

**THE INFLUENCE OF DIGITAL FINANCE ON THE PERFORMANCE OF SMALL  
AND MEDIUM ENTERPRISES IN UGANDA MUKONO: A CASE STUDY OF  
UGANDA CHRISTIAN UNIVERSITY**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
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**UGANDA CHRISTIAN  
UNIVERSITY**

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## TABLE OF CONTENT

LIST OF TABLES .....	iv
DECLARATION.....	v
APPROVAL.....	vi
DEDICATION .....	vii
ACKNOWLEDGEMENT.....	viii
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.0 Introduction.....	1
1.1 Background of the Study .....	1
1.2 Problem Statement .....	2
1.3 Objectives of the Study.....	2
1.3.1 General Objective .....	2
1.5 Scope of the Study .....	3
1.5.1 Content.....	3
1.5.2 Geographical scope.....	3
1.5.3 Scope.....	4
1.6 Significance of the Study .....	4
2.0 Introduction.....	5
2.1 Theoretical framework.....	5
2.1.1 Performance expectancy .....	5
2.1.2 Effort expectancy .....	6
2.1.3 Social influence.....	6
2.1.4 Facilitating Conditions.....	6
2.2 Financial Literacy .....	7
2.2.1 Regulatory challenges.....	7

2.3 Conceptual Framework.....	8
2.3.1 Independent variable: digital finance.....	8
2.4 Relationship between DFS and SMEs.....	9
2.5 Benefits of Digital Financial Services for SMEs.....	10
2.6 Challenges Associated with Digital Financial Services.....	11
<b>CHAPTER THREE.....</b>	<b>13</b>
<b>RESEARCH DESIGN.....</b>	<b>13</b>
3.0 Research Design.....	13
3.1 Research Design.....	13
3.2 Population of Study.....	13
3.3 Sample size and Selection.....	13
3.3.2 Sampling technique.....	14
3.4 Data Sources.....	14
3.4.1 Principal source.....	14
3.4.2 Secondary source.....	14
3.5 Methods and Tools of Data Collection.....	14
3.5.1 Questionnaires.....	15
3.6. Limitations of study.....	15
<b>CHAPTER FOUR.....</b>	<b>16</b>
<b>DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS</b> <b>.....</b>	<b>16</b>
4.0 Reliability of the Study.....	16
4.2 Business Information.....	16
4.2.1 Type of business.....	16
4.2.2 The Business Size.....	16
4.3 Digital Financial Services Adoption and Usage Patterns.....	17

4.4 Impact on Business Performance.....	17
4.5 Challenges and Limitations.....	19
4.6 Correlation Analysis.....	20
<b>CHAPTER FIVE .....</b>	<b>22</b>
<b>CONCLUSION AND SUGGESTIONS. ....</b>	<b>22</b>
5.1 Summary.....	22
5.1.1 Business information .....	22
5.1.2. Adopting digital financial services.....	22
5.1.3 Impact on business performance.....	22
5.1.4 Challenges and limitations.....	22
5.2 Recommendations.....	23
5.3 Final Thoughts .....	23
<b>REFERENCES. ....</b>	<b>24</b>

## LIST OF TABLES

Table 1: Sample size .....	14
Table 2: The table below displays the type of business .....	16
Table 3: Correlation matrix .....	20
Table 4: Regression output.....	21

## DECLARATION

I Adongo Bridget hereby declare that this dissertation titled "The influence of digital financial services on small medium enterprises in Mukono" is based on my own original work research. i have conducted all the research and analysis presented in this document. I confirm that the information and findings contained herein are accurate and have not been previously submitted or published elsewhere for academic credit. Any references to previously published work is cited appropriately, and their contribution to my research is acknowledged

Signature ..... AB .....

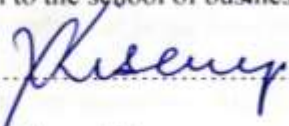
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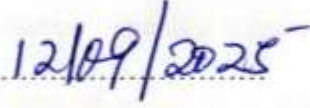
## APPROVAL

This research report by ADONGO BRIDGET titled the influence of digital finance on the performance of small medium enterprises has been under my supervision and is now ready for submission to the school of business

Signature .....



date.....



Name

Mr Kisenyi Vincent

## **DEDICATION**

This dissertation is dedicated to my family, who have provided unwavering support, encouragement, and unconditional love throughout my life.

Their sacrifices and belief in me have enabled me to reach this goal.

I am grateful to my supervisor Mr. Kisenyi Vincent the dean of school of business who provided guidance, mentorship and support throughout this research.

I thank my friends and mentors for their support, friendship and helpful ideas along my academic journey.

Thank you; May God bless you all.

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## **ABSTRACT.**

The influence of digital finance on small and medium businesses in Mukono is, therefore, analyzed in this paper to appreciate how such digital finance technology influences business performance. The study further discovered the use of Digital Finance by SMEs which has great benefits, bettering transaction speed, minimizing operational costs and maximizing revenue growth. The research, in its findings shows the use of digital financial services and how this technology is of great advantages to the small medium businesses though there are small challenges involved when using these services like fraud, network issues and inadequate technical skills.

This study merges both quantitative and qualitative approaches in data collection to measure the effectiveness of digital financial services and also identifies the barriers faced. From the findings, it is observed that overcoming the challenges is very important for full benefits of digital financial technologies.

The research shows that digital financial services need to be combined with the business operations for better performance and growth of the businesses. This calls for support and combined effort from the service providers, government and other stakeholders for the growth of the small medium businesses.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This study investigates the effects of Digital finance on the performance of Small and Medium Enterprises, known as SMEs. This chapter presents the background of the study, problem statement, study objectives, research questions, scope of the study, significance of the study, and the conceptual framework.

### 1.1 Background of the Study

SMEs make up a sizable share of the private sector in Uganda and are essential to the country's economic expansion, job creation, and efforts to combat poverty. Numerous Ugandan SMEs continue to face obstacles that limit their growth and operational efficiency, despite their significance. These obstacles include high transaction costs, restricted access to traditional financial services, and inadequate financial infrastructure.

Some of these issues have started to be addressed by Uganda's digital finance industry's explosive growth. The term "digital finance" refers to financial services that are obtained and provided via digital channels, including online banking, digital credit, mobile money platforms, and payment systems. With platforms like MTN Mobile Money and Airtel Money being extensively utilized in both urban and rural areas, Uganda is acknowledged as one of the most mobile money-adopting nations in Africa. A study in Kisoro district found that mobile money has improved financial inclusion through access to saving, credit and financial literacy (metropolitan journal of business and economics)

The United Nations defines financial inclusion as a means of providing appropriate financial services at affordable costs to the poor, with a view to incorporating them into the formal economy. Emerging evidence underlines the fact that MMS has greatly increased financial access in Uganda, especially among excluded populations. By 2013, 56% of adults used mobile money services, and transactions reached UGX 3.6 trillion by 2012. For high-cost environments, digital finance improves efficiency through the facilitation of effective, convenient, and secure financial services (financial innovation journal). Innovations in digital finance are of utmost importance to economic growth, international trade, and financial inclusion and may even spur competition that lowers the costs of traditional bank.

## **1.2 Problem Statement**

Currently, the rapid growth and distribution of digital finance technologies have disorganized many significant aspects of financial management and operational business.

Even with how large enterprises have taken the lead in adopting this technologies, small and medium-sized businesses form a significant part of the economy that is increasingly accepting digital finance solutions. However, this area of influence has many gaps in understanding the impact of these technologies on the financial health and operational efficiency of SMBs. Even with the benefits of digital finance, there are some challenges small medium businesses face while using technology associated with digital finance since the businesses are different with each facing unlike challenges.

These include, poor levels of technological adoption where people cannot use online banking and are not educated on financial literacy and cybersecurity risks where there are many fraud stars calling or messaging people in order to steal from them. The drive for studying this topic is to answer certain questions: How do digital finance tools impact the financial performance of the SMBs?

What are the limitations in adoption and use of digital finance technology by SMBs? How do these barriers vary across geographic regions in Uganda? What impact does digital finance solutions contribute to financial inclusions of Small Medium Business? What best practices can be identified to support SMBs in growing? Having little or no knowledge may make hard for the SMBs to navigate digital finance efficiently.

## **1.3 Objectives of the Study**

### **1.3.1 General Objective**

Assess the impact of digital finance on the performance of small-scale businesses in Mukono District.

### **Specific Objectives**

**Objective one:** How accounting software can reduce financial exclusion and access Barriers to Formal Financial Services

**Objective two:** How digital finance technology can help broaden the usage of quality affordable Financial Products

**Objective three:** How mobile money payments and digital wallets can Strengthen Financial Consumer Protection and Financial Literacy

#### **1.4 Research Questions**

The study addresses the following research questions:

- i) What digital finance services are provided in Mukono District?
- ii) How does the involvement of digital finance impact the performance of small-scale businesses in Mukono District?
- iii) What challenges do small-scale businesses encounter when accessing loans from selected Micro Financial Institutions in Mukono district?

#### **1.5 Scope of the Study**

The study's scope includes content, geographical, and scope:

##### **1.5.1 Content**

Content scope involves the study of other elements that form this area of study. This consists of extensive research of online commerce, mobile money, online banking services and other digital finance technology used to their impact on the operations of Small medium enterprises. The research should consist of an explanation of how this subject matter influences such aspects of business as capital and the performance of the business. It should examine the factors that present challenges to the adoption of digital finance by the SMBs like technology readiness of business owners and the regulatory framework followed. The research should also assess the potential of digital money in influencing access to financial services and the dynamics involved in the sectors which addresses different issues.

##### **1.5.2 Geographical scope**

The study covers small-scale businesses that are owned by market vendors using digital financial services within Mukono District, Uganda. Mukono District represents a diversified group of small-scale businesses for example market vendors, saloon among others with several businesses in semi-rural and urban marketing setting. These vendors operate in local markets for example Kikonyi, Wadegeya and Bugujju in small shops. The geographical scope enables the study to capture the local experiences of the business owners in Mukono and the

impact of digital financial services on the daily operations of the business and financial management. This study in Mukono focuses on bringing specific socio-economic conditions and infrastructural realities of small medium businesses, while investigating on how digital finance solutions are adapted to. These findings from Mukono District will represent the wider effects of digital finance on small medium businesses in similar contexts across Uganda.

### **1.5.3 Scope**

The time scope is all-inclusive of data from 2019 to 2025 which includes both old and current data. This shows the evolution of trends in digital finance and how they have impacted small medium businesses. From an observation of the early phases of adoption of digital finance, the study shows the development and the transformation to date. This allows researchers to understand the effects that digital finance innovations have had in the operation, financial strategies, and market dynamics of Small Medium Business. This temporal framework will give assurance of the understanding of immediate and long-term impacts, thereby allowing exploration of how digital finance is setting the pace for small and medium enterprises.

### **1.6 Significance of the Study**

Digital finance substitutes the contours of the financial world with innovative ideas such as online banking, digital payment systems. Small and medium businesses are crucial for economic development, and it is important to understand how these factors impact them. Most SMBs face hardships regarding access to capital and problems of financial management. Digital finance opened new ways to solve these problems, offering more accessible and various financial services. Research on how these tools influence SMBs may highlight opportunities of economic growth, enhance competitiveness.

This involves an understanding of how digital finance will influence small medium businesses in improving economic impacts, improving access to financial services, influencing innovation and addressing educational needs.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The following review summarizes the available literature on microfinance credit (pride micro finance now pride Bank, Unifi) offered to market vendors and small business owners. The study also includes analyzing the services provided by Micro Finance Institutions, evaluating the impacts of these institutions on the performance of small medium businesses, and the challenges faced by them while accessing loans from Micro Finance Institutions.

#### **2.1 Theoretical framework**

There are multiple theories and perspectives that give an understanding of how digital finance shapes Small Medium Businesses. This theories provide a deep understanding on how digital financial technologies has influenced the operations and performance of SMBs. These theories are important to this study and include: Technology Acceptance Model-TAM, Unified Theory of Acceptance and Use of Technology-UTAUT, Resource-Based View-RBV, Innovation Diffusion Theory-IDT, and Financial Intermediation Theory. Technology Acceptance Model-TAM.

The UTAUT by Venkatesh et al. (2003) allows a holistic investigation into the issues of technology adoption. UTAUT encapsulates a number of critical factors influencing the adoption and use of digital finance technologies and, as such, is particularly suited for analysis on the level of SMBs. Key constructs of the UTAUT include performance expectancy, effort expectancy, social influence, and facilitating conditions.

##### **2.1.1 Performance expectancy**

This is when the usage of technology is perceived to better the job performance or make the job performance easier. In an SMB context, it would be perceived as more likely to adopt technology that they believe will improve their performance and productivity and business growth. Performance expectancy has been shown to be among the strongest predictor of technology adoption according to Venkatesh et al., 2003. For example, digital financial tools that automate accounting tasks or smoothen payment platforms may be seen to be very important to the SMBs in case they are perceived as improving the business returns, Venkatesh et al., 2003.

### **2.1.2 Effort expectancy**

This is the degree to which users believe that digital finance services (mobile banking, digital wallets) are easy to use. UTAUT explains that effort expectancy is an important determinant for the adoption of technology, since these tools are easy to use. For example, if the digital financial platforms are user-friendly and require less training for example it takes minutes to learn how to use online banking like pride mobile, then more Small Medium Businesses will use to it since its reliable and time saving.

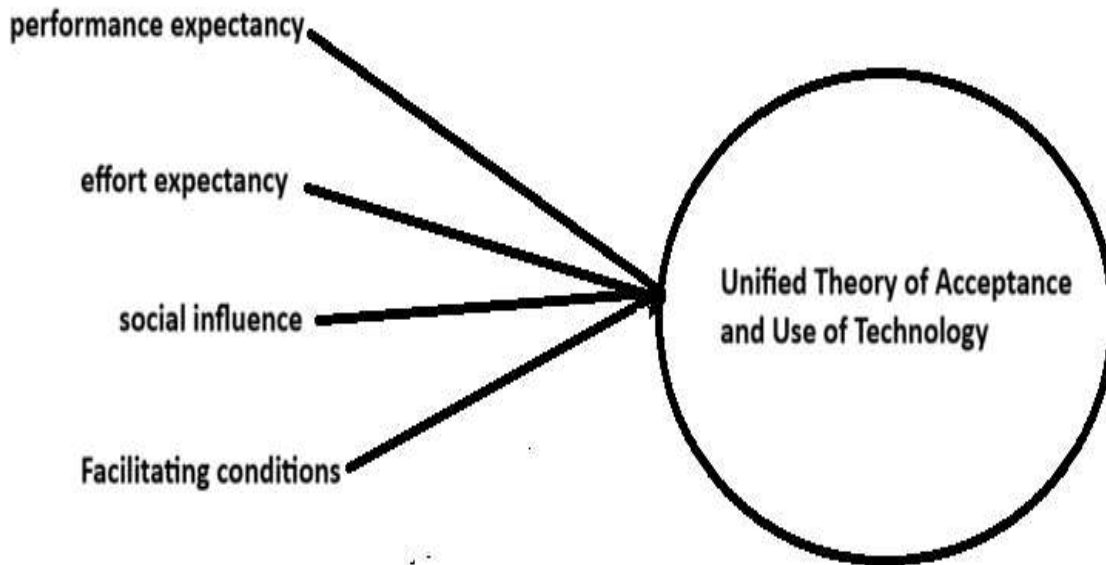
### **2.1.3 Social influence**

Social influence plays a big role in driving technology to many places for example through social networks, peers, friends who play a big role in adoption of technology. The leaders behind the use of digital finance for example pride mobile highly influence the decision and the of digital finance to small medium businesses.

### **2.1.4 Facilitating Conditions**

These are the resources and support provided to enable technology use; they include; technical support where business owners find challenges and training them on how to use them. The facilitating condition is needed for effective use of digital finance technology to benefit Small Medium Businesses. UTAUT stresses that facilitating conditions ensure successful use of technology and sustainability by being reliable to information and access to technical assistance,

## ILLUSTRATION 1.



**Figure 1: Source: Unified theory of acceptance and use of technology**

From the theoretical framework, this theory is mainly influenced by financial literacy, regulatory challenges, .

### **2.2 Financial Literacy**

Financial literacy is a very important factor in the effective utilization of the of digital finance services. Research by UBOS (2023) shows that even with the high levels of use of these services in the urban areas, there is still a slow growth rate of digital finance in rural areas as many of them remain illiterate about digital finance and it is not utilised. Not fully using the services provided by digital finance leads to underutilisation and misuse.

#### **2.2.1 Regulatory challenges**

There are many issues that have been persistent even with regulatory bodies like Bank of Uganda (BOU) that plays a key role in regulating the financial sector and integrating digital finance polices and the Uganda Microfinance Regulatory Authority (UMRA) that focuses on digital lending guidelines to protect consumers. Protecting the customers' money is very important for example the Deposit Protection Fund that was created to ensure that depositors are paid their deposits in the event of failure of a contributing institution, daily monitor September 2019. This helps to reduce on the high rate of cybercrimes on the small medium businesses.

## 2.3 Conceptual Framework.

A conceptual framework shows how different factors influence the adoption and impact of digital finance on Small Medium Businesses. It identifies the key variables influencing how digital finance technologies is embraced and implemented by SMBs. This framework sums up the connection of the variables and their possible outcomes.



Figure 2: Source: Beck, T., Demirgüç-Kunt, A., & Levine, R. (2015). "Financial Institutions and Markets Across Countries and Over Time: Data and Analysis." World Bank Policy Research Working Paper.

### 2.3.1 Independent variable: digital finance

Digital finance refers to the use of technology in offering financial services and transactions. It has many platforms that facilitate the many financial services in terms of access.

**Mobile Payment Systems:** These systems allow the people to carry out transactions using their mobile phones. These types of systems provide instant payments, peer-to-peer transfers, bill payments, and are combined sometimes with other types of financial services. Mobile payment increases the convenience for the businesses and customers by enabling them to conduct a transaction at free will and less time is used when transacting since it is fast thus improving business cash flows. They are considered especially vital in areas where access to traditional banking infrastructure is poor Jack & Suri, 2011. forexample in remote areas where banks are few and located in the towns which are far from the villages.

**Digital Accounting Software:** the digital platform in automating is used by accountants' preparation of invoices, preparation of sales orders, purchase orders tracking expenses, payroll, and financial reporting. This accounting software reduces errors related to manual accounting and avails real-time financial insights though garbage in, garbage out. Examples

include QuickBooks, tally and FreshBooks. These software's provide timely data for example trial balance, balance sheet, statement of financial position.

**Digital Lending Platforms:** These are platforms that provide short term loans and credit for example Mtn and Airtel enable one to borrow airtime and money on their platforms and which makes it easy for one to borrow rather than going to the bank where the processes are long. The digital platforms provide easy access to financial services to small medium enterprises.

**Customer Involvement:** Customer involvement is the degree of interaction between the customers and companies dealing with digital finance. This improves customer service and experience by asking customers where the companies need to improve in order to better their financial services and customer experience. For example, asking customers to rate them on how good or bad their services are and welcoming feedback from them. With increasing levels of customer involvement come greater customer satisfaction, improved customer loyalty, and better customer retention, all factors in business growth and success Beck et al. (2015).

#### **2.4 Relationship between DFS and SMEs.**

A vital component of Uganda's economy, small and medium-sized businesses (SMEs) play a major role in job creation, innovation, and economic expansion. Nevertheless, many Ugandan SMEs have difficulty obtaining traditional financial services like bank loans, credit, and safe payment methods, even though they play a crucial role. Digital Financial Services (DFS) have changed how SMEs function and obtain financing in Uganda in recent years. In examining the relationship between DFS and SMEs in Uganda, this essay emphasizes how digital financial solutions promote efficiency, growth, and inclusion in this crucial industry.

**Better Access to Finance:** Because banks have strict requirements, many Ugandan SMEs do not have formal credit. In order to provide credit to SMEs more effectively, DFS platforms make use of alternative data, such as business cash flows and mobile transaction histories. Digital lending services offer fast, no-collateral loans that are essential for business expansion, inventory purchases, and working capital.

**Convenient Payment Options:** By enabling SMEs to send and receive payments online, mobile money services lessen their dependency on cash transactions. This enhances cash

flow management and security. SMEs can easily transact with suppliers and cu customers thanks to digital payments, expanding their market reach beyond regional borders.

**Lower Transaction Costs:** By eliminating the need for in-person bank visits and paperwork, digital platforms help SMEs cut operational expenses. Smaller businesses find it easier to engage in the formal economy due to the affordability of online banking and mobile money transactions.

**Financial Management and Record-Keeping:** A number of DFS providers provide SMEs with digital tools for tracking revenue, expenses, and inventory. SMEs are more transparent and appealing to lenders and investors when they maintain better records.

## **2.5 Benefits of Digital Financial Services for SMEs**

Small and Medium Businesses (SMEs) are vital to Uganda's economic growth because they spur innovation, generate jobs, and boost GDP. However, obtaining financial services through conventional banking systems is one of the major obstacles that many SMEs must overcome.

The introduction of Digital Financial Services (DFS) has revolutionized the financial sector and provided Ugandan SMEs with significant advantages. These advantages promote financial inclusion and business expansion in addition to improving operational efficiency.

DFS also drastically cuts down on transaction time and costs. SMEs can conduct transactions without physically visiting banks thanks to mobile money services, which are very popular in Uganda. This convenience reduces the risk of handling cash, which can be a target for theft, and lowers transportation costs. Smoother trade and supplier relationships are made possible by the efficiency that digital payments provide, which also improves customer satisfaction and business operations.

By bringing underserved and unbanked SMEs into the official financial system, digital financial services also advance financial inclusion. Due to their informal operations and lack of credit histories, many small businesses in Uganda have trouble obtaining traditional financial products. SMEs can create financial profiles that increase their credibility and eligibility for future financial products, such as loans and insurance, by using digital records and transaction histories produced by DFS platforms.

Additionally, using digital financial services promotes improved record-keeping and financial management. SMEs can monitor income, expenses, and financial performance in real time

with the help of digital tools. Such openness promotes budgeting, tax compliance, and well-informed decision-making, all of which support the long-term viability and expansion of the company.

Better record-keeping and financial management are supported by the use of digital financial services. SMEs can monitor income, expenses, and financial performance in real time with the help of digital tools. Such openness promotes budgeting, tax compliance, and well-informed decision-making, all of which support the long-term viability and expansion of the company.

## **2.6 Challenges Associated with Digital Financial Services**

**Infrastructure and Connectivity Issues:** Infrastructure and connectivity can affect the use of digital financial services which leads to under utilisation. Having limited access or no network in some areas affects the ability of businesses to employ digital tools (Arvidsson, 2017). These connectivity problems lead to disruption of services where a customer fails to transact online due to network issues for example, lycra that also offers financial services has issues with its network because its on in some areas and off in other areas.

**Digital Literacy and Technical Skills:** Many of the small medium business owners do not know how to use digital financial services since most of them have little or no knowledge on how to use these services. For example, a retail shop owner in the village will move up to the town to withdraw money yet he/she is registered for online banking. This leads to a delay in the use of digital finance especially in rural areas and under utilisation of the service.

This challenge can be solved by banks that offer online banking by training their clients on how to use online banking for example how to deposit withdraw set passwords and reset passwords in order for the apps to be user friendly to the customers thus promoting digital finance.

**Cybersecurity and Data Privacy:** the rate of cyber threats raise with the increased use of digital financial services that makes SMEs vulnerable to the threats and data privacy concerns. There are various cyber-attacks like phishing and ransomware attacks on businesses that deal in with financial information. There are also various ways money is stolen via airtel and airtel which highly affects small business owners in the remote areas. The telecommunication companies ensure to send messages for people to safe guard their pins and no to respond to any number that claims they are from airtel or mtn.

Government and Policy Support: As a result, SME DFS's immediate future will be shaped by government policies and regulations in the future. A favorable environment for DFS's expansion is created by welcoming laws that support digital innovation, consumer protection, and the current infrastructure problems. To advance the process of overcoming obstacles, multiagency cooperation between different government departments, financial institutions, and technology companies is necessary.

### **Conclusion**

The literature review shows that DFS's transformative potential and challenges stem from a complex influence. Digital finance was identified as one of the main factors influencing the growth, productivity, and market reach of SMEs in Mukono. These businesses have been given the chance to enhance capital access, operational effectiveness, and customer interactions as a result of their rapid integration of digital payments, mobile money, and financial technology innovations into their financial operation.

## **CHAPTER THREE**

### **RESEARCH DESIGN**

#### **3.0 Research Design**

The research design is a mixed-methods approach because it includes the quantitative methodology that helps to measure the relationship between digital finance tools and SMB performance indicators and qualitative methodology that provides a deeper understanding of challenges and perceptions. The quantitative element uses numerical data which is analysed the statistics of the relationship of digital finance services to measure the performance in terms of revenue growth and operational efficiency. The qualitative methodology uses interviews and focus groups to provide a detailed and individualistic information based on the persons experiences and deeper explanations on the challenges and benefits of digital finance services.

#### **3.1 Research Design.**

The study uses a cross-sectional research design which is a kind of research design where data is collected at only one point in time without any follow up without any follow up .The cross sectional research design gives insights on how these digital financial services influence various aspects of how the business operations on a daily basis.

This design involves the process of distributing structured questionnaires to business owners in order to representative a few by taking samples used to collect information on how digital finance affects the performance of the business.

#### **3.2 Population of Study**

The target population are the small medium businesses operating in Mukono District, Uganda that use digital financial services like mobile money, digital payments, and online banking. These comprise of retail shops, wholesale shops and services. This examination of the population is to get an overall view of how digital finance affects business performance that is revenue growth, managing of cost, and how they operate.

#### **3.3 Sample size and Selection**

The target population for the study involves of 50 SMEs, while the sample size is 20 SMEs in Mukono. These shall be surveyed to understand how digital finance affects their

performance. The 20 SMS will provide results that represent the other businesses. This design thus ensures balance in both the quantitative and qualitative data sample size.

**Table 1: Sample size**

Category of respondents	Population	Sample size	Sampling technique
Small medium enterprises	50	20	Random sampling

### **3.3.2 Sampling technique**

The random sampling method will ensure that every SMEs has an equal and independent chance of inclusion in the study. This approach involves an element of randomisation.

### **3.4 Data Sources**

#### **3.4.1 Principal source**

The key informants in this study will be SME owners and managers in Mukono. Therefore, structured questionnaires and in-depth interviews are some of the primary sources of data collection in this study. Both the questionnaires and in depth interview will give detailed information into individual experiences and perceptions about digital finance.

#### **3.4.2 Secondary source**

The secondary sources of data is data inform of existing research studies, industry reports, and relevant academic literature published researchers.

Research studies, reports and government through ministry of finance give information on market trends, the regulatory environment and statistical data associated with Digital Finance and its impact on SME performance in Uganda. Analysing these materials, helps the study appreciate the findings of others and add that information in the background and contextual frame work understanding.

### **3.5 Methods and Tools of Data Collection.**

This is the process of collecting data about data and the tools used.

### **3.5.1 Questionnaires**

A structured questionnaire with questions that have been carefully developed and pre-tested will be administered to the business owners and managers in Mukono. For example,

"How often do you use mobile money transactions?" Daily, Weekly, Monthly, Rarely

"What challenges do you face while using online banking?" Reduced costs, improved customer experience

### **3.6. Limitations of study.**

The Sampling Bias: Even with random sampling, the sample may not perfectly represent the entire population due to chance variance. This will affect the accuracy of estimates and lead to misleading conclusions.

Response Bias: Participants may refuse to participate or drop out thus the financial sample may no longer be fully random. To mitigate response bias, the study will emphasize the importance of honest and accurate feedback and assure participants of confidentiality.

Assumes homogeneity: it assumes that every member of the population has an equal chance of selection, but in practice, differences in geography, communication access or willingness to participate can violate this.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

This chapter shows the data presentation, analysis and interpretation of the findings.

#### 4.0 Reliability of the Study

This is the consistency, stability and repeatability of measurement results over time or across different observers.

#### 4.2 Business Information

The business information was about the type of business and the number of workers employee in the business

##### 4.2.1 Type of business

**Table 2: The table below displays the type of business**

Valid	Type of business	Frequency	Percent	Cumulative percent
	Retail	17	75.0	75.0
	Services	2	20.0	20.0
	Total	19	95.0	95.0
	other	1	5.0	5.0
	Total	20	100.0	100.0

Retail businesses, which sell goods directly to consumers, have a frequency of 12 and percentage of 75.0% of the valid responses. Service businesses, offering intangible products or services, also have a frequency of 2, representing 20% of the valid responses.

##### 4.2.2 The Business Size

The business Size		Frequency	Percent (%)	Valid percent	Cumulative percent
Valid	Mico (1-10 employees)	17	85.0	85.0	85.0
	Small (11-50 employees)	2	15.0	15.0	100.0
	Total	20	100.0	100.0	

The businesses categorized as micro, with 1-10 employees, have a frequency of 18, which accounts for 85.0% of the valid responses. Small businesses, with 11-50 employees, have a frequency of 2, representing 15.0% of the valid responses.

#### 4.3 Digital Financial Services Adoption and Usage Patterns.

Details	Percentage	Mean
Our business uses mobile money services e.g MTN, Airtel Money	80%	0.85
Our business uses online banking	20%	0.25
Our business uses digital payment platform	20%	0.25
Our business uses e-commerce	8%	0.4
We often use digital financial services	60%	0.6
The digital financial services are well-integrated in our business operations	7%	0.4
We have received adequate support from digital financial service providers	8%	0.4
We have had technical difficulties when using digital financial services	30%	0.75

The study found out that our business uses mobile money services e.g MTN, Airtel Money has a percentage of 80% and mean of 0.85, our business uses online banking has a percentage of 20% and mean of 0.25, our business uses digital payment platform has a percentage of 20% and mean of 0.25, our business uses e-commerce has a percentage of 8% and mean of 0.4, the digital financial services are well-integrated in our business operations has a percentage of 7% and mean of 0.4, we have received adequate support from digital financial service providers has a percentage of 8% and mean of 0.4.

#### 4.4 Impact on Business Performance.

Details	Percentage	Mean
Digital financial services have improved transaction efficiency	75%	0.85
Digital financial services have reduced our operational costs	20%	0.5
Digital financial services have contributed to revenue growth	10%	0.6
Digital financial tools have reduced the time and cost involved in handling business transactions	81%	0.8
Using digital finance has increased my customer base	48%	0.5

Digital financial services have had a positive impact on the performance of my business	78%	0.7
Access to digital credit or loans has helped me grow my business operations	87	0.85
Record keeping and financial tracking in my business have improved	30%	0.25
My business has become more competitive because of adopting of digital finance	66%	0.6
Digital payment methods have improved customer satisfaction in my business	71%	0.75

The study found out that digital financial services have improved transaction efficiency has a percentage of 75% and mean of 0.85, digital financial services have reduced our operational costs has a percentage of 20% and mean of 0.5, Digital financial services have contributed to revenue growth has a percentage of 10% and mean of 0.6, digital financial tools have reduced the time and cost involved in handling business transactions has a percentage of 81% and mean of 0.8, using digital finance has increased my customer base has a percentage of 48% and mean of 0.5, digital financial services have had a positive impact on the performance of my business has a percentage of 78% and mean of 0.7, access to digital credit or loans has helped me grow my business operations

has a percentage of 75% and mean of 0.85, record keeping and financial tracking in my business have improved has a percentage of 30% and mean of 0.25, my business has become more competitive because of adopting of digital finance has a percentage of 66% and mean of 0.6, digital payment methods have improved customer satisfaction in my business has a percentage of 71% and mean of 0.75.

#### 4.5 Challenges and Limitations.

Details	Percentage	Mean
We face security and fraud concerns with digital financial services	85%	0.9
We have experienced high transaction fees with digital financial services	5%	0.25
We have limited access to reliable internet which affects our use of digital financial services	45%	0.3
We lack technical skills to fully utilize digital financial services	73%	0.3
We find digital financial services to be user-friendly and effective	90%	0.85
The cost of implementing the financial services in the business is too high for us to handle.	7%	0.25
There is resistance to change in the business regarding the adoption of financial services	1%	0.25
Customer support for resolving issues on digital platforms is often slow an unhelped	20%	0.35
Using this technology has issues of technical difficulties that are disturbing when being used.	27%	0.25
Not all suppliers or customers accept digital payment methods which limits my ability to use them fully	77%	0.8

The study found out that we face security and fraud concerns with digital financial services has a percentage of 85% and mean of 0.9, We have experienced high transaction fees with digital financial services has a percentage of 5% and mean of 0.25, we have limited access to reliable internet which affects our use of digital financial services has a percentage of 45% and mean of 0.3, we lack technical skills to fully utilize digital financial services has a percentage of 73% and mean of 0.3, we find digital financial services to be user-friendly and effective has a percentage of 90% and mean of 0.85, the cost of implementing the financial services in the business is too high for us to handle has a percentage of 7% and mean of 0.25, there is resistance to change in the business regarding the adoption of financial services has a percentage of 1% and mean of 0.25, customer support for resolving issues on digital platforms is often slow an unhelped has a percentage of 20% and mean of 0.35, using this technology has issues of technical difficulties that are disturbing when being used has a percentage of 27% and mean of 0.25 and not all suppliers or customers accept digital

payment methods which limits my ability to use them fully has a percentage of 77% and mean of 0.8.

#### 4.6 Correlation Analysis

Pearson’s Correlation was used to examine relationships between digital finance variables and SME performance.

**Table 3: Correlation matrix**

<b>Variables</b>	<b>1. SME Performance</b>	<b>2. Mobile Money</b>	<b>3. Digital Lending</b>	<b>4. Online Payments</b>
1. SME Performance	1.00			
2. Mobile Money	0.58	1.00		
3. Digital Lending	0.44	0.32	1.00	
4. Online Payments	0.49	0.45	0.28	1.00

**Note:**  $p < 0.05$ ,  $p < 0.01$

#### **Interpretation:**

There is a moderately strong, positive correlation between mobile money usage and SME performance ( $r = 0.58$ ).

Digital lending and online payments also show positive but weaker correlations with SME performance ( $r = 0.44$  and  $0.49$  respectively)

#### **Regression Analysis**

This is a statistical method used to examine the relationship between a dependent variable and one or more independent variables.

**Table 4: Regression output**

<b>Variable</b>	<b>Coefficient (<math>\beta</math>)</b>	<b>Std. Error</b>	<b>t-value</b>	<b>p-value</b>
Constant	48.25	6.12	7.88	0.000
Mobile Money Usage	5.87	1.75	3.35	0.004
Digital Lending	3.94	1.68	2.35	0.030
Online Payments	4.31	1.55	2.78	0.013
R-squared	0.53			
Adjusted R-squared	0.48			
F-statistic	10.55			0.001

Note  $p < 0.05$ ,  $p < 0.01$

Interpretation:

Mobile money usage has the strongest positive effect on SME performance, and it's statistically significant ( $p < 0.01$ ).

Digital lending and online payments also significantly influence performance, but to a lesser degree.

The model explains 53% of the variance in SME performance ( $R^2 = 0.53$ ), indicating a strong model fit for a small sample.

## **CHAPTER FIVE**

### **CONCLUSION AND SUGGESTIONS.**

#### **5.1 Summary**

This chapter summarizes the findings from the research study into how digital financial services affect the performance of SMEs in Mukono. This chapter presents findings from the research study and recommendations thereof.

##### **5.1.1 Business information**

The study shows that different types of businesses were included in the study. Retail businesses represented 80% and service offering businesses represented 20%. This shows the increased use of digital financial services in the different kinds of businesses in Mukono.

The micro enterprises, with employees between 1-10, constituted 85% of the sample businesses and 15% of the small enterprises with employees between 11 to 50 for example, the restaurants. The sample showed the increasing use of digital finance in the businesses which is a positive thing.

##### **5.1.2. Adopting digital financial services**

Many businesses have taken up the use of digital finance especially mobile services that are frequently used, are easy to use and they have easy access to the services. Online banking and digital payment platforms also have a high raising rate of usage. This is because people are always busy and do not have time to go the banks, therefore they apply to be registered under online banking which is very convenient for them.

##### **5.1.3 Impact on business performance**

Digital financial services had a great impact on the performance of enterprise. The impact was seen in the continuous use of the digital services like paying their suppliers, receiving payments, paying utilities and getting short term loans thus increasing efficiency and effectiveness of the transactions and daily operations of the businesses.

##### **5.1.4 Challenges and limitations**

There were some barriers in the use of digital finance services even with its advantages. The cases related to fraud were very many, the high withdraw charges and sending money, the

network issues in some areas limiting the use of digital finance. Some regulations like you can only withdraw one million and above with a national id which makes it hard for those who lost their ids or far from them.

These challenges have to be worked upon for proper utilisation of digital financial services.

## **5.2 Recommendations**

Some of the recommendations to the challenges faced by the small and medium enterprises in Mukono.

1. Resistance to Change: encouraging the business owners to allow and accept change. This was seen when the mobile money transactions of one million and above can only be withdrawn when a client has a national id with them. There was some resistance to change but later people got used to it.
2. Training of the business owners' programs: this can be done when the clients go to the banks and are trained on how to use online banking; the banks can also print out steps on how to use online banking for efficient use of financial services.
3. Security measures: MTN and Airtel always send messages to warn people against sending money to people claiming to work for them and they also put the numbers they use to call or send messages to clients.
4. Enhance Internet Connectivity: improving network infrastructure to increase access to internet to make the online services better and give convenience for their use

## **5.3 Final Thoughts**

The research mentions the importance of digital financial services on Small Medium Enterprises in Mukono, it highlights the challenges and addresses them for better and improved use of digital financial services with increased support from the government and service providers of digital finance.

This expanded section provides the general overview and specific recommendations for immediate action by SMEs and other stakeholders.

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## **QUESTIONNAIRE**

STUDENT NAME: ADONGO BRIDGET

COURSE: BACHELOR OF BUSINESS ADMINISTRATION.

Thank you for participating in this survey. Your feedback will help us understand how digital financial services (DFS) impact the performance of SMEs in Mukono. Please indicate your level of agreement with the following statements by ticking the appropriate column.

### Section 1: Business Information

#### 1. Type of Business:

1. Retail
2. Services
3. Other (please specify): \_\_\_\_\_

#### 2. Business Size:

1. Micro (1-10 employees)
2. Small (11-50 employees)

Scale	1	2	3	4	5
Opinion	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Disagree

#### 1. Digital Financial Services Adoption and usage patterns.

NO	Details	TICK APPROPRIATELY				
		1	2	3	4	5
1	Our business uses mobile money services MTN, Airtel Money					
2	Our business uses online banking					
3	Our business uses digital payment platform					
4	Our business uses e-commerce					
5	We use digital financial services daily					
6	Our digital financial services are well-integrated into					

	our business processes					
7	Our business has the skills and knowledge needed to comfortably use digital financial services					
8	We have encountered technical difficulties when using digital financial services					
9	Our business intends to continue using digital finance					
10	Is the cost of using digital finance services reasonable					

## 2. Impact on Business Performance.

NO	Details	TICK APPROPRIATELY				
		1	2	3	4	5
1	Digital financial services have improved transaction efficiency					
2	Digital financial services have reduced our operational costs					
3	Digital financial services have contributed to revenue growth					
4	Access to digital credit or loans has helped me grow my business operations					
5	Digital financial tools have reduced the time and cost involved in handling business transactions					
6	Using digital finance has increased my customer base					
7	Digital financial services have had a positive impact on the performance of my business					
8	Record keeping and financial tracking in my business have improved					
9	My business has become more competitive because of adopting of digital finance					
10	Digital payment methods have improved customer satisfaction in my business					

3. Challenges and Limitations.

NO	Challenges	TICK APPROPRIATELY				
		1	2	3	4	5
1	We face security and fraud concerns with digital financial services					
2	We have experienced high transaction fees with digital financial services					
3	We have limited access to reliable internet which affects our use of digital financial services					
4	We lack technical skills to fully utilize digital financial services					
5	We find digital financial services to be user-friendly and effective					
6	The cost of implementing the financial services in the business is too high for us to handle.					
7	There is resistance to change in the business regarding the adoption of financial services.					
8	Customer support for resolving issues on digital platforms is often slow an unhelped					
9	Using this technology has issues of technical difficulties that are disturbing when being used.					
10	Not all suppliers or customers accept digital payment methods which limits my ability to use them fully					