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**THE IMPACT OF FINANCIAL LITERACY ON THE FINANCIAL PERFORMANCE  
OF TRADE AND COMMERCE SMALL AND MEDIUM ENTERPRISES  
IN UGANDA  
A CASE STUDY: MBALE CITY**

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**BU/UP/2019/3311**

**A RESEARCH REPORT SUBMITTED TO BUSITEMA UNIVERSITY, FACULTY OF  
MANAGEMENT SCIENCES AS PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THE AWARD OF THE BACHELLORS DEGREE OF BUSINESS ADMINISTRATION  
ACCOUNTING AND FINANCE.**

**MAY, 2022**

**DECLARATION**

I, ASANANSI ANITAH, hereby declare that this research report is my original work and has never submitted or published to any institution of higher learning for any award.

Sign: .....

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**APPROVAL**

This is to certify that this report has been compiled and submitted by ASANANSI ANITAH a student of Busitema university registration number BU/UP/2019/3311 under my approval as the university supervisor.

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## **DEDICATION**

With profound difference and honour, I dedicate this piece of work to my family members for the great support rendered to me during the research period and since my childhood. I dedicate this research to my sister Baluka Agnes Masajja. On a special note I also dedicate this research to my supervisor, Mr. Emusuguti Desiterio for his endless guidance and corporation, may the almighty lord god award you according to his abundance.

## **ACKNOWLEDGEMENT**

I would like to register my sincere heartfelt appreciation to my family who have worked with me, supported and guided me from the very beginning of my education to the person have become and the level I am today.

Special thanks go to my supervisor Mr. Emusuguti Desiterio for his effort, support and guidance he has rendered to me before and during the writing of this proposal which has helped me complete this exercise successfully with greater change in life.

I would like to recognize the support and encouragement from my fellow students who have been working with me because they have shared with me different ideas and have worked together as a team which eventually simplified this research exercise.

Last but not least my appreciation goes to the almighty Lord who has availed me with the wisdom and life that has made me reach this high.

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## **LIST OF ABBREVIATIONS/ ACRONYMS**

<b>ACCA</b> .....	Association of Chattered Certified Accountants
<b>BOU</b> .....	Bank of Uganda
<b>MoFPED</b> .....	Ministry of Finance Planning and Economic Development
<b>PSFU</b> .....	Private Sector Foundation Uganda
<b>RBT</b> .....	Resource Based Theory
<b>SMES</b> .....	Small and Medium Sized Enterprises
<b>SPSS</b> .....	Stastical package of the social science
<b>UIA</b> .....	Uganda Investment Authority

## **ABSTRACT**

The financial performance of SMEs is a major concern for Uganda with high rates of solvency among these enterprises. Financial literacy has been identified as a one of the key competencies required for the establishing, management and thriving of SMEs. However, the exact effect they have on the financial performance of SMEs hasn't been fully established by the available literature thus the need for further research in this area. Therefore, basing on the logic of Resource Based Theory, the study sought to examine the effect of financial literacy on financial performance of small and medium enterprises in Mbale city where it was guided by three objectives that include to analyse the effect of debt management literacy on the financial performance, to assess the effect of budgeting literacy on the financial performance of Small and Medium enterprises and to examine the effect of book keeping literacy on the financial performance of Small and Medium enterprises. The researcher deployed across sectional survey design where a sample of 52 SMEs was selected using simple random sampling technique. Responses were collected using an open ended questionnaire. Data collected was analysed using SPSS version 2020 where correlation and regression analysis was performed to establish the effect between the variables. The study established that debt management literacy, budgeting literacy and book keeping literacy significantly and statistically affect and predict financial performance of SMEs. The study recommends that government and other development partners should institute financial literacy training programs and therefore employ people with necessary knowledge to run their operation. The study further suggests that further research on other dimensions of financial literacy like savings, accountability, and investment so as to make a generalization of effect of financial literacy on the financial performance of SMEs.

## **CHAPTER ONE: INTRODUCTION**

### **1.0 Introduction**

This chapter contains the background of the study, statement of the problem, objectives, and research questions, scope of the study, significance of the study, conceptual framework and definition of key terms.

### **1.1 Background of the study**

Small Medium Enterprises are considered to be critical in the economies of high income countries, small enterprises constitute 95% of business in the OECD regions (OECD 2005). In this regard Agyapong & Attram (2019) presented that in developing countries small enterprises are the main source of employment, they generate and make use of innovations and contribute significantly to economic growth.

According to Abor (2016), most of the SMEs are difficult to develop due to various conventional problems that cannot be resolved entirely, such as problems with the capacity and quality of human resources, limited sales, financing, marketing and various other issues related to business management, so that SMEs find it difficult to survive for a longer period.

Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for life time financial security (Mandell, 1997).

Globally, according to SME Development Authority (SMEDA) of Pakistan, it estimates that low level of market growth and low profitability causes a decline of 80% to 90% of the SMEs which fail within the first 4 years and that only 1 in 20 is in existence after 25 years.

Also, according to United States, Small Business Administration (SBA, 2012), 67% of small and medium enterprises survive for the first two years. New ones formed in the past 5 years fail at an alarming rate of 80% due to lack of skills, limited access to market and credit (Avorit, Bunyaminu&Wereko, 2013).

In South Africa, according to Adeniran and Johnston, (2011) estimated that the failure rate of SMEs is between 70% and 80%. Temtime & Pansiri (2004) found that factors related to low market growth and low sales growth are the most significant leading to the failure of SMEs. Also Pinhold (2008) argues that SMEs in South Africa are formed at a rate that is far higher than is needed by the economy meaning that there is high competition among them and this leads to low performance.

In Zimbabwe according to SEDCO (2004), about 60% of SMEs fail in the first year of establishment, 25% fail within the first three years and the remaining 15% are likely to survive. This therefore implies that about 85% of them will eventually collapse because of low profitability and low level of market growth due to limited industry experience and knowledge.

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