

# Budget Literacy and Financial Performance of Saccos in Kumi District-Uganda

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## Abstract

This research paper is presented on the topic, “Budget literacy and financial performance of SACCOs in Kumi district”. The overall objective of the study was to determine the effect of budget literacy on financial performance of SACCOs in Kumi district. The researcher used a case study research design because of its ability to investigate the study variable in detail and due to the fact that it provides a systematic description that is factual and accurate as possible. The population under study was 343(N) people and a sample population of 108 (n) people consisting of; District commercial officer, commercial officers, SACCO board members, SACCO management team members and SACCO members. In the determination of the sample size the researcher used both probability and non-probability sampling techniques. Under data collection, the researcher used three data collection methods; firstly the researcher used Questionnaire survey method as it allowed an in depth research and collection of firsthand information in a short period of time, secondly the researcher used interview method on seven (07) key informants i.e. commercial officers (04) and Board members (03) as this was intended to probe for more information, get clarification and capture facial expression. Lastly documentary review method was used which provided necessary background and much more needed information. Three tools in this context were used i.e. Research Questionnaire, interview guide and documentary review check list. The collected data was both quantitative and qualitative in nature. Quantitative data was analysed using Statistical Package for Social Scientists (SPSS) version 25\*64 bit so as to identify the missing variables. Qualitative data was recorded in the researchers note book which was transcribed for a clear meaning. The research findings highlighted the following; Budget literacy had a strong positive relationship with financial performance of SACCOs evident with  $R = 0.743$  with  $p < 0.01$  and  $R^2 = 0.552$  or 55.2%. The researcher based on the study findings recommended that; based on the overall objective; there must be creation of awareness and corporative member education, preparation of a well comprehensive budget and development of a suitable criterion for measuring the performance of management.

**Keywords:** literacy; budget literacy; financial performance

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## **1. Introduction**

The history of SACCOs in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, i.e. in Great Britain and France. The pioneers of modern cooperation emerged in working- class environments in European Industrial cities in the 19th Century. In 1840, the first industrialized countries (Great Britain and France),pioneers of co-operatives invented models of the consumer cooperative and the labor cooperative to defend and promote the interests of working-class families in the face of the social disasters caused by industrial revolution.

The second generation of the pioneers of modern cooperation emerged, in certain European rural environments in the late 19th century. In the 1860s, these pioneers created the models of agricultural cooperatives and savings and credit cooperatives inspired by the success of the consumer cooperatives formula in Great Britain and based on old traditions of rural solidarity aimed to meet the primary economic needs, which went unsatisfied said author [1]. Agricultural cooperatives then enabled families of farmers and livestock raisers to organize their own supply systems of agricultural inputs and market their products and no longer depended on merchants and businessmen in the cities. The SACCOs helped them to stop depending on money lenders and to find the credit necessary to modernize their agricultural cooperatives as stated by author [2]. In Africa, the idea of SACCOs was brought by a Roman Catholic priest, in Jirapa, a town in Ghana, in 1955. Father John McNulty from Ireland had studied in Canada where he learnt about savings and credit co-operative societies. Father McNulty helped the Jirapa villagers to form a Savings and Credit Co-operative. The co-operative assisted the members to address their financial problems which they couldn't individually. Father McNulty trained about 60 people, who were the first successful savings and credit co-operative pioneers on the African continent.

The success of Jirapa savings and credit co-operative spread throughout Ghana and by 1968, the savings and credit co-operatives throughout the country came together to form the Credit Union of Ghana , which was set up to promote, organize, service and co-ordinate the activities of savings and credit co-operative in Ghana stated author [3].

SACCOs in East Africa are currently among the leading sources of the co-operative credit for socio-economic development said author [3]. Cooperatives in Kenya were started in 1964 in Mariira Muranga County by the Catholic Church through Fr Joachim Getanga and later a committee was formed to promote the development of Saccos in the country which led to the development of two chapters' one in Nairobi and the other in Mombasa.

Uganda Cooperative Savings and Credit Union Limited (UCSCU) was established in 1972, and it is registered under the Uganda Cooperative Societies Statute 1991 and the Uganda Cooperative Regulations 1992. Uganda Cooperative Savings and Credit Union Limited (UCSCU) is a national apex organisation for Savings and credit Cooperative Societies (SACCO) in Uganda. UCSCU, as the umbrella body of Savings and Credit Cooperatives (SACCOs) has unwaveringly encouraged the formation and development of Safe and Sound SACCOs to ensure that financial services reach the population across the country as a way of encouraging savings mobilization and use of these savings deposits as a source of investment capital to rural enterprises in form of loans. UCSCU is

formed, financed, owned and controlled by Savings and Credit Cooperative Societies (SACCOs). The SACCOs elect a Board of directors, which formulates policies. The Board of UCSCU then hires management for the day-to-day operations. The UCSCU's mission is to "To promote and empower SACCOs in Uganda by offering high quality and specialized financial services for their sustainability". The UCSCU subscribes and adheres to the cooperative values which include the following: Team work, Stakeholder responsiveness, Member-sensitivity and Productivity.

Kumi District however, a district in the eastern part of Uganda is bordered by Katakwi District to the north, Nakapiripirit District to the northeast, Bukedea District to the east, Pallisa District to the south, and Ngoma District to the west. The district is located approximately 54 kilometres (34 mi), by road, southeast of Soroti, and lies 01 30N, 33 57E. Coordinates. In 2012, the population of Kumi District was estimated at about 255,500 as stated by author [4]. Early between, 2002-2014 the district had over 11 Cooperative Societies which included; Akadot farmer Cooperative Society with 150 members, Atutur produce and marketing Cooperative Society with 50 members, Atutur fruit Growers Cooperative Society with 81 members, Atutur Orice Abeit farmers' Cooperative Society Ltd with 31 members, Mukongoro area Enterprises Cooperative with 820 members, Mukongoro farmers' Cooperative with 315 members, Nyero fruit farmers' Cooperative with 106 members, Oleicho farmers' Cooperative with 150 members, Omatakiria Farmers' Cooperative with 30 members, Omatenga farmers' Cooperative with 57 members and Kumi Sub-county fruit growers with 87 members. However, according to annual report by author [5] it unveils that most of these Cooperatives are no more with the few existing are newly formed Sacco's, one in Ongino Sub-county (Kachaboi) and Nyero Sub-County (Jossa). The report also highlights that the leadership positions are monopolized by people who have attained Secondary and primary level of education with a total of 113 and 70 respectively against 31 at Tertiary level. A majority of the farmers Cooperatives have closed down which is an issue of concern to both the researcher, government and the community.

This study majored only on one theory i.e. *the theory of internal control*. A system of effective internal control is a critical component of an organization's management and a foundation for its safe and sound operation. A system of strong internal control can help to ensure that the goals and objectives of an organization will be met, that it will achieve long-term targets and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the organization will comply with laws and regulations as well as policies, plans, internal rules and procedures, and reduce the risk of unexpected losses and damage to the organization's reputation [6]

In USA the author [7] issued Internal Control – Integrated Frame work in 1992, which defined internal control as a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations.

According to the report by author [8] in UK, defined internal control as the whole system of controls, financial and other wise, established in order to provide reasonable assurance of Effective and efficient operations;

Internal financial control and Compliance with laws and regulations. This theory address the third independent variable on operating costs which indicates that there should be transparency and guiding policies and controls to avoid misuse of the cash which may lead to poor financial status of the SACCO.

### ***1.1 Problem Statement***

According to the annual report from Kumi District Local Government (KDLG) and from the documents in the office of the Commercial officer it indicates that there were over 32 registered SACCOs in the district. By 2014 -2016 about four (04) registered Sacco's and five (05) other Cooperatives in different fields of operation ranging from agriculture to non-agricultural cooperatives were operational.

In the year 2017-2018 the report showed that there were only two SACCOs operational in the district i.e. Kachaboi in Ongino and Jossa Sacco in Nyero Sub-County and four other Cooperatives. The report also indicates that the working capital of the existing SACCOs has been increasing almost by 50% each year which indicates high scale of operation. The report also unveiled a 14% growth of the SACCO members with a very mild profit growth of 4% with loan recovery rate at 98% of the total loans disbursed. It's also worth noticing that the SACCO's leadership is composed of the following based on education standards; Secondary (113), Primary (70), Tertiary (31) and with No formal education (01), as reported by author [5]

The increasing membership and increase in working capital against a very mild growth in profits at 4% with 98% loan recovery rate raises a question of concern. It's against this background that the study is intended to determine the effect of financial literacy on the performance of SACCOs in Kumi district.

### ***1.2 Purpose of the study and Research question***

To determine the effect of budget literacy on financial performance of SACCOs in Kumi district. The research question to be addressed; what are the effects of budget literacy on financial performance of SACCOs in Kumi district?

### ***1.3 Justification of the Research study***

It's indeed very true that the management of Cooperative Unions and specifically SACCOs is based on the Rochdale principles and any activity, business or task based on principle should be adequate enough to prove it's self with results. However, according to [5], it indicates that there are conflicting standards where working capital employed is rapidly increasing compared to the returns in terms of profitability depicted by a 50% increase in working capital against a mild 4% profit growth, this equally conflicts with a 98% loan recovery rate of the total money disbursed. It's also worth noticing that the SACCO's leadership is composed of the following based on education standards; Secondary (113), Primary (70), Tertiary (31) and with No formal education (01), Kumi district Annual Report (2017/2018). It's against this background that this study is justified.

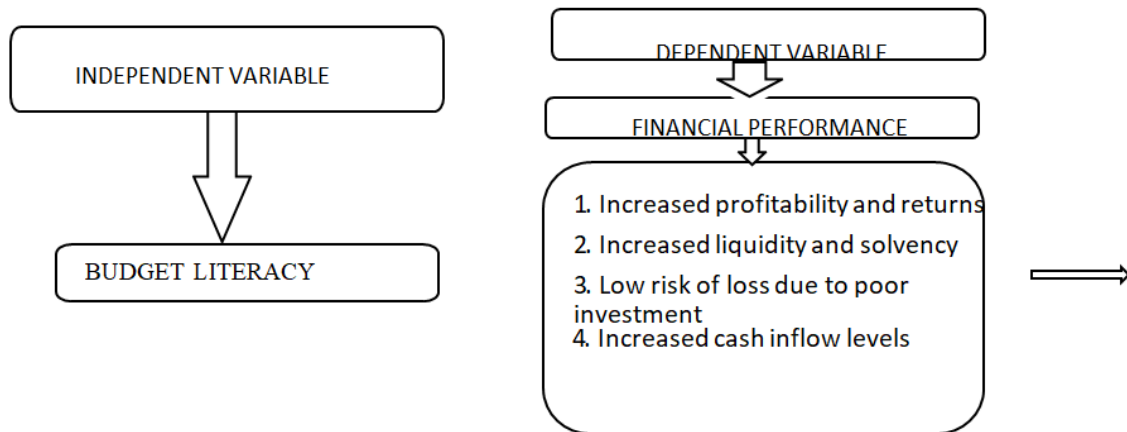
#### **1.4 Significance of the study**

- The study is intended to help training institutions in understanding the significance of budget literacy in influencing the performance of SACCOs. It will also help academicians in establishing the relevant curriculum taught in business schools to the actual business world.
- Considering that the vast majorities of SACCOs are in the informal sector where members have no or only have basic education, the government policy makers will find out whether the basic financial education taught in schools have any bearing to SACCO's performance. The study will further establish whether there is need for budget literacy training programs amongst SACCOs in a bid to stimulate growth in the economy.
- Nevertheless, the research also adds to the existing literature and provides background information to research organizations and scholars who will need to carry out further studies on SACCO's financial performance as a key area of development.
- The study will also be of great importance to the savers and borrowers in the SACCOs since they will learn from the extent to which financial knowledge, attitude, awareness and behavior will impact on financial performance i.e. It will sharpen their knowledge on the wise and more rewarding ways on how to improve on their financial performance.
- The study will also be of great relevance to managers of financial institutions and advisors since they will be able to discover areas to put more emphasis when giving their quality advice. This study too gives insight to government and policy makers in their role in ministry of finance, industrialization and further to cooperatives in Uganda on the need for financial education in all the school based programs to enable enhanced economic drive positively.

#### **1.5 Study Scope**

The study was conducted in Kumi District in the Eastern Region of the country. The study considered only two sub-counties i.e. Ongino and Nyero sub-county. This scope is based on the fact that the two operational SACCOs i.e. Kachaboi and Jossa SACCO are all located in Ongino and Nyero sub-counties respectively. The study also considered any relevant information within the period 2013-2019 as the information within this period was regarded relevant and can be depended upon for decision making i.e. within the time frame of 5 yrs. However, the content scope to this study was guided by the specific objective to the study. Geographically Nyero sub-county is located West of Kumi Municipality and East of Ngora town along Kumi Ngora road and bordered by Mukura Sub-county from the north and Kanyum Sub-county from the south. Ongino Sub-county is located North- east of Kumi Municipality and bordered by Lake Bisina from the East and North respectively and Atatur Sub-county by the south.

#### **1.7 Conceptual Framework**



**Figure 1:** Conceptual frame work.

The study hypothesized a causal relationship between budget literacy and financial performance of SACCOs as indicated in the figure above.

### 1.8 Literature

The author [9] stated that through the use of a systematic approach to previous scholarly work, literature review allows a researcher to place his research work into an intellectual and historical context, that is, it enables the researcher declare why his research matters. Budgeting can be considered as planning since it forecasts the future events and how activities should be handled. Every organization whether small or big needs a plan or a budget to help it excel. According to [10], he characterized a budget as a quantitative articulation of an arrangement of activity. In the perspectives of author [11] he characterized a budget as a plan of action communicated in quantitative terms. It is a financial and or quantitative statement arranged and endorsed before a defined timeframe for achieving a given organizational target. From the perspective of the scholars it implies that a budget is additionally not only a quantitative expression of a plan of action but a quantitative economic plan. It can equally be attributed that literature posits that a budget is a quantitative expression of a plan of action prepared ahead of time of the budget time frame. A Savings and Credit Cooperative is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities [12]. The general objective of SACCOs is to promote the economic interests and general welfare of its members. Author [13] researched on the impact of budgeting process on performance of small and medium sized firms in China. What she discovered, from the OLS regression output is that, there is a significant and positive relationship between formal budgeting process and firm performance and that formal budgetary control cannot be said to have a much stronger impact on profits than on sales revenue. That is, there is a stronger relationship between formal budgetary control and sales revenue than on profits. According to the investigation by [14] on how budgeting affects the performance of SMEs in China. He reviewed the budgeting process in business firms and performance measurement in SMEs and found out that more formal budgeting planning stimulates greater growth of sales returns in SMEs, clear and difficult budget goals improve budgetary performance of institutions, a higher level of budgetary complexity results in a lower profit growth of SMEs,

more formal budgetary control leads to a higher growth of profit in the organisations and a greater budgetary involvement leads to better managerial performance. Medium-sized firms achieve higher profit growth than small firms and state-owned enterprises achieve better non-financial performance than small firms. The author [15] conducted a research on the effects of budgets on financial performance of manufacturing companies in Nairobi County. The study used both primary and secondary data. A statistical package for social sciences was used as analyzing tool and also regression model was adopted to determine the association between dependent and independent variables. His findings revealed that, financial performance as measured by ROA is influenced by the use of budgets and influences of management. The research also revealed that, the qualifications of those employed to overlook the activities of the firm was not good and hence firms had to employ people from outside to help in the preparation of budgets.

While studying a sample of 60 companies using a cross-sectional research design the author [16] concluded that aspects of budgeting practices such as budget planning and budgetary participation have a positively significant effect on the revenue collection efficiency of water service providers while budget control practices and budgeting approach have no significant effect on revenue collection in the studied industry. The author [17] in assessing the effects of budgetary planning tools on the financial performance of registered public service vehicle companies in Kenya brought to light that; vehicle companies that adopted budgetary planning techniques had favorable performance ratios and those that did not practice those techniques had unfavorable performance ratios. The paper also revealed that most people in the industry were not aware of such techniques and even those who were aware did not use them effectively.

In the study by author [18] he assessed the effect of budgetary control on the financial performance of selected manufacturing companies in Kenya. A descriptive research design and stratified sampling technique was used. In his study, 10 largest companies from each subgroup of the manufacturing companies were selected. The respondents were the head of the finance department or an equivalent. Hence the sample size was 50 respondents. He used both primary and secondary data and used a descriptive analysis to mainly summarize the data collected. His results showed that there is a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgeting) was hence forth obtained. The author [19] wrote a paper in the International Journal of Academic Research and Reflections about budgeting and its impact on financial performance of non-bank financial institutions in Ghana. Their findings revealed that, there is a positive relationship between budgeting and firm performance. They further portrayed that, the firms made use of established budget processes to a greater extent and that budgeting coordination has a statistically moderate positive relationship on firm performance.

## **2. Materials and Methods**

### ***2.1 Research Design***

The researcher used a case study research design because it gave an in-depth investigation of the study variables. The design was deemed fit for the study based on the fact that the design provided a systematic description that is as factual and accurate as possible. A case study design enabled the researcher to bring about

an understanding of the complex issue and add strength to what was already known through previous research, [20].

The study also used both quantitative and qualitative approaches. The author [20] stated that quantitative designs are plans for carrying out research oriented towards quantification and are applied in order to describe current conditions or to investigate relationships, including cause and effect relationships. Quantitative design therefore was used to help a researcher to describe the current conditions and investigate the established relationships between the identified variables (financial literacy and financial performance of SACCOs). A quantitative approach was adopted when sampling, collecting data, data quality control, correlation, reliability and validity test. This study also used qualitative approaches which involve an in-depth probe and application of subjectively interpreted data, as cited from author [21]. Qualitative research enabled the researcher to gather in-depth information about the study for example unstructured qualitative interviews were conducted to serve this purpose.

## 2.2 Study Population

The study was carried out in Kumi District. The population under study was 150 consisting of District commercial officer, commercial officers, SACCO Board members, SACCO management team members and SACCO members. The respondents above were involved in the study because they had the role mandate, experience and knowledge on Cooperative organizations specifically in SACCO's operations. This population therefore enabled the researcher to obtain the necessary data relevant for the study. The study also covered Seven (7) Sub-counties in Kumi district; Kanyum, Ongino, Mukongoro, Atatur, Kumi Town Council, Nyero and Kumi sub-county.

## 2.3 Sample Size and Selection

The study used a sample size of 108 respondents drawn from a population of 150 using the author [22<sup>nd</sup>] sampling determination framework. The distribution was as per the categories shown in the table below;

**Table 1:** Sample size and selection of the population size.

Category	Population	Sample Size	Sampling Strategy
SACCO Board members	10	5	Purposive
SACCO management team members	20	11	Purposive
Ordinary SACCO members	120	92	Simple Random Sampling
TOTAL	150	108	



## **2.4 Sampling Techniques**

Both probability and non-probability sampling techniques were used in selecting the sample.

### **2.4.1 Probability Sampling**

Probability sampling is a quantitative sampling technique which gives every member an equal chance of being selected. Probability sampling minimized biasness and every member had an equal chance of being selected. The study used simple random sampling method. Simple random sampling method was used to determine a sample of 85 respondents. According to author [20] simple random sampling gives every member an equal chance to participate in the study. A sample frame was constructed and members were selected from the sampling frame to avoid bias of response. Simple random sampling was therefore suitable for the study since the method gave an equal chance to every member in the population to be included in the study. According to [21] he wrote that simple random sampling is an effective way of avoiding personal biases by the researcher.

### **2.4.2 Non Probability Sampling**

The study also adopted purposive sampling method for selection of 16 key informants (SACCO Board members and SACCO management team members). These respondents were specifically hand-picked for this study because of their position, level of education, experience and had technical knowledge on the subject under investigation.

## **2.5 Data Collection Methods**

The Researcher used both primary and secondary types of data. The author [23] opined that it is possible to use more than one method of collecting data, depending on the objectives of the research. Therefore, the researcher backed the primary data that was obtained through self-administered questionnaires and interviews with secondary data obtained from well written literature about SACCOs.

### **2.5.1 Questionnaire Survey**

A questionnaire was used because it allowed an in-depth research, to gain firsthand information and more experience over a short period of time. The researcher selected a questionnaire survey because it was practical and large amounts of information were collected from a large number of people in a short period of time. Administration of a questionnaire was also cheap and fast. Questionnaire survey as a method increased the degree of reliability as well as enhancing the validity of data, [20]. The study also used only one set of questionnaire to capture all the necessary information from all categories of respondents.

### **2.5.2 Interview**

The researcher conducted personal interviews with 07 key informants i.e. SACCO board members (04) and management team members (03). This was intended to probe for more information, get clarification and for

capturing facial expression of the interviewees, [20]. In addition, interview also gave a researcher an opportunity to revisit some of the issues that had an over-sight in questionnaire and documentary list, yet considered vital for the study. Thus, data that was obtained during the interview was used to supplement data that was obtained through the questionnaire.

### ***2.5.3 Documentary Review***

Documentation was not underestimated as it provided necessary background and much more needed context both of which made re-use a more worthy while and systematic endeavor. Secondary data was obtained through the use of published and unpublished documents from the district. As stated by [20], secondary data was helpful in the research design of subsequent primary research and provided a baseline with which the collected primary data results were compared to other methods. The researcher used district annual reports to bench mark the operations of SACCOs in Kumi district for a period of five years.

## ***2.6 Data Collection Instruments***

The data collection instruments used included; questionnaire, interview guide an documentary review checklist.

### ***2.6.1 Questionnaire***

A questionnaire was formulated in a structured form using a five Likert itemized rating scale of 1 to 5 with 1- Strongly Disagree (SD), 2- Disagree (D), 3- Neutral/ Not sure (N), 4- Agree, and 5- Strongly Agree (5). The researcher used the scale because of its flexibility and because its construction was easy than other types of attitude scales like semantic differential scale, rating scale, Thurston and Guttman scale [20]. In particular, the scale was used to measure Budget literacy in influencing financial performance of SACCOs.

### ***2.6.2 Interview Guide***

The interview guide was used to collect qualitative data from 09 Key informants (Commercial officers and SACCO Board members). However, because of the interest of time only four (07) members were interviewed and the rest there understanding on the topic of study was sought for by the use of a questionnaire.

### ***2.6.3 Documentary Review Checklist***

The documentary review check list was used in this study. The researcher obtained secondary data from published and unpublished existing documents by other scholars in relation to the concept of budget literacy and financial performance. Various publications such as; magazines, historical documents and other sources of published information from the government and district on cooperatives and specifically SACCOs were reviewed by the researcher. The author [20] maintains that secondary data can be helpful in the research design of subsequent primary research and can provide a baseline with which the collected primary data results can be compared to other methods.

## **2.7 Quality Control**

Data quality control techniques ensured that; data collected was valid and reliable. The researcher first carried a pre-test of the instruments by submitting it to other peer researchers so as to ascertain and detect any ambiguities in the data collection instruments.

## **2.8 Validity**

To ensure validity qualitatively, the researcher approached colleagues and gave the instruments to expert researchers to evaluate the relevance of each item in the instrument and they rated each item on the scale of Relevant (2) and Not Relevant (1). The purpose of qualitative research was to describe or understand the phenomena of interest from the participant's eyes, therefore the researcher allowed the experts to legitimately judge the credibility of the instruments. Based on the researcher's calculation the instrument had a CVI of 77% which is highly above the recommended 70% validity for the study. The author [24] argues that items with validity coefficients to at least 70% are accepted as valid and reliable in research. The Content Validity Index (CVI) was calculated using the formula below:

$$\frac{\text{Number of items rated as relevant (K)}}{\text{No of items in the questionnaire (N)}} \text{ CVI} = *100$$

No of items in the questionnaire (N)

## **2.9 Reliability**

For reliability of data, the researcher used triangulation data collection method. Triangulation approach involving the use of more than two methods in a study to double (or triple) check accuracy of results. This was regarded as "cross examination". According to [23] the idea was that one can be more confident with a result if different methods lead to the same result. If an investigator used only one method, the temptation is strong to believe in the findings. If an investigator used two methods, the results may well clash. By using three methods to get at the answer to one question, the hope is that two of the three will produce similar answers, or if three clashing answers are produced, the investigator knows that the questions need to be amended. The Cronbach's Alpha Reliability Coefficient (CARC) was computed using SPSS Ver.25 on 23 items. A pretest of the instrument was done to 15 non sampled respondents in order to establish consistency in their responses. The instrument yielded a Cronbach's Alpha Reliability Coefficient ( $\alpha$ ) of 0.881 or 88.1% based on pretest and in the actual results the instrument yielded Cronbach's Alpha Reliability Coefficient ( $\alpha$ ) of 0.990 or 99%.

According to [25], he argued that reliability should be at least 0.90, preferably 0.95 or better where important decisions are made. In basic research, the concern is with the size of correlations and with the differences in means for different experimental treatments, for which purposes a reliability of 0.80 for the different measures is adequate. This implies that Alpha measures the extent to which item responses obtained at the same time correlate highly with each other. For this study therefore, the instruments were very reliable and fit for the study since the widely accepted reliability coefficient is 0.70 or higher for a set of items to be considered a scale in social science.

### ***2.10 Quantitative Data Analysis***

Data was sorted using descriptive statistics in Statistical Package for Social Scientists (SPSS) Ver.25 so as to identify the missing variable(s), outliers and normality of data prior to the linear analysis of the questionnaire data. After running the descriptive statistics in SPSS, the output was copied for thorough review and the missing values and wrongly entered labels were traced from the original questionnaires and filled. The descriptive statistics included; frequency tables, mean, and standard deviation. As stated by [21], a correlation study was conducted in the natural environment of an organization with minimum interference by the researcher with no manipulation.

### ***2.11 Qualitative Data Analysis***

The researcher kept records obtained from field interviews which were recorded in the researcher's note book and transcribed so as to get clear meaning from the qualitative data. The researcher then carried thematic analysis and content analysis. Content analysis involving coding the data and later processing it were equally done.

### ***2.12 Measurement of Variables***

The researcher used categorical data to measure the background information about the respondents. The categorical data such as gender and marital status were measured using nominal scale with numbers being assigned to each category only to identify similar objects within a category from elements in another category that will be different. While independent variable and dependent variable that is budget Literacy and financial performance of SACCOs were measured using a five Likert scale. The items in the domain were scored on the 5 point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1).

### ***2.13 Ethical Considerations***

Ethical considerations are a set of moral and social standards that included both prohibitions against and prescriptions for specific kinds of behavior in research. It was important in research because it ensured no unreasonable, unsafe or thoughtless demands made by the researcher; and also a reflection of respect for those who 'took part' in research. For example, prohibitions against fabrication, falsification, and misrepresentation of research data promoted truth and avoided error. Thus, since research involved a great deal of cooperation and coordination among many different people in different disciplines and institutions, ethical standards promoted the values that were essential to collaborative work, such as honest reporting, objectivity, voluntary participation, respect for intellectual property, trust, mutual respect, and fairness. Furthermore, respondent's names were withheld to ensure anonymity and confidentiality in terms of any future prospects; while to avoid biasness, the researcher used the data collected for the purpose for which it was collected.

## **3. Results**

### ***3.1 Gender distribution of the respondents***

The researcher used frequency distribution or frequency table and histogram to depict membership and representativeness of all gender in the research study as seen in the table and figure below;

**Table 2:** Gender distribution of the respondents.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	40	45.5	46.0	46.0
	Female	47	53.4	54.0	100.0
	Total	87	98.9	100.0	
Missing	System	1	1.1		
Total		88	100.0		

Source: primary data analysis of the instrument, 2019

In the frequency distribution the researcher observed that 40 male respondents representing 45.5% and 47 female respondents representing 53.4% of the total respondents participated in the research study. The implication of this distribution is that there are more females than males in Kumi SACCOs hence have more entrepreneurship acumen than men

### 3.2. Descriptive analysis of the respondent's age

**Table 3:** Descriptive analysis of the respondent's age.

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25	23	26.1	26.1	26.1
26-35	28	31.8	31.8	58.0
36-45	25	28.4	28.4	86.4
46-55	10	11.4	11.4	97.7
Above 55	2	2.3	2.3	100.0
Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019

Based on age grouping descriptive analysis shows that 23(26.1%) were falling below 25 years of age, 28 (31.8%) were aged between 26-35 years, 25 (28.4%) were aged 36-45 years and 12 (13.7%) falling above 46 years of age. The implication of this age distribution amongst the respondents is that; a majority of the SACCO members are composed of adult youth aged between 26-35 years (31.8%) followed by those aged 36-45 years (28.4%) and those falling below 25 years (26.1%). The statistics also shows that there is very low participation

of old adults in SACCOs evident with 12 (13.7%) aged above 45 years.

**3.3. Descriptive analysis of the education level of the respondents**

This analysis was carried out using frequency distribution and pie chart as seen below.

**Table 4:** Descriptive analysis of the education level of the respondents.

Level of education		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	9	10.2	10.2	10.2
	O' level	14	15.9	15.9	26.1
	A 'level	28	31.8	31.8	58.0
	Diploma	18	20.5	20.5	78.4
	Bachelor's Degree	19	21.6	21.6	100.0
	Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019

From the above table it reveals that a majority of the respondents attained their UACE certificates (A 'level) 28 (31.8%), Bachelor's degree 19 (21.6%), Diploma level 18 (20.5%), Ordinary level certificate 14 (15.9%), and Primary level 9 (10.2%). This therefore implies that the SACCO membership is dominated or composed of people with low academic qualifications i.e. from Diploma below 69 (78%) with little or no skills to make correct investment decisions, make budget forecasts correctly and manage debtors so as to improve on their financial performance.

Besides the bachelor's and diploma holders in this case are employees of the SACCOs with no absolute authority over the issues of the SACCOs since the major decisions are agreed upon during the annual general meeting by the shareholders/owners/members of the SACCOs. The decision making process in the SACCOs is thus worsened by very few expertise i.e. Bachelor's degree 19 (21.6%) with no representation at Master's or PhD level which brings a lot of trial and error method in decision making process of SACCO activities thus explaining the failure of most SACCOs in Kumi district.

**3.4 Descriptive analysis of the marital status of respondents**

The respondents involved in the study exhibited different marital status as seen in the table below;

**Table 5:** Descriptive analysis of marital status of respondents.

Marital status		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	39	44.3	44.3	44.3
	Single	43	48.9	48.9	93.2
	Divorced	3	3.4	3.4	96.6
	Separated	2	2.3	2.3	98.9
	Widowed	1	1.1	1.1	100.0
	Total	88	100.0	100.0	

Source: primary data analysis of the instrument, 2019

Accordingly in the above statistics they reveal that a majority of the respondents were single 43 (48.9%), 39(44.3%) were married, 3 (3.4%) divorced, 2 (2.3%) and 1(1.1%). This implies that people with ample time i.e. the single and those with responsibilities are majorly involved in SACCO activities. The divorced, widowed and separated are overwhelmed with a lot of domestic stress and unable to join the SACCOs.

**3.5 Effect of Budget Literacy on the financial performance of SACCOs in Kumi District**

This sub-chapter analyses the effect of Budget literacy on financial performance of SACCOs in Kumi district. The researcher used: frequency tables based on a five Likert scale to determine the effect of budget literacy where: Strongly Disagree (SD) =1, Dis-agree (D) =2, Not-sure (N) =3, Agree (A) =4, Strongly Agree (SA) =5. The researcher also carried out regression analysis to determine the effect and relationship between the independent variable and dependent variable.

**Table 6:** Descriptive statistics on the status of budget literacy among SACCOs in Kumi district.

Item	SD	% D (%)	N (%)	A (%)	SA (%)	Mean	Comment
Saccos have budget policy	8.1	7	4.7	38.4	41.9	3.99	High
Saccos operate based on planned targets	4.6	4.6	6.9	43.7	40.2	4.1	Very high
All transactions are controlled by the budget	8	2.3	10.3	57.5	21.8	3.83	High
Shareholders are contacted for budgeting	4.6	3.4	16.1	49.4	26.4	3.9	High
Budget reviews are conducted at year end.	3.4	0	57	43.7	47.1	4.31	Very high
Average mean	4.03						Very high

Adopted from Legend: 0.0-1.0, Very low; 1.1-2.0, Low; 2.1-3.0, Moderate; 3.1-4.0, High; 4.1-5.0, Very High.

Source: *Primary Data (2019)*

The statistics reveal that the most critical aspects of budget literacy that influence financial performance are; Budget reviews are conducted at the end of the accounting period with 90.8% agreement representing a very high mean ( $\mu$ ) = 4.31, this means that the end of year budget evaluations help the SACCOs to forge the best ways to address all the anomalies that were involved throughout the budgeting process and its implementation. It calls for budget literate members and managers of SACCOs to undertake budget evaluation seriously hence reduced costs that could have risen due to errors in the budgeting and implementation process thus controlled cash outflow levels leading to increased profitability, liquidity and low risks of losses. Secondly, Saccos implement their activities based on planned targets with 83.9% agreement and a  $\mu=4.1$ . The implication of this is that; off budget expenditure is completely eliminated which normally comes with high costs in the name of emergency budgets. The fact that money is spent only on planned activities keeps the would be wasted money on activities unplanned for and thus can be invested in other productive ventures or lent out to earn more returns thus increased profitability, liquidity, cash inflow and reduced losses over blind and dark expenditure amongst budget illiterate members and managers. The descriptive statistics also reveal that; Saccos have budget policy represented by a high  $\mu= 3.99$  (80.3%). According to an interview with one member of the SACCO management team he said; “ *there is no way you can operate a SACCO or even any organization , not even your home without a budget policy because a budget policy tells you what to do and what you need in order to do it*”. One executive member also said, “*Budget policy also limit us in spending money on activities not planned for but people always come up with their own plans and this is why some people have ended up quitting SACCOs*”. These responses communicate that budgeting and the knowledge of budget indeed enables disclosure of expenditure flaws which can easily be corrected hence improving financial performance 73 (83%) in a way of increased profitability, high liquidity, increased cash inflow levels due to restricted extra-ordinary expenditure. With a majority of the SACCO members being budget literate attracts other non-Sacco members to join the Sacco at a fee and this increases the liquidity levels hence increased financial performance. A section of 8 (9%) disagreed with the assumption and one member notably said “*the so called budget policy is just by name but people can eat or use the money when they want to do so and this one we have seen with our own eyes*”. based on this statement we can deduce that; lack of budget literacy and poor attitude negatively affects the financial performance of SACCOs. However, the extremists (15.1%) disagreed and they were of the view that, much as they prepare budgets they are not comprehensive as one member reportedly said, “*well most SACCOs normally prepare budgets but it's not implemented but only remains in paper work as they begin to spend money on activities not planned for because the budget was not comprehensive enough*”. This therefore means that emergency budgets are often implemented at a high cost due to limited time to critically analyse how, where, by whom and when such activities can be implemented thus at whatever cost activities have to be implemented which reduces the liquidity levels, profitability as the would be reinvested money is spent on costly and expeditious expenditure unplanned for. However the least aspects of budget literacy but which are also significant are; All shareholders are contacted and brought on board during budgeting process  $\mu=3.9$  (75.5%). The executive member notably said, “*...we normally and routinely put emphasis to bring shareholders to participate in the budgeting process and this has helped our SACCO grow*”. This therefore means that with every member being involved in the process of budgeting and perhaps suggesting who, when



and how in the process of implementation avoids costs a rising due to hasty budgets because every cost element is mentioned and planned for during the budgeting process. It's strongly believed that budget illiterate members pay little attention to buy-in from other members and often neglected and this allows only a few brains to think for the Sacco. The implication is that a few brains leads to un comprehensive budgets and a majority even if they are part of the implementation process will act with limited morale and thus limited chances in the achievement of planned targets which ruins financial performance inform of reduced profitability, liquidity, cash inflow and increased losses from expeditious expenditure. The descriptive statistics also portray that; All transactions are controlled by the budget represented by  $\mu=3.8$  (69.3%). According to a direct interview with a manager of Jossa SACCO, he said *“we have been experiencing problems with our working capital sometimes its inadequate and sometimes it's in excess but I think this is because we don't budget for it and in most cases we have always ended up suspending our operations till the following month much as there is high demand from the field and from our esteemed customers, this most often has affected us in terms of lost sales and poor loan recovery”*. Therefore budget literacy is the driving gear for increased profits, increased liquidity, increased cash inflow levels and a parking gear for losses arising from increased operational costs from unplanned and off budget expenditure.

### 3.6 Regression analysis of budget literacy and financial performance

Regression analysis showed the following results;

**Table 7:** Regression analysis of budget literacy and financial performance .

Model Summary									
Change Statistics									
Model	R	Adjusted R Square	Adjusted R Square	Std. Error of the Estimate	R of Square Change	F Change	Sig. Change	df1	df2
1	.743 <sup>a</sup>	.552	.546	.95545	.552	104.571	.000	1	85

a. Predictors: (Constant), Budget literacy

From the regression analysis Budget literacy and Financial performance have a significant positive relationship ( $R=0.743^a$ ,  $p<0.01$ ) which means that there is a very strong significant positive relationship between Budget literacy and financial performance (increased profitability, liquidity, cash inflow levels) of SACCOs in Kumi district. The regression analysis also shows correlation coefficient of determination  $R^2= 0.552$ . This therefore implies that improvement in budget literacy levels (having sound budget policy, comprehensive budgeting by all members, Budget based expenditure, End of year budget evaluations) amongst SACCO members can lead to 55.2% improvement or change in financial performance as explained by  $R=0.552$  of variation in financial performance of SACCOs in Kumi district and the remaining 44.8% variations are caused by other factors.

#### 4. Discussion of findings

In determining the effect of budget literacy on financial performance of SACCOs, the regression analysis was conducted and it showed that there is a very strong positive relationship between budget literacy and financial performance of SACCOs with  $R = 0.743$  and the  $p < 0.01$ . This was further supported with a very high Average mean of 4.03 of budget literacy levels. Therefore, the higher the budget literacy levels the higher the level of financial performance. The regression analysis further showed that budget literacy can affect financial performance by 55.2%. Therefore to enhance financial performance amongst SACCOs in Kumi district they should improve on budget literacy levels i.e. institute budget policy, bringing all members for successful comprehensive budgeting process, carrying out end of year budget evaluations for corrective actions, carrying out budget based expenditure to scale off unnecessary costs. These findings concurs with author [14] who investigated on how budgeting affects the performance of SMEs in China. He reviewed the budgeting process in business firms and performance measurement in SMEs and found out that more formal budgeting planning stimulates greater growth of sales returns in SMEs, clear and difficult budget goals improve budgetary performance of institutions, a higher level of budgetary complexity results in a lower profit growth of SMEs, more formal budgetary control leads to a higher growth of profit in the organisations and a greater budgetary involvement leads to better managerial performance. The findings are also in tandem with those of [15] who conducted a research on the effects of budgets on financial performance of manufacturing companies in Nairobi County, His findings revealed that, financial performance as measured by ROA (profits) is influenced by the use of budgets and influences of management. Also these results are in line with the findings of [13] who carried out a research on the impact of budgeting process on SMEs in China and having run an OLS regression analysis she discovered that there is a significant and positive relationship between formal budgeting process and firm performance. These results also agrees with the findings of [19] who carried out a study on non-bank financial institutions in Ghana in a paper of international journal for Academic research reported that there is a positive relationship between budgeting and financial performance. These findings also relate well with the findings of [13 and 14] who both of which carried out their studies on SMEs in China and they concluded that formal budgeting processes stimulates a strong growth in Sales Revenue and profits of the firms. Similarly these findings agrees with [16] while studying a sample of 60 companies using a cross-sectional research design concluded that aspects of budgeting practices such as budget planning and budgetary participation have a positively significant effect on the revenue collection efficiency of water service providers. On the analysis of items that assessed budget literacy, the descriptive statistics showed that, budget reviews are conducted at the year end and Saccos operate based on planned targets with a high mean ( $\mu$ ) of 4.31 and 4.1 respectively. Therefore if Saccos want to attain high level of financial performance in form of increased profits, high liquidity and reduced losses they have to embark on budget reviews and evaluations for corrective actions and restricted budget based expenditure. These findings are in line with [18] who assessed the effect of budgetary control on the financial performance of selected manufacturing companies in Kenya his results showed that there is a significant relationship between financial performance in manufacturing companies and the variables; planning, monitoring and control. The results also show that Shareholders are being contacted with  $\mu=3.9$  to participate in the budgeting process. This upholds the findings of [18] who assessed the effect of budgetary control on the financial performance of selected manufacturing companies in Kenya and his results showed that

there is a significant relationship between financial performance in manufacturing companies and participative budgeting. These findings equally upholds the results of [14] who investigated on how budgeting affects the performance of SMEs in China. Upon review of the budgeting process in business firms and performance measurement in SMEs, he found out that more formal budgeting planning stimulates greater growth of sales returns in SMEs, clear and difficult budget goals improve budgetary performance of institutions, a higher level of budgetary complexity results in a lower profit growth of SMEs, more formal budgetary control leads to a higher growth of profit in the organisations and a greater budgetary involvement leads to better managerial performance.

## 5. Conclusions

There is a strong positive relationship between budget literacy and financial performance of SACCOs evident with  $R= 0.743$ .

Increased budget literacy levels among SACCOs tremendously leads to greater improvement in financial performance levels and vice versa.

The key driving forces to financial performance are; performance of year end budget reviews and restricted budget based expenditure represented with  $\mu= 4.31$  and  $\mu=4.1$  respectively.

Participative budgeting and budget policy reduces off budget expenditure thus improved financial performance evident with  $\mu = 3.99$  and  $\mu = 3.9$  respectively.

## 6. Recommendation

Creation of awareness and member education: The management of SACCOs is based on the Rochdale principles of Cooperative member education so as to create an understanding of the modalities in SACCO operation. The Sacco members should be lectured on the importance of participative budgeting, comprehensive budgeting, object of budget policy, and budget based expenditure as a remedy and driving gear for financial performance and a parking gear to increased losses arising from high operational costs due to off budget expenditures.

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