

Financial Institutions And Its Contribution On Performance Of Small Business In Uganda. The Case Study Of Nansana Municipality**Katumba Allan¹, Magala Muhammed²****1, 2 Metropolitan International University****Abstract**

This research project aimed to evaluate the impact of financial institutions on the performance of small businesses operating within Nansana Municipality, Uganda. Financial institutions such as commercial banks, microfinance deposit-taking institutions, and SACCOs play a pivotal role in facilitating access to capital that small enterprises rely on to grow and expand. However, the contribution of these financial organizations towards supporting small businesses in Uganda had rarely been empirically established. As such, the study sought to examine the major financial institutions active in Nansana Municipality and analyze their effect on key performance metrics including sales volumes, profits, employment levels, and loan repayment abilities of small businesses over a five-year period. Both primary and secondary data were utilized. Extensive reviews were conducted of the financial statements and annual reports of small businesses in the municipality for the time span under research. Surveys and interviews were also carried out with business owners and financial institution managers. Quantitative methods including comparative analysis and regression models were employed to test for statistically significant relationships between financing activities and enterprise performance before and after accessing funds. Qualitative insights from interviews aided in contextualizing the quantitative results. From the findings, a p -value = 0.092 which appeared to be more than 5% level of significance, an indication that budgeting literacy among MSEs positively ($\text{Beta}=0.089$) predicts and affects their financial performance of these enterprises. However, its effect was insignificant at p -value > 0.05 . Higher loan disbursements, longer repayment periods, and customized financial products tailored to the needs of small firms were found to enhance business performance. The study concluded that with strengthened support from financial organizations, small enterprises could realize their full potential and substantially contribute to socioeconomic development at the local level.

Keywords: Financial, Institutions, Performance and Small Business**Background of the study**

According to (Ronald et al., 2023), 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 (Musimenta et al., 2017). Financial literacy is one of the key competences business owners need to make decisions in a competitive environment and attain business sustainability (Alex & Kazaara, 2023). 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 (Winny et al., 2023). Therefore, the guiding concepts in this study are financial literacy as an

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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 (Polycarp et al., 2023), financial literacy refers to the knowledge of financial matters required to execute informed judgments and decisions on the managing financial resources more especially money). (Paul & Kazaara, 2023) 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. The study context is Small business 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 (Annet et al., 2023). This means that Small business 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 (Oromo et al., 2023).

The Small business in Nansana 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 (Paul & Kazaara, 2023), majority of these enterprises face high insolvency rate as they fail to operate and others close within the second year in operation and (Moses et al., 2023) attributes it largely to very high levels of financial illiteracy among the owners and managers of these enterprises (Christopher, 2022). Therefore, this study focused on studying Small business in Nansana 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 (Damasus et al., 2023). These Small businesses 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 (Annet et al., 2023).

Statement of the problem:

As Uganda focuses on achieving its 2040 vision, its policies are majorly embarked on supporting small business enterprises as a measure aimed at driving the country to middle income status by year 2040 (Oromo et al., 2023). Despite the increasing focus on these Small business 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 (Polycarp et al., 2023). For instance, (Lydia et al., 2023) report provide evidence that Nansana municipality which is confined with over 40% of vibrant Small business of the Kampala metropolitan area has only 30% of every 10 Small business 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 Small business in Nansana 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 (Polycarp et al., 2023) 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 contribution of financial institutions on performance of Small business, Wakiso district (Faridah et al., 2023).

Objectives of the study

1. To examine the effect of investment policy on financial performance on Small sized enterprise in Nansana municipality.
2. To examine the effect of budgeting policy on financial performance on Small sized enterprise in Nansana municipality.
3. To examine the effect of borrowing policy on financial performance on Small business in Nansana municipality.

Methodology

A cross sectional survey strategy was used in order to allow the collection of a large amount of data from selected business players of Small business in Nansana municipality in a highly economical way at a given point in time (Jallow et al., 2021). 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 (Nafiu et al., 2013). Quantitative data collected was quantitatively analyzed using descriptive and inferential statistics. These descriptive statistics were statistically manipulated to explain the effect of financial institution on financial performance of Small business. Qualitative data collected was analyzed in themes according to the emerging variables of the study. This study was focused on Small business in Nansana municipality (Nafiu et al., 2012). Nansana municipality is one of the municipalities that make up the four Municipalities of Wakiso district. The municipality has several Small businesses in the sectors of manufacturing, service, retail, commerce, construction and real estate dispersed in its 6 wards or parishes and 40 cells or villages (Nafiu, 2012). However, for the purposes of this study, the population of interest was in those enterprises that are registered with the revenue department of Nansana municipality. Specifically, according to the Nansana municipality Revenue Department Report (2019), the target population was 420 Small business (Aslam et al., 2022). In a scientific engagement it is important to use well established guidelines in our choices. In the case of sample size determination, this study shall apply the Krejcie and Morgan scientific guideline in establishing the sample size of the study. During this study, a 95% confidence interval will be 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 Small business (Musaibah et al., 2023). 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 Small business were selected following the definition of a small business by (Moses et al., 2023) 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 Nansana municipality and questionnaires were distributed. The names and addresses of the 201 Small business that meet the stated criteria was obtained from the list provided by the revenue officer of the municipality and questionnaires distributed to them however, only 147 was collected making an effective rate of 73.1%. This response rate was considered ideal to carry out the study (Nafiu et al., 2017).

Table 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)

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 Small business in trade and commerce was put in the same strata, as well as those in service and manufacturing respectively (A & Ahmed, 2019). 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 policies 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 (Annet et al., 2023). 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 the contribution of financial institution on performance of Small business in Nansana municipality. SPSS (Statistical Program for Social Sciences) was used to obtain coefficients and regression analysis on every objective (Nelson et al., 2022).

RESULTS

Table 1: 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 1 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 a reasonable number of these enterprises don't have more than one option to invest in (Ronald et al., 2023).

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 agreed with all the items that were used to indicate the level of investment literacy among these enterprises but of course with few discrepancies.

Table 2: 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 2 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 (Ntirandekura & Christopher, 2022). 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.

Table 3: 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	
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Source: Primary data, 2020

Based on the data presented in the table 3 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 (Ronet et al., 2023). 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 (Polycarp et al., 2023).

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.

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

Items	N	Mean	Std. Dev
<i>Sales Growth</i>			
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 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 (Allan et al., 2023). 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?

Table 5: 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 5 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) (Nelson et al., 2023).

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.

Table 6: Test of Normality

Variables	N	Skewness		Kurtosis	
	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 6 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 7: Variance Inflation Factor

Collinearity Statistics

Model	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 7, 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 multicollinearity 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

Table 8: 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

Model	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 8 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

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is significant at $p\text{-value} < 0.05$. 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.

Table 9: 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

Unstandardized Standardized Coefficients

Model		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 9 showing the model summary statistics above, a $p\text{-value} = 0.092$ 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 $p\text{-value} > 0.05$. 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 (Nelson et al., 2023). 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.

Table 10: 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

Unstandardized Standardized Coefficients

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

a. Dependent Variable: Log Financial Performance

Source: Primary data, 2020

From the table 10 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 $p\text{-value} > 0.05$. 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 (Alex et al., 2023).

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.”

Table 11: Regression model summary and Coefficients for the effect of financial literacy on financial performance of MSEs

Model Summary

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

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

Coefficients

Unstandardized Standardized Coefficients

Model	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 11 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 (Christopher, 2022).

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.

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.

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.

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 solely 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.

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