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Financial Literacy and Performance of Selected Small and Medium Enterprises in Gasabo District, Rwanda

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Abstract: *The general objective of this study was to assess the effect of financial literacy on performance of selected SMEs in Gasabo District, Rwanda. The study was anchored on Social Learning Theory, Behavioural Finance Theory, and Knowledge Spillover Theory. Descriptive and correlational research designs were applied. The target population comprised 592 registered SMEs in Gasabo District, from which a sample of 239 respondents was selected using Slovin's formula and simple random sampling. Data were collected through questionnaires and interviews, while SPSS version 25 was used for descriptive, correlation, and regression analysis. The response rate was 91.20%, as 218 questionnaires were returned out of 239 distributed. The findings showed that book keeping had a positive and statistically significant effect on SME performance (B = 0.258, t = 6.999, p = 0.000). Financial planning had the strongest positive and statistically significant effect on SME performance (B = 0.530, t = 12.766, p = 0.000). Debt management also had a positive and statistically significant effect on SME performance (B = 0.228, t = 6.331, p = 0.000). The study concluded that financial literacy significantly improves financial management practices and enhances the performance of selected SMEs in Gasabo District. The study recommended that SME owners should strengthen financial planning, maintain proper financial records, and apply responsible debt management, while financial institutions and government stakeholders should provide targeted financial literacy training programmes to support SME growth.*

Keywords: *Financial Literacy, Book Keeping, Financial Planning, Debt Management, Performance of SMEs.*

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1. Introduction

In Africa, financial literacy remains important because many SMEs depend on microfinance institutions, SACCOs, banks, non-government organizations, and other financial institutions for loans, savings, and payment services. Microfinance and other financial inclusion programmes provide useful financial access, but the benefits of these services are limited when business owners do not possess enough knowledge to manage borrowed funds, savings, and business records effectively. Financial literacy therefore helps entrepreneurs transform access to finance into stronger business performance (Osabutey & Dzansi, 2022).

Evidence from African SMEs shows that inadequate financial literacy often leads to poor financial decisions, weak financial discipline, and business instability. Improved financial knowledge is associated with stronger financial performance, better operational efficiency, profitability, and customer retention. Studies from Kenya and Uganda indicate that SME owners with stronger financial literacy achieve better budgeting, investment decisions, and financial management efficiency (Kasekende & Kasozi, 2021; Musyoka & Nyangaga, 2022; Mugisha & Tumwine, 2022).

In Rwanda, financial literacy is viewed as a relevant support mechanism for SME growth because SMEs operate in an environment where financial inclusion has expanded through SACCOs, banks, and microfinance institutions. Umurenge SACCOs have contributed to improved access to savings and credit services among low-income people and small businesses. However, access to finance alone does not guarantee business growth unless SME owners know how to keep records, plan finances, manage debt, and evaluate business performance (Harelimana & Mukarukaka, 2023).

Despite the importance of SMEs to employment creation and economic growth, many selected SMEs in Gasabo District continue to face weak financial records, limited budgeting capacity, repayment difficulties, and poor financial decision making. This creates a literacy-performance gap because access to finance and enterprise registration do not automatically translate into profitability, efficiency, and sustained growth. Existing studies also tend to treat financial literacy as a broad concept without clearly separating the effects of book keeping, financial planning, and debt management on SME performance (Rwanda Private Sector Federation, 2022; Rukundo & Misago, 2023; Access to Finance Rwanda, 2024a).

Study Objectives

The general objective of the study was to assess the effect of financial literacy on performance of selected SMEs in Gasabo District. The study specifically sought to examine the effect of book keeping, determine the effect of financial planning, and establish the effect of debt management on performance of selected SMEs in Gasabo District. The study tested three null hypotheses stating that book keeping, financial planning, and debt management have no significant effect on performance of selected SMEs in Gasabo District.

2. Literature Review

This section reviews the theoretical and empirical literature that supported the relationship between financial literacy and performance of selected SMEs in Gasabo District.

2.1 Theoretical Review

The theoretical review explains the theories that guided the study and shows how each theory links book keeping, financial planning, and debt management to SME performance.

2.1.1 Social Learning Theory

Social Learning Theory explains that individuals can acquire new behaviours by observing others, retaining what they observe, reproducing the behaviour, and being motivated to apply it. In business settings, SME owners can learn financial practices through training, mentorship, peer interaction, and observation of successful entrepreneurs. The theory therefore supports the view that financial literacy can be strengthened through social interaction and practical learning (Bandura, 1977; Powers et al., 2020).

The theory was relevant to this study because SME owners and managers in Gasabo District can improve book keeping, financial planning, and debt management through training programmes, business networks, and peer learning. When financial knowledge is shared among entrepreneurs, it helps improve record keeping, budgeting, borrowing decisions, and overall business performance. Social Learning Theory therefore helped explain how financial literacy practices may be adopted and improved within SME communities (Kumar & Bhandarker, 2020).

2.1.2 Behavioural Finance Theory

Behavioural Finance Theory explains how cognitive biases, emotions, and personal judgement influence financial decision-making. The theory recognizes that entrepreneurs do not always make fully rational financial decisions because they may be affected by overconfidence, loss aversion, limited knowledge, fear of risk, or reliance on informal advice. These behaviours can influence borrowing, saving, investment, and financial planning decisions among SME owners (Ameyaw, 2022).

The theory was relevant to this study because financial literacy helps SME owners reduce poor financial behaviour by improving their ability to interpret financial information, understand debt obligations, manage cash flow, and plan business activities. In selected SMEs in Gasabo District, improved financial literacy can reduce mistakes in borrowing and spending and can support better business decisions. Behavioural Finance Theory therefore supports the analysis of book keeping, financial planning, and debt management as practices that improve SME performance.

2.1.3 Knowledge Spillover Theory

Knowledge Spillover Theory explains that knowledge created or available in one setting can move to other actors and create opportunities for innovation, enterprise growth, and improved decision-making. The theory views knowledge as a resource that can be shared through training institutions, peers, lenders, business associations, and support agencies. Entrepreneurs who access such knowledge can apply it in business operations to improve performance (Audretsch & Lehmann, 2005).

The theory was relevant because financial knowledge can spread among SMEs in Gasabo District through training, SACCOs, banks, government programmes, and business networks. When one enterprise adopts better financial practices, others may learn and imitate those practices. This knowledge flow helps improve book keeping, financial planning, debt management, and performance among SMEs. The theory therefore supports the role of financial literacy as a driver of improved SME practices and sector-level performance (Ozili, 2023).

2.2 Empirical Review

The empirical review presents previous studies related to the specific objectives and shows the evidence supporting the relationship between financial literacy and SME performance.

2.2.1 Book Keeping and Performance of SMEs

Ardila *et al.* (2021) examined factors influencing financial literacy among micro, small, and medium enterprises in Medan, Indonesia. The study used an associative methodology, questionnaires, and interviews with 100 respondents from the food and beverage sector. The findings showed that financial behaviour, financial socialization, and accounting systems had a favourable and significant influence on financial literacy. The study is relevant because accounting systems are directly related to book keeping practices among SMEs.

Tumba et al. (2022) investigated financial literacy and business performance among female micro-entrepreneurs in North-East Nigeria. Data were collected from 247 female entrepreneurs and analysed using SmartPLS. The findings showed that financial education, cash forecasting, and book keeping significantly affected business performance. The study emphasized that accounting and financial education practices are key drivers of performance among micro-entrepreneurs.

Casas *et al.* (2024) examined book keeping practices in family-owned businesses and showed that systematic record keeping supports financial control, business monitoring, and decision making. The study is relevant because SMEs require accurate records of income, expenses, assets, and liabilities to evaluate performance and manage resources. This evidence supports the argument that proper book keeping enhances SME performance.

2.2.2 Financial Planning and Performance of SMEs

Zada *et al.* (2021) examined the effect of financial management practices on the development of small-to-medium forest enterprises in Pakistan. Data were collected from 260 enterprise owners, finance managers, and finance staff. The findings showed that accounting information systems, investment decisions, financial reporting, working capital management, and financing practices were closely linked to financial performance and business growth. The study confirms that financial planning and related practices support enterprise development.
Utami *et al.* (2021) assessed financial literacy, technology use, financial behaviour, and performance among micro, small, and medium enterprises in Probolinggo City. The study used questionnaires administered to MSME owners whose businesses had operated for at least three years. The findings showed that financial behaviour and planning discipline were associated with business performance. The study demonstrates that financial literacy supports stronger financial discipline and performance among enterprises.

Yasin *et al.* (2020) assessed the importance of financial literacy among Muslim women entrepreneurs involved in halal business. The study explained that women entrepreneurs often face limited business knowledge, weak financial management training, and regulatory constraints. The findings indicated that financial literacy helps entrepreneurs improve financial management and business performance. This supports the relevance of financial planning as a dimension of financial literacy.

2.2.3 Debt Management and Performance of SMEs

Nyamagwa (2021) examined the influence of financial literacy on economic empowerment among women small-scale traders in South Mugirango Sub-County. The study focused on budgeting, book keeping, and debt management as financial literacy practices. The findings showed that debt management and record keeping improved sales, earnings, operational efficiency, and loan management among small traders. The study confirms that responsible debt management strengthens enterprise performance.

Iswan *et al.* (2020) examined the role of financial literacy in the growth of women-owned microenterprises in Busia County, Kenya. The study used questionnaires, interviews, descriptive statistics, and Pearson correlation analysis. The findings showed that knowledge of venture formation, financial management, and financing sources contributed to business growth. This evidence indicates that financial knowledge and responsible use of financing support enterprise expansion.

Msomi and Nzama (2022) studied financial literacy and SME loan repayment in South Africa during the COVID-19 era. Their findings showed that financial literacy was important for understanding loan conditions, repayment responsibilities, and credit management. The study is relevant because debt management depends on the ability of SME owners to evaluate interest rates, repayment terms, and debt risks before borrowing.

3. Methodology

This section presents the procedures used to collect and analyse data for the study on financial literacy and performance of selected SMEs in Gasabo District.

3.1 Research Design

The study used descriptive and correlational research designs. The descriptive design was used to summarize the characteristics of respondents and the level of book keeping, financial planning, debt management, and SME performance. The correlational design was used to examine the relationship between the independent variables and performance of selected SMEs in Gasabo District.

3.2 Target Population, Sample Size and Sampling

The target population comprised 592 registered SMEs in Gasabo District. These SMEs were grouped into manufacturing SMEs, service SMEs, and trading SMEs.

$$n = \frac{N}{1 + (Ne^2)}$$

n= Number of samples or sample size
N= Total population
e = Error tolerance

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$$n = \frac{592}{1+(592x0.05^2)} = \frac{592}{1+(592x0.0025)} = \frac{592}{1+1.48} = \frac{592}{2.48} = 238.70 \cong 239$$

The sample size was 239 respondents, determined using Slovin's formula. Simple random sampling was used to select respondents from the SME categories so that each eligible respondent had an equal chance of participation.

3.3 Data Collection Instruments and Procedures

Data were collected using questionnaires and interviews. The questionnaire gathered quantitative information on book keeping, financial planning, debt management, and performance of selected SMEs. Interviews were used to obtain deeper explanations from selected SME owners and managers regarding financial literacy practices and business performance. Permission was obtained before data collection, and respondents were given enough time to complete the questionnaire.

3.4 Validity and Reliability

Validity was ensured through supervisor review and pilot testing before the main data collection exercise. The pilot study was carried out in Kicukiro District using 24 SMEs, representing about 10% of the sample size. The feedback obtained from the pilot study was used to improve unclear items. Reliability was assessed using Cronbach's Alpha in SPSS, and a coefficient of 0.70 or above was considered acceptable for internal consistency.

3.5 Data Analysis

Quantitative data were analysed using SPSS version 25. Descriptive statistics including frequencies, percentages, means, and standard deviations were used to summarize the findings. Pearson correlation analysis was used to examine relationships between the variables, while multiple regression analysis was used to determine the effect of book keeping, financial planning, and debt management on performance of selected SMEs in Gasabo District. The regression model used was $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$, where Y represented performance of SMEs, X_1 represented book keeping, X_2 represented financial planning, and X_3 represented debt management.

3.6 Ethical Consideration

Ethical consideration was observed throughout the study. Confidentiality and anonymity were maintained by avoiding names on questionnaires and by using the collected data only for academic purposes. Physical and digital data were stored securely to prevent unauthorized access.

4. Results and Discussion

This section presents the main findings on financial literacy and performance of selected SMEs in Gasabo District. The response-rate findings showed that 218 questionnaires out of 239 were filled and returned, representing 91.20%, while 21 questionnaires representing 8.80% were unreturned or incomplete. This response rate provided sufficient data for descriptive and inferential analysis.

Table 1: Correlations

		Book keeping	Financial planning	Debt management	Performance of SMEs
Book keeping	Pearson Correlation	1	.574**	.576**	.719**
	Sig (2-tailed)		.000	.000	.000
	N	218	218	218	218
Financial planning	Pearson Correlation	.574**	1	.582**	.820**
	Sig (2-tailed)	.000		.000	.000
	N	218	218	218	218
Debt management	Pearson Correlation	.576**	.582**	1	.713**
	Sig (2-tailed)	.000	.000		.000
	N	218	218	218	218
Performance of SMEs	Pearson Correlation	.719**	.820**	.713**	1
	Sig (2-tailed)	.000	.000	.000	
	N	218	218	218	218

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

Source: Field data, 2026

Table 1 presents correlations between financial literacy variables and performance of selected SMEs in Gasabo District. Book keeping had a strong positive and statistically significant relationship with performance of SMEs (r = 0.719, p = 0.000). Financial planning had a very strong positive and statistically significant relationship with performance of SMEs (r = 0.820, p = 0.000). Debt management also had a strong positive and statistically significant relationship with performance of SMEs (r = 0.713, p = 0.000). These findings show that book keeping, financial planning, and debt management are important determinants of SME performance. The findings support Kasekende and Kasozi (2021), who indicated that financial literacy enables entrepreneurs to make informed financial decisions and improve business sustainability.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895[a]	.802	.799	.17813

a. Predictors: (Constant), Debt management, Book keeping, Financial planning

Source: Field data, 2026

Table 2 shows that the regression model had an R value of 0.895, indicating a very strong positive relationship between financial literacy variables and performance of selected SMEs in Gasabo District. The R Square value of 0.802 indicates that 80.2% of the variation in SME performance was explained by book keeping, financial planning, and debt management. The adjusted R Square value of 0.799 confirms that the model remained strong after adjustment, while the standard error of 0.17813 indicates a low prediction error.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.456	3	9.152	288.431	.000[b]
	Residual	6.790	214	.032		
	Total	34.247	217			

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Debt management, Book keeping, Financial planning

Source: Field data, 2026

Table 4 presents the ANOVA results for the regression model. The F statistic value of 288.431 and significance value of 0.000 show that the model was statistically significant. Since the significance value was below 0.05, book keeping, financial planning, and debt management jointly had a significant effect on performance of selected SMEs in Gasabo District. These results confirm that financial literacy practices collectively explain a significant proportion of SME performance.

Table 4: Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.059	.149		-.392	.696
	Book keeping	.258	.037	.279	6.999	.000
	Financial planning	.530	.041	.512	12.766	.000
	Debt management	.228	.036	.254	6.331	.000

a. Dependent Variable: Performance of SMEs

Source: Field data, 2026

Table 4 presents the regression coefficients explaining the individual effect of each financial literacy variable on performance of selected SMEs in Gasabo District. Book keeping had a positive and statistically significant effect on SME performance ($B = 0.258$, $t = 6.999$, $p = 0.000$). This means that a one-unit improvement in book keeping increased SME performance by 0.258 units, holding other variables constant. Financial planning had the strongest positive and statistically significant effect on SME performance ($B = 0.530$, $t = 12.766$, $p = 0.000$), meaning that a one-unit improvement in financial planning increased SME performance by 0.530 units. Debt management also had a positive and statistically significant effect on SME performance ($B = 0.228$, $t = 6.331$, $p = 0.000$), meaning that responsible debt management improved SME performance. The fitted model was $Y = -0.059 + 0.258X1 + 0.530X2 + 0.228X3 + \varepsilon$.

5. Conclusion and Recommendations

This section presents the summary, conclusion, recommendations, and areas for further study based on the findings on financial literacy and performance of selected SMEs in Gasabo District.

5.1 Conclusion

The study concluded that financial literacy has a positive and statistically significant effect on performance of selected SMEs in Gasabo District. Book keeping improves SME performance by supporting accurate recording of transactions, monitoring of customer debts, tracking of supplier payments, and preparation of financial statements. These practices strengthen accountability, financial control, and informed decision-making among SMEs.

The study further concluded that financial planning is the strongest predictor of SME performance. Budgeting, financial goal setting, risk management, and planned allocation of funds help SMEs use financial resources more efficiently and support business growth. Financial planning enables enterprise owners to control costs, prepare for uncertainties, and align financial decisions with business priorities.

The study also concluded that debt management significantly improves SME performance. Understanding interest rates, following repayment schedules, assessing total borrowing costs, and avoiding excessive debt help SMEs maintain financial stability and reduce credit-related risks. The findings therefore confirm that book keeping, financial planning, and debt management are essential financial literacy practices for improving performance of selected SMEs in Gasabo District.

5.2 Recommendations

From the findings of this study, the following recommendations were provided:

1. SME owners and managers in Gasabo District should strengthen book keeping systems by recording all sales, expenses, accounts receivable, accounts payable, and financial statements in an accurate and timely manner.

2. SME owners should improve financial planning by preparing budgets, setting clear financial goals, allocating funds according to business priorities, and reviewing financial plans regularly.
3. SME owners should practice responsible debt management by comparing interest rates, understanding repayment terms, avoiding excessive borrowing, and using loans only for productive business activities.

4. Government institutions, financial institutions, and SME support agencies should expand practical financial literacy training programmes focused on book keeping, financial planning, and debt management for SMEs in Gasabo District.

5.3 Areas for Further Research

Further studies should examine the effect of digital financial literacy on SME performance in other districts of Rwanda. Future researchers may also compare the performance effects of financial literacy across different

SME sectors, including manufacturing, trading, and services.

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