long run no business success due to limited performance while, those with high level of financial literacy have thrived in business because they find it easy to manage their finances, understand when to borrow and from cheap sources in terms of interest (Lusardi & Mitchell, 2008).

An individual or business who is literate in managing borrowed funds or capital possess skills, knowledge as well as information regarding when, why and how much to borrow, for example understanding calculations involved in ascertaining the interest to be paid on borrowed, the principal amounts and rightful and affordable sources of such debts (Casagrande, 2016).

Addaney et al. (2016) have observed and concluded that improper debt management and unnecessary borrowings are main contributors to poor performance of any enterprises especially those which are financially illiterate in making financial and management decisions.

Gonçalves (2014) conducted an empirical study to establish how a firm's profitability and liquidity are affected by its debt management strategies. The study evaluated companies listed in the Vietnam Stock Exchange and it focused on cash conversion cycle and its related elements that measure debt management. This study pooled that between 2004 and 2008. It established that these two variables are negatively related with the implication that profits are negatively influenced by an increase in cash conversion cycle. The study further discussed that profitability increases as the debtor's collection and inventory conversion periods reduce.

2.4 Summary of Literature Review and the literature gap

Micro and small enterprises are a key economic driver in the economy of Uganda as they play a vital contribution in creating wealth and job creation to ever increasing Ugandan population mainly dominated by young population. For the recent years, financial literacy has provided an interesting ground for the recent studies by many scholars. Different scholars have come up to examine the relationship between financial literacy and performance of firms and the effect that exists between the two variables. More so, different studies have applied the concept of Resource based theory explaining that financial literacy is a unique, intangible, and a rare asset/ resource that any enterprise should possess and guard jealously to contain its competitive edge over its competitors and ensure its growth and survival.

Most of these empirical studies conducted aiming at establishing the relationship between financial literacy and financial performance are largely focused on small, medium and large sized enterprises and conclusions made have been based on capital employed and assets owned by these entities under the study. Even considering existing studies, these have not clearly explained how these enterprises can deploy financial literacy as a resource to reduce or avoid failure and achieve faster business growth. Several scholars have studied financial literacy and performance (Eniola & Entebang, 2014; Chepkemoi et al., 2017) but still limited studies have actually focused on micro and small enterprises and this has created a literature gap for study and research purposes. Therefore, this study seeks out to bridge this literature gap and expand on the literature about how financial literacy affects financial performance specifically among Micro and small enterprises in Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design, study population, sample size and selection, sampling techniques, data collection methods, data collection instruments, procedure of data collection, reliability and validity of instruments, data analysis, measurement of variables, data presentation and analysis and the limitations to the study.

3.1 Research Design

According to Saunders, Lewis and Thornhill (2009), a research design should indicate the choice of research strategy, choices of data collection techniques, analysis procedures, and the time horizon over which a research project would be undertaken. In line with this understanding, the study adopted a cross-sectional survey design. This design was also supported by Kothari, (2004) who suggested that this design may be used by studies that aim at establishing facts about the issue of study since data is collected from different entities at a given point in time.

A cross sectional survey strategy was used in order to allow the collection of a large amount of data from selected business players of MSEs in Kira Municipality in a highly economical way at a given point in time. The study applied a quantitative method that descriptive in nature. Questionnaires and interviews were used in order to allow triangulation by ensuring that the limitations of one type of data are balanced by the strengths of another. Quantitative data collected was quantitatively analyzed using descriptive and inferential statistics. These descriptive statistics were statistically manipulated to explain the effect of financial literacy on financial performance of MSEs. Qualitative data collected was analyzed in themes according to the emerging variables of the study.

3.2 Study area and Population.

This study focused on MSEs in Kira Municipality. Kira municipality is one of the municipalities that make up the four Municipalities of Wakiso district. The municipality has several MSEs in the sectors of manufacturing, service, retail, commerce, construction and real estate dispersed in its 6 wards or parishes and 40 cells or villages.

However, for the purposes of this study, the population of interest was in those enterprises that are registered with the revenue department of Kira Municipality. Specifically, according to the Kira Municipality Revenue Department Report (2019), the target population was 420 MSEs.

3.3 Sample Size determination

In a scientific engagement it is important to use well established guidelines in our choices. In the case of sample size determination, this study applied the Krejcie and Morgan scientific guideline in establishing the sample size of the study. During this study, a 95% confidence interval was sought as well as 5% margin of error. With these specifications, Krejcie & Morgan (1970) guideline would advocate a sample of 201 out of the population of 420 MSEs. In order to provide a more realistic picture, the study intends to include a representative pattern of the sectors as they are in the population according to (OAG Report, 2018)) along the line of Service, Retail, Manufacturing, Construction and Real estate. These MSEs were selected following the definition of an MSE by (UIA Report, 2014) based on the number of employees that are between 1 and 49. The names and addresses of 201 Micro and small sized businesses that meet the above criteria was obtained from the list provided by the Town clerk for Kira Municipality and questionnaires distributed.

The names and addresses of the 201 MSEs that meet the stated criteria were obtained from the list provided by the revenue officer of the municipality and questionnaires distributed to them however, only 147 were collected making an effective rate of 73.1%. This response rate was considered ideal to carry out the study.

Table 3. 1: Population and sample distribution

Strata	Population	Sample	Sampling technique
Commerce and trade	190	76	Simple random
Service	120	65	Simple random
Manufacturing	110	60	Simple random
Total	**420**	**201**	

Source: Kira MSE register (2019)

3.4 Sampling Technique.

The research applied stratified sampling technique to identify and extract strata's according to characteristics and business line in which an enterprise is engaged in. Therefore, all MSEs in trade and commerce were put in the same strata, as well as those in service and manufacturing respectively. After enterprises are put in a given stratum, they were selected using simple random sampling to constitute sample respondent enterprises to participate in the study where empirical investigations were conducted to address the objectives of the study.

3.5 Data Collection Methods

Survey data collection method was used in the study to collect quantitative data. Specifically, a structured self-administered questionnaire method was deployed in carrying out a survey as it was being used as an instrument. Many researchers (Danso & Adomako, 2014; Pimpong & Laryea, 2016) deployed this particular method in related studies. The questions used in this tool were mainly close ended as they intended to reduce and limit irrelevant and unnecessary responses from the respondents. The first section of the questionnaire addressed issues of demographic data, section two addressed sources and constructs of financial management knowledge and skills while section c addressed measures of financial performance of MSEs. In each section respondents were given clear instructions on how to complete items. The questionnaire was refined once the instrument was piloted to eliminate any inconsistencies in the instrument. Secondly the study used an interview guide to support the collection of qualitative data that was used to supplement the quantitative findings of the study. This helped to probe for further explanations from the respondents.

3.6 Data Collection Instruments

The research instruments used in this study were structured questionnaires using nominal ordinal and scaled items. Bowling (2005) simply explains Research instruments as devices for assessing the variables of interest. These Instruments were in the form of questionnaires in forms of single items (questions), batteries of single items or scales of items which can be scored.

3.6.1 Self-Administered Questionnaire

Quantitative data was collected using a detailed questionnaire with mainly closed ended questions and some open-ended questions for respondents to fill short responses and for ease of analysis and shorter response time from the respondents.

This instrument covered questions about all dimensions of financial literacy which covered investment, budgeting and borrowing literacy as well as the different measures of financial performance of these enterprises and were limited to profit growth, sales growth and market expansion as adopted from past studies and adjusted to address my objectives under the study.

The responses collected were arranged on a five-point Likert scale, where ‘SA’ means ‘strongly agree’, ‘A’ means ‘agree’, ‘NS’ means ‘Not Sure’, ‘D’ means ‘disagree’, ‘SD’ means ‘strongly disagree’.

This approach is preferred simply because it enhances simplicity where straight forward answers are required. These questionnaires were self-administered and were distributed to different sales personnel, accountants, general staff, owners and managers of these selected MSEs in Kira Municipality, however in some occasions, research assistants were given a hand in explaining some concepts that may not be easily understood by the respondents.

3.6.2 Interview guide

The study developed an interview guide that supported the researcher to probe for further information from the respondents so as to provide detailed clarifications. This was aimed at supplementing the quantitative findings of the study. The interview guide was designed to capture respondents’ opinions, perceptions and explanations on the given variables of the study.

3.7 Data collection procedure

The researcher thought approval from graduate school to ensure that the ethical guidelines are followed throughout the data collection process. At the onset of data collection, the researcher also sought permission from the town clerk of Kira municipality to help access the MSEs in the municipality with ease.

Data was collected in two phases that is pilot study and main study. Data was collected from custodians or employees of MSEs through the questionnaires. To qualify to respond to the study, the respondent had to be a person with more knowledge about the business and also directly in the day to day running of the businesses.

A pilot study was carried out in Namugongo division because firms here had similar characteristics with those in Bweyogerere and Kira divisions. Twenty MSEs were randomly selected from the database of Namugongo division after getting clearance from the town clerk of the division.

In the pilot study, twenty questionnaires were administered to 20 people directly involved in the management and operations of MSEs in Kira municipality. Based on the feedback, changes were made into original questionnaires for the next phase of data collection. The responses from the pilot study were not included in the final samples.

In the main survey, 201 questionnaires were distributed to people involved in the management and daily operations of the MSEs. 147 of these were returned and were used to carry out data analysis.

3.8 Validity and reliability of research instruments.

3.8.1 Validity and reliability.

Reliability; For reliability, consistency was examined by establishing internal consistency reliability of the measurement scales for the study variables as well as split half reliability using Cronbach's alpha (Cronbach, 1951; Sekaran & Bougie, 2010). All the reliability coefficients were above 0.70, a cutoff recommended by Nunnally (1978). After data collection, reliability analysis was done above and the findings of each of the variables are presented below.

Table 3. 2: Reliability of the research variables.

Variables	No. of items	Cronbach Alpha
Investment Literacy	7	0.824
Borrowing literacy	6	0.742
Budgeting Literacy	9	0.781
Sources of financial knowledge	4	0.748

Source: Primary data, 2020

Validity; Validity refers to the extent to which research results can be accurately interpreted and generated (Saunders & Tosey, 1990; Vogt et al., 2007) explains it as "the truth or accuracy of the study". Validity tests will be conducted for content and criteria to test well how the tool used is representative and captures relationships between the variables as well as a concept measure. Content validity was determined by first discussing the items in the instrument with the supervisors and research experts. This was calculated using;

$$CVI = \frac{\textit{Total Number of items rated by all respondents}}{\textit{Total Number of items in the Instrument}}$$

$$=35/38$$

$$\boldsymbol{=0.921}$$

A content validity index of greater or equal to 0.7 according to Nunnally (1978) who recommends that Alpha not fall below 0.7 for internal consistency qualifies the study. The study also administered more than one method to ensure validity of research findings prior to administration of instruments.

3.9: Measurement of study variables

3.9.1 Dependent variable

The dependent variable was financial performance and this was measured using sales growth, profit growth and market share levels. Financial performance measures were categorized as accounting measures and market-based measures (Al-Matari et al., 2014) and therefore, Market-based measures of financial performance were looked at in terms of market expansion or growth. The study also looked at accounting- based financial performance measures which covered dimensions of profit growth and sales growth. These dimensions are developed based on studies that were conducted by (Al-matari, 2014).

3.9.2 Independent variable

The independent variable was financial literacy measured using the investment literacy, borrowing literacy and budgeting literacy. These dimensions were considered and covered when developing a data collection and the Likert scale of 1 to 5 (1= Strongly Disagree (SD), 2= Disagree (D), 3= Not Sure (NS), 4= Agree (A) and 5= Strongly Agree (SA)) will be used and means were computed to enable the analysis, a similar measurement was adopted by other researchers such as Tarca, 2004; Mazhindu, Kenneth, 2013; Mokokoma e tal, 2019)

3.10 Data Analysis

The researcher restricted himself to quantitative data analyses. This involved uncovering structures, extracting important variables, detecting any irregularity and testing any assumptions (Kombo & Tromp, 2006). Also, the Triangulation method of analysis was also used to enable the researcher to come up with appropriate conclusions and recommendations.

3.10.1 Quantitative data analysis

In order to increase precision, ensure consistency and reduce bias, data collected using a questionnaire was edited and smoothed. Data was analyzed using a regression analysis and descriptive statistics were presented using mean, standard deviation, percentages and analysis was presented in frequency tables. A multiple regression analysis was performed to determine statistical effect of financial literacy on the financial performance of MSEs in Kira Municipality. SPSS (Statistical Program for Social Sciences) was used to obtain coefficients and regression analysis on every objective (Creswell, 2000).

The researcher applied regression models on each of the dimensions of financial literacy to predict their effect on the dimensions of financial performance using a linear regression question,

$$\mathbf{y = a + \beta x}$$

$$FP = a + ILx + e,$$

$$FP = a + BLLx + e,$$

$$FP = a + BLx + e$$

Where, IL represents investment literacy, BL represents budgeting literacy, e representing an error term and BLL represents borrowing literacy.

To examine the overall effect of financial literacy on financial performance of MSEs, a multiple regression analysis was run using SPSS to examine how all the constructs of the independent variable affect the dependent variable. This was driven by regression model: $\mathbf{FP= \beta_0+ILx_1+BLx_2+BLLx_3+e}$

Based on this model, MSEs financial performance was explained by sales growth, profit growth and market expansion and this was treated as dependent variable while financial literacy which was explained under the constructs of literacy in investment, budgeting and borrowing skills represented the independent variable. The responses were measured by computing the mean percentage score based on the responses derived from the Likert scale questions.

3.11 Ethical considerations

A number of ethical issues were put into consideration including;

Confidentiality of respondents were neither names nor contacts were revealed and identification numbers were assigned instead of names to avoid information given being traced to a respondent.

All data gathered was used only for the purposes of the study and nothing else.

The research respondents were explained to all respondents before they took part in the research and their informed consent was informed.

All the sources of literature were acknowledged throughout the whole study through proper citing and referencing.

Personal bias was avoided during the entire study that is during data analysis and reporting.

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents findings in line with the objectives of the study. The chapter deals with the presentation, analysis as well as interpretations of the study findings. The chapter begins with the respondents' rate of response, the respondent demographic characteristics, enterprise characteristics and study objectives focusing on investment literacy, budgeting literacy, borrowing as well as the financial performance measures among micro and small sized enterprises in Kira Municipality. The data was collected exclusively using a self-administered questionnaire as a research instrument and through conducting interviews from the respondents. The researcher has made use of descriptive and regression analysis to present the result in tables and figures.

4.2 Response rate

Of 201 self-administered questionnaires that were administered to respondents, only 147 were returned. All these were considered to be complete for further analysis giving 73.1 % response rate. This high response rate was achieved mainly due to better data collection procedures and engagements, where the researcher together with research assistants pre-notified and explained to the potential respondents the benefits of the study findings of the intended survey and to an advantage that my research assistants have been active participants in social wellbeing in the same locality of Kira Municipality.

4.3 Respondents' characteristics

The information collected from the respondents about the key characteristics of the respondents in terms of age, gender, position held and their education level are presented in the table below

Table 4. 1: **Respondents characteristics**

Characteristic	Frequency	Percentage (%)
Gender		
Male	95	64.5
Female	52	35.4
Total	**147**	**100**
Age		
Not more than 18 years	3	2.0
19- 25 years	30	20.4
26-35 years	47	32.0
36-45 years	26	17.7
Above 45 years	41	27.9
Total	**147**	**100**
Education level		
Primary	7	4.8
Secondary	40	27.2
Tertiary	40	27.2
University	56	38.1
Others	4	2.7
Total	**147**	**100**

Source: ***Primary data, 2020***

Based on the findings in table 4. 1 above, the majority of the respondents were male (64.5%) as compared to 35.5 % female representation, an indication that most of these enterprises are run by males. Most of the respondents were aged between 26 years and 35 years old followed by those aged above 45 years. This would imply that most of these enterprises are being run by people who are mature in terms of age and could be having experience in business management.

Based on the findings of the respondent's educational background, majority of them have actually studied up to the university level (38.1) and a reasonable number of them have attained formal education both at secondary (27.2%) and tertiary level (27.2%). This gives an indication that their literacy level about business management might not be low compared to those respondents who didn't attain formal education.

4.4 Characteristics of the enterprises

The table 2 below summaries the responses given on the key MSE characteristics in regards to size of the enterprise, period of operation (tenure), form of the enterprises, major source of their finances as well as the sector each belongs to.

Table 4. 2: MSE' Characteristics

Characteristic	Frequency	Percentage (%)
Business form		
Sole proprietorship	70	47.6
Private partnership	33	22.4
Limited liability	17	11.6
Cooperative society	27	18.4
Total	**147**	**100.0**
Enterprise Tenure		
Less than one year	25	17.0
Less than two years	60	40.8
Above three years	62	42.2
Total	**147**	**100.0**
Source of financing		
Borrowing	45	30.6
Savings	56	38.1
Donations	46	31.3
Total	**147**	**100.0**
Enterprise size		
1-4 employees	77	52.4
5-49 employees	70	47.6
Total	**147**	**100.0**
Enterprise sector		
Trade and commerce	59	40.1
Service	84	57.1
Manufacturing	4	2.7
Total	**147**	**100.0**

Source: ***Primary Data, 2020***

Based on the table 4.2 above, the majority of these enterprises are individually owned (47.6%), 22.4 % of these are formed as private partnerships followed by cooperative unions at 18.4 %. This possesses an implication that most of these businesses are family run since they are solely owned.

The finding further indicates that the majority of these enterprises have been in operation for less than two years (57.2%) and 42.8% of them have been operating for more than three years. This indicates that those that have been running for more than three years but still remain small or micro seem to be finally illiterate.

Its further provided from the findings that majority of these enterprises activities are funded through savings (38.1%), 30.6% of these enterprises are funded through borrowing and a reasonable percentage of these enterprises (over 31%) source their fund through donations especially from agencies, business Engels

The findings further indicated that the majority of the enterprises employ one to four people, an indication that most of them are operating at micro level. (52.4%) and the remaining 47,6% operating at a small scale where they are employing more than four people but not more than forty-nine people.

In regard to the enterprise sector in which it is operating, the information from the study also revealed that the majority of these enterprises are involved in service business (57.1 %), 40.1% involved in trade in commerce while the minority of these enterprises (2.7) are in the manufacturing sector.

4. 5 Descriptive statistics of the study variables

For a researcher to assess the financial literacy levels among these respondents, different items described under the study variables were presented to the respondents where they were required to express their degree of agreement to the items presented. The responses were evaluated basing on a five Likert scale of 1 to 5 where 1= Strongly Disagree (SD), 2= Disagree (D), 3= Not Sur (NS), 4= Agree (A) and 5= Strongly Agree (SA and their mean and standard deviations of their responses well captured for further explanation.

4. 5.1 Descriptive analysis on investment literacy levels among MSEs

In response to assessment of financial literacy levels among these enterprises, different items explaining investment literacy were provided for the respondents to express their opinion in the form of their degree of agreement. The data collected from their responses is presented on table 1. 3 below.

Table 4. 3: Reported response levels on investment literacy among MSEs

Items	N	Mean	Std. Dev
Experts are involved in making investment decisions	147	4.01	.798
We often decide on what to invest in	147	4.54	.742
Employees are often involved in making more investment decision	147	3.76	.948
We often have more than one option to invest in	147	3.99	1.069
We invest in only less risky venture	147	3.48	0.816
We always anticipate the profits and returns from the investments	147	3.90	1.023
We can't invest in more than a given amount of money	147	4.56	.731
Valid N (list wise)	147		
Grand mean		**4.03**	

Source: ***Primary data, 2020***

Based on the data presented on table 4.3 above, the findings indicate that the majority of the respondents agreed to the fact that their enterprises always involve experts in making investment decisions (Mean= 4.01, SD= .798). The small value of standard deviation implies that the majority of the respondents were actually in agreement with the subject matter.

Majority of the respondents further agreed that they often agree on what they invest in (Mean= 4.54, SD= .742) and more than one option are always available to make a choice from for more investments (Mean= 3.99, SD= 1.069) however with SD of 1.069 indicated that s reasonable number of these enterprises don't have more than one option to invest in.

Majority of the respondents agreed on the fact that their enterprises don't invest in more than a given amount of money in a business (Mean= 4.5, SD= .731), always anticipate the profits and returns from the investments (Mean= 3.90, SD= 1.023) although with a reasonable number of respondents disagreeing on that and involve their employees in making investment decisions.

However, there was a low score on that fact that these investments are only in less risky ventures, with the mean score of 3.48 and SD of less than 1, an indication that a majority of these enterprises also invest in riskier ventures.

Therefore, based on the grand mean score of 4.03, the respondents were in agreement with all the items that were used to indicate the level of investment literacy among these enterprises but of course with few discrepancies.

4. 5.2 Descriptive analysis on budgeting literacy levels among MSEs

In response to assessment of financial literacy levels among these enterprises, different items explaining budgeting literacy were provided for the respondents to express their opinion in the form of their degree of agreement. The data collected from their responses is presented on table 1. 4 below.

Table 4. 4: Reported response levels on budgeting literacy among MSEs

Items	N	Mean	Std. Dev
A continuous budget process	147	4.28	.628
We normally run annual Budgets	147	4.48	.589
All activities engaged in are always budgeted for.	147	4.16	.673
We normally work within our budget of incomes and expenditure	147	4.39	.707
We always overstate the expenditures and understate expected income	147	3.99	.567
Actual Budgets normally outweighs the expected	147	3.17	.744
All employees and stakeholders are involved in budgeting process	147	4.05	.719
We often prepare daily budgets	147	4.05	.964
We also do forecasting before we budget	147	2.44	.609
Valid N (listwise)	147		
Grand mean		**3.89**	

Source: ***Primary data, 2020***

From the data presented on the table 4.4 above, the findings indicate that majority of the respondents agreed that their enterprises engage in a continuous budgeting indicated by mean score of 4.28 and Standard deviation of 0.68 and these budgets normally run for a full year (Mean= 4.48, SD= 0.589).

The findings further revealed that all activities these enterprises engage themselves in are always budgeted for (Mean=4.16, SD=0.673), All stakeholders and employees are involved in decision making process (Mean= 4.05, SD= 0.710)

In regard to whether the budgets run are overstated, the majority of these respondents provided a neutral agreement with a mean score of 3.99, an indication that some of these enterprises overstate their expenditures and understate their income although with few discrepancies from other respondents.

The study findings further revealed that the majority of these enterprises do their budgeting on a daily basis (Mean= 4.05). However, the findings revealed that majority of these enterprises do not forecast for the expenditure to likely to be incurred or revenues to be generated before they budget (Mean= 2.44) although with majority of the respondents disagreeing on the fact that actual budget normally outweighs the expected budgets.

Therefore, with a grand mean score of 3.89 which is an average mean, there is an indication of a disagreement on number of items provided to explain budgeting literacy among MSEs.

4. 5.4 Descriptive analysis on borrowing literacy levels among MSEs

In response to assessment of financial literacy levels among these enterprises, different items explaining budgeting literacy were provided for the respondents to express their opinion in the form of their degree of agreement. The data collected from their responses is presented on table 1. 4 below.

Table 4. 5: Reported response levels on borrowing literacy among MSEs

Items	N	Mean	Std. Dev
We prefer using borrowed money to finance our business than using our own savings	147	3.88	1.138
Part of the capital was borrowed	147	4.26	.922
We often consider borrowing from the cheaper source with low interest	147	3.97	1.180
Loan account is always maintained.	147	3.97	.979
Borrowing is extremely risky and we always tend to avoid it	147	3.75	1.026
Our business finds it easy and not stressing to pay back the loan	147	3.79	1.262
Valid N (listwise)	147		
Grand mean		**3.94**	

Source: ***Primary data, 2020***

Based on the data presented in the table 4.5 above, the findings revealed that most of these enterprises borrowed part of their capital invested in the business (Mean score= 4.26, SD= 0.922) and some of these enterprises are more financed by borrowed money than savings.

The findings further revealed that these enterprises prefer borrowing from cheaper sources that attract lower interest (Mean score= 3.97) however with a standard deviation score of 1.180 indicated a divergence in responses, an implication that some enterprises don’t consider interest to be considered as a factor when sourcing finances.

Furthermore, some of these enterprises still believe that borrowing is extremely risky and therefore they tend to avoid it (mean score= 3.75). But with a standard deviation of 1.026 implies that a reasonable number of these enterprises do borrow money and disagree to the point that sometimes borrowing is not risky and is well managed.

With a mean score of 3.79 and standard deviation of 1.262, the findings revealed that most of the respondents disagreed to the fact that their businesses find it easy and not stressing to pay back the loan implying that paying back the loans is not an easy process and most enterprises find it difficult to comply with loan repayment times.

Therefore, with the grand mean of 3.94, there is an indication that borrowing literacy levels differ among micro and small sized enterprises based on the responses collected from different respondents in these enterprises.

4. 5.5 Descriptive analysis on financial performance levels among MSEs

To measure and assess the level of financial performance of these micro and small sized enterprises, different accounting and market-based measure items were presented to the respondents to express their opinion on how their enterprises are performing financially in a given year. Dues to inadequacy in compliance by these enterprises to prepare and present financial statements, such qualitative financial performance measures were preferred and the responses collected are presented in table 4.6 below

Table 4. 6: Reported response levels on book keeping literacy among MSEs

Items	N	Mean	Std. Dev
Sales Growth			
Sales have been growing overtime	147	3.89	.723
Sales keep on changing everyday	147	4.06	.908
Our main objective is to maximize sales	147	3.93	.782
We often carry out sales promotion	147	3.96	1.072
Market expansion			
We sell more than our competitors	147	3.71	1.001
Our customers have been increasing	147	3.94	.945
Our purchases are increasing daily	147	3.82	.977
More branches have been opened	147	3.97	1.027
More competitors have joined the industry	147	3.90	.858
Profit growth			
Profits made keep on increasing	147	3.86	.926
Earnings are more than expenditure	147	3.80	.943
We plough back part of the profits made	147	4.10	.774
Our business expand every year	147	4.08	.707
We record all the expenditure and incomes	147	4.28	.801
Valid N (listwise)	147		
Grand mean		**3.95**	

Source: ***Primary data, 2020***

From the data indicated in table 4.6 above, the findings revealed that sales for some of the enterprises have been growing over time. This is indicated by the average mean score of 3.89 with standard deviation of 0.723 though some have not yet realized an increase in sales made annually.

The findings further revealed that most of these enterprises don't carry out sales promotion (mean score= 3.96) even though the majority of them aim at sales maximization as their objective (Mean score= 3.93).

A mean score of 3.71 indicates that some of these enterprises are facing competition from the new entrants into the industry due to the existence of the market for the products. However, some of these enterprises have opened more branches implying that there is market expansion to some extent.

Basing on the findings presented on the table above, majority of the respondents agreed to the fact that all expenditures and incomes are corded on the daily basis (mean= 4.28, SD= 0.801) as their business expand everyday (mean= 4.08, SD= 0.701) and part of the profits earned are normally ploughed back into the business (Mean score= 4.10).

Generally, with a grand mean of 3.95, the financial performance of these enterprises is still average where some of them have a relative performance and others have high level solvency at the beginner stage?

4.6 The relationship between Investment literacy, budgeting literacy, borrowing literacy and financial performance.

In this study, correlations were also utilized to establish the relationship existing between the study variables where Pearson's correlation was run since data was first normalized. The correlation was specifically helpful in order to get preliminary insights into the link between financial performance and the various dimensions of an independent variable. Table 4.6 shows the relationships between the variables based on Pearson correlation coefficient statistics.

Table 4. 7: Correlation analysis

Study variables	1	2	3	4
Investment literacy (1)	1			
Budgeting Literacy (2)	0.047*	1		
Borrowing (3)	0.124**	0.072	1	
Financial Performance (4)	0.103	0.216*	0.342**	1

N= 147, **P<0.01, *P<0.05

Source: ***Primary data, 2020***

From the data presented on the table 4.7 above, the findings indicated there is a positive relationship between investment literacy and financial literacy (R= 0.103) implying that an increase in investment literacy among the owners of these MSEs increases financial performance by 10.3%. The study further found out that a positive and significant relationship exists between budgeting and financial performance (R=0.216, P<0.05).

The data presented above further revealed that there is a positive relationship between borrowing and Financial performance (R= 0.342) and this relationship is significant at 5% level of significance.

Therefore, based on the above findings, the independent variables relate with the dependent variable and therefore further regression analysis can be done to examine the effect of financial literacy on financial performance of micro and small sized enterprises.

4.7 Normality tests

For the objectives of this study to be fulfilled, regression analysis using SPSS was undertaken in order to examine the effect of financial literacy on financial performance of MSEs. In this analysis a ordinal and multiple regression analyses were utilized and all independent and dependent variables were entered in the model at the same time. But for the regression analysis to give valid results some key assumptions have to be satisfied. In this analysis, Variance Inflation Factor (VIF) was used to ensure that the assumption of reasonable differences of the independent variables was satisfied. These were all below the threshold of 10. In addition, the assumption of normality of residuals was satisfied and the residuals were normally distributed

Table 4. 8: Test of Normality

	N	Skewness		Kurtosis	
Variables	**Statistic**	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Investment Literacy	147	-.393	.200	-.580	.397
Budgeting Literacy	147	.297	.200	5.942	.397
Borrowing Literacy	147	-.623	.200	6.214	.397
Financial Performance	147	-.965	.200	6.460	.397
Valid N (listwise)	147				

Source: Primary data 2020

According to table 4.8 above, normality tests were conducted to ensure that is symmetrical. De Vaus (2002), asserts that skewness values between -1.00 and 1.00 are within the acceptable range and indicate a symmetrical distribution. Further, research using Monte Carlos simulations indicate that significant problems tend to arise when skewness is greater than 2.00 and Kurtosis exceeds 7.00 (Curran, West and Fisher, 1996). The descriptive statistics in table 4.8 above show that the skewness of all items were below 2 and Kurtosis below 7 showing that all the items are normally distributed.

Table 4. 9: Variance Inflation Factor

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	(Constant)		
	Investment Literacy	.986	1.014
	Budgeting Literacy	.996	1.004
	Borrowing Literacy	.985	1.015

a. Dependent Variable: Log Financial Performance

Source: Primary data 2020

According to Table 4.9, Variance Inflation Factor (VIF) was used to ensure that the assumption of reasonable differences of the independent variables was satisfied. A high VIF means that the multi-collinearity effects are present. Hair (2006) stated that the problem of multi-collinearity is present if the factor is greater than 10. All the Variance Inflation factors were less than 10 implying that items had achieved the multi-collinearity condition of independent variables

4.7.1 Regression analysis of investment literacy effect on financial performance of MSEs

For the purpose of addressing the first objective of the study, a regressive analysis was done to examine the effect of investment literacy as an independent variable on financial performance as an independent variable. The results from analysis are presented in the model summary and coefficients tables 4.10 below.

Table 4. 10: Regression model summary and coefficients for the effect of investment literacy on financial performance of MSEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.347[a]	.120	.114	.090

a. Predictors: (Constant), Log Investment Literacy

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.215	.087		2.478	.000
	Log Investment Literacy	.646	.145	.347	4.450	.000

a. Dependent Variable: Log Financial Performance

Source: ***Primary data, 2020***

From the tables 4.10 showing the model summary statistics above, a p-value = 0.0001 that is less than 5% level of significance indicates that investments literacy positively (Beta=0.646) predicts the financial performance and effect is significant at p-value < 0.05. Therefore, the predictive model developed from the findings is FP= 0.215+0.646IL where FP is financial performance and IL is investments literacy. An adjusted R-square of 0.114 implies that an extra effort in strengthening investments literacy levels among these MSEs explains and predicts significantly 11.4% variations in financial performance of MSEs in Kiira Municipality. Basing on such findings, the researcher therefore concludes that investments literacy significantly and positively affects financial performance.

4.7.2 Regression analysis for budgeting literacy effect on financial performance of MSEs

For the purpose of addressing the second objective of the study, a regressive analysis was done to examine the effect of budgeting literacy as an independent variable on financial performance as an independent variable. The results from analysis are presented in the model summary and coefficients tables below.

Table 4. 11: Regression model summary and coefficients for the effect of Budgeting literacy on financial performance of MSEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.341[a]	.116	.108	.096

a. Predictors: (Constant), Log Budgeting Literacy

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.543	.075		7.278	.000
	Log budgeting literacy	.089	.117	.063	.759	.092

a. Dependent Variable: Log Financial Performance

Source: ***Primary data, 2020***

From the table 4.11 showing the model summary statistics above, a p-value = 0.092 which appears to be more than 5% level of significance, an indication that budgeting literacy among MSEs positively (Beta=0.089) predicts and affects their financial performance of these enterprises. However, its effect is insignificant at p-value > 0.05. Therefore, the predictive model developed from the findings is FP= 0.543+0.089BL where FP is financial performance and BL is budgeting literacy. An adjusted R^2 of 0.108 implies that budgeting literacy among these MSEs explains 10.8% variations in financial performance of MSEs in Kiira Municipality. However, these variations are not significant in affecting their financial performance. Based on such findings, the researcher therefore concludes that budgeting literacy positively affects financial performance of these macro and small sized enterprises however much the effect that exists between the variables is not significant.

The finding is supported by the interview response from the owner of one of the firm in Kira Municipality who said;

> *"Budgeting is still a challenge to our business. None of us has ever received any training on budgeting. This has therefore made us to pay deaf ear to business budgeting though I perceive it to be very vital for the business planning process."*

4.7.3 Regression analysis of borrowing literacy effect on financial performance of MSEs

For the purpose of addressing the third objective of the study, a regressive analysis was done to examine the effect of borrowing literacy as an independent variable on financial performance as an independent variable. The results from analysis are presented in the model summary and coefficients tables 4.12 below

Table 4. 12: Regression model summary and coefficients for the effect of borrowing literacy on financial performance of MSEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.469[a]	.220	.215	.085

a. Predictors: (Constant), Log Borrowing Literacy

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.292	.049		5.995	.000
	Log Borrowing Literacy	.515	.081	.469	6.396	.000

a. Dependent Variable: Log Financial Performance

Source: Primary data, 2020

From the table 4.12 showing the model summary statistics above, a p-value = 0.000 which appears to be less than 5% level of significance, an indication that borrowing literacy among MSEs positively (Beta=0.515) predicts and affects their financial performance of these enterprises. And its effect is significant at p-value > 0.05. Therefore, the predictive model developed from the findings is FP= 0.292+0.515BO where FP is financial performance and BO is Borrowing literacy. An adjusted R^2 of 0.215 implies that borrowing literacy among these MSEs explains 21.5% variations in financial performance of MSEs in Kira Municipality. Based on such findings, the researcher therefore concludes that borrowing literacy positively and significantly affects financial performance of these macro and small sized enterprises.

This finding is also supported by the response from the owner of one firm who said that;

> *"Knowledge on the bank and financial institutions lending policy is very vital for the financial performance of the business. It enables the business to prepare on advance to meet the lending institution's conditions. For instance, in my business we often analyze the loan repayment schedule given to us by the bank so as to ensure we do not go against the repayment data and instalments. With this, I can confirm that borrowing literacy is very important for financial success of any business."*

4.7.4 Regression analysis of financial literacy effect on financial performance of MSEs

To address the purpose of the study aiming at examining the effect of financial literacy on financial performance of Micro and small sized enterprises in Kira municipality, a multiple regression analysis between three dimensions of an independent variable and financial performance as a dependent variable was conducted the results from analysis are presented in the model summary and coefficients table 4.13 below.

Table 4. 13: Regression model summary and Coefficients for the effect of financial literacy on financial performance of MSEs

Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	.556[a]	.309	.294	.000

a. Predictors: (Constant), Log Investment Literacy, Log Budgeting Literacy, Log Borrowing Literacy

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.640	.103		.384	.000
	Log Borrowing Literacy	.477	.077	.435	6.208	.000
	Log Budgeting Literacy	.037	.098	.026	.378	.706
	Log Investment Literacy	.555	.131	.298	4.250	.000

a. Dependent Variable: Log Financial Performance

Source: ***Primary data, 2020***

From the tables 4.13 showing the model summary statistics above, a p-value = 0.000 that is less than 5% level of significance indicates that investments literacy, budgeting literacy and borrowing literacy among MSEs positively predicts and affects their financial performance and the effect of investment literacy and borrowing literacy is significant at p-value < 0.05 whereas effect of budgeting is insignificant at p>0.05.

An adjusted R-square of 0.294 from the findings implies that an extra effort in enhancing financial literacy in terms of possessing investments knowledge, budgeting competences as well as borrowing knowledge and strategies among these MSEs explains 29.4% variations in their financial performance. Therefore, based on such findings, the researcher therefore concluded that financial literacy significantly affects SMEs financial performance.

Therefore, from the findings presented on the table 10, the predictive model developed by the study is FP=0.640+0.555IL+0.037B+0.477BOL where FP is financial performance, IL is Investment literacy, B is Budgeting literacy and BO is Borrowing literacy.

CHAPTER FIVE

SUMMARY OF KEY FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS OF THE STUDY

5.1 Introduction

This chapter presents a summary of key findings, discussions, conclusions and recommendations of the study that was aimed at examining the effect of financial literacy on financial performance of MSEs in Kira Municipality.

5.2 Summary of key findings

The study was thought to examine the effect of financial literacy on financial performance of Micro and small sized enterprises in Uganda drawing an empirical investigation on MSEs in Kira Municipality. The study was specifically guided by three objectives which focused on examining the effect of investment literacy on financial performance, analyzing the effect of budgeting literacy on financial performance and assessing the effect of borrowing literacy on financial performance of these MSEs

A sample of 201 MSEs was selected from a population of 420 MSEs where a response rate of 73.1% was obtained. The primary data was then collected through administering of questionnaires to owners, managers as well as employees of these enterprises.

The findings further revealed that the majority of these MSE owners have attained formal education and therefore assumed to have attained financial management knowledge through such channels. The findings further support the fact that most of these MSEs have acquired financial literacy skills, and knowledge from family and friends as well as interactions from well-established managers and business owners.

The study revealed that majority of the respondents were males (64.3%) and most of them are aged between 26 years and 35 years (32%) .and most these respondents have attained formal education. Majority of these enterprises are solely owned (47.6%) which have operated for a period not more than two years (57.8%). Findings further revealed the majority of these MSEs employee less than 5 employees and are majorly engaged in service business (57.1%)

The study revealed that there is a moderately high literacy level concerning investment among MSEs (Grand mean = 4.08). However, significant variations on some items measuring this study variable were notable, an indication of low levels of investment literacy among some of these enterprises.

The study further revealed moderate literacy levels concerning budgeting among Micro and small sized enterprises in Kira Municipality (Grand mean= 3.89). with high value of standard deviation scores on some items, an indication that budgeting literacy levels differ among these enterprises.

The study revealed a growth in sales and profits. Although some of these MSEs register low sales growth at some times as evidenced by their sales not growing overtime due to moderately low promotional activities. Market expansion seems to be moderately low among some of these enterprises as it is explained by limited capacity to open up other businesses.

In order to determine the relationship between the study variables, Pearson correlation was run to establish whether there exists the relationship between the variables and the finding revealed that investment literacy, budgeting literacy and Borrowing literacy were all positively related to financial performance

To address the specific objective of the study, multiple regression analysis to establish how financial literacy affects financial performance of MSEs was performance and the findings revealed that investment literacy, budgeting literacy and borrowing literacy positively affect financial performance. However, only the effect of budgeting literacy on financial performance is insignificant due to its high p-value (0.092) greater than 5% significant level.

5.3 Discussion of findings

This chapter presents discussions on the study objectives basing on the findings presented on the previous chapters and the evidence collected regarding Investment literacy, budgeting literacy, borrowing literacy as well as financial performance levels of these Micro and Small sized enterprises.

5.3.1 The effect of Investment literacy on financial performance of MSEs

The first specific objective of the study was to analyze the effect of investment literacy on financial performance of MSEs. To address this objective, a simple regression analysis was run and the findings established that investment literacy significantly and positively affects financial performance. With an adjusted R Square of 0.114, it implies that investment literacy explains 11.4% variations in financial performance of Micro and Small sized enterprises in Kira Municipality and its effect is significant at $P < 0.05$

With divergent views about items presented to different respondents intended to explain the study variable, it is clear that levels of investment literacy differ in different enterprises. A grand mean of 4.03 with big scores of Standard deviations on some items explain. This implies some of these enterprises aren't often more than investment options to invest in, less forecasting done to ascertain how much they are likely to earn from an investment and the risks involved. the findings further indicate that even though experts are always involved in making investment decisions, there is a limitation on how much money to invest in any option available and employees are not involved in making such decisions in most of these enterprises. As Malik (2017) explains, most of these enterprises remain stunted because of uniformed investment decisions they make. Improper risk and return assessment on each of the investment options available has hindered growth and expansion of most of these enterprises and some have been liquidated in not more than two years in operation because of high risks and less returns realized. Cheptemoi (2017) attributes all this to low levels of skills, knowledge and competence required in making investment decisions.

Therefore, based on the above explanations, investment literacy is an essential knowledge and competence that these Micro and small sized enterprises need to deploy which facilitate effective investment decision making and guarantee survival.

In conclusion, the study findings addressed the first objective and established that investment literacy levels among these enterprises significantly and positively affects their financial performance levels.

5.3.2 Effect of budgeting literacy on the financial performance of MSEs

The second specific objective of the study was to establish the effect of budgeting literacy on financial performance of MSEs. To address this objective, a simple regression analysis was run and the findings established that budgeting literacy positively affects financial performance although its effect is not significant at 5% level of significance.

With an adjusted R Square of 0.108, it implies that Budgeting literacy explains 10.8% variations in financial performance of Micro and Small sized enterprises in Kira Municipality. but with P-value of 0.092, it implies that its effect is not significant at 5% level of significance

Findings indicated a moderate high level of budgeting literacy among the MSEs with a mean score of 3.89 established. This indicates that some of enterprises in Kira Municipality don't normally invest time in budgeting and budgetary process. It is evident from the study that actual budgets made normally outweigh the expected ones because most of these enterprises don't engage themselves in income and expenditure forecasts. However, some levels of budgeting literacy are evidenced in some of these enterprises in ways that they agreed to the fact that they run annual budgets and they normally work with the budgets set. Therefore, some of these enterprises' poor performance can be attributed to lack of knowledge, skills and competence to do effective budgeting and this has led to high solvency rates among these enterprises.

Enterprises engaged in budgeting have enjoyed the benefits of planned expenditure and streamlined revenue flow and this has strengthened and streamlined revenue generation and cost reduction leading to improved performance. Availability of these budgetary controls streamline planning and I a long run enhances sales growth and cost reduction. This is in line with Sugioko (2010) who explained that budgeting in any business affects its performance especially sales in that an effective budgeting process results in increased sales revenues as well as budgetary performance.

However, the study findings indicate a non-significant effect of budgeting literacy on financial performance of these enterprises which agrees with findings from the study done by Gonçalves (2014). Its effect can be insignificant in the sense that it is a difficult process that needs participation which is affected by many conditions like diverting opinions on what items to spend on and therefore it's hardly easy to ascertain its absolute effect on the financial performance.

In conclusion, the study findings addressed the second objective and established that budgeting levels among these enterprises positively affects their financial performance levels even though its effect is not significant.

5.3.3 The effect of borrowing literacy on the financial performance of MSEs

The third specific objective of the study was to examine the effect of borrowing literacy on financial performance of MSEs. To address this objective, a simple regression analysis was run and the findings established that borrowing literacy positively and significantly affects financial performance at 5% level of significance. With an adjusted R Square of 0.215, it implies that borrowing literacy explains 21.5% variations in financial performance of Micro and Small sized enterprises in Kira Municipality and its effect is significant at $P< 0.05$

A grand mean score of 3.94 indicates a variation in borrowing literacy levels among these enterprises. With large value standard deviation on some items, the findings indicate that some of these enterprises think that borrowing is so risky and they would try to avoid it even though most of them agreed that part of their business is financed through borrowing. It was also found out that most of these businesses find it hard to pay back the borrowed money with ease even when the loan accounts are properly maintained. Therefore, based on the above findings, it is well stipulated that most of these enterprises lack knowledge concerning borrowing especially when to borrow where to borrow and how much should be borrowed at a particular time. This is in line with Addaney et al., (2016) who established that improper management of borrowed resources escalates poor enterprise performance. Obago (2014) further clarifies that financially illiterate driven enterprises tend to borrow unnecessarily and at times opt for more expensive sources leading to increased cost of debt and this cripples performance.

Therefore, borrowing literacy is a competence that any enterprise needs for survival. Proper management of these borrowed finances is required so that the benefits out the costs involved.

In conclusion, the study findings addressed the third objective and established that borrowing literacy levels among these enterprises significantly and positively affects their financial performance levels.

5.4 Conclusions

The study sought to examine the effect of financial literacy on financial performance of MSEs in Kira Municipality. Based on the study findings, the study concludes that financial literacy has a significant and positive effect on financial performance of MSEs. These findings are consistent with earlier empirical studies reviewed in earlier chapters. Eniola and Entabang (2014), Malik (2017) who established that financial literacy among enterprises boost performance to a greater extent and ACCA (2017) also established that low levels of financial literacy among individuals and firms pose serious consequences on personal and business growth.

Basing on the findings of this study, the researcher rejects the null hypothesis in favor of an alternative hypothesis that investment literacy significantly affects and predicts financial performance of these MSEs and therefore implies that high levels of investment literacy inform of skills, knowledge and competence to facilitate the execution of informed and calculated investment decisions enhances and strengthens MSE's financial performance.

Based on the study, the researcher further rejected the null hypothesis in favor of an alternative hypothesis that budgeting literacy positively affects financial performance however, its effect is not significant. Individuals and enterprises need to have skills, competence and knowledge regarding budgeting and budgetary activities which can be deployed during budgeting process so as to enhance and ensure performance.

Concluding on the last specific objective, the researcher rejected a null hypothesis in favor of the alternative hypothesis that borrowing literacy positively and significantly affects financial performance of Micro and Small sized enterprises in Kira Municipality. Enterprises with high levels of skills, knowledge and competence in management of borrowed resources perform better than those who lack such knowledge.

Therefore, enterprises with high levels of financial literacy especially in investment decision making, budgeting as well as debt management tend to perform better than those which have low levels. This has actually created a gap between making enterprises that have persisted in production and those that fail to celebrate their second-year birthday in operation.

5.5 Recommendations

Evidenced from the findings of this study, Micro and small sized enterprises who are run and operated by skilled, knowledgeable and competent personal with high financial literacy levels will bare higher financial returns than those that lack knowledge in managing financial matters

Therefore, for any Micro enterprise to mature into a small, medium or large enterprise in a long run, enhancing their financial literacy levels, the following recommendations for MSEs can be brought to attention.

With regards to large chunks of money that has been distributed to different startups and youth development associations to startup businesses by government for example "*Emyooga Funds*", government and other development should also go ahead to extend to these beneficiaries financial literacy knowledge on how to manage and deploy these financial matters . This is achievable through conducting workshops, seminars targeting those specific groups of people. this may not be only focusing on enterprises operating in area under the study but may be conducted across the country.

Massive sensitization of these Micro and Small sized enterprises by financing agencies and development partners from the government on differently matter relating investments. Most of these enterprises lack sufficient information on when and where to invest for bigger returns and less risks involved, how to budget what to spend on as well as how to manage borrowed resources effectively.

Based on the findings from the study conducted, it was found out that the majority of MSEs are sorely owned and run by individual owners. This poses a risk of resources being drawn out of the business for personal use leading to loss of sources and capital from the business. This has led to collapse of most startups and those which have survived this, have experienced stunted growth. Therefore, owners of these enterprises should follow a separate business entity concept when running these enterprises. They should separate their personal activities from business activities and employ people with skills, knowledge and competences to run these MSEs if they are to increase their financial performance.

It is indeed evident that most of these enterprises are run by people who have attained formal education even up to university level. This is on assumption that these people should have acquired financial knowledge on how to manage financial matters. Although this appears to be lacking among these enterprises. Therefore, financial literacy training should be introduced in formal schools so that most people can get a chance of studying different financial management disciplines. It is indeed true that everyone needs to be financially disciplined to go through daily challenges and even run a business successively.

5.6 Suggestions for further research

The study was conducted basing a small sample size selected from a municipality. This was because of the low budget allocated for the study and therefore a further study should be conducted on a relatively large sample size to make a generation to the subject under study.

The study only focused on three dimensions of financial literacy which included investment literacy, budgeting literacy and borrowing literacy. However, financial literacy as a concept has multiple dimensions which should be also investigated on. Therefore, further research should be conducted on those other dimensions like accountability, bookkeeping, savings, expenditure literacy among these MSEs for generalization of the results and fully establishment of the relationships and the effects that exist between financial literacy and financial performance.

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APPENDIX I:

SURVEY QUESTIONNAIRE

Dear respondent,

This is an academic study investigating financial literacy and financial performance of MSEs in Kira Municipality. I have chosen you to share your experience and knowledge in this study. The information you share will be kept with utmost confidentiality and only used for study purposes. You are hereby requested to spare some time and respond to the questions below. This study was carried out under supervision of the Department of Management Science, School of Management and Entrepreneurship, Kyambogo University.

Should you require any additional information or wish to receive the findings from the study, please contact us on the following address and/or our contacts?

SECTION A; Bio Data of the respondents

1) Gender

Male ☐ Female ☐

2) Age

Not more than 18yrs ☐ 19- 25 years ☐ 26-25 years ☐ 36-45 years ☐ above 45 year ☐

3. Education level

Primary ☐ Secondary ☐ Tertiary ☐ University ☐

Others (please specify) …………………………........................

4. **Form of business organization (please tick one)**

Sole proprietorship ☐ Partnership Private ☐ limited company ☐

Cooperative society ☐ Joint venture ☐

Others (please specify) ………………………………………………

4) **Business Tenure**

Not more than one year ☐ less than two years ☐ above three years ☐

5. What is the source of financing of your business?

Borrowing ☐

Savings ☐

Donations ☐

Others (please specify) …………………………………………………….

6 What is the size of this enterprise in terms of numbers employees employed?

1-4 employees ☐ 5-49 Employees ☐

7. Select the sector in which the enterprise is operating

Trade and commerce ☐ Service ☐ Manufacturing ☐

SECTION B: MSE's FINANCIAL LITERACY

8. How much did you learn about managing your money from the following? Key rate: 1 = Very low, 2= Low, 3= moderate, 4=high and 5 = Very high. Provide your response by showing one tick on each of the statements

	1	2	3	4	5
At home from my family members					
At school					
From my close Associates					
From publications, books and journals					
From success business owners and managers					

Please indicate your degree of agreement with each of the statements in sections on whether you agree on not on the following items to illustrate different knowledge on specific areas in managing your business financing and activities. Provide a tick to express your response on only of the Key rate: 1 = Strongly Dis Agree, 2= Disagree, 3= Neutral, 4= Agree 5 = Strongly Agree with the statements provided

DIMENSIONS	SD	D	N	A	SA
Investment Literacy					
We involve people with experts in making investment decisions					
We often decide on what to invest in					
Employees are often involved in making more investment decisions					

We often have more than one option to invest in.					
We invest in only less risky and no risky ventures					
We always anticipate the profits and returns from an investment					
We can't invest in more than a given amount of money					

Budgeting literacy	SD	D	NS	A	SA
Our budgeting process is a continuous process.					
We normally run annual budgets					
All activities we engage in are always budgeted for.					
We normally work within our budget in both income and expenditure					
We always overstate the expenditures and understate the expected incomes (budget slack)					
Our actual budget normally outweighs the expected expenditure					
All employees and stalk holders are involved in budgeting processing					
We often prepare daily budgets					
We also do forecasting before we budget					
Borrowing Literacy.					
We prefer using borrowed money to finance our business than using our own savings.					
We borrowed part of the capital invested in the business					

We often consider borrowing from sources with low interest.					
We always maintain a loan account for the loans we acquire					
Borrowing is extremely risky and we always tend to avoid it					
Our business finds it easy and not stressing to pay back the loan					

SECTION C: FINANCIAL PERFORMANCE OF MSES

The following items define how different entities measure their financial performance. Therefore, you may indicate the degree of agreement or disagreement with each one of the following statements about your organization?

Key: **SD** = Strongly Dis Agree, **D**= Disagree, **N**= Neutral, **A**= Agree and **SA** = Strongly Agree

Please indicate your degree of agreement with each of the statements in sections A by showing one tick on each statement

SALES GROWTH	SD	D	N	A	SA
Our sales have been growing from time to time					
Our sales keep on changing as we sell day by day					
Our main objective is to maximize sales					
We often carry out sales' promotional activities.					
MARKET EXPANSION					
We sell more quantities than our competitors in the region					
The number of customers for our business has been increasing over time					
Our purchases keep on increasing day by day					
We have opened more branches in the recent times					
Many competitors have joined into our business line					
PROFIT GROWTH					
The profits we always make keep on increasing					

We often earn more than how much we spend					
We often put back the part of the profits made to the business					
Our business expands every year					
We often record all the expenditures incurred and incomes generated.					

APPENDIX II: KEY INFORMANT INTERVIEW GUIDE

Dear respondent,

I am called **Zirabamuzale Sowedi**, studying a Masters' in Business Administration of Kyambogo University. My study is on the effect of financial literacy on financial performance of MSMEs. You have been purposively selected as a key person for this study. Your views will be kept confidential and shall be used for academic purposes only. You are free to say whatever you think or your opinion is. With your permission, I would like to start interview you.

Questions

1) What is your understanding of financial literacy?
2) Do you have any knowledge on what your business should invest in?
3) If yes, do you think investment literacy affects the financial performance of your business?
4) Does your business borrow from financial institutions?
5) If yes, in what ways do you think borrowing literacy affects financial performance of your business?
6) In your own opinion, does budgeting knowledge in business improve on financial performance of your business?