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The Mediating Role of Access to Digital Finance on the Relationship between Financial Literacy and Performance of Uganda SMEs in Mbarara City

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Abstract: The study aimed to explore the potential mediating influence of access to digital finance in the relationship between financial literacy and the performance of SMEs in Uganda. To establish this link, the study used a cross-sectional methodology to collect data at a certain point in time. Barron and Kenney's (1986) four phases required each direct influence of the study variables to follow a significant criterion. These requirements were satisfied because there was a significant direct correlation between SMEs' performance and financial literacy (Beta= 0.655; p<.01). Access to digital finance and financial literacy demonstrated a considerable direct impact (Beta= 0.519; p<.01). Moreover, there was a noteworthy direct impact from SMEs' performance to their access to digital finance (Beta=0.491; p<.01). When considering access to digital finance, the direct association between financial literacy and SMEs' performance decreased from Beta=0.655 to Beta=0.548, remaining statistically significant. This indicates that access to digital finance might serve as a moderator in the connection between financial literacy and SME success. further demonstrated by the indirect effect of (0.106/0.655 x 100) percentage. 16.2%, meaning that the direct effect is explained by 83.8% in the model. It is advised that policymakers and stakeholders in Uganda's SME sector should concentrate on developing clear guidelines on how SME owners can access digital finance. This will help in training them to improve the performance of SMEs. To improve SME outcomes, methods should be developed to make it simpler for people to use digital financial services and raise their financial literacy.

Keywords: *Ugandan SMEs, financial literacy, access to digital finance*

1. Introduction

The focus of entrepreneurship research has shifted towards Small and Medium-sized Enterprises (SMEs), recognizing their crucial role in economic growth and development (Eikelenboom & de Jong, 2019). Over the past years, the impact of SMEs on both developed and developing nations has significantly increased. According to the Uganda Bureau of Statistics (2019), SMEs contribute to over 20% of Uganda's GDP and employ approximately 45% of the country's workforce. SMEs play a critical role in global socioeconomic development and poverty reduction, influencing areas such as employment creation, GDP growth, innovation engines, income distribution, resource utilization, and regional development (OECD, 2019; Maldonado-Guzmán et al., 2019).

The bulk of SMEs are found in the manufacturing, trade, services, and agricultural sectors. The industry is the largest in the country, with 1,100,000 enterprises (Uganda Business Impact Survey, 2020). Thus, 90% of the private sector in the nation is made up of small and medium-sized businesses, or SMEs (Al Mamun et al., 2016). These companies contribute significantly to Uganda's economic development and provide jobs for its citizens. SMEs in Uganda have made a substantial economic contribution, but they have consistently struggled with low performance, which has an impact on their ability to survive.

According to existing literature, the limited success of SMEs can be attributed to factors such as a lack of opportunism, organizational skills, networking, partnerships, dedication, execution, and innovative thinking (Man et al., 2002; Vijay & Ajay, 2011). Recent studies propose that a significant impediment to the growth of SMEs is a deficiency in financial literacy. Agyapong and Attram's 2019 research contributes to the understanding of financial literacy in this context.

The ability to manage and use money wisely and with knowledge is known as financial literacy (Nkundabanyanga et al., 2014; Ye & Kulathunga, 2019). Financial knowledge and attitudes, which include an understanding of fundamental financial concepts like borrowing, investing, and saving, are indicators of financial literacy (Garg & Singh, 2018). Due to its significant influence on financial decisions, financial literacy has grown in importance in both established and emerging economies (Hussain et al., 2019).

Agyapong and Attram (2019) assert that a company's performance is influenced by the way it handles and allocates its financial resources. This implies that the management of a company must properly and efficiently allocate, use, and manage its financial resources. The acquisition of expertise by an owner-manager has been a topic of discussion globally. Numerous scholars argue that managers should possess a certain degree of financial expertise or an outstanding educational background to establish efficient financial management systems and make optimal use of limited resources. However, conflicting empirical evidence suggests otherwise (Agyapong & Attram, 2019; Hussain et al., 2019; Amerteifio & Agbeblewu, 2015).

To solve their performance concerns, several empirical research has been conducted to determine the attributes that positively impact these organizations' performance. These factors encompass various aspects such as venture capital, access to financing, training and seminars, financial literacy, and good corporate governance (Salia & Karim, 2019; Agyapong & Attram, 2019; Hussain et al., 2018; Gathungu & Sabana, 2018). While some studies emphasize the role of financial literacy in facilitating access to capital, they often overlook the importance of digitization. Digitization can significantly augment the capital accessible to companies through online savings accounts, trading, and banking, providing easy access to loans. Moreover, digital finance, especially through mobile money wallets and FinTech, has emerged as a potent tool for promoting financial inclusion across the continent. With cell penetration and mobile internet access at 45% and 24%, respectively, throughout Africa, digital finance has gained prominence. As of 2018, Sub-Saharan Africa alone accounted for 395.7 million active mobile money accounts (Tay, 2019).

The value of this study is twofold: Primarily, the study explores how SMEs can harness digital technologies to access, manage, and utilize money effectively, thereby augmenting their competitiveness, innovation, and growth. Secondly, it recognizes both the challenges and opportunities encountered by small and medium-sized businesses (SMEs) in the adoption and utilization of digital financial services. Additionally, the study acknowledges the mediating role of digital finance in elucidating the connection between financial literacy and the success of SMEs. As a result, the study will contribute to our understanding of SME funding and digitization and provide scholars, practitioners, and policymakers with helpful ideas. The study will also address a gap in the literature by focusing on a specific country context with a large share of SMEs in various sectors.

2. Theoretical underpinning of the study

Resource-based Theory (RBT)

Wernerfelt (1984) made the initial presentation of the resource-based theory. According to the notion, resources are necessary for a company to maintain its high level of competitiveness and improve its performance (Wernerfelt, 1984; J. Barney, 1991; Prahaland & Hamel, 1990b). These resources include material, technological, human (competency), financial, and marketing resources. The company reaches corporate strategy by fusing these resources with organizational features and procedures (Mata et al., 1995Andrews et al., 1965; Daft, 1983; J. Barney, 1991). These resources are the elements of a company that affect its performance, growth, and profitability, according to the Resource-Based Theory. These resources ought to be highly sought after, hard to come by, and simple to replicate (Barney, 2001; Dierickx & Cool, 1989).

Digital money is the newest trend in development. Because of continuous improvements in their utilization, SMEs and their clients can easily use these digital platforms. As a result, both homes and businesses are in great demand for digitization. Any business can expect a significant rise in product sales because of integrating digital finance into trading. SMEs might have a digital platform (such as an APP) where more clients could access their offerings and prices. These systems might also make payments and product delivery easier. Digital platforms can also be simply replicated. When an access's lifespan is reached, other forms with better upgrades could be created. Digital finance may therefore be a technology tool that enhances SMEs' performance. The Resource Based Theory is closely related to this.

According to the Resource-Based Theory, resources have a significant influence on performance. Financial assets would be selected, used, managed, and disposed of strategically given that the company's human resources are financially literate (Agyapong & Attram, 2019). The business's performance will increase as a result. One of the most important decisions managers make when running their company is the financial one. These choices have a significant effect on a company's long-term survival, growth, and profitability. The resource-based approach holds that the strategic importance of commitment, utilization, and holding of resources lies in their ability to generate value. When internal resources, or human resources, are fully employed, more opportunities arise for them to add value to the business (Minola & Cassia, 2012).

Beyond gaining access to digital money and acquiring knowledge about its applications, acquisition methods, and associated risks, students will undergo management training to enrich their financial literacy. In alignment with the resource-based theory, a company operates efficiently when it has access to all the necessary resources. Organizations with financial resources are able to obtain other important resources for their operations (Stacey, 2011). If SMEs had sufficient funding, it would be easy for their management to learn about the latest technological developments in all areas of the firm. If low-cost digital systems like Mobile Money are enabled, sales will increase. Increased profit from high sales would allow the business to purchase more resources. If all of these resources were acquired, the company's performance would rise (Agyapong & Attram, 2019).

Aligned with the literature on resource-based theory, the performance of a firm is fundamentally shaped by the skillful integration of its resources and capabilities. The goal of resource-based theory is to enhance business performance by utilizing available resources to attain or maintain a competitive advantage over time. Following this principle, businesses generate value through proficient resource management, enabling customers to benefit from their offerings (Wernerfelt, 1984; Henard & McFadyen, 2012).

According to the findings of this report, companies with access to digital finance may be more strategically positioned to keep abreast of the latest developments in the economy. Their efficiency will increase as a result, and customers who do business online will profit. Small SMEs that implement digital systems will have more cash on hand if sufficient precautions are taken to address all potential risks (Stacy, 2011). The impact of certain information resources, such as financial literacy, on SMEs' capacity to accept digital financial systems and obtain digital funding has not been thoroughly studied. By investigating how digital finance access affects the relationship between financial literacy and the performance of small and medium-sized enterprises, this study adds to the body of knowledge. More study on this subject is necessary, with a focus on SMEs in Uganda. Because of this, the study will look at how much Ugandan SMEs utilize digital platforms and how informed they are about them, as well as the connection between the availability of digital finance and the performance and financial literacy of SMEs.

Financial literacy, access to digital finance and performance of SMEs in Uganda

Eniola and Entebang (2018) emphasize that a proprietor-manager equipped with financial literacy, understanding the impact of financial decisions on the success of their company at each growth stage, can effectively engage with suppliers and secure optimal goods and services. Marriott et al. (1996) defined financial literacy as the manager's ability to comprehend and evaluate financial data while maintaining ethical standards. Lusardi and Tufano (2008) underscored the importance of financial literacy in improving managers' skills and decision-making. The consensus among these scholars is that the performance of a company is positively correlated with financial literacy.

Atakora (2013) highlights even more how highly educated dealers are more financially literate than traders with low levels of education. He finds that the market women with greater degrees of education and work experience were more financially knowledgeable than the other women using the market as a focus group. Several other research (Tuffour et al., 2020; Hussain et al., 2018; Salia & Karim, 2019; Agyapong & Attram, 2019; Gathungu & Sabana, 2018) investigated the relationship between business performance and access to financing as well as financial knowledge. Nonetheless, the research concentrated on financial literacy and accessibility to capital. They failed to consider the influence of digital finance, though. While internet access was mostly disregarded, SMEs leveraged financial literacy and performance as a mediator through access to financing.

Gomber, Koch, and Siering (2017) highlight that financial literacy extends beyond simply creating and presenting financial data, especially given the current state of the financial world. In the contemporary economic landscape, product deliverables are increasingly becoming digital, as evidenced by the prevalent trend of product marketing on platforms like Twitter, Instagram, TikTok, and others. Despite these changes, there is a notable lack of attention to company performance, financial literacy, and financial access.

The significance of digital systems for economies and their impact on enhancing the financial performance of companies has been extensively explored in research (Agyapong, 2020; Ozili, 2018; Gomber et al., 2017). Haucap, Myovella, and Karacuka (2020) and other experts have developed an innovation-based theory of economic development, elucidating how technology, particularly in the digital economy, influences economic growth and development. Much of their research underscores the positive relationship between digitalization and economic growth.

Concluding their assessment based on the knowledge base theory and evolutionary theory of economic transformation, Kulathunga et al. (2020) affirm that techno-finance literacy significantly impacts the performance of SMEs.He emphasizes that to increase performance, SMEs need to look at realistic technological and environmental developments. Businesses need to understand that providing users with access to all permitted digital systems could draw in more customers and increase revenue. A great deal of research has been done on the impact that financial literacy and funding availability have on the performance of small and medium-sized enterprises (SMEs). (Tuffour et al., 2020; Gathungu & Sabana, 2018; Agyapong & Attram, 2019 Salia & Karim, 2019; Hussain et al., 2018). They all concur that the success of SMEs is positively and significantly impacted by financial literacy. These studies also found that a business's performance is highly influenced by its access to finance and that acquiring funding necessitates a certain amount of financial understanding.

Understanding the potential influence of an owner-managers financial literacy on their capacity to secure digital funding for a business is vital. Consequently, the study delves into how access to digital funding acts as a mediator in the connection between financial literacy and the success of SMEs. This conceptual framework forms the basis for the hypothesis in this study. It says that:
Hypothesis 1: Access to digital finance acts as a mediator in the relationship between financial literacy and the performance of SMEs in Uganda.

3. Methodology

Research Design

The study used a quantitative technique with a cross-sectional research and correlation design. We chose a cross-sectional research method since our goal is to comprehend the factors being studied at a specific moment in time. This facilitated the assessment of the hypothesized relationships, such as the one wherein financial literacy and the performance of SMEs in Uganda were mediated by access to digital financing. The quantitative survey was scheduled and structured, and the item questions were updated in light of prior research.

Study Population and Sample Size

The target population was 4,776 registered SMEs in Mbarara city (MoFPED, 2022). These SMEs were picked from 3 different business categories. These categories are trade (4,483 SMEs), manufacturing (248 SMEs), and education services (45 SMEs). These categories were preferred for selection because they are commonly registered industries in Mbarara City. These were simply randomly sampled. The study used Krejcie and Morgan (1970) tables to determine the sample size. This can be seen in Table 1 below:

Table 1: Target Population and Sample Size

Industry (SMEs category)	Target Population	Percentage	Simple Size
Trade	4483	94	333
Manufacturing	248	5	17
Education Services	45	1	5
Totals	**4776**	**100**	**355**

Source: MoFPED report, 2022

The unit of analysis was SMEs, and the unit of inquiry was owner/managers.

Demographic characteristics of the owner/manager of SMEs
The demographics of the owners/managers of SMEs in Uganda were distributed as indicated in Table 2

Table 2: Demographic characteristics of the owner/manager of SMEs in Uganda

Category	Item	Frequency	Percent
Gender			
	Male	164	46.5
	Female	189	53.5
Age			
	20-29	134	38
	30-39	121	34.3
	40-49	60	17
	50 and above	38	10.7
Religion			
	Anglican	107	30.3
	Moslem	115	32.6
	Catholic	57	16.1
	Pentecostal	66	18.7
	Seventh-day Adventist	8	2.3
Marital Status			
	Married	64	18.1
	Single	25	7.1
	Cohabiting	153	43.3
	Divorce	98	27.8
	Widowed	13	3.7
Highest level of education			
	Certificate	156	44.2
	Diploma	75	21.2
	Degree	85	24.1
	Professional Qualifications	5	1.4
	Post Graduate	25	7.1
	Masters	4	1.1
	PhD	3	0.9
	Total	**353**	**100**

Source: Primary data, 2023

The findings show that there are somewhat more women in the sample (53.5%) than men (46.5%), which could reflect the sampling technique employed in the research or of the gender makeup of Uganda's SME sector. The results also show that most respondents are young, with more than 70% being between 20 and 39 years old. This may suggest that the SME sector is dominated by young entrepreneurs seeking opportunities and challenges in the market. The results also reveal that the sample is religiously diverse, with a substantial presence of both Muslims (32.6%) and Anglicans (30.3%). This may indicate that the SME sector is inclusive and tolerant of different faiths and beliefs. The results also show that the most common marital status among the respondents is cohabiting (43.3%), followed by divorce (27.8%). This may imply that the SME sector is characterized by unstable or unconventional family structures, which may affect the social and economic well-being of the SME managers and their dependents. The results also show that the most common educational level among the respondents is a certificate (42.1%), followed by a degree (24.1%) and diploma. This may indicate that the SME sector requires a moderate level of formal education but not necessarily a high academic qualification. The results also show that the sample has a low representation of postgraduate, professional, master's, and Ph.D. holders, which may suggest that the SME sector does not offer attractive incentives or opportunities for highly educated individuals.

Demographic characteristics of SMEs
The demographics of the owners of SMEs in Uganda were distributed as indicated in Table 3

Table 3: Demographic characteristics of SMEs in Uganda

Category	Item	Frequency	Percent
Ownership structure			
	Sole Trader	8	4.5
	Partnership	56	18.4
	Limited Company	289	77.1
Trading period of business			
	Less than 1 year	166	47
	1-2 years	97	27.5
	3-5 years	32	9.1
	6-10 years	43	12.2
	More than 10years	15	4.2
Form of business			
	Manufacturing	8	2.3
	Education Service	18	5.1
	Trade	327	92.6
Number of Employees			
	Less than 10	319	90.4
	10-19	26	7.3
	20-29	8	2.3
	Total	**353**	**100**

Source: Primary data, 2023

4. Results and Discussion

The results indicate that the sample is dominated by limited companies (77.1%), which account for more than three-quarters of the SMEs. This suggests that most SMEs are incorporated entities with limited liability and separate legal personalities. The results also show that partnerships (18.4%) are the second most common legal form, while sole traders (4.5%) are the least common. This may indicate that the SMEs prefer to operate as joint ventures rather than individual enterprises. The results also show that most SMEs are relatively new, with almost half operating for less than a year (47%). This may suggest that the SME sector is dynamic and entrepreneurial, with a high entry and exit rate. The results also show that the SMEs are mainly involved in trade, which accounts for 92.6% of the sample. This may indicate that the SME sector is oriented towards the service sector rather than the manufacturing sector. The results also show that the SMEs are primarily small, with 90.4% having less than ten employees. This may indicate that the SME sector faces challenges in scaling up and expanding its operations.

Table 4: Establishing the extent of digital platform usage by owner-managers of SMEs

Items	N	Min	Max	Mean	Std. Deviation
I have accessed Digital Finance through Mobile Money	353	1	5	4.31	1.35
I have accessed Digital Finance through Momo pay	353	1	5	4.05	1.43

I have accessed Digital Finance through online platforms like PayPal	353	1	5	3.09	1.697
I have accessed Digital Finance through cryptocurrency	353	1	5	2.33	1.612

Source: Primary Data 2023

The findings in Table 4 are interpreted based on the Likert scale of 1 to 5, where the mean ranging between 1 and 2.4 indicates that the respondents disagreed with the statement, the range of mean between 2.5 to 3.4 stands for not sure and the mean ranging between 3.5 to 5 stands for agreement. So, the findings are focused on those statements the respondents agreed with.

I have accessed Digital Finance through Mobile Money (Mean = 4.31, Std. Dev = 1.350). The high mean score of 4.31 indicates that, on average, SMEs agree to access Digital Finance through mobile money. This suggests that a significant number of owners of SMEs are effectively adopting and integrating mobile money solutions. It can be inferred from the comparatively low 1.350 standard deviation that the responses are tightly packed around the mean.

Digital finance is done through online platforms like Momo Pay (Mean = 4.05, Std. Dev = 1.430). The high mean score of 4.05 indicates that, on average, SMEs agree that they access Digital Finance through Momo pay. This suggests that a significant number of owners of SMEs in this category are effectively leveraging digital payment gateways. The relatively low standard deviation of 1.430 implies that the responses are closely grouped around the mean, signifying a consistent and high level of performance among SMEs. This encouraging sign shows how SMEs can prosper when they use well-known digital payment platforms.

It is accessed to Digital Finance through Paypal (Mean = 3.09, Std. Dev = 1.697). The moderate mean score of 3.09 suggests that the SMEs are unsure about using PayPal as an online platform for digital finance. However, some SME owners are likely utilizing PayPal to access digital financing—the relatively high standard deviation of 1.612 highlights significant variability in the performance.

On the other hand, cryptocurrency (Mean = 2.33, Std. Dev = 1.612) is less popular and preferred, as it has low means and high standard deviations, indicating a weak and inconsistent agreement among the respondents. These platforms are unfamiliar or inaccessible to many SME owners, as they may require more technical skills, infrastructure, or regulations.

Table 5: Tests of mediation to determine how access to digital money influences the association between financial literacy and SMEs' performance

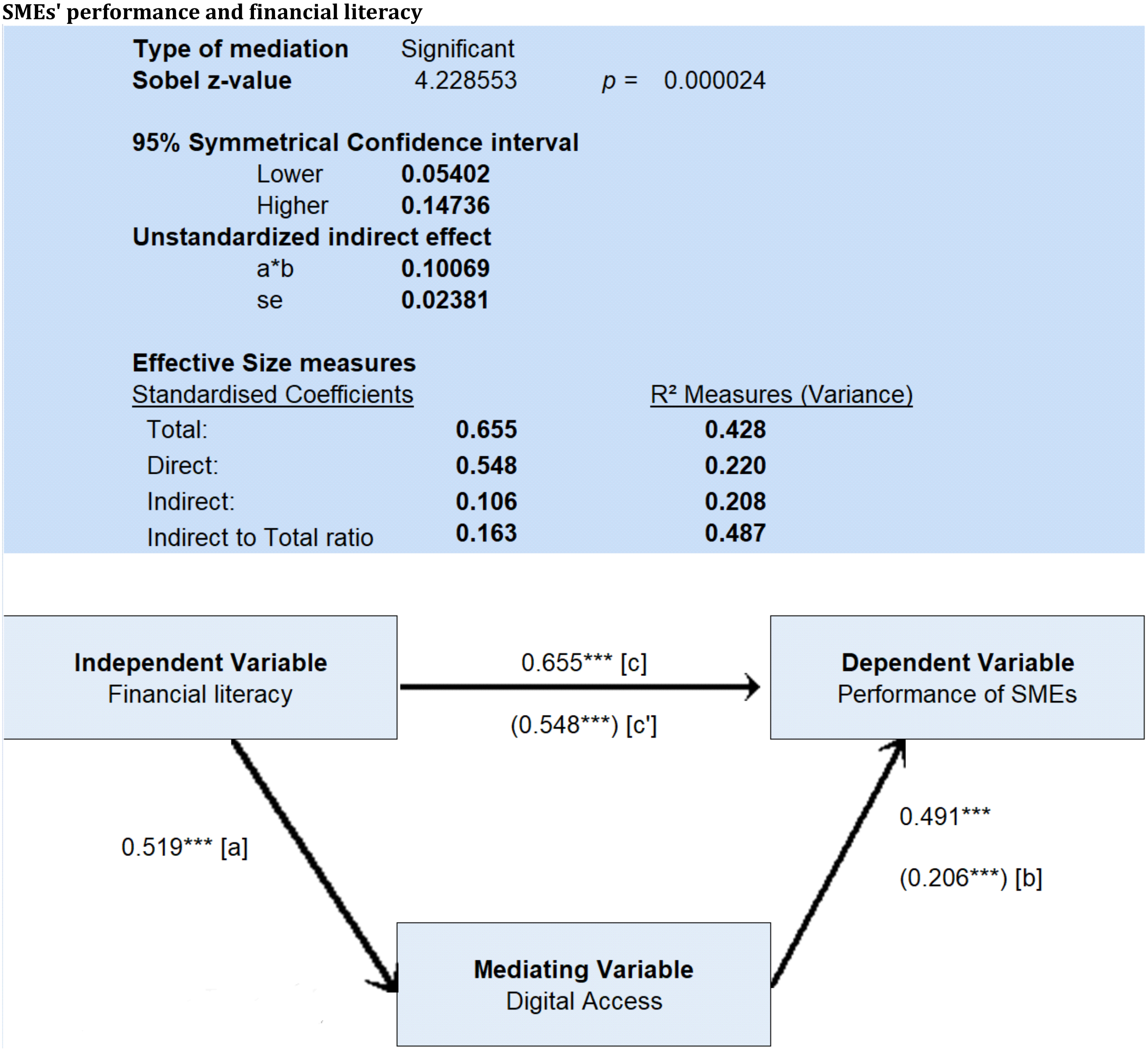
Steps	Regressions	B	SE	Beta
IV&DV	FL—PCS	0.617	0.038	0.655
IV&MV	FL—DA	0.582	0.051	0.519
MV&DV	DA---PCS	0.411	0.039	0.491
IV, MV&DV	FL & DA--PCS	FL=0.516	FL=0.043	FL=0.548
		DA=0.173	DA=0.038	DA=0.206
		Part correlations	FL=0.469	
			DA=0.176	
		R Square	0.461	
		N	353	

FL= Financial literacy, DA= Digital Access, PCS= Performance of SMEs

The performance of SMEs and financial literacy were both significantly impacted directly. ($p<.01$; beta=.655). This indicates that, while holding other variables constant, the performance of SMEs improved by 0.655 units for every unit increase in financial literacy. At the 1% level, this effect is statistically significant. Financial literacy and access to digital finance experienced a substantial impact (Beta=.519; p<.01). Moreover, a direct and significant influence was observed on the performance of SMEs in relation to their access to digital finance (Beta=.491; p<.01).

As access to digital funding was taken into account, the direct connection between financial literacy and SMEs' performance decreased from Beta=.655 to Beta=.548 but remained statistically significant. This signifies that even after considering the influence of access to digital funding, the association between financial literacy and SME performance diminished but retained statistical significance. This implies a partial mediation in the connection between financial literacy and SME performance through access to digital finance. Additionally, the indirect effect, constituting 16.2% (0.106/0.655 x 100), suggests that 83.8% of the model's explanation for the direct effect stems from other factors. Additionally, as seen below, the outcomes were displayed on the path diagram.

Figure 1: Using a med-graph to examine how access to digital finance mediates the association between SMEs' performance and financial literacy



Discussion: According to the analysis, Mobile Money (4.31) and MoMo Pay (4.05) were the most often used digital platforms by SME Owner-Managers among the platforms examined in this study. In contrast to the others, they were easy for them to use. Due to their lack of experience utilizing those items, respondents' knowledge of other digital products was limited. The respondents went on to say that using MoMo Pay and Mobile Money in their companies has increased the size of their customer base. According to the Resource-Based Theory, digital savings and trading have improved their company's finances and raised financial performance. These outcomes also support a 2015 GSMA analysis that found better financial performance was a result of users' familiarity with digital platforms like Mobile Money.

The respondents explained that using Mobile Money and Momo platforms helps them keep track of their transactions and thus increases their level of financial literacy. This resonates with studies by Atakora (2013), who finds that understanding mobile money transactions boasts experience in digital financing among traders. Therefore, you might be able to transfer and receive money with enough practice if you use Mobile Money frequently. This sheds light on why SME owner-managers tend to rate their understanding of mobile money higher than their comprehension of other digital platforms.

The research investigated how access to digital finance acts as a mediator in the relationship between financial literacy and SME performance. Considering access to digital financing, the direct correlation between financial literacy and SME performance decreased from Beta=0.655 to Beta=0.548, remaining statistically significant. This suggests that the link between financial literacy and SME performance is partially influenced by access to digital finance. The indirect effect of 16.2% further supports this, indicating that 83.8% of the model's explanation for the direct effect is attributed to other factors. This implies that SMEs can enhance their performance by introducing digital financing options such as Mobile money and Momo pay. These findings align with research by Tuffour, Amoako, & Amartey (2020), Agyapong & Attram (2019), and Salia & Karim (2019). These studies underscore the substantial impact of financial literacy on a firm's success, promoting better financial decision-making that ultimately influences business performance. The results confirm the hypothesis that access to digital finance plays a partially mediating role in the connection between financial literacy and SME performance in Uganda.

This study employed the resource-based theory to investigate how a manager's financial literacy influences their inclination to utilize digital money and incorporate digital platforms into their operations. The resource-based approach finds support in the aforementioned research. According to this paradigm, a company operates effectively when it has access to all the necessary resources for daily operations. The findings show that SME Owner-Managers who are financially literate and have access to digital platforms like Mobile Money and Momo pay will statistically increase the performance of their firms by 16.2%, according to the results.

The results also support the underlying presumptions of the resource-based theory, which holds that a corporation can gain a competitive advantage by using its internal resources to affect the external environment in its favor. This study indicates that performance may be enhanced by internal resources and creativity, as demonstrated by SMEs' usage of digital platforms. This suggests that being able to obtain digital financing can facilitate faster performance.

To increase their clientele and revenue, owner-managers of SMEs should think about incorporating digital payments into their current payment structures. This would improve record-keeping and receipt management. Notably, most customers today prefer cashless payments because of various reasons. Adopting digital payments quickly will inevitably increase sales and enhance the SME's financial performance. Additionally, training on the usage of more effective digital payment systems like Momo Pay and Mobile Money should be provided to managers of SMEs.

Using RBT as a theoretical framework, this study has shown, in conclusion, how financial literacy can enhance SME performance in Uganda through access to digital finance. The results suggest that SME owners in Uganda are embracing digital finance to enhance their business operations and opportunities. However, they also face challenges and barriers in accessing some online platforms. Therefore, it is essential to understand SME owners' needs and preferences and provide them with adequate information, training, and support to use digital finance effectively and efficiently.

The study has provided valuable insights into how SMEs can leverage digital technologies to enhance their competitiveness and growth in emerging markets. Further research is necessary to examine additional aspects of financial literacy or access to digital money, verify these findings both empirically and conceptually, and consider other scenarios or contexts in which these variables may interact differently.

5. Contribution to theory and literature

Globally, professionals acknowledge the importance of SMEs in fostering economic growth. In terms of creating jobs and GDP growth, SMEs are essential to socioeconomic development and the fight against poverty (OECD, 2019). The study's findings offer guidance to owner-managers of SMEs, highlighting the necessity of increasing their financial literacy levels. This is essential for fulfilling financial responsibilities and making sound financial decisions that have the potential to boost the productivity of their companies. The study also provides detailed information on the advantages of participating in various digital platforms accessible throughout the country, to enhance overall business performance.

To enhance the performance of SMEs, legislators—comprising government officials, regulators overseeing digital financial services, the Ministry of ICT, and other authoritative policymakers—ought to enact laws that encourage diverse legal manifestations of digital financial services. Methodologically speaking, SMEs were the intended audience. More critical and objective feedback on their experiences with digital finance and financial literacy is provided by the study. This provides innovative insights and informs policy on what needs to be implemented to improve SME performance.

In conclusion, this research aims to shed light on the pivotal role of digital finance in moderating the relationship between financial literacy and the performance of small and medium-sized businesses in Uganda—a topic that has thus far received limited attention. The majority of research in this area has been on governance and how it affects the performance of SMEs. The Resource-Based Theory explains how access to digital finance played a mediating function in this study. According to the theory, when a business has the necessary tangible and intangible resources, its performance will improve. The findings of this study resonate with this theory.

Limitations and Further Research: The study employed a cross-sectional survey for data collection. However, employing a longitudinal study methodology could have yielded a more accurate assessment of the performance of these organizations. Future research should explore the relationship between financial literacy and the adoption of digital financial platforms across diverse regions of the country. Replicating this study longitudinally would contribute to a deeper understanding of how access to digital finance may influence performance over time.

Conclusions and Implications: The findings revealed that access to digital finance operates as a mediating factor in the relationship between financial literacy and the performance of SMEs in Uganda. This significant partial mediating role contributes to performance enhancement by sixteen percent (16%). It suggests that with knowledgeable and astute financial management, accessing digital finance through services like Momo Pay and mobile money becomes more accessible, thereby positively impacting performance. Furthermore, the study demonstrated a strong and positive correlation between the performance of SMEs in Uganda and access to digital finance. This suggests that having access to digital finance holds a substantial influence on SMEs' overall performance.

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