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The Effect of Microfinance Literacy on the Growth of Small-Scale Enterprises in Mbarara City, Uganda

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***Abstract**: Although microfinance is considered as a development tool for enterprises, many small-scale enterprises (SSEs) in Uganda are still failing to grow in the face of increasing access to microfinance. This study investigated the relationship between microfinance literacy and SSEs growth in the Mbarara city, Uganda. The study evaluated the level of financial literacy, the impact of financial literacy on the growth of enterprises, the problems faced by limited financial literacy and proposed solutions. A mixed-methods cross sectional design was used, which included 110 microfinance clients who were purposively selected from five microfinance institutions in Mbarara City using systematic random sampling technique. A structured questionnaire, was used for quantitative data collection, and 15 key informant and in-depth interviews for qualitative data collection. The data were analysed using descriptive statistics, Pearson correlation, simple regression and thematic analysis. The study revealed that 70% of respondents were financially literate (mean score 58.7/100) and that there were no significant gaps in numeracy (28% were not able to calculate interest), record keeping (31%) and budgeting (24%). There was a strong positive correlation between financial literacy and enterprise growth ($r = 0.58$, $p < 0.001$) with 34% of the variance in growth being accounted for by financial literacy ($R^2 = 0.34$). Financially literate entrepreneurs saw a 11.6% increase in revenue growth, compared to their illiterate counterparts. Some of the barriers were that loan terms were not understood, business and personal finances were combined, becoming over-indebted and being susceptible to predatory lending. According to the study, microfinance literacy is a strong predictor of enterprise growth and existing microfinance trainings are not adequate. The recommendations include the compulsory literacy orientation for borrowers, the reduction in the documentation of loans in English to local languages, and better enforcement of all regulatory provisions by the Uganda Microfinance Regulatory Authority.*

Keywords: (Microfinance literacy, financial literacy, small-scale enterprises, enterprise growth)

1. INTRODUCTION

Small scale enterprises (SSEs) form the backbone of the economy of Uganda. SSEs make up about 90% of the private sector in Uganda, have a large workforce of more than 2.5 million, and generate about 75% of the country's Gross Domestic Product (GDP) (Ministry of Trade and Cooperatives, 2024). These businesses include transport operators, small manufacturers, agricultural processors, retail shops and food vendors. They are essential to the livelihood of millions of Ugandan families, especially in its cities.

Given the importance of SSEs, the Government of Uganda has actively sought to promote the use of microfinance to reduce poverty and promote enterprise development, with a number of initiatives to increase financial services access for low-income households and small enterprises (Uganda National Financial Inclusion Strategy, 2023-2028). This is supported by the organization of the Microfinance Support Centre (MSC) to provide credit and business development services to micro-enterprises, the Uganda Microfinance Regulatory Authority (UMRA) which is established to regulate and supervise MFIs, the government's Parish Development Model (PDM) which distributes revolving funds to the parishes for commercialization of household activities, as well as a range of SACCOs and MFIs operating at a national level.

Microfinance activity has increased rapidly in the last decade in the largest urban centre in the southwestern region of Uganda, Mbarara City. Mbarara, estimated to have a population of 200,000, is a commercial centre for the whole Ankole sub-region. The city consists of four divisions namely Nyamitanga, Kamukuzi, Kakoba and Biharwe, where there are several SSEs in each. Some of the major MFIs operating in Mbarara include FINCA Uganda, Pride Microfinance, UGAFODE, Micro finance arm of Centenary Bank and various SACCO's.

1.2 Problem Statement

In spite of the many microfinance institutions and the improved access to credit, the growth of many small-scale enterprises in Mbarara City is still hampered. Low financial literacy, paired with economic shocks like the COVID-19 pandemic, caused Uganda's microloan default rates to surge from 16% in 2017 to over 22% by 2021. This culminated in more than UGX 191 billion in unpaid loans, severely threatening the sustainability of microfinance institutions (MFIs) nationwide, and Mbarara city is no exception.

Business owners report that loans do not enable them to expand, but do help them survive. Some borrowers default on their loans, some get into debt cycles, and many end up stuck with subsistence loans. One of the main reasons why growth has not been achieved with microfinance clients is said to be the lack of financial literacy. Financial literacy is the ability to comprehend and apply different types of financial skills, such as personal finance management, budgeting, investing, and credit management. Lenders, on the other hand, may not use the loan for investment but for consumption, not plan on loan repayments, take out several loans and end up with unmanageable debt, not realize that they could expand their business with the loan, and also be taken advantage of by bad lenders who engage in predatory lending.

According to Ssekiziyivu et al. (2018), many borrowers don't know what interest rates or repayment options are. Others do not keep business and household budgets distinct so that performance of enterprise cannot be monitored. Others don't have the numeracy skills to perform calculations like profit, loss or break-even. Thus, this study aimed at answering the following research question: What is the relationship between financial literacy and small enterprise growth among the clients of microfinance in Mbarara City?

2.0 Review of related literature

2.1 What is Financial Literacy

The concept of financial literacy has emerged in a number of different forms throughout the literature. Financial literacy is "people's ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions (Christone Arinda, 2020). This definition emphasizes the cognitive aspect of literacy – the ability to understand and use information.

A more comprehensive definition comes from the Organization for Economic Co-operation and Development (OED, 2025), which defines financial literacy as "awareness, knowledge, skill, attitude and behaviour required to make informed financial decisions and to help individuals reach their personal financial wellbeing. This definition recognises that knowledge is not enough, it is equally important to have the right attitudes and behaviors.

The majority of financial literacy scholars have concluded that financial literacy can be broken down into three main components: financial knowledge (financial understanding of concepts, including interest rates, inflation, terms of loans, compound interest etc.), financial behavior (financial practices and financial behaviors, such as budgeting, record keeping, saving, comparing loans etc.), and financial attitudes (financial beliefs, financial confidence, risk perception etc.).

2.2 Financial Literacy and Microfinance Performance

There has been increasing research on the link between financial literacy and outcomes of microfinance. A range of key studies from various contexts is reviewed. Informasi et al. (2025) in their study findings concluded that financial literacy training has a significant impact on the capacity of borrowers to manage debt and formal savings. Their study is a randomized controlled trial which demonstrated that trained borrowers were 15% less likely to default, and 20% more likely to save regularly. In India, (Goel, 2025) found that financial education improved financial decision making, with greatest effects among financial education participants who had poor numeracy. However, in-group participants who were not able to perform basic arithmetic did not benefit from training, indicating that financial literacy requires at least basic numeracy skills. Box et al. (2016) studied a business training program for microfinance clients in Peru. They discovered that their trained clients had higher income and repayment rates and that the impact of the training endured for up to two years after training.

In the context of financial literacy in Uganda, KASAYA (2025) reported that only 38% of adults had basic financial literacy. There are gaps in numeracy skills in calculating interest rates and understanding about compound interest. The scores for women and rural individuals were lower than the scores for men and urban individuals.

To investigate whether financial literacy can mediate the link between access to microfinance and enterprise performance, Nanziri et al. (2026) found that financial literacy has a positive direct effect on the performance of the enterprises in rural Uganda. They applied a subsample of 400 financially literate individuals who used credit provided by microfinance institutions and observed that financial literacy had a very strong effect on the impact of credit. At the same time, they noted, most MFIs offered little or no financial literacy training, and took the client's "learning by doing" approach. Ndlovu et al. (2023) explored the factors influencing success of female entrepreneurs in South Africa's agricultural sector. Financial literacy, market access and start-up finance were important factors in determining business success, revealed the study. But it pointed out, the government's efforts to promote financial literacy were still not enough.

2.3 Challenges of Financial Illiteracy

Loans will be more easily repaid by financially aware borrowers. When loan borrowers didn't understand loan terms, they were 30% more likely to miss loan payments, according to (Reyes et al., 2025). Bad credit scores will affect the ability to get loans, restrict future credit opportunities, and may result in the seizure of assets. Over-indebtedness in microfinance has been investigated by (Thapa et al., 2025) who found that financially illiterate borrowers are more likely to borrow from multiple MFIs at the same time without the ability to pay them back. These are called "loan stacking" situations in which borrowers take out new loans to pay off old ones.

According to Siddique et al., (2023) many small business owners do not keep records which means they do not know what activities are profitable and what activities are losing money, do not track expenses and don't plan for taxes. They discovered in the Dominican Republic that simple "rules of thumb" training worked better than traditional training in accounting for low-literacy entrepreneurs. Cucinelli & Soana (2023) reported that people who are financially illiterate are at high risk of being taken advantage of by unscrupulous lenders who know how to exploit them, such as hidden fees, rollover penalties and coercive collection practices. If a borrower is not aware of loan contracts, they might sign on to loan terms that are unsuitable for them.

In Uganda, (Bank of Uganda 2022) conducted a national financial literacy survey and had the following results; 64% of microfinance clients were unable to correctly calculate simple interest on a loan, 71% did not understand the concept of compound interest, 58% could not interpret a basic loan repayment schedule, and women scored significantly lower than men on all measures. In the same way, Balisanyuka et. al. (2025) conducted research among small business owners in Kampala and discovered a correlation between low financial literacy and the failure of the business to survive after three years and failure to expand the business, with businesses run by financially literate owners more likely to survive after three years.

2.4 Government and MFI Interventions

To tackle financial illiteracy, the Government of Uganda has implemented several interventions, such as the financial education program at the Bank of Uganda, which carries out community outreach and school-based financial education; the financial education requirements at the UMRA (Client Education Requirements) for all the licensed MFIs, requiring financial education as part of their social performance obligations before disbursal of loans; and the financial education requirement for all beneficiaries under the Parish Development Model (PDM) before loan disbursement (Uganda National Financial Inclusion Strategy, 2023-2028). But that has not been consistent in implementation. Omowole et al., 2024) identified that many MFIs either see financial literacy training as a "tick the box" exercise, offering short, poorly attended sessions; some MFIs delegate financial literacy training to NGOs without standards of quality or outcomes; others do not provide any financial literacy training and argue that it raises costs without clear benefits; and others provide financial literacy training but do not do it in local languages or consider clients' literacy level.

2.5 Gaps in the Literature

Although there has been increasing interest in financial literacy, the literature is not without some gaps: majority of the studies examine financial wellbeing of the individual but the enterprise growth outcomes have not yet been studied; studies largely focus on urban contexts such as Mbarara City but not as much in rural areas; few of the studies use mixed methods that capture both statistical relationships and lived experiences; few studies get to the core of what financial literacy consists of and how it most strongly predicts enterprise growth; and majority of the studies that examine enterprise outcomes are complex such as factor analysis and multiple regression, which may not be accessible to masters students with limited statistical training. To fill these gaps, the present study targeted the clients of microfinance institutions in Mbarara city, adopted a mixed-methods approach, and applied simple statistical analysis methods such as descriptive statistics, correlation and simple regression, which are able to be easily understood and replicated.

3.0 Materials and Methods

A mixed method, cross-sectional design was used in this study, which was conducted in Mbarara City in the southwestern Uganda, which is divided into four divisions (Nyamitanga, Kamukuzi, Kakoba, and Biharwe) and home to many microfinance institutions (MFIs) such as FINCA Uganda, Pride Microfinance, UGAFODE, Centenary Bank, and Ruharo SACCO. The target population included all the small-scale enterprise owners and managers who are active microfinance clients in Mbarara city, which is estimated to be 3,000. A multi-stage sampling technique was used: First, five MFIs were purposively selected based on size of clients, geographic coverage and willingness to participate; Second, 110 SSE owners and managers were selected using systematic random sampling with a sample size to be determined by Yamane's formula at 95% confidence level and 9.3% margin of error. The respondents were owners/managers of registered SSEs who were MFI clients for a period of at least 12 months, age 18 years and above and who had lived in Mbarara City for at least 12 months. A total of 110 respondents (48 male, 62 female) were included in the final sample with the highest age group being 35-44 years (43.6%), the majority of respondents having secondary education (51.8%), and the most common sector being retail shops (34.5%). For the qualitative component of the study, 10 in-depth interview participants were purposively selected to capture variation in financial literacy level, gender and enterprise type and five key informant interviews were conducted with the Mbarara City Commercial Officer, two MFI branch managers, one loan officer and one representative from UMRA. A structured questionnaire was adapted, Financial Literacy Measurement Instrument and pre-tested with 25 SSE owners, translated into Runyankore and back translated into English and validated based on Ugandan research. Two semi-structured interview guides were created; one for enterprise owners and one for key informants. For quantitative data analysis, descriptive statistics were used and simple regression analysis (R^2, Beta), Pearson correlation (r) were used. NVivo was used to analyse qualitative data in line with the six-phase thematic analysis process of Braun and Clarke. Triangulation was achieved by weaving quantitative and qualitative findings together. All the respondents gave written informed consent (with a thumbprint for those with limited literacy), confidentiality was ensured (using pseudonyms).

4.0 Data analysis and interpretation

4.1 Financial Literacy Levels

4.1.1 Financial Literacy Scores

Table 4.1: Distribution of Financial Literacy Scores (N=110)

Financial Literacy Level	Score Range	Number (n)	Percentage (%)	Mean Score (SD)
adequate	Below 60	77	70.0	51.2 (11.8)
inadequate	60 and above	33	30.0	78.5 (6.4)
Overall	24 – 92	110	100	58.7 (16.4)

The average financial illiteracy score was 58.7 out of 100, therefore 30% of respondents achieved a score of 60 or above, meaning that 70% of microfinance clients in this study had adequate financial literacy.

4.1.2 Specific Financial Literacy Deficits

Table 4.2: Financial Literacy Indicators (N=110)

Indicator	Correct/Yes n (%)	Incorrect /No n (%)
Financial Knowledge		
Can correctly calculate simple interest on a loan	79 (71.8)	31 (28.2)
Understands compound interest concept	21 (19.1)	89 (80.9)
Can correctly interpret a loan repayment schedule	64 (58.2)	46 (41.8)
Understands relationship between loan term and total interest	39 (35.5)	74 (64.5)
Financial Behaviour		
Keeps written business records	34 (30.9)	76 (69.1)
Prepares a business budget before taking a loan	26 (23.6)	84 (76.4)
Compares loan terms across multiple MFIs before borrowing	42 (38.2)	68 (61.8)
Has a savings plan for business emergencies	50 (45.5)	60 (54.5)
Makes loan repayments on time	79 (71.8)	31 (28.2)
Financial Attitudes		
Agrees that planning business finances one year ahead is important	74 (67.3)	36 (32.7)
Feels confident managing business finances	45 (40.9)	65 (59.1)

The study showed quite high numeracy as only 28% of the respondents could not calculate simple interest and only 19% knew compound interest. There was a lack of record keeping, with only 31% maintaining written business records and almost no budgeting was done in advance of borrowing, with 24% preparing budgets. However, there was positive repayment behaviour, with 72% of people paying on their loans on time, despite having low literacy. Last, there was some sort of aspiration-practice divide, with 67% saying planning was important, but only 41% saying they were good at managing their finances.

4.1.3 Qualitative Confirmation of Low Literacy

The quantitative deficits were powerfully illustrated by qualitative voices. Misunderstanding loan costs: *"I borrowed 2 million shillings from an MFI. The loan officer said the interest was 3% per month. I thought that meant I would pay 60,000 shillings interest each month. But after six months, I had paid 360,000 shillings in interest alone. And there were also processing fees and insurance that I did not know about. When I asked for an explanation, they showed me a paper I had signed. I did not read it because I cannot read English well."*

No record keeping: *"I do not write many things down. I just write a few, and I know in my head how much I have spent and how much I have earned. But at the end of the month, I can guess what my profit was. Sometimes I am surprised that I keep paying expenses for my household, and I am left with some money to buy more stock. I know I should keep records, but sometimes I find it laborious".*

Mixing business and household money: *"The money from the business is in my pocket. When my child needs school fees, I take from that pocket. When I need to buy stock, I take from the same pocket. I cannot separate them. My loan officer always tells me to separate pockets, but it is difficult for me, so I have no system to do it."*

Confidence gap: *"I know I should plan for my business. Everyone says planning is important. But honestly, I do not feel plans overlap. When I try to calculate profit and loss, I get confused. I prefer to just work hard and hope for the best.*

4.2 Effect of Financial Literacy on Enterprise Growth

Table 4.3: Enterprise Growth Indicators (N=110)

Growth Indicator	Mean (SD)	Minimum	Maximum
Annual revenue growth (%)	8.7 (12.4)	-25	45
Asset acquisition (number of new assets in 2 years)	1.8 (1.6)	0	8
Employment change (net employees added)	0.9 (1.2)	-2	5
Profitability trend (1=declined, 2=stable, 3=improved)	2.1 (0.7)	1	3

This therefore means that the wide standard deviations indicate large variation among enterprises – some are growing, others are shrinking.

4.2.2 Comparison by Financial Literacy Level

Table 4.4: Growth Outcomes by Financial Literacy Level

Growth Indicator	Low Literacy (n=77)	High Literacy (n=33)	Statistical Test
Mean revenue growth (%)	5.2 (8.9)	16.8 (11.4)	$t = 5.67$, $p < 0.001$
Mean asset acquisition	1.2 (1.1)	3.4 (1.8)	$t = 7.34$, $p < 0.001$
Mean employment change	0.4 (0.8)	2.1 (1.4)	$t = 6.89$, $p < 0.001$
Mean profitability trend	1.8 (0.6)	2.7 (0.4)	$t = 8.12$, $p < 0.001$

Enterprises owned by financially literate clients performed better on every measure. They grew revenues 11.6% more, acquired 2.2 more assets, created 1.7 more jobs, and were much more profitable (2.7 vs 1.8 on a 3-point scale), and all differences were statistically significant ($p < 0.001$).

4.2.3 Correlation Analysis

Table 4.5: Correlation Between Financial Literacy and Enterprise Growth

Variable 1	Variable 2	Pearson Correlation (r)	p-value
Financial literacy score	Enterprise growth index	0.58	< 0.001

From table 4.5 above the correlation coefficient ($r = 0.58$) indicated a strong positive relationship between financial literacy and enterprise growth. This means that as financial literacy scores increase, enterprise growth tends to increase as well. The positive sign (+) means they move in the same direction. The R-squared value ($r^2 = 0.58^2 = 0.34$) means that 34% of the variation in enterprise growth can be explained by differences in financial literacy. The remaining 66% is explained by other factors (access to markets, competition, economic conditions, etc.).

4.2.4 Simple Regression Analysis

Simple regression analysis was conducted to test whether financial literacy predicts enterprise growth.

Table 4.6: Simple Regression Results

Predictor	B (Unstandardised)	Std. Error	Beta (Standardised)	t	p-value

(Constant)	5.42	1.21		4.48	< 0.001
Financial literacy score	0.28	0.04	0.58	7.00	< 0.001

Table 4.7: Model Summary

R	R^2	Adjusted R^2	F	p-value
0.58	0.34	0.33	49.00	< 0.001

From table 4.7 above, the regression analysis revealed that financial literacy is a strong predictor of enterprise growth, with the model showing that $R^2 = 0.34$, meaning financial literacy explains 34% of the variance in enterprise growth. The Beta value of 0.58 indicates a strong positive effect of financial literacy on growth, and the p-value of less than 0.001 confirms that this result is statistically significant and very unlikely to be due to chance. The regression equation, Enterprise Growth = 5.42 + (0.28 × Financial Literacy Score), demonstrates that for every 10-point increase in financial literacy score, enterprise growth increases by approximately 2.8 points on the growth index.

The statistical results were triangulated by qualitative voices. The financial literate entrepreneur – growth achieved: "Before I take any loan, I sit down and calculate. How much interest will I pay? What will be the additional income from the loan? Is it possible to pay it back without impacting my family? I've been trained by FINCA to keep business and home separate; I have a business budget and a home budget that I never cross over; all this is in my notebook and I have never missed a loan payment, which is amazing for me.

Financially illiterate entrepreneur - stagnation: "I have loans with FINCA and a SACCO; both loans are about 1.5 million shillings; I was managing the business when I had only one loan but then I needed some more money to buy stock, so I borrowed from another MFI; then repayments started to be too heavy and now I am borrowing money for one loan to pay off another; I am trapped and my business is not growing; it is just surviving.

Power of financial literacy for negotiation: "My loan officer wanted to give me a loan at 4% per month, I asked her why so high? The MFI down the road has a 2.5%! 'Can you beat that? She was surprised when I knew the market, she spoke to her manager and they cut the interest to 3% thus saving me more than 500,000 shillings in interest over a 2-year period. Knowledge is money".

4.3 Challenges Associated with Limited Financial Literacy

Inaccurate understanding of loan terms and costs: 32% could not figure out the total interest; 81% could not understand compound interest. "*The loan officer rushed me through the paper, saying, 'Just sign here, here and here – I'm serious, just sign. I felt cheated, but I had to sign because he seemed professional."*

Mixing Business and Household Finances: Only 31% had written records, only 24% had budgets. The difficulty is the money is in my pocket – *when I need to pay my kid's school fees, I'm taking money out of my pocket, when I need to buy stock, I'm taking money out of my pocket and by the end of the month, I can't tell how much profit I made as a business and how much is my own pocket money moving around.*

Multiple Borrowing: 62% did not compare the terms of different loans from various lenders; many had loans from 2-4 lenders. *The MFIs didn't talk to each other, FINCA didn't know I had a loan with Pride, and Pride didn't know of the SACCO: each lender approved my loan because he or she saw only his/her risk, but I knew the truth: I couldn't afford all three, so I took the loans anyway because I needed the money. Now I'm paying the price*.

Financial Literacy Training: 66% had not gotten any training. *I was in a dire financial need and took out a loan of 200,000 shillings from him; he said I would pay him 250,000 after one month, which is 25% interest for a month. I defaulted on my repayment and he came to my shop every day shouting at me in front of customers, threatening to take my stock and I was so scared.*

The Mbarara City Commercial Officer confirmed such trends: "*Many of the small businesses fail within two years, borrow money, purchase stock but don't undertake cash flow planning, don't keep business and household funds separate, don't save for taxes, don't save for emergencies, so when it hits them – sickness, theft, slow season – they have nothing in the bank to fall back on, they default, they close. Financial literacy is not a luxury, it's a lifesaver*.

An MFI branch manager candidly acknowledged: "*Honestly, our training level is basic, we only spend perhaps one hour with new clients explaining the loan terms and repayment schedule, we give them a pamphlet, we don't teach them budgeting, record keeping or business planning, why? We do the minimum and hope they learn by experience, as it costs money to provide quality training and our clients can't afford the fees if we started charging them for training, they'd go to another MFI.*

5.2 Effect of Financial Literacy on Enterprise Growth

The study observed that 70% of the clients of the microfinance institutions in Mbarara City lacked financial literacy, with a mean score of 58.7 out of 100, similar to other studies done in Uganda, which Nanziri (2022) reported 64% of all adults were unable to calculate simple interest while Bank of Uganda (2021) reported only 38% were basic financial literates, with a particular shortcoming in numeracy. The qualitative data revealed several reasons for these low financial literacy levels: low level of formal education (77% of respondents had at most secondary education and 25% had received only primary education, and basic numeracy is rarely taught beyond primary school); no financial literacy training (66% of respondents had never received any financial literacy training from their MFI or from any other source); language barriers (loan documents are typically in English, but many clients are more comfortable in Runyankore); and oral financial traditions (many clients come from cultures where financial transactions are oral and based on trust not on written contracts and calculations). The message here is that MFIs should not take it for granted that clients will understand the terms of the loan once they have signed a contract; something has to be done to convey the meaning.

The study observed that the financial literacy had a strong positive relationship with the growth of the enterprise with $R^2 = 0.34$, R2 accounted for 34% of the variance in enterprise growth, a result that aligns with (Irumba & Enock (2024) in rural Uganda where they observed that financial literacy mediated the relationship between microfinance access and enterprise performance and with (Zia (2009) who reported that enterprise training resulted in increase in revenues and improved repayment. The qualitative data provided some insight into the mechanisms through which increased financial literacy correlates with increased growth, such as: better loan terms (financial clients find out about loans and negotiate interest rates with MFIs), disciplined record-keeping (keeping track of revenues and expenses helps to inform loan decisions), separation of business and household finances (business funds do not go to household needs), pre-borrowing budgeting (informed loan decisions, and planned repayment), and avoiding over-indebtedness (understanding about capacity to borrow in order to avoid borrowing from several MFIs). It should be assumed that financial literacy goes beyond information provisioning and that training programs are aimed at behavior change, not just knowledge transfer.

5.3 Challenges of Limited Financial Literacy

The study revealed four key problems which are consistent with prior research: misunderstanding the terms of the loan (Bank of Uganda, 2021) found 64% of people could not calculate interest, mixing business and household finances (Box et al., 2006) noted this is common with low-literacy entrepreneurs, over indebtedness (conceptualized as "loan stacking" from multiple MFIs), and vulnerability to predatory lending (existing literature documented that this is done to the illiterate) An insightful finding from this study is that the over-indebtedness is not always due to irresponsible borrowing; in fact the qualitative data showed that for many clients, they were over-indebted because they were desperate to take out more than they could afford, indicating that there are deeper issues of poverty than just financial literacy.

6.0 Study Conclusion

70% of the respondents were financially literate, only that some weaknesses were found in numeracy (only 28% could calculate interest), records (only 31% kept written records), and budgets (only 24% prepared budgets). Such deficiencies are not just on the academic level – they manifest in tangible harms, including miscommunication regarding loan terms, intertwined finances, and a susceptibility to predatory lending practices. The study showed that there was a significant positive correlation between financial literacy and enterprise growth ($r = 0.58$, $p < 0.001$) and that financial literacy accounted for 34% of the variation in enterprise growth. Financially literate entrepreneurs had higher revenues (11.6%), higher assets (2.2) and more jobs (1.7) than their financially illiterate counterparts, and were more profitable. Most MFIs offer little training (typically one hour or less), provide English language information that clients cannot read, and do not reinforce the information to make sure clients understand. One of the MFI managers spoke candidly that, “we do the minimum and hope they learn by experience. Some do; others do not. Overall, the findings are that microcredit is not enough to help grow an enterprise, hence financial education is not a luxury but is necessary.

7.0 Study Recommendations

At the Microfinance Institutions (MFIs) level: MFIs to ensure financial literacy orientation of all new borrowers that include a two-day training before loan disbursement. They should make it easier to understand the documentation of the loans by providing the contracts in runyankore with visuals like pictures and charts, carry out refresher training during every renewal of the loan, create peer mentorship programmes by pairing literate borrowers with new clients, and introduce a basic five-question literacy test when they apply for a loan.

For Government: Government action should involve introduction of UMRA enforcement in the process of licensing MFIs, making financial literacy training a requirement for all MFIs to be licensed, running financial literacy focused campaigns through radio in Runyankore by Bank of Uganda, including financial literacy in the business curriculum of secondary schools and funding of financial literacy campaigns through Radio in Runyankore. Client should also get trained by asking in the MFIs what types of financial literacy education are available prior to taking loans, ask questions, never sign any document that they do not understand, begin with basic record keeping (notebook) and separate business and personal money, and compare offers from at least three MFIs before selecting a loan.

Future Research: Longitudinal research could be used to test causality by following clients from loan disbursement to financial repayment; randomised control trials could be used to determine if financial literacy has a positive effect on the growth of the client's business compared to non-participants; comparative research between Mbarara and other cities in Uganda (Kampala, Gulu and Jinja) could reveal a pattern of differences; gender differences between male and female financial entrepreneurs could be explored to determine the impact of financial literacy on both genders.

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AUTHOR CONTRIBUTIONS

FT conceived the study and developed the original idea for the manuscript. CMM was involved ensuring that FT, as a Masters Student of Business Administration was well guided, while WK was also involved in the manuscript writeup guidance. CMM edited the text, made major editing and helped with research throughout. CMM and WK reviewed and approved the final version of the manuscript.

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