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Financial Literacy, Access to Digital Finance and Performance of Ugandan SMEs in Mbarara City

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Abstract: This study investigates the relationship between financial literacy and access to digital finance, and how these impact the performance of small and medium-sized enterprises (SMEs) in Uganda. From a population of 4,776 SMEs in Mbarara City, the research uses a sample of 351 SMEs with a response rate of 99%, chosen based on the Krejcie and Morgan (1970) tables. To investigate the correlations between the variables, a cross-sectional design is used. The findings indicate a positive and significant relationship between financial literacy, access to digital finance and SME performance in Uganda. The regression analysis indicates that 45.7% of the variation in Ugandan SME performance can be explained by the combination of the effect of financial literacy and access to digital finance (adjusted R square = 0.457). This implies that the remaining 54.3% of the variation in SME performance was not taken into account in this study and is due to other factors. Given the significant amount of variation explained by these two variables, the study suggests that policymakers and stakeholders in Uganda's SME sector prioritize programs aimed at enhancing SMEs' financial literacy and access to digital finance. Additionally, the study recognizes the presence of other factors influencing SME performance, emphasizing the need for further research and attention in future planning.

Keywords: *Financial literacy, access to digital finance and performance of Ugandan SMEs, Mbarara City.*

1. Introduction

Uganda distinguishes itself with the second-highest Total Entrepreneurial Activity (TEA) index and start-up activity among Global Entrepreneurship Monitor (GEM) countries. However, it grapples with challenges, registering the weakest performance among Small and Medium Enterprises (SMEs) compared to other GEM nations (Abaho et al., 2017). Moreover, less than half of small businesses remain operational for more than five years (OECD, 2019). Despite making up 80% of the economy, the SME sector only contributes 20% of the GDP of the nation as a result of its poor performance (Turyahebwa et al., 2013). Various empirical research works have examined the elements that impact SME performance and growth barriers. Nkundabanyanga, 2016; Odoom et al., 2017; Pucci et al., 2017) lists these components as innovative capability, strategic goals, inventory management, managerial competencies, dynamic capabilities, marketing orientation, entrepreneurial orientation, networking capability, experiential learning, internal capabilities, board governance, intellectual capital, and branding capability. Nevertheless, a lot of these studies haven't examined how financial literacy affects SMEs' success. Financial literacy in the modern financial environment goes beyond standard duties like creating financial statements and company evaluations for fundraising (Gomber et al., 2017). Despite this, the relationship between company performance, digital finance accessibility, and financial literacy has received little attention.

This study offers access to digital banking as a mediating factor, in line with the broader trend of financial and economic digitization. Numerous scholarly works underscore the significance of digitalization in enhancing business financial outcomes and economic performance (Ozili, 2018; Agyapong, 2021; Gomber et al., 2017). The study's theoretical foundation is the Resource-Based Theory, which provides a framework for identifying the strategic resources that businesses may use to boost productivity and acquire a sustained competitive advantage. These resources include features that are relational, organizational, financial, legal, and human. The resource-based perspective states that enhanced performance and long-term competitive advantages are outcomes of enhancing capabilities and resources. According to the notion, a company cannot operate effectively without access to certain resources, many of which—like human and legal resources—require sufficient finance (Enio, 2018). The availability of financial resources is therefore one of the biggest problems small firms have, and if such resources are insufficient, it could impair their performance and capacity to expand. This study modifies the theoretical framework and critically explores the potential mediating role that access to digital finance may have in investigating the relationship between financial literacy and the performance of SMEs.

2. Literature Review

Theoretical Underpinning of the Study

The Resource-Based Theory: The resource-based theory, a managerial paradigm that explains how businesses can achieve long-term competitive advantages by utilizing their strategic resources, was first proposed by Wernerfelt (1984). (Prahalad & Hamel, 1990b; Barney, 1991). Both tangible and intangible assets are included in this category, such as real estate, human resources, organizational culture, brand name, patents, and trademarks. They include material, technological, human (skills and knowledge), financial, and marketing assets. These resources affect business strategy when paired with the organizational traits and practices of the company (Daft, 1983; Barney, 1991; Andrews et al., 1965; Mata et al., 1995). The Resource-Based Theory asserts that these resources have a significant influence on a firm's profitability, growth, and overall performance. These resources should ideally be highly sought after, hard to come by, and difficult to replicate (Barney, 2001; Dierickx & Cool, 1989). According to the resource-based approach, firms differ from one another in the resources they own, and these resources are not entirely transferable from one firm to another. Consequently, some firms may possess unique resources that confer a competitive advantage, enabling them to outperform their competitors.

The resource-based theory facilitates the assessment of a firm's strengths and weaknesses by providing a fundamental framework for recognizing and developing a firm's basic talents and capabilities. According to the thesis, businesses should safeguard their strategic assets from eroding or copying them by rivals and use them to generate value for their stakeholders and clients. One of the main trends in economic development now being seen is digital finance. Digital platforms have been continuously improving, providing small and medium-sized businesses (SMEs) and their clients with practical options. As a result, both consumers and businesses are calling for digitization at an accelerated rate. Any business can increase product sales by drawing in a larger user base by incorporating digital money into trading. SMEs can leverage digital platforms like mobile apps to make their products and pricing more accessible to a broader customer base. These platforms can also facilitate payment processing and product delivery. Digital platforms are also easily reproducible, allowing continuous upgrades and improvements. Therefore, digital finance can be viewed as a technological resource that can enhance SME performance, aligning with the principles of the Resource-Based Theory. The Resource-Based Theory further highlights how important resources are to performance.

Financially literate human resources are able to make strategic decisions about the acquisition, use, management, and disposal of financial assets (Agyapong & Attram, 2019). This strategic financial decision-making can contribute to enhanced business performance. Financial choices represent some of the most critical decisions made by managers and carry significant implications for a firm's profitability, growth, and long-term sustainability. The notion emphasizes how crucial it is from a strategic standpoint to have, use, and dedicate resources to create value. In essence, internal resources such as human capital can draw in more company prospects when they are fully utilized (Minola & Cassia, 2012). Giving managers financial management training can improve their financial literacy and enable them to access digital financial instruments and recognize the risks involved in using them. The Resource-Based Theory states that when a company has access to all the resources it needs, it operates at its best. Organizations with financial resources are able to purchase additional resources that are necessary for their operations (Stacey, 2011). Put another way, when SME management has the financial resources, it becomes more viable for them to become experts in technical improvements and other business-related areas. Adopting affordable digital platforms such as Mobile Money can raise revenue and profits, which can then be reinvested to acquire other necessary resources and ultimately improve the company's overall performance (Agyapong & Attram, 2019).

Financial Literacy and Access to Digital Finance of SMEs in Uganda: Buchdadi (2020) asserts that having financial literacy improves one's ability to obtain funding. Nevertheless, digital financing was not factored into the cited paper's computation of funding accessibility. Although it avoided discussing digitization, the author's paper defined financial literacy as the capacity to create and display financial statements. Additionally, Konigsheim, Lukas, and Noth (2017) emphasize that financial literacy is associated with the advantageous and efficient use of digital financial services. Technical literacy was defined by Kulathunga et al. (2020) as a body of knowledge that can be distinguished from financial literacy. The study suggested that management needed

knowledge about digital finance and was carried out with Kenyan businesses. According to the study's findings, Ugandan SME owner-managers ought to incorporate digital financial access into their operations. In Uganda, not much study has been done on the connection between digital finance access and financial literacy. Thus, the purpose of this study is to investigate how financial literacy affects SMEs' capacity to obtain digital funding in Uganda. This will consequently lead to the generation of the study's initial hypothesis:
Hypothesis 1: Financial literacy and SMEs' access to digital finance in Uganda are positively correlated.

Access to Digital Finance and Performance of SMEs in Uganda: Kulathunga et al. (2020) claim that SMEs perform better when they are technologically literate. The ability of a manager to leverage digital financial services and benefit from financial growth revolutions is known as technology knowledge. According to the report, managers require access to digital finance to advance their knowledge and boost the productivity of the business. It was observed that there is either a dearth of researcher data or a lack of empirical investigation into the digital channels utilized in Uganda to obtain digital financing. Agyapong (2021) also discovered that the usage of mobile money platforms as a payment method is widespread. This is also demonstrated by the fact that 24% of Africans have access to mobile internet and 45% of them currently own a mobile phone. This suggests that Fintechs and mobile money wallets in particular have emerged as important weapons in the fight for financial inclusion across the continent.

By using digitization in their service delivery, firms are reaching a bigger segment of their client base, claims Agyapong (2021). According to studies like Hernando & Nieto (2007) and Siddik et al. (2016), the payback period for technological expenditures is longer than two years. This brings up a crucial query that hasn't received enough attention in the literature: What is the optimal digitization amount in terms of monetary and non-monetary return on investment? What additional elements affect this perfect digitization? Finding out if technology innovation and client receptiveness are advancing at the same time could be fascinating. Most research shows that digital financial services improve a business's productivity and profitability (Abbasi & Weigand, 2017; Ozili, 2018); nevertheless, earlier studies in this area reveal that no research has been able to refute this finding. This leads to the following research hypothesis:
Hypothesis 2: There is a positive relationship between access to digital finance and the performance of SMEs in Uganda.

Financial Literacy, Access to Digital Finance and Performance of SMEs in Uganda: Eniola and Entebang (2018) assert that if an owner-manager is financially literate and understands how financial decisions affect the success of their firm at every level of growth, they can confidently deal with suppliers and receive the best goods and services. Marriott et al. (1996) characterized financial literacy as the ability of a manager to comprehend and evaluate financial information in an ethically sound way. Lusardi and Tufano (2008) emphasized the impact of financial literacy on managers' aptitude and judgment. All of these experts have unequivocally shown that financial literacy and business performance are positively associated. Atakora (2013) emphasizes that dealers with higher education levels are more financially literate than dealers with lower education levels. 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. Additional studies on the relationship between financial literacy, funding availability, and business success were carried out by Tuffour et al., 2020; Agyapong & Attram, 2019; Salia & Karim, 2019; Gathungu & Sabana, 2018; and Hussain, Mabula, & Ping, 2018.

Nonetheless, funding accessibility and financial literacy were the study's main foci. They did, however, ignore the impact of digital finance. SMEs used access to funding as a bridge between financial literacy and performance, whereas digital access was often ignored. Gomber, Koch, and Siering (2017) emphasized that financial literacy goes beyond the creation and presentation of financial numbers due to the state of the financial industry today. A modern economic trend is the increasing digital connectivity of product deliverables. The widespread product advertising on platforms like Twitter, Instagram, TikTok, and others serves as evidence of this. Despite this, it is alarming that financial performance, financing accessibility, and financial literacy have not received the necessary attention. Numerous studies have examined the importance of digital systems for economies and how they improve businesses' financial performance (Ozili, 2018; Gomber et al., 2017; Agyapong, 2020). Haucap, Karacuka, and Myovella (2020). Several of these experts developed an innovation-based theory of economic development to explain how technology, particularly the digital economy, influences economic growth and development.

The majority of their research backs up the idea that digitalization promotes economic growth. Kulathunga et al. (2020) evaluated SMEs using the evolutionary theory of economic transformation and the knowledge base theory, and they concluded that techno-finance literacy has a substantial impact on SMEs' performance. He underlines that for SMEs to operate more effectively, they must consider potential technological advancements in their immediate surroundings. Businesses need to understand that by providing access to their services, they will be able to increase their clientele and income flow. Numerous academics have examined the ways in which financial literacy and the availability of capital impact the operations of small and medium-sized enterprises (SMEs). Among these scholars are Hussain, Mabula, & Ping (2018); Gathungu & Sabana (2018); Salia & Karim (2019); Agyapong & Attram (2019); and Tuffour, Amoako, & Amartey (2020). They are all in agreement that SMEs' success is positively and significantly impacted by financial literacy. These studies also showed that obtaining capital requires a certain level of financial knowledge and that a company's financial availability has a significant impact on its success.

3. Methodology

The study employed a correlation design and a cross-sectional research methodology using a quantitative approach. We decided on a cross-sectional study design because we wanted to comprehend the factors under investigation at a specific point in time. The correlational research design, on the other hand, was selected because it is thought to be suitable for focusing on events during a specific period of time and quantitatively evaluating relationships among study variables. This will make it easier to evaluate the proposed connections between SMEs' success, financial literacy, and access to digital finance. The quantitative survey will be pre-planned and structured, and item questions will be redesigned based on previous studies.

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 (4483 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 purposively sampled. The sample size was determined by the study using the tables created by Krejcie and Morgan (1970). The table 1 below illustrates this:

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.

Owners and managers were the unit of inquiry, and SMEs were the unit of analysis.

4. Presentation of the Results

Demographic Characteristics of the Manager /Owner of SMEs: The table displays the distribution of the manager /owner demographics of SMEs in Uganda.

Table 2: Demographic Characteristics of the Manager /Owner 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**

Primary Data Source 2022

The results indicate that the sample has a slightly higher proportion of females (53.5%) than males (46.5%), which may reflect the gender composition of the SME sector in Uganda or the sampling strategy used in the study. 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**

Primary data Source 2022

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 would suggest that the SME sector is more focused on the service 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.

Relationship between the Study Variables

Table 4: Correlations

Variables	1	2	3
Access to Digital Finance-1	1		
Financial Literacy-2	.519**	1	
Performance-3	.491**	.655**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Establishing the Relationship Between Financial Literacy and Access to Digital Finance of SMEs: The study's findings demonstrate a positive and significant relationship between financial literacy and access to digital finance ($r = .519$, $p<0.01$). This implies that SME owners are more likely to access and utilize digital finance platforms and services if they have greater financial knowledge. This finding is in line with earlier studies (Demirguc-Kunt et al., 2018; Klapper et al., 2016; Mandell & Klein, 2009), which show that financial literacy plays a significant role in influencing both the adoption of digital banking and financial inclusion.

Enhanced financial literacy can help SME business owners understand, and confidently use digital finance, which will allow them to handle their money more efficiently, effectively and economically. Financial literacy can help SME business owners overcome obstacles and difficulties in accessing digital finance, such as lack of trust, and security. Therefore, the results accept Hypothesis 1 by concluding that there is a positive relationship between financial literacy and access to digital finance of SMEs in Uganda.

Establishing the Relationship between Access to Digital Finance and the Performance of SMEs: The results of the study also show a positive and significant relationship ($r=0.491$, $p<0.01$) between access to digital finance and the performance of SMEs in Uganda. Higher performance is more likely to be shown by SME owners who have better access to or use digital financial platforms or services. The results are in line with earlier studies that show that SMEs can perform better when they have access to digital finance since it gives them more affordable, dependable, and convenient financial services (Beck et al., 2015; Demirguc-Kunt et al., 2018; Mago & Chitokwindo, 2014). By having access to digital finance, SMEs may boost productivity, sales, and profitability while lowering expenses, risks, and inefficiencies. They can also broaden their market reach, diversify their offerings, and improve their competitiveness and creativity. Therefore, the findings of this study accept Hypothesis 2 by concluding that there is a positive relationship between access to digital finance and the performance of SMEs in Uganda.

Regression Analysis to Confirm the Relationship between Variables: Regression analysis was used to confirm the relationship between SMEs' access to digital finance and their performance, as well as the relationship between financial literacy and SMEs' access to digital finance. The model summary in Table 5 below displays the results.

Table 5: Regression Results

Model		Unstandardised Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	0.635	0.125	5.097	0.000
	Digital Finance	0.173	0.038	4.493	0.000
	Financial Literacy	0.516	0.043	11.943	0.000
R	0.679				
R Square	0.461				
Adjusted R Square	0.457				
F	149.41				
Sig.	0				
N	353				

a. Dependent Variable: Performance of SMEs.

The regression analysis results show that the constant term is statistically significant, indicating that there is a positive baseline value of the performance of SMEs even when both financial literacy and access to digital finance are zero (Beta = 0.635, t = 5.097, $p < 0.01$). This may suggest the existence of additional factors, such as SME characteristics, external environmental factors, or measurement errors, influencing SME performance beyond the purview of financial literacy and access to digital finance. When other predictors are held constant, the regression analysis highlights a positive and significant influence of digital financial access on SME performance (Beta = 0.173, t = 4.493, $p < 0.01$). This shows that if SME owners have better access to or use digital finance platforms or services, they are more likely to achieve higher performance levels, including increased sales, profits, and productivity along with decreased expenses, risks, and inefficiencies. More so, the adjusted R square is 0.457. This indicates that 45.7% of the variation in the model on SME performance can be explained by the combined variation in financial literacy and access to digital finance. This suggests that the regression model has a moderate level of explanatory power, confirming the importance of digital finance access and financial literacy as indicators of SME performance. But it also implies that other unaccounted-for factors explain the remaining 54.3% of the variation in SME performance. Therefore, the regression model may suffer from omitted variable bias, which may affect the validity and accuracy of the estimates.

Discussion

The study results show a positive and significant relationship between financial literacy and access to digital finance for SMEs in Uganda. This implies that when SME owners have a greater comprehension of financial concepts, they are more likely to use digital finance platforms and services. This finding is consistent with resource-based theory, which holds that improving operational knowledge builds a company's human resource capabilities and skills, giving the business a competitive edge and better firm performance (Barney, 1991; Wernerfelt, 1984). Consequently, empirical literature suggests that a deeper understanding of financial concepts influences management's capacity to obtain finance from a variety of sources, including digital channels. Further, empirical findings by Königsheim, Lukas, and Nöth (2017), show a positive correlation between financial competence and the propensity to use digital financial services. Therefore, the results accept Hypothesis 1 by concluding that there is a positive relationship between financial literacy and access to digital finance of SMEs in Uganda. The results of the study also show a positive and significant relationship between access to digital finance and the performance of SMEs in Uganda.

This demonstrates that SME owners typically perform better when they have better access to or use digital financial platforms or services. This outcome is consistent with resource-based theory, which maintains that companies can make money if they have access to all necessary resources, including digital financing. Organizations with solid finances are able to purchase additional resources that are necessary for their daily operations (Stacey, 2011). The empirical findings of Abbasi and Weigand (2017) and Ozili (2018), who found that access to digital funding has a significant impact on business success, further support this conclusion. Therefore, the findings of this study accept Hypothesis 2 by concluding that there is a positive relationship between access to digital finance and the performance of SMEs in Uganda. Overall, the study results point to financial literacy and access to digital finance as two significant factors that influence SMEs' performance. Therefore, the study recommends that policymakers, educators, and practitioners aggressively promote and support the expansion of financial literacy and access to digital finance for SMEs. SME owners are also urged to broaden their financial expertise by investigating and making use of the advantages provided by digital finance platforms and services.

5. Contribution to Literature and Theory

The results of the study show that SMEs' performance is highly dependent on their capacity to secure digital funding. Consequently, it suggests that decision-makers in government, academia, and business aggressively encourage and facilitate the growth and broad implementation of digital finance among small and medium-sized enterprises. |The study also implies that SME owners should proactively work on enhancing their access to and utilization of digital finance platforms or services, leveraging the opportunities and advantages offered by digital financial tools. SMEs are acknowledged as crucial contributors to economic development and social inclusion, driving employment, income generation, and GDP growth (Donkor et al., 2018; OECD, 2019). The study's conclusions provide SME owner-managers with insightful advice, highlighting the significance of raising their level of financial literacy to successfully negotiate today's financial obstacles and make well-informed decisions that enhance company performance. The results also highlight the benefits of using the several digital platforms that are accessible throughout the nation to improve SMEs' overall performance.

The study's policy implications highlight how important it is for regulators of digital financial services, government agencies, the Ministry of ICT, and other relevant parties to develop and implement favorable legislation and policies. This ought to encourage the creation and uptake of a variety of digital financial services that enhance the performance of SMEs. Policymakers must make sure that SMEs and their customers can continue to access, afford, rely on, and feel secure when using digital financial services. The study broadens the body of knowledge regarding the connection between the financial performance of SMEs in Uganda, access to digital finance, and financial literacy. The study closes a gap in the literature because the majority of earlier research in this field concentrated on the function of governance and how it affects the performance of SMEs. The resource-based hypothesis, which maintains that a company will function more effectively when it has access to resources that are valuable, uncommon, difficult to replicate, and non-replaceable, is further supported by the study's empirical data. According to the survey, SMEs may get a competitive edge in the market by enhancing their capabilities and competencies through the strategic utilization of digital finance and financial literacy.

Limitations and Further Research

The study employed a cross-sectional survey to collect data. On the other hand, the methodology of the longitudinal study may have produced a more accurate assessment of SMEs' performance. It is advisable to investigate the relationship that exists between financial literacy and the usage of digital financial platforms across the nation. This study's longitudinal replication will also help reveal how performance will be impacted over time by having access to digital finance. The study also recognizes the difficulties and constraints that came with conducting the research, including the cross-sectional design, the small sample size, the self-reported measures, and the bias associated with the omitted variable. The study recommends that future research use larger and more representative samples, longitudinal or experimental designs, objective or secondary data sources, and more comprehensive and robust regression models. The study suggests that future investigations look into additional variables, such as the features of digital finance platforms or services, the external environment, and the interaction effects, which may have an impact on the relationship between SMEs' performance and their ability to access digital finance.

Conclusion and Implications

The regression study findings demonstrated that a combined effect of financial literacy and access to digital finance account for 45.7% of the variability in SME performance in Uganda (Adjusted R Square = 0.457). This suggests that the remaining 54.3% of variations are caused by additional factors that are not taken into account in this study. The results suggest that when SME owners are financially literate and knowledgeable, they are more likely to access digital finance, leading to enhanced business performance. Financial literacy and access to digital finance of SMEs should be improved, so policymakers and stakeholders in Uganda's SME sector are urged to give priority to these initiatives. The study's findings also showed a positive and significant relationship between financial literacy and access to digital finance. This means SME owners who have better financial knowledge are more likely to access and use digital platforms and services. Additionally, a positive and significant relationship was shown between access to digital finance and the performance of SMEs, suggesting that SMEs with better access to digital finance generally outperform others. When other factors are held constant, the regression model showed a moderate explanatory power confirming that SME performance is positively and significantly impacted by access to digital finance.

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