

**THE EFFECT OF FINANCIAL INNOVATION ON FINANCIAL SUSTAINABILITY OF
A CASE OF SMES IN PALLISA DISTRICT**

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APPROVAL

This research report has been submitted for examination with my approval as Academic Supervisor.

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DECLARATION

I, OKWALINGA GILBERT, hereby declare that this research report is my original work and has never been submitted or published to any Institution of higher learning for any award.

Sign 
OKWALINGA GILBERT


Date

DEDICATION

I dedicate this research to my dear father, Mr. Kariabi Mathias, who has struggled a lot to see me through. May the almighty God bless him abundantly. I extended my appreciation to all my family members, colleagues and Busitema fraternity as a whole especially my supervisor for the entire effort rendered.

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List of abbreviations

Abbreviation		Meaning
CVI	-	Content Validity Index
GDP	-	Gross Domestic Product
RDB	-	Rwanda Development Bank
SBE	-	Simply Business and Economics
SME	-	Small and Medium enterprise
SPSS	-	Statistical Package for Social Sciences
UK	-	United Kingdom
UIA	-	Uganda investment Authority

ABSTRACT

The purpose of the study was to determine the effect of financial innovation on financial sustainability of SMEs, a case study of Pallisa Pallisa district. Financial innovation was viewed as a three dimensional construct made of service, product and technology innovation. Financial sustainability was viewed in terms of liquidity, solvency and operational efficiency. The study findings depicted that there exists a positive and significant relationship between financial innovation and financial sustainability of SMEs in Pallisa district. Basing on the findings, the study recommended that SMEs should constantly improve on their services by creating new service packages, modify existing packages and also improve on the process of service delivery. This will enable the organization to always give the best to their clients. Additionally, products offered by the SMEs should also be innovated constantly to match or beat the competition in the industry where the SME operate. This will allow the SMEs to trigger a positive perceived value in the eyes of the consumers which in turn increase sales and hence financial stability. Lastly, SMEs should invest heavily in technology so as to stay competitive. Creating innovation and incubation centers should be adopted by SMEs in order to avoid obsolescence. This will also reduce on the costs of operation and increase operational efficiency.

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CHAPTER ONE INTRODUCTION

1.0 Introduction

This chapter includes the background of the study, problem statement, study objectives, significance of the study and the conceptual framework guiding the study.

1.1 Background

SMEs are widely regarded as key drivers of economic development (Natila, 2018; L. Wang, Dai, & Ding, 2019; Zoghi, 2017). They play a vital role in the improving livelihoods of people through employment creation, increasing household incomes and contributing to the country's GDP (Patrick, Eric, & Patrick, 2021). In the UK, SMEs employ over 14 million people contributing 45% of the GDP of Wales and England (Murnaghan, 2009). Similarly in Uganda, SMEs contribute up to 80% of employment and 33% of the country's GDP (UIA, 2016).

While there is no generally accepted definition of SMEs, majority of available definitions are based on the number of employees, turnover and total assets. In the European union, SMEs are defined as organisations with less than 250 employees and have a turnover of less than 50 million euros or a balance sheet of less than 43 million euros (SBE, 2021). According to the Uganda Investment Authority (2016), SMEs are defined as organisations that employ between 5-100 workers with total assets between 10 million shillings to 360 million shillings.

Despite the positive impact of SMEs to individuals, groups and nations' economies, available literature suggests that they are not financially sustainable (León, 2001; Prabawani, 2013; Zwikael & Ahn, 2011). While there has been a progressive increase in the number of SMEs globally over the years, a decline from 213.52 million in 2019 to 212.98 in 2021 was recorded (Clark, 2021).

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