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**FINANCIAL LITERACY, FINANCIAL TRUST AND FINANCIAL PERFORMANCE  
OF VILLAGE SAVINGS AND LOAN ASSOCIATIONS IN MBALE DISTRICT,  
UGANDA**

**BY**

**WABUTEYA MACMILLAN**


**BU/GS23/MBA/37**

**A RESEARCH DISSERTATION SUBMITTED TO THE DIRECTORATE OF  
GRADUATE STUDIES, RESEARCH AND INNOVATION IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF A DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION OF BUSITEMA  
UNIVERSITY**

**OCTOBER, 2025**

**DECLARATION**

I, Wabuteya Macmillan, do hereby declare that this Research dissertation is my original work and has never before been submitted to any university or any institution of higher learning for any academic award.


Signature:  ..... Date: 24/10/2025 .....

**WABUTEYA MACMILLAN**


**BU/GS23/MBA/37**

**APPROVAL**

This is to certify that the research dissertation titled "**Financial Literacy, Financial Trust and Financial Performance of Village Savings and Loan Associations in Mbale District, Uganda**" has been submitted with our approval as University Supervisors.

Signature:  ..... Date: 24/10/2025 .....

**Dr. Watema Joash (PhD)**

Signature:  ..... Date: 23/10/2025 .....

**Dr. Namono Rehema (PhD)**

## **DEDICATION**

This dissertation is dedicated to my beloved mother and to my late father, Mr. Kimuna John Mike, my wife, our precious children, whose laughter and joy give my life purpose for being my constant motivation.

## **ACKNOWLEDGMENT**

First and foremost, I would like to extend my deepest gratitude to the Almighty God for His abundant grace, the gift of life, and the strength He has provided me throughout my academic journey. His provision has been a constant source of hope and perseverance. I am equally grateful to the staff and management of Busitema University, whose unwavering support and guidance have been invaluable in shaping my academic path. Their dedication has made my educational experience both enriching and fulfilling.

I wish to express my heartfelt thanks to my supervisors, Dr. Watema, Joash and Dr. Namono Rehema, for their exceptional support, guidance, and attention to detail, which have played a pivotal role in the completion of this writing. May God bless them abundantly for their selfless determination? Class mates like Walusimbi Gerald Aedu Kenneth can't go unappreciated. In a very special way I recognize the support of Loyce Imailuk Amoit for the financial support in this journey. Finally, I extend my deepest gratitude to my mother Nambuya Lornah and my dearest wife, Mrs. Eunice Muzaki, for their continuous inspiration, mentorship, and endless support, which have enriched my life in countless ways.

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## **ABBREVIATIONS AND ACRONMYS**

CDO	Community Development Officer
CVI	Content Validity Index
FSD	Financial Sector Deepening
INFE	International Network on Financial Education
MENA	Middle East and North Africa
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
UBOS	Uganda Bureau of Statistics
UMRA	Uganda Microfinance Regulatory Authority
VSLA	Village Savings and Loan Association

## **ABSTRACT**

Village savings and loan associations (VSLAs) ought to drive strong financial performance so as to continue extending financial service to the communities. The current study sought to establish the mediation effect of financial trust on the relationship between financial literacy and financial performance of VSLAs in Mbale District, Uganda. The specific objectives of the study were: to examine the effect of financial literacy on the financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District; to assess the effect of financial literacy on financial trust among VSLAs in Mbale District; to establish the effect of financial trust on the financial performance of VSLAs in Mbale District, and to determine the mediating effect of financial trust in the relationship between financial literacy and the financial performance of VSLAs in Mbale District. A cross-sectional design was used and data was collected at one point in time. To ensure the validity and reliability of the research instruments, the study tested for content validity index and cronbach alpha coefficient and the data was valid and reliable. With a target population of 116 VSLAs, a sample of 90 VSLAs was selected using Yamane's formula, and data were collected from VSLAs. The study used a structured questionnaire to gather data from VSLA members. The study was anchored on the theory of planned behavior to explain the relationship between the study variables. The data were analyzed using descriptive statistics, correlation and regression analysis. The findings revealed that financial literacy positively influence both financial trust and financial performance. Additionally, financial trust was a significant predictor of financial performance. The results further that financial trust partially mediates the relationship between financial literacy and financial performance. The study concluded that enhancing financial literacy and building financial trust within VSLAs can significantly improve financial performance. It is recommends that fostering financial education and trust-building practices within VSLAs can strengthen group cohesion and ensure sustained financial success.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This chapter entails the background of the study, problem statement, research objectives, research hypothesis, and significance of the study, as well as the scope and conceptual framework.

### 1.1 Background

For continued success in serving communities, Village Savings and Loan Associations (VSLAs) ought to drive strong financial performance (Tugume *et al.*, 2025; Masano, 2025). VSLA is a self-managed and self-capitalized savings group that operates on the principle of members pooling their savings and providing loans to each other. Financial performance is important in building trust among members, and ensuring consistent savings growth. Financial performance refers to the ability of an organization to effectively manage its financial resources and achieve its financial goals (Cheng *et al.*, 2025; Zhang, 2025). According to Zhang (2025), financial performance refers to how effectively an organization manages its resources to generate income, maintain solvency, and achieve set financial objectives over time. Scholars such as Ahmad and Aliyu (2025), Karlan and Valdivia (2011) and Ledgerwood and White (2006) argue that financial performance of an organization is dimensionalized into savings growth, loan repayment rates, and returns on funds. Studies have revealed that any financial institution (Such as VSLAs) are said to be financially performing if they are able to grow their savings (Lagu, 2023; Vogel, 2021), clients are able to repay loans (Kwarteng *et al.*, 2019) and make return on its funds (Pienaah & Luginaah, 2024).

Financial literacy defined as the skills, knowledge and tools that equip people to make individual financial decisions and actions to attain their goals according to financial literacy and education commission (2020). Lusardi and Messy (2023) define financial literacy as a blend of financial knowledge, skills, and self-efficacy for sound financial decision-making. Individuals with high financial self-efficacy apply their knowledge confidently to manage finances and make sound choices (Agarwalla *et al.*, 2021; van Rooij *et al.*, 2020). These behaviors especially saving regularly, investing wisely, and repaying loans support improved financial performance at both personal and group levels (Hasler & Lusardi, 2022).

While financial performance is crucial, VSLAs struggle to maintain consistent savings growth, ensure timely loan repayments, and generate meaningful returns on funds. For instance, in Middle income countries, various community-based financial institutions, including VSLAs, often struggle with loan repayment defaults, where members fail to repay loans on time (Hatlebakk, 2024). The problem of performance of VSLAs is not peculiar to Africa. In Tanzania, members of Village Savings and Loan Associations (VSLAs) in Ilala District often default on loan repayments (Msangya, 2023). The returns on the funds accumulated through VSLAs are often lower than anticipated (Msangya, 2023). Further, the VSLA report show that at any one time, the average group has 63% of members with loans outstanding meaning high proportion of funds tied up in loans (VSLA, n.d; Onyango, 2018). 74% of available funds are in loans, suggests that the association may face difficulties with timely repayment (VSLA, n.d). In Kenya, a study revealed that 51.3% of VSLA members faced difficulties in repaying loans (Nishimwe, 2019).

In Uganda, a study by Lagu (2023) reveal that there is increased debt among borrowers resulting in loan defaults. Also, the independent report of (2024) reveals high default rates which have reached 10%, surpassing the industry cap of 5%. This is further affirmed by Lendsqr (2025), loan

repayments are delayed or ignored, leading to higher default rates. Further, Nahwera and Arinaitwe Julius (2023) reveal that VSLA members often take loans for emergencies, which may not be repaid promptly

Also studies by Bagire and Namagembe (2022) reveal that Savings groups in Uganda face significant challenges with loan repayment defaults and some participants in Uganda still struggle with maintaining consistent savings. In Mbale, Nsubuga (2022) found that VSLAs in Mbale loan repayment defaults are a significant problem due to loan tracking and recovery system.

From the theoretical lenses of the Theory of Planned Behavior (TPB), individuals' behavior is primarily determined by their intentions, which are influenced by three factors: attitudes, subjective norms, and perceived behavioral control. Financial literacy (such as budgeting, saving, and investing) influences individuals' attitudes towards managing their finances. This positive attitude would reduce loan defaults and improve overall financial behavior within the group. Scholars have determined the antecedent role of financial literacy on financial performance (Sukmana & Trianto, 2025; Yakob *et al.*, 2021; Angreyani *et al.*, 2023; Peter *et al.*, 2025). For instance, a study by Sukmana and Trianto (2025) revealed that financial literacy enhances the performance of Micro, Small, and Medium Enterprises (MSMEs). Further, scholars (see. Yakob *et al.*, 2021; Ngek, 2016; Buchdadi *et al.*, 2020; Usama & Yusoff, 2019; Kanyundo, 2018) opine that higher levels of financial literacy among small business owners are associated with better business performance.

Further, the theory of planned behavior financial affirms that trust influences attitude and perceived behavioral control (like savings behavior; behavior to repay loan), thereby enhancing financial performance. Financial trust shapes individuals' perceptions of financial institutions and products (Centeno, 2023). When individuals perceive that their community or peers trust financial

systems, they are more likely to conform to these behaviors, enhancing collective financial performance (Centeno, 2023). The tenets of the theory of planned behavior is in resonance with empirical evidence that established the antecedent role of financial trust in enhancing financial performance (Oláh *et al.*, 2021; Oláh *et al.*, 2020; Shalhoob, 2025 ).

Furthermore, the combined effect of these two variables financial literacy and financial trust can be seen as complementary. While financial literacy enhances the knowledge required to make informed financial decisions, financial trust provides the psychological security and social norms that encourage individuals to engage with financial systems. Together, they create a robust foundation for individuals to manage their finances effectively, contributing to improved financial performance.

Despite the growing body of literature on financial literacy and financial trust, there remains a gap in understanding how these two factors interact and collectively influence financial performance, particularly within the context of Village Savings and Loan Associations (VSLAs) and other informal financial systems. While financial literacy has been widely studied in relation to financial behavior, the joint effect with financial trust in shaping financial decisions and performance, particularly in resource-constrained settings, has not been extensively explored. The current study seeks to bridge this gap by focusing specifically on VSLAs, where both financial literacy and trust play a crucial role in shaping the financial behavior of individuals in low-income, community-based settings. By investigating how financial literacy and financial trust interact to influence financial performance the study contribute new insights into the relationship between these variables in informal financial systems.

## 1.2 Problem statement

In Mbale District, VSLAs have emerged as a vital mechanism for grassroots financial inclusion and livelihood improvement. Therefore, for continued success in serving communities, Village Savings and Loan Associations (VSLAs) ought to drive strong financial performance (Tugume *et al.*, 2025; Masano, 2025). As key sources of income, VSLAs are supposed to keep their continuance by loans, grow their savings and yield more funds from different sources such as lending out loans.

However, evidence reveals that the performance of VSLAs in Mbale district is poor manifested in high loan defaults (Nsubuga, 2022). For instance, Nakaweesi (2022) found that at least 62.1% of borrowers failed to repay their loans. Also, Ayongyeirwe (2024) revealed that including issues related to loan repayment defaults, deteriorating savings, and poor return on funds. Börjeson (2019) further reveal that in Mbale, women in saving groups sometimes struggled to repay loans due to irregular income from farming or small-scale businesses. The study also points to the fact that funds from saving groups are mainly used for small loans, and there is limited investment in larger income-generating activities that could offer higher returns (Börjeson , 2019). The FinScope Survery (2018) further affirms that in Mbale District, VSLAs have experienced significant challenges with loan repayment defaults. For instance, the Namanyonyi Savings and Credit Association in Namayonyi Sub-county reported that members failed to repay loans amounting to 12 million UGX, leading to operational difficulties during the COVID-19 lockdown (The Independent, 2020). Similarly, Kwiye Savings Association in Nakaloke Town Council faced repayment issues, with over five million shillings outstanding (The Independent, 2020). SACCOs in Mbale District have faced challenges in generating returns on funds due to poor loan repayment performance. The Namanyonyi Savings and Credit Association, for example, reported that the

inability to recover loans hindered its capacity to generate income and provide services to members (The Independent, 2020).

Scholarly evidence that financial trust and financial literacy since financial knowledge enhances ability to make informed decisions about money which creates positive attitude toward financial activities like savings, loan repayment (Lusardi & Mitchell, 2021) which directly contributes to improved financial performance (Lusardi & Mitchell, 2021). Financial trust amplifies attitude toward using financial institutions for saving and investing, improving their financial performance (Van der Crujisen *et al.*, 2023; Akhgari *et al.*, 2018). Despite the empirical evidence on the antecedent role of financial trust and financial literacy on enhancing financial performance, the joint effect with financial trust in shaping financial decisions and performance, particularly in resource-constrained settings, has not been extensively explored. The current study seeks to enhance the financial literacy knowledge by establishing the mediating effect of financial trust on the relationship between financial literacy on financial performance.

### **1.3 Purpose of the Study**

The purpose of this study is to establish how financial trust interacts with financial literacy to enhance financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District.

### **1.4 Objectives of the Study**

- i. To examine the effect of financial literacy on the financial performance of VSLAs in Mbale District.
- ii. To assess the effect of financial literacy on financial trust of VSLAs in Mbale District.

- iii. To establish the effect of financial trust on financial performance of VSLAs in Mbale District.
- iv. To establish the mediating effect of financial trust in the relationship between financial literacy and the financial performance of VSLAs in Mbale District.

### **1.4.1 Research Hypotheses**

H1: Financial literacy has a significant effect on the financial performance.

H2: Financial literacy has a significant effect on financial trust.

H3: Financial trust has a significant effect on financial performance.

H4: Financial trust significantly mediates the relationship between financial literacy and financial performance.

### **1.5 Significance of the Study**

To village Savings and Loan Associations (VSLAs), the study findings provide insights into how financial literacy and trust can enhance savings mobilization, loan repayment rates, and increase returns on funds.

To government and policymakers, the study offers evidence to support the creation of financial education programs and regulations that can improve the financial stability of VSLAs.

To scholars and researchers, the study fills a gap in the literature by providing empirical evidence on the mediation effect of financial trust on the relationship between financial literacy and trust and financial performance of VSLAs.

To Microfinance Institutions and Donors, the recommendations of the study could inform support programs, to equip VSLAs with the necessary skills to improve their financial performance.

## **1.6 Scope of the study**

### **1.6.1 Geographical Scope**

The study was conducted in Mbale District, located in the eastern region of Uganda. The justification for studying VSLAs in Mbale District stems from the evidence that VSLAs in Mbale are struggling with high loan defaults, poor savings growth, and low returns on funds. For example, The Independent (2020) reported that the Namanyonyi Savings and Credit Association in Namanyonyi Sub-county faced loan repayment defaults totaling 12 million shillings, leading to operational difficulties. Furthermore, the Fin Scope Survey (2018) and findings by Nsubuga (2022) highlight that loan repayment defaults and poor financial performance are widespread in the district, indicating that the financial management of VSLAs in this region is significantly hindered.

### **1.6.2 Content Scope**

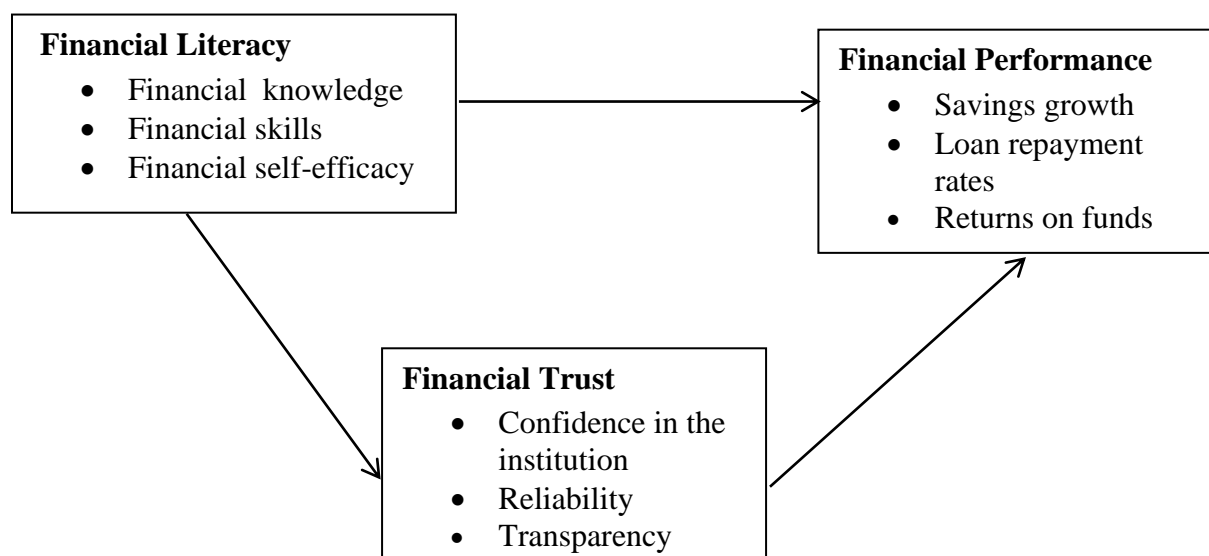
The research focused on the relationship between financial literacy, financial trust, and financial performance of Village Savings and Loan Associations (VSLAs). Financial literacy is conceptualized as financial knowledge, financial skills, and financial self-efficacy while financial trust is measured in terms of confidence in the institution, reliability, and transparency. Also, financial performance will be assessed based on indicators such as savings growth, loan repayment rates, and returns of funds.

### **1.6.3 Time Scope**

The study covers a period of three years, from 2022 to 2025, to examine the financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District. This time frame is selected because it allows for a comprehensive analysis of the performance of VSLAs over a reasonable

period, reflecting the most recent financial behaviors, trends, and challenges faced by these groups. During this period, VSLAs in Mbale have faced notable difficulties in maintaining consistent savings growth, ensuring timely loan repayments, and achieving desired returns on funds, as highlighted in reports from The Independent (2020) and Nsubuga (2022). By focusing on the past three years, the study captures a relevant and representative snapshot of the current financial performance of VSLAs, including post-COVID-19 recovery trends and the ongoing impact of financial literacy and trust on their operations.

### 1.7 Conceptual Framework



**Figure 1.1: Conceptual Framework**

Source: Lusardi and Mitchell (2020), Gürhan-Canli and Batra (2024) and Cheng *et al.* (2025)

The conceptual framework for this study postulates that financial literacy (knowledge, skills, and self-efficacy) and financial trust (confidence in the VSLA’s financial processes and leadership) are crucial determinants of the financial performance of Village Savings and Loan Associations (VSLAs). In this framework, the study postulates that: Financial literacy shapes individuals'

attitudes toward financial behaviors such as saving and loan repayment. When members of VSLAs have higher financial literacy, they are more likely to engage in behaviors that support the financial performance of the group, such as contributing to savings and repaying loans on time. Financial trust influences subjective norms, meaning that when individuals trust the leadership and financial systems of the VSLA, they are more likely to follow group norms and contribute to the success of the association. Both financial literacy and financial trust impact perceived behavioral control, where financially literate individuals who also trust the financial system feel more confident in managing their finances and adhering to the group's financial activities. This enhanced perceived control leads to better engagement in saving, loan repayment, and investment activities, which ultimately improves the financial performance of the VSLA. The TPB, therefore, suggests that the more financially literate and trusting individuals are, the more likely they are to engage in behaviors that contribute positively to the VSLA's financial performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter explores the theories that guide the study and the scholarly literature on financial literacy, financial trust, and financial performance. Through an empirical review of the available literature, guided by the research objectives, this chapter highlights the gaps that need to be addressed.

#### **2.1 Theoretical Review**

##### **2.1.1 Theory of Planned Behaviour**

The study was anchored on the Theory of Planned Behavior (TPB) by Ajzen (1985), to predict human behavior. According to Ajzen (1985), human behavior is based on three key components of attitudes, subjective norms, and perceived behavioral control. The first component, attitudes, refers to the positive or negative evaluation an individual has towards engaging in a particular behavior. In this case, financial literacy plays a crucial role in shaping an individual's attitude towards financial behaviors such as saving, investing, and budgeting. Financially literate individuals are more likely to understand the benefits of these activities and view them positively. As individuals acquire financial knowledge, their ability to make informed decisions about money increases, which enhances their attitudes toward financial activities. For example, those with higher financial literacy are more likely to engage in sound financial practices, such as regularly saving or investing, which directly contributes to improved financial performance (Clark et al., 2021). Furthermore, financial trust amplifies this attitude by fostering confidence in financial

institutions and products. When individuals trust financial institutions, they are more likely to adopt favorable attitudes toward using these institutions for saving and investing, improving their financial performance (Van der Crujisen *et al.*, 2023; Akhgari *et al.*, 2018).

Subjective norms, the second component of TPB, refer to the social pressures or influences that affect an individual's behavior. These norms are shaped by the perceptions of what others think or do. In the context of financial behavior, financial trust plays a significant role in shaping subjective norms. When individuals perceive that their community or peers trust financial systems, they are more likely to engage in similar financial behaviors, thus enhancing collective financial performance. Financial literacy strengthens subjective norms by empowering individuals to understand the importance of financial behaviors, such as saving and investing, and encourages them to conform to these positive behaviors, thus improving their own financial performance (Yakob *et al.*, 2021). Perceived behavioral control refers to an individual's belief in their ability to perform a specific behavior. This is closely linked to self-confidence and the perceived ease or difficulty of performing a particular task. Financial trust directly affects perceived behavioral control by reducing perceived barriers to financial decision-making. When individuals trust that their financial institutions will act in their best interest, they feel more capable of making financial decisions, such as opening a savings account, applying for a loan, or investing in the stock market. Moreover, financial literacy enhances perceived behavioral control by providing individuals with the knowledge and skills necessary to manage their finances effectively. A higher level of financial literacy increases an individual's confidence in their ability to make sound financial decisions, which in turn leads to more proactive financial behaviors such as budgeting, saving, and investing (Andarsari & Ningtyas, 2019; Asaad, 2015).

## **2.2 Conceptual Literature Review**

### **2.2.1 Financial literacy**

Financial literacy is a multifaceted construct that encompasses the knowledge, skills, and confidence necessary to make informed and effective financial decisions. Financial literacy is broadly defined as the capacity to make informed and effective financial decisions. Financial literacy encompasses knowledge, skills, and self-efficacy for sound financial management (Lusardi & Mitchell, 2020). Financial literacy enables individuals to navigate increasingly complex financial markets, manage risks, and secure long-term financial well-being (Van Saeed, 2023; Bagama, 2024). Financially literate individuals are better equipped to plan for retirement, manage debt responsibly, make strategic investments, and contribute to broader economic stability (Yoganandham, 2025; Katnic *et al.*, 2024). Financial literacy enhances economic participation, resilience, and the capacity to respond effectively to financial challenges in uncertain environments (Katnic *et al.*, 2024; Aassouli & Ahmed, 2023).

Financial literacy is measured through financial knowledge, financial skills, and financial self-efficacy. Financial knowledge refers to understanding fundamental concepts such as interest rates, inflation, budgeting, saving, credit, and investment, providing the cognitive tools to evaluate options and risks (Lusardi & Mitchell, 2023). Financial knowledge refers to an individual's understanding of essential financial concepts, including budgeting, saving, investing, and managing debt. This knowledge forms the basis for making informed financial decisions. Financial skills are the practical abilities to apply this knowledge in real life, including budgeting, expense monitoring, debt management, and assessing financial products (Yoganandham, 2025)). Financial skills, on the other hand, involve the practical application of this knowledge, enabling individuals

to effectively manage their finances, plan for future financial needs, and navigate various financial products and services. Financial self-efficacy relates to an individual's confidence in their ability to manage financial tasks and make sound financial choices. It plays a key role in motivating individuals to apply their financial knowledge and skills in real-world scenarios.

Financial self-efficacy reflects an individual's confidence in managing their financial affairs successfully, influencing the likelihood of engaging in proactive behaviors such as consistent saving, prudent borrowing, and goal-oriented planning (Jumady *et al.*, 2024). These dimensions provide a comprehensive framework for assessing financial literacy since they capture both the capacity to understand financial concepts and the competence and confidence to act on them effectively.

### **2.2.2 Financial trust**

Financial trust refers to the belief that individuals or institutions will act in a reliable and dependable manner when managing financial resources. Trust in the financial system is crucial for fostering positive financial behaviors, such as savings, investments, and timely loan repayments. Trust can be seen as a key factor in building strong relationships between customers and financial institutions, influencing the willingness of individuals to engage with financial products and services. According to Celestin and Vanitha (2016), financial trust is the level of confidence individuals have in the management of money by institutions, systems, or community-based groups such as Village Savings and Loan Associations (VSLAs). The concept of financial trust is multi-dimensional, typically involving both cognitive and emotional components. Cognitive trust is based on the belief that the financial institution or individual has the competence, reliability, and integrity to act in the best interest of the customer. Emotional trust, on the other hand, stems from

personal experiences and interpersonal relationships, where individuals feel a sense of security and confidence in their financial dealings. In these collective financial structures, trust acts as the foundation for participation, discipline, and risk reduction, fostering regular saving, timely loan repayment, and member retention (Celestin & Vanitha, 2016). It creates a safe environment where financial cooperation can flourish, enabling groups to function effectively and achieve shared economic goals. In the context of this study, financial trust is examined through confidence in the institution, reliability, and transparency

Confidence in the institution refers to members' belief that VSLA leadership is capable, fair, and accountable, ensuring that savings are secure, loans are issued responsibly, and rules are applied consistently (Mwijukye, 2020). Reliability captures the consistent fulfillment of commitments by both members and leaders, including meeting attendance, savings contributions, timely repayments, and adherence to agreed procedures (Tabirih, 2024; Anania & Gikuri, 2015). Transparency involves openness in financial processes, such as recording transactions in accessible ledgers, making decisions publicly, and clearly explaining rules, which fosters inclusion and reduces suspicion (Adewale *et al.*, 2022).

### **2.2.3 Financial performance**

Zhang (2025) argue that financial performance refers to the capacity to generate positive financial outcomes, sustain financial health, and achieve set objectives over time. Financial performance reflects how effectively resources are managed to generate income, maintain solvency, and support long-term growth (Blessing & Sakouvogui, 2023; Fikri & Yolanda, 2023). Strong financial performance of VSLAs facilitate access to financial services, strengthens local financial systems, and equips members to withstand economic shocks (Pienaaah & Luginaah, 2024). This study

conceptualizes financial performance within VSLAs through savings growth, loan repayment, and return on funds (Chawinga, 2022; Baduonmie, 2024).

Savings growth captures the consistent increase in the total savings accumulated by members, signaling both discipline and engagement while providing a larger capital base for lending and a financial buffer during hardship (Von Weizsäcker & Krämer, 2021; Dallimore, 2013). Loan repayment measures members' ability to honor borrowing agreements in full and on time, which is critical for maintaining liquidity, enabling continuous lending, and fostering trust within the group (Mohamed, 2024; Jimoh, 2023). Return on funds represents the income generated from resources invested or lent out such as interest from loans which reflects efficiency in capital use and the group's ability to generate value from its financial activities (Damodaran, 2007; King & Hall, 2011).

## **2.3 Empirical review of literature**

This section reviews empirical studies on the relationship between financial literacy, financial trust, and financial performance, identifying gaps in existing research.

### **2.3.1 Financial Literacy and Financial Performance**

Financial literacy is increasingly recognized as interdependent driver of financial performance in community-based financial models such as VSLAs (Kyeyune & Ntayi, 2025; Hidayat-ur-Rehman, 2025). Financial literacy encompassing knowledge, skills, and self-efficacy equips members with the capacity to make sound financial decisions, while financial trust fosters cooperation, transparency, and confidence in group operations (Kyeyune & Ntayi, 2025; Shi et al., 2025).

Financial literacy directly influences financial performance indicators, including savings growth, loan repayment rates, and returns on funds (Mutegi *et al.*, 2015; Ombogi, 2015; Ngek, 2016).

Clark *et al.* (2021) found that financially literate individuals are more likely to save for retirement, invest in financial products, and manage debt effectively. Similarly, Agarwalla *et al.* (2021) argue that individuals with high financial literacy demonstrate better money management behaviors, including budgeting and planning for future financial needs (Jumady *et al.*, 2024; (Andarsari & Ningtyas, 2019). In the context of VSLAs, financial literacy enables members to make informed decisions about saving, borrowing, and investing within the group. Higher financial literacy among VSLA members is associated with better management of savings, more responsible borrowing, and more timely repayment of loans (Mwijukye, 2020) which contribute to improved financial performance for the group as a whole.

Financially literate groups or organizations are more likely to make informed decisions about resource allocation, investments, and the management of funds, which can significantly improve their financial performance. For example, in the context of small businesses, Yakob *et al.* (2021) found that higher levels of financial literacy among entrepreneurs were associated with better business performance, including higher profitability, more effective cash flow management, and more prudent financial decision-making.

In VSLAs, financial literacy plays a similar role in improving group financial performance. Members who understand basic financial concepts like savings growth, loan repayment, and return on investment are more likely to make decisions that positively impact the group's overall financial health. For instance, in rural microfinance groups, financial literacy is linked to higher savings rates, better loan repayment rates, and more efficient use of pooled funds (Gaudence *et al.*, 2018;

Omowole *et al.*, 2024). These behaviors directly contribute to the group's ability to sustain its financial operations, generate returns on funds, and meet the financial needs of its members.

Financial literacy also plays a key role in reducing financial risk and improving financial stability. According to Lusardi and Mitchell (2023), individuals with higher financial literacy are more adept at managing risks associated with investments, loans, and savings. This is particularly important in informal financial systems like VSLAs, where members may have limited access to formal financial services and may rely on their financial knowledge to minimize risks associated with borrowing and lending. Members who are financially literate are more likely to understand the risks associated with loan repayment and are therefore less likely to default, ensuring the long-term stability and success of the group.

Studies by Lusardi and Mitchell (2020) further highlight that financial literacy can help individuals make better decisions when faced with financial challenges, such as economic downturns or personal financial crises. In the context of VSLAs, financially literate members are more likely to contribute regularly to savings, ensuring that the group has sufficient resources to weather economic challenges, while also reducing the risk of loan defaults. In informal financial systems like VSLAs, financial literacy enables members to make informed decisions about saving, borrowing, and investing, leading to improved financial outcomes for the group. Financially literate members are more likely to engage in behaviors that support the sustainability and growth of the group, such as consistent savings contributions and timely loan repayments. In line with the reviewed literature, we hypothesize that:

**H1: *Financial literacy significantly enhances financial performance***

### 2.3.2 Financial Literacy and Financial Trust

The relationship between financial literacy and financial trust has been widely discussed in the literature, as both are considered crucial for effective financial behavior and decision-making (Gaspar *et al.*, 2020; Andarsari & Ningtyas, 2019).

The ability to understand financial concepts and make informed decisions is strongly linked to individuals' trust in financial institutions and systems (Van der Crujisen *et al.*, 2021; Gaspar *et al.*, 2020). Several studies have demonstrated that higher financial literacy leads to greater trust in financial systems. For instance, Van der Crujisen *et al.* (2021) found that individuals with higher financial literacy are more likely to trust financial institutions because they are better equipped to understand and evaluate financial products and services. This understanding reduces uncertainty and the perceived risks of engaging with financial institutions, thereby fostering trust.

Similarly, Lusardi and Mitchell (2023) highlight that financial literacy influences individuals' attitudes toward managing their personal finances and increases their confidence in participating in financial markets. This confidence extends to trust in the financial systems they interact with, as individuals who understand how financial systems work are more likely to perceive them as reliable and fair.

The relationship between financial literacy and trust is often mutually reinforcing. As individuals become more financially literate, they gain a better understanding of financial systems, which increases their confidence in these systems and, consequently, their trust (Klapper, & Lusardi, 2020). This trust encourages them to engage more fully in financial activities, such as saving, investing, and borrowing. Conversely, when individuals trust a financial system, they may be more inclined to seek out and apply financial knowledge, knowing that their financial actions are being

guided by a system they believe is reliable and secure (Van der Crujjsen et al., 2021). For example, a study by van Rooij *et al.* (2011) found that individuals who trust their financial institutions are more likely to seek out financial education and apply what they have learned to improve their financial decision-making. This creates a positive feedback loop where trust and financial literacy continuously influence each other, leading to more responsible financial behavior and, in turn, better financial outcomes.

In informal financial systems like VSLAs, financial literacy can be an important tool for building trust among members. According to Hasler and Lusardi (2022), when members of a savings group have a strong understanding of financial concepts, they are more likely to trust the group's financial management and leadership (Moret *et al.*, 2021). This trust is essential for the smooth operation of the group, as it ensures that members are willing to participate actively and follow the financial rules and guidelines set by the group.

For instance, members who understand how savings grow over time, how loan interest is calculated, and how group funds are managed are more likely to trust that the group's leadership is acting in their best interest (Moret *et al.*, 2021). This trust fosters cooperation, reduces the risk of defaults, and improves the overall financial performance of the VSLA.

Higher financial literacy leads to greater trust in financial systems, while trust enhances individuals' willingness to engage with these systems and apply their financial knowledge. In the context of informal financial systems like VSLAs, financial literacy is essential for fostering trust among members, encouraging responsible financial behaviors, and improving the financial performance of the group. In line with the reviewed literature, we hypothesize that:

***H2: Financial literacy significantly enhances financial trust***

### **2.3.3 Financial Trust and Financial Performance**

Financial trust refers to the confidence that individuals have in the financial management, leadership, and operations of an institution or financial system. Financial trust plays a critical role in shaping how individuals and groups interact with financial institutions, make financial decisions, and engage in behaviors that ultimately impact financial outcomes (Van der Crujisen *et al.*, 2023). In informal financial systems like Village Savings and Loan Associations (VSLAs), financial trust is a key determinant of group behavior, engagement, and overall financial success.

Several studies have established the significant role that financial trust plays in improving financial behavior, which directly impacts financial performance. In a study by Van der Crujisen *et al.* (2023), it was found that individuals who trust financial institutions are more likely to engage in positive financial behaviors, such as regular saving, timely loan repayment, and wise investment choices

Financial trust reduces the perceived risk of financial transactions and increases individuals' willingness to participate in group activities (Ali *et al.*, 2021). In the case of VSLAs, when members trust the leadership and believe in the integrity of the financial processes, they are more likely to contribute savings regularly and repay loans on time (Surmont, 2017; Kumwenda, 2016). Members who lack trust may hesitate to participate or default on loans, which can undermine the entire group's financial stability (Everett, 2015). In VSLAs, financial trust in the leadership's ability to manage resources, ensure transparency, and make decisions that benefit the group is essential for encouraging participation and preventing defaults (Kumwenda, 2016).

Additionally, Okello and Mwesigwa (2022) emphasized the importance of trust in fostering a sense of community within VSLAs. When members trust the financial system and leadership, they are

more likely to engage in collective financial activities that improve group outcomes, such as savings growth, loan repayment, and reinvestment (Celestin & Vanitha, 2016). This collective engagement enhances the overall financial performance of the group and ensures its long-term sustainability.

Trust is also essential for promoting group cohesion, which is a critical factor for the success of community-based financial systems like VSLAs (Phiri, 2024). Group cohesion is the willingness of members to collaborate, share resources, and adhere to common goals. Trust enhances this cohesion by fostering cooperation and reducing conflict among members. When trust exists within a VSLA, members are more likely to share resources, discuss financial goals openly, and work together to ensure that the group's financial objectives are met (Shaaban, 2019). Group cohesion, driven by trust, ultimately contributes to stronger financial performance, as members are more likely to contribute to savings and repay loans when they feel secure in the group's leadership and operations (Moret *et al.*, 2021).

For example, Kyeyune and Ntayi, (2025) indicated that trust in leadership and transparent financial practices helped foster greater cooperation among members in rural savings groups in Uganda. This cooperation resulted in increased financial contributions and better loan repayment rates. Trust in leadership and financial processes encourages members to engage in responsible financial behaviors such as regular savings, loan repayment, and reinvestment (Alias, 2024), which directly enhance the group's financial outcomes. Trust fosters group cohesion, reduces financial risks, and strengthens the overall sustainability of the group (Rahim, 2025; Celestin, & Vanitha, 2016). In line with the reviewed literature, we therefore hypothesize:

***H3: Financial trust significantly enhance financial performance***

### **2.3.4 Financial Trust, Financial Literacy and Financial Performance**

Financial literacy is widely recognized as a critical determinant of financial performance, equipping individuals with the knowledge, skills, and confidence to make informed financial decisions (Eniola, 2016; Elbanna *et al.*, 2025; Rehman & Mia, 2024). Empirical studies conceptualize this relationship as direct while assuming that greater financial knowledge naturally translates into better financial outcomes such as savings growth, timely loan repayment, and improved returns on funds (Wanjala & Kihoro, 2023). However, emerging evidence indicates that the relationship is often more complex, with intervening variables influencing how knowledge is applied in practice (Bauman *et al.*, 2002). This is partly because many studies have focused on technical knowledge transfer rather than the socio-relational dynamics such as confidence in peers, leaders, or institutions that determine whether financial literacy translates into sustained positive behaviors (Koomson *et al.*, 2023).

Several studies have sought to identify mediators other than trust in the financial literacy–performance relationship (Riitsalu & Murro, 2020; Fernandes *et al.*, 2023). For instance, financial self-efficacy has been examined as a mediator in Australian households, where confidence in one’s own ability to manage finances was found to strengthen the effect of literacy on investment decisions (Tahir *et al.*, 2021). Another study in Brazil, financial attitude measured as an individual’s predisposition toward planning and budgeting mediated the link between literacy and savings behavior (Miotto & Parente, 2015). Access to financial services was tested as a mediator, showing that literacy only improved performance when individuals had practical access to savings and credit facilities (Twumasi *et al.*, 2022). Similarly studies show that financial planning behavior mediates the relationship between literacy and retirement readiness (Lan & Lee, 2024). While these mediators highlight behavioral and structural pathways, they often overlook the interpersonal

and group-based confidence factors central to informal financial systems like Village Savings and Loan Associations (VSLAs).

A smaller but growing body of literature has examined financial trust as a mediator. For instance, Phiri (2024) found that trust in group leadership mediated the relationship between financial knowledge and loan repayment performance in women-led VSLAs. Alekam *et al.* (2018) also reported that trust in peer members influenced the extent to which financially literate members actively contributed to group savings. However, most of these studies have been localized and small-scale, with limited comparative analysis across different contexts. Furthermore, there is a lack of robust empirical work examining this mediating role in Mbale District, where social cohesion, informal enforcement, and interpersonal trust are integral to group financial performance. In line with the reviewed literature, we therefore hypothesize:

***H4: Financial trust mediates the relationship between financial literacy and financial performance***

## **2.5 Summary of Literature**

The existing literature on financial literacy, financial trust, and financial performance in Village Savings and Loan Associations (VSLAs) reveals several gaps that the current study aims to address. While the individual effects of financial literacy and financial trust on financial performance have been widely explored, the interaction between these two factors in the context of informal financial systems, such as VSLAs, has not been sufficiently investigated. Most studies focus on formal financial institutions or small businesses, leaving a significant gap in understanding how these factors operate in community-based savings groups. This study aims to

fill this gap by exploring the combined influence of financial literacy and financial trust on the financial performance of VSLAs in Mbale District, Uganda.

Additionally, while financial literacy has been established as a predictor of financial performance, the role of financial trust as a mediator in this relationship has been largely overlooked. Few studies have examined how trust impacts the translation of financial literacy into improved financial performance within informal financial systems. The current study addresses this gap by investigating the mediating effect of financial trust, thus providing a more nuanced understanding of how financial literacy influences financial performance through trust in community-based financial groups.

Another important gap in the literature is the limited empirical research focused on rural settings and informal savings groups, particularly in Uganda. Much of the existing research has been conducted in urban contexts or with formal financial institutions, which may not reflect the unique challenges and dynamics of rural VSLAs. This study contributes new knowledge by focusing on the specific context of Mbale District, offering valuable insights into how financial literacy and trust influence financial performance in these rural, community-based savings groups.

Also, while the role of financial trust in formal financial systems has been widely recognized, there is limited research on how trust functions in informal savings groups in Uganda. Trust is a critical factor in the operation and sustainability of VSLAs, yet its influence on financial performance has not been adequately explored in the context of Ugandan rural savings groups. The current study aims to fill this gap by examining the impact of financial trust on the financial performance of VSLAs, thus contributing to the understanding of trust as a key element in the success of informal financial systems in Uganda.

## **CHAPTER THREE:**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the research methodology that will be used in the study. It will include the research design, study population, area of the study, sample size and selection, sampling methods of data collection, data management and analysis, reliability and validity, and ethical consideration.

#### **3.1 Research Design**

This study employed a Cross-sectional research design with a quantitative approach to examine the influence of financial literacy and financial trust on the financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District, Uganda. A cross-sectional research design involves collection of data from the respondents once in a snapshot (Tabachnick & Fidel, 2013). A quantitative approach was used because it enables the systematic collection and statistical analysis of numerical data to test relationships between the study variables, financial literacy, financial trust, and financial performance (Creswell, 2014).

#### **3.2 Study Population**

The study population for this research comprised of all Village Savings and Loan Associations (VSLAs) operating within Mbale District, Uganda. In this context, the population included both the VSLAs and their members who are actively engaged in saving, lending, and financial decision-making activities. According to data from the Mbale District Community Development Office (2023), there are 116 active VSLAs in Mbale district. The VSLAs constituted the unit of analysis,

while the unit of inquiry were the employees working in the VSLAs, which included VSLAs treasurers, secretaries, chairpersons, vice chairpersons, ordinary members, VSLAs coordinators, Custodians, VSLAs field officers, Program managers, and field staff. This category of respondents were considered because they possess the required knowledge on the operations of the VSLAs as regards financial literacy, financial trust and financial performance.

### **3.3 Sample Size Determination and Technique**

To ensure that the findings of this study are both representative and statistically reliable, a sample size of 90 VSLAs was drawn from the estimated population of 116 active Village Savings and Loan Associations (VSLAs) in Mbale District. The sample size was determined using Yamane's formula (1973), which provides a simplified and statistically sound method for calculating sample size from a finite population.

Yamane's Formula;

$n = N / (1 + N(e^2))$ , where  $n$  is the sample size,

$N$  is the population size (116), and

$e$  is the margin of error (0.05 for 95% confidence level).

Substituting the values into the formula;

$$n = 116 / (1 + 116(0.05^2)) = 116 / (1 + 116 \times 0.0025) = 116 / (1 + 0.625) = 116 / 1.625 \approx 90.$$

Based on the above formula, a sample of 90 VSLAs was selected for participation. From each selected VSLA, 3 members were randomly chosen to provide individual responses, resulting in an estimated total of 270 respondents.

Additionally, a simple random sampling technique was used to select 90 VLSAs from 116. This is a type of sampling technique where the researcher randomly selects a sub set of participants from a population (Creswell, 2008). This technique was chosen because it gives every element an

equal chance to be chosen thereby eliminating bias (Kothari, 2014). In order to select the sample, the names of the 116 VLSAs was written on pieces of paper, placed in a bowl, and shaken vigorously. 90 of them was picked one by one without replacement. This constituted the target sample.

### **3.4 Data collection methods and tool**

The study used the questionnaire method which involves collecting standardized information from a large group of respondents through structured instruments (Kothari, 2014). This approach was selected because it enables the collection of quantifiable data from a broad and geographically dispersed sample within a relatively short timeframe (Saunders, Lewis & Thornhill, 2009). Questionnaires were physically distributed to targeted VSLAs across different sub-counties in Mbale District to ensure inclusivity and reach members with limited access to digital tools.

Additionally, a structured questionnaire was used as the data collection tool. This type of instrument employs predetermined, standardized questions with fixed-response options on a five point Likert scale to ensure consistency in responses (Kothari, 2014). The tool was chosen because it generates uniform, analyzable data, which facilitates comparison across participants and supports hypothesis testing. The questionnaire was self-administered and consisted mainly of closed-ended items presented on a five-point Likert scale.

### **3.5 Measurement of variables**

Financial literacy was assessed through financial knowledge, financial skills, and financial self-efficacy (Lusardi & Mitchell, 2023). Financial literacy was measured using 21 items. Specifically, financial skills was measured using 7 items including sample questions such as “I regularly set

financial goals and work towards achieving them”, Financial knowledge was also measured using 7 items such as “I understand basic financial concepts such as interest rates and saving”, and financial self-efficacy was as well assessed though 7 items such as “I fell in control of my financial future.” These items was anchored on a five point likert scale ranging from strongly disagree to strongly agree.

Financial trust was measured in terms of Confidence in the institution, transparency, and reliability (Van der Crujisen et al., 2016). Confidence in the institution was measured using 8 items such as “I believe the VLISA’s financial records are accurate and reliable. Additionally, transparency was measured using 8 item including “I have access to financial information whenever I need it”, while reliability will be measured using 6 items which include “Members are consistent in their financial contributions. These items were also be measured on a 5 point likert scale.

Financial performance was evaluated using saving growth loan repayment rate, and returns on funds (Fatihudin, 2018). This variable was measured using 21 items including “the group discusses strategies to grow saving even further” (Savings growth), “defaulting on loans is rare in this organisation” (loan repayment rates), and “The VLISA has helped me grow my money over time” (returns on funds).

## **3.6 Validity and Reliability of the Instruments**

### **3.6.1 Validity of the Instruments**

Validity refers to the extent to which a research instrument measures what it is intended to measure (Saunders, Lewis & Thornhill, 2009). Testing for validity is important because it ensures that the findings accurately reflect the concepts under investigation. If an instrument is not valid, the results may be misleading or fail to answer the research questions effectively. This study tested for content validity which examines whether the questionnaire adequately covers all the important aspects of each study variable (Saunders, Lewis & Thornhill, 2009). To achieve this, the researcher sought expert judgment from three specialists from the field of financial management. The experts reviewed the questionnaire to ensure that the items were relevant, clear, and aligned with the study objectives. Their feedback was used to revise and refine the tool before data collection. The researcher then used the content validity index to assess the validity of the tool using the formula below;

$$\text{CVI} = (\text{Number of items rated as relevant} / \text{Total number of items}) \times 100\%.$$

The resulting CVI exceeded the 0.75 threshold, indicating a high level of agreement among experts. According to Polit and Beck (2006), a CVI of > 0.75 is generally accepted as evidence of adequate content validity in social science and health research.

### **3.6.2 Reliability of the Instruments**

Reliability refers to the consistency and stability of measurements over time and across conditions (Kothari, 2004). Testing the reliability of an instrument is necessary because a reliable instrument increases the credibility of the study's findings. In this study, reliability was tested by conducting

a pilot study involving 30 members from 10 VSLAs in Manafwa District. The pilot study was conducted in this district because it shares similar characteristics with the study area. The responses from the pilot were analyzed using Cronbach’s Alpha. A Cronbach’s Alpha value of 0.70 or higher was considered acceptable, indicating that the questionnaire items measured the variables consistently. The results from the pilot confirmed that the tool was reliable for the main study as shown in table 3.1.

**Table 3.1: Validity and Reliability**

<b>Variable</b>	<b>Number of Items</b>	<b>CVI Score</b>	<b>Cronbach’s Alpha</b>
Financial Literacy	21	0.88	0.878
Financial Trust	22	0.85	0.792
Financial Performance	21	0.87	0.790

**Source: Primary Data, 2025**

### **3.7 Data analysis**

After data collection, the dataset underwent cleaning and coding to ensure completeness and accuracy, minimizing potential errors during statistical computation. Data was analyzed with descriptive statistics, including means, standard deviations, and frequencies, were used to summarize respondents’ demographic characteristics and provide an overall understanding of the sample. This step was necessary because knowing the composition of respondents helps in interpreting results and assessing their representativeness (Saunders, Lewis & Thornhill, 2009). Correlation analysis was performed to determine the strength and direction of the relationships between the study variables. This technique was used because it provides a quick and clear assessment of whether variables are associated, which an important step to more is advanced

statistical testing such as regression and mediation. Additionally, multiple regression analysis was applied to evaluate the predictive effect of financial literacy and financial trust on financial performance. Regression was chosen because it allows the estimation of the direct influence of one variable on another while controlling for the effect of additional variables (Field, 2000).

The mediating effect of financial trust was tested using Baron and Kenny's (1986) causal steps approach. First, financial literacy had to significantly predict financial performance. Second, financial literacy had to significantly predict financial trust. Third, financial trust had to significantly predict financial performance when controlling for financial literacy. Finally, the strength of the relationship between financial literacy and financial performance was assessed when financial trust was included to determine whether the mediation was partial or complete. This procedure was selected because it offers a systematic framework for establishing and confirming mediation effects.

### **3.8 Ethical considerations**

In terms of ethical considerations, the study prioritized key principles, including permission, anonymity, confidentiality, and informed consent. Prior to data collection, formal permission was obtained from the university administration, and an official introduction letter was secured to facilitate access to the study field. Additionally, informed consent was sought whereby participants were clearly informed about the nature of the questions, the purpose of the research, and their right to access the data or withdraw at any stage without penalty. Also, the researcher maintained anonymity by ensuring that the identities of respondents remained undisclosed, thereby safeguarding their privacy throughout the research process. The questionnaire instrument did not include personally identifiable information such as names, addresses, or contact details. Furthermore, confidentiality was emphasized, ensuring that all responses were treated with the utmost discretion and respect for participants' privacy and data security. Informed consent was a

central component of the study. They were also reassured that the study served purely academic purposes. Furthermore, all scholarly sources and intellectual contributions were properly acknowledged through accurate citation and referencing practices, in order to uphold academic integrity and avoid plagiarism.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This section presents the result of data analysis and interpretation of findings. Specifically, it includes the response rate, demographic characteristics, correlation results, regression results, and mediation analysis and interpretation.

#### 4.1 Response rate

Response rate is the proportion of individuals or units who successfully return a completed questionnaire relative to the total number approached or sampled (Fincham, 2022). At the level of unit of analysis, 74 out of the 90 targeted VLSA participated in the study, amounting to a response rate of 82.2%. According to a study by Babbie (2020), response rates above 70% in field-based social science studies are considered highly desirable and reflect methodological rigor.

**Table 4.1: Response Rate**

	Number	Percentage
Response	74	82.2%
Non-Response	16	17.8%
Total	90	100%

**Source: Primary Data, 2025**

## **4.2 Demographic characteristics**

### **4.2.1 Demographic Characteristics of Unit of Inquiry**

The results in Table 4.2 below indicate that the majority of the respondents were female (58%), while males comprised 42%. Studies have shown that women's participation often leads to higher loan repayment rates and consistent savings growth due to their prioritization of household welfare and disciplined borrowing behavior. In terms of age, the majority (64.5%) of the participants were aged between 18 and 34 years. This youth-dominated profile is a significant factor in the analysis of financial performance. Younger members tend to be more adaptive to new financial practices, which could support innovative savings schemes and efficient loan management. However, limited financial experience in this age group may increase risks of poor loan utilization and delayed repayments. Older members (45 and above) comprise 21.2%. This provides a stabilizing influence through mentorship and adherence to group rules, which can improve repayment discipline and foster a culture of consistent savings, positively impacting return on funds over time.

In terms of occupation, 30.7% of respondents were farmers, 27.8% were business owners, 17.0% students, and 24.5% fell into other occupational categories like professional employment and casual employment. These groups are directly engaged in income-generating activities and can leverage VSLA loans for productive investment leading to higher returns on funds and improved loan repayment rates. Furthermore, Education levels among respondents indicate strong potential for absorbing financial literacy content. A majority (57.5%) had completed secondary education, while 30.7% had tertiary education. Only a small proportion lacked formal education (2.8%). Higher literacy levels enable accurate record-keeping, better comprehension of interest rates, and informed decision-making, which are all critical for sustaining savings growth, maximizing return on funds, and maintaining high loan repayment rates.

**Table 4:2: Demographic Characteristics of the Unit of inquiry**

<b>Item</b>		<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Male	89	58%
	Female	123	42
<b>Total</b>		<b>212</b>	<b>100</b>
<b>Age group</b>	18-24	60	28.3
	25-34	83	36.2
	35-44	24	11.3
	45-54	38	17.9
	55 and above	7	3.3
<b>Total</b>		<b>212</b>	<b>100</b>
<b>Occupation</b>	Farmer	65	30.7
	Business Owner	59	27.8
	Student	36	17.0
	Other occupations	52	24.5
<b>Total</b>		<b>212</b>	<b>100</b>
<b>Level of education</b>	No formal education	6	2.8
	Primary education	19	9.0
	Secondary education	122	57.5
	Tertiary education	65	30.7
<b>Total</b>		<b>212</b>	<b>100</b>

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Source: Primary data, 2025

#### **4.2.2 Demographic Characteristics of Unit of Analysis**

At the organizational level, the size of VLSAs varied, with 51.4% having 20–30 members and 39.2% having 10-20 members. Groups of 20-30 members are large enough to generate substantial savings contributions, enabling greater loanable funds and potential for higher returns on funds. In terms of duration of existence, most VLSAs (54.1%) had operated for 1–3 years, while 33.8% had existed for 4–6 years. Such groups are often consolidating their loan management structures and improving record-keeping, which can progressively enhance repayment rates and stabilize returns on funds. Half of the VLSAs meet weekly, and another 39.2% met bi-monthly. Frequent meetings facilitate continuous monitoring of loan repayments and timely savings contributions thereby protecting and enhancing return on funds. Regular face-to-face interaction also reinforces financial discipline and collective accountability, directly contributing to sustained savings growth and improved repayment behavior.

**Table 4.3: Demographic Characteristics of the Unit analysis**

	Description	Frequency	Percentage
<b>No of members</b>	<10	2	2.7
	10-20	29	39.2
	20-30	38	51.4
	>30	5	6.8
<b>Total</b>		<b>74</b>	<b>100</b>
<b>Length of existence of the VLSA</b>	<1 Year	3	4.1
	1-3 Years	40	54.1
	4-6 Years	25	33.8
	>6 Years	6	8.1
<b>Total</b>		<b>74</b>	<b>100</b>
<b>Meeting frequency</b>	Weekly	37	50.0
	Bi-monthly	29	39.2
	Monthly	8	10.8
<b>Total</b>		<b>74</b>	<b>100</b>

**Source: Primary Data, 2025**

### 4.3 Descriptive statistics

In order to assess respondents' perceptions about financial literacy, financial trust, and financial performance within Village Savings and Loan Associations (VSLAs), descriptive statistics (Mean, Min, Max, and standard deviation) were computed. Each variable was measured using a 5-point Likert scale, where 1 = Strongly Disagree and 5 = Strongly Agree. A total of 74 valid responses were analyzed for each variable. The results indicated that Financial Literacy had a mean score of

4.1026 (SD = 0.15388), with participant responses ranging from 3.70 to 4.33. This reflects a high level of agreement with items related to financial knowledge, financial skills, and financial self-efficacy. On a 5-point scale, scores above 4.0 suggest that most participants agreed or strongly agreed with statements indicating financial competence.

Similarly, financial trust posited a mean of 4.0677 (SD = 0.17629) with responses ranging from 3.63 to 4.44. This suggests that majority of the respondents also agreed with items measuring financial trust. Financial Performance was also rated positively, with a mean of 4.0567 (SD = 0.14555) and responses ranging from 3.70 to 4.44. This indicates that participants agreed with the questionnaire items measuring financial performance of VLSAs. Also, the low standard deviations (0.15388-0.17629) imply relatively little variation in responses thereby signaling shared perceptions and a high degree of agreement among members.

**Table 4.4: Descriptive Statistics**

<b>Variable</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Financial Literacy (FL)	74	3.70	4.33	4.1026	0.15388
Financial Trust (FT)	74	3.63	4.44	4.0677	0.17629
Financial Performance (FP)	74	3.70	4.44	4.0567	0.14555

Source: Primary Data, 2025

#### **4.4 Correlation results**

In order to determine strength and direction of the relationship between variables, the researcher used Pearson’s correlation coefficient.

#### 4.4.1 Financial Literacy and Financial Performance

The results in table 4.5 below indicate that the correlation coefficient between financial literacy and financial performance is positive and significant ( $r=.669$ ,  $p<0.01$ ). This implies that VLSAs with higher levels of financial literacy tend to exhibit better financial performance. Therefore, an increase in financial literacy leads to an increase in financial performance among VLSAs.

#### 4.4.2 Financial Literacy and Financial Trust

Similarly, the relationship between financial literacy and Financial Trust is also positive and significant ( $r = 0.636$ ,  $p<0.01$ ). This indicates that an increase in financial literacy leads to an increase in Financial Trust among members who subscribe to the VLSAs.

#### 4.4.3 Financial Trust and Financial Performance

Finally, the correlation between Financial Trust and financial performance is also positive and significant ( $r = 0.655$ ,  $p<0.01$ ), suggesting that Financial Trust among members contributes significantly to the financial performance of VLSAs. An increase in Financial Trust triggers an increase in financial performance of VLSAs. The results of the analysis are indicated in the table below.

**Table 4.5: Correlation Analysis**

Variable	(1)	(2)	(3)
Financial Literacy (1)	1		
Financial Trust (2)	.636**	1	
Financial performance (3)	.669**	.655**	1

**\*\*.** Correlation is significant at the 0.01 level (2-tailed)  $n=74$

**Source: Primary data, 2025**

## 4.5 Regression analysis

### 4.5.1 Financial literacy and financial performance

The results in table 4.6 below are of a simple linear regression analysis which was conducted to examine the effect of financial literacy on financial performance among members of Village Savings and Loan Associations (VSLAs). Results indicate that financial literacy significantly predicted financial performance ( $\beta = 0.669$ ,  $p < .001$ ). Additionally, the model was statistically significant ( $F = 58.39$ ,  $p < .001$ ) and explained 40.0% of the variance in financial performance ( $Adj. R^2 = .40$ ), indicating a moderately strong effect. The total variance explained by the model ( $R^2 = .45$ ) suggests that financial literacy is a meaningful predictor although other variables not included in the model account for the remaining 55% of variance.

**Table 4.6: Financial Literacy and Financial Performance**

Coefficients				
Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	1.460	.340		.000
Financial literacy	.633	.083	.699	.000
R = .699 <sup>a</sup>		R <sup>2</sup> = .448	Adj. R <sup>2</sup> = .400	F = 58.393

a. Dependent Variable: Financial performance

**Source: Primary data, 2025**

#### 4.5.2 Financial literacy and financial trust

A linear regression analysis was conducted to examine the influence of financial literacy on financial trust among members of Village Savings and Loan Associations (VSLAs). As shown in Table 4.7, the results indicate that financial literacy is a statistically significant predictor of financial trust ( $\beta = 0.636$ ,  $p < .001$ ). Furthermore, the model indicates that financial literacy accounts for 39.6% of the variance in financial trust ( $Adj. R^2 = .396$ ). The total variance explained ( $R^2 = .404$ ) further supports the assertion that financial literacy plays a substantial role in shaping financial trust within their VSLAs. The remaining 60.4% of the variance is likely influenced by other psychological, organizational, or contextual factors not captured in the model. These findings support Hypothesis 2 (H2).

**Table 4.7: Financial Literacy and Financial trust**

Coefficients				
Model	Unstandardized		Standardized	Sig.
	Coefficients		Coefficients	
	B	Std. Error	Beta	
(Constant)	1.079	.428		.014
Financial literacy	.729	.104	.639	.000
R = .636 <sup>a</sup>		R <sup>2</sup> = .404	Adj. R <sup>2</sup> = .396	F = 48.894

a. Dependent Variable: Financial Trust

**Source: Primary Data, 2025**

### 4.5.3 Financial trust and financial performance

Also, a simple linear regression was performed to examine the predictive power of financial trust on financial performance among Village Savings and Loan Association (VSLA) members. The regression results, presented in Table 4.8, show that financial trust is a statistically significant predictor of financial performance ( $\beta = 0.655$ ,  $p < .001$ ). Additionally, the regression model explains approximately 42.1% of the variance in financial performance ( $Adj. R^2 = .421$ ), suggesting a moderately strong relationship between the predictor and the outcome variable. The total variance explained ( $R^2 = .429$ ) indicates that financial trust alone accounts for a substantial portion of the differences in financial performance among VSLA participants. The remaining 57.9% of unexplained variance may be attributable to other personal, organizational, or external economic factors not included in the model. The overall model was statistically significant ( $F = 54.02$ ,  $p < .001$ ) confirming that the regression equation provides a good fit for the data. These findings offer support to hypothesis 3 (H3).

**Table 4.8: Financial trust and financial management**

Coefficients				
Model	UnStandardized		Standardized	Sig.
	Coefficients		Coefficients	
	B	Std. Error	Beta	
(Constant)	1.858	.299		.014
Financial trust	.541	.074	.655	.000
R = .655 <sup>a</sup>		R <sup>2</sup> = .429	Adj. R <sup>2</sup> = .421	F = 54.018

a. Dependent Variable: Financial Performance

**Source: Primary data, 2025**

#### 4.6 Mediation analysis

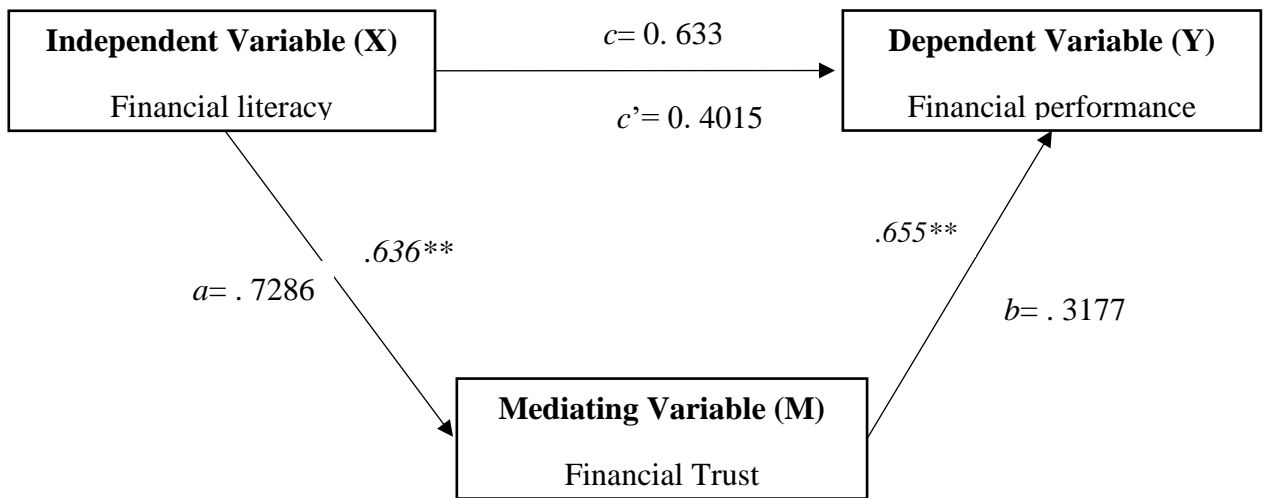
Mediation analysis was conducted to ascertain the mediation role of financial trust in the relationship between financial literacy and financial performance of VLSAs in Mbale district. Using Hayes process macro model 4, mediation analysis was conducted. The results are summarized in the Table 4.9.

According to the results in table 4.9 below, Path a, b, c, and c' all posited significant results. The path from financial literacy to financial trust (path a) was statistically significant ( $\beta = 0.7286$ ,  $p < .001$ ), indicating that more financially literate groups tend to have higher levels of internal trust. Additionally, the path from financial trust to financial performance (path b) was also statically significant with a coefficient of  $\beta = 0.3177$  ( $p < .001$ ), meaning that greater trust among members leads to improved financial performance. Furthermore, the total effect of financial literacy on financial performance (path c) was also significant ( $\beta = 0.633$ ,  $p < 0.01$ ). However, the direct effect of financial literacy on financial performance reduced from 0.633 to 0.4015 (path c') when the mediator (financial trust) was introduced into the model but remained significant. This suggests that financial trust is a partial mediator in the relationship between financial literacy and financial performance. The indirect effect ( $a \times b$ ) was 0.2314, and the bootstrap confidence interval did not include zero ([0.0887 – 0.4300]) thereby confirming that the mediation effect is statistically significant. The ratio index calculated by dividing the indirect effect (0.2314) by the total effect (0.633) is 0.365. This indicates that 36.5% of the total effect of financial literacy on financial performance is through financial trust. This ratio further signifies a partial mediation effect of financial trust in the financial literacy-financial performance relationship.

**Table 4.9: Mediation Analysis**

Path		Coefficient (B)	SE	t-value	p-value	95% CI (LLCI- ULCI)
<b>Path a:</b>	Financial Literacy → Trust	0.7286	0.1042	6.992	.0000	0.5209 – 0.9363
<b>Path b:</b>	Financial Trust → Financial Performance	0.3177	0.0865	3.673	.0005	0.1452 – 0.4901
<b>Path c:</b>	Total Effect financial literacy → financial performance	0.633				
<b>Path c':</b>	Financial Literacy → Financial Performance	0.4015	0.0991	4.053	.0001	0.2040 – 0.5991
<b>Mediation effect</b>	(a × b)	0.2314	0.0872			0.0887 – 0.4300
<b>Ratio index</b>		0.2314/0.633 = 0.365 (36.5%)				

Source: Primary Data, 2025



**Figure 2: Mediation results**

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.0 Introduction**

This Chapter focuses on the discussion of findings, conclusions, recommendations, limitations of the study, and suggested areas for further research.

#### **5.1 Discussion of Findings**

##### **5.1.1 Financial Literacy and financial performance**

Objective one sought to establish the effect of financial literacy and financial performance of VCLAs in Mbale District. The findings from the study revealed that financial literacy has a positive and statistically significant effect on the financial performance of VSLAs. To explain in simpler terms, the more knowledgeable the members of a VSLA are about financial concepts like how interest works, how to manage their savings, and how to effectively repay loans, the better the VSLA performs in terms of growing its savings, recovering loans, and making a profit. For example, members who had a better understanding of financial concepts like interest rates, saving, and loan repayment were more likely to save regularly, repay loans on time, and generate returns from their pooled funds. These behaviors directly contributed to improved financial performance in the group, reflected in better savings growth, fewer loan defaults, and higher returns on funds.

The findings of this study align with several prior scholarly works that have explored the relationship between financial literacy and financial performance, particularly in the context of informal financial systems. For instance, Lusardi and Mitchell (2021) demonstrated that individuals with higher financial literacy tend to engage in more responsible financial behaviors,

such as saving regularly and managing debt effectively. Similarly, Yakob *et al.* (2021) highlighted that financial literacy plays a crucial role in enhancing business performance by enabling individuals to make better financial decisions. These findings are consistent with this study, which found that members with higher financial literacy in VSLAs exhibited better financial behaviors, such as timely loan repayments and consistent savings, leading to stronger financial performance in the groups.

In another relevant study by Nwanyanwu (2020), it was shown that financial literacy among members of microfinance institutions in Nigeria resulted in more consistent savings contributions and improved loan repayment rates. This is similar to the findings of this study, where financial literacy significantly predicted the financial performance of VSLAs in Mbale District. Furthermore, Musau *et al.* (2023) found that financial literacy training in Kenya led to an increase in savings and a reduction in loan defaults within VSLAs. These studies, along with the current research, support the notion that financial literacy is a critical determinant of financial performance in both formal and informal financial systems, including VSLAs.

By confirming that financial literacy directly influences financial performance in VSLAs, this study enhances the existing body of knowledge by filling a gap in the literature. While the relationship between financial literacy and financial performance has been widely studied in formal financial institutions and small businesses, less attention has been paid to informal financial systems such as VSLAs. This study contributes new insights into how financial literacy affects the financial performance of community-based savings groups, particularly in rural Uganda, where the role of financial literacy in driving financial outcomes has been underexplored. This gap in the literature is important because informal financial systems, such as VSLAs, are vital in many developing countries, especially in rural areas where access to formal financial services is limited.

In terms of theory, the findings of this study contribute to the Theory of Planned Behavior (Ajzen, 1985). This theory suggests that individuals' behaviors are shaped by three key factors: attitudes, subjective norms, and perceived behavioral control. Financial literacy, as the study shows, positively influences individuals' attitudes toward financial behaviors such as saving, loan repayment, and investment. When members of VSLAs have a solid understanding of financial principles, they are more likely to engage in behaviors that benefit the group's financial performance. This aligns with the theory's assertion that increased knowledge and skills enhance an individual's perceived behavioral control, which, in turn, leads to better financial decision-making and outcomes.

Additionally, the study underscores how financial literacy enhances individuals' attitudes toward managing finances. With greater financial knowledge, members are more likely to view financial practices like saving and repaying loans positively, which improves their willingness to engage in these behaviors. This directly supports the Theory of Planned Behavior, demonstrating that financial literacy influences financial behaviors by shaping individuals' attitudes and perceived control over their financial actions. By extending this understanding to VSLAs in Mbale, Uganda, the study fills a gap in the literature and enhances the knowledge on the role of financial literacy in informal financial systems. Furthermore, the findings support the Theory of Planned Behavior by showing how financial literacy influences attitudes, norms, and perceived behavioral control, ultimately leading to improved financial outcomes in community-based financial groups.

### **5.1.2 Financial literacy and financial trust**

Objective two of the study aimed to examine the effect of financial literacy on financial trust in Village Savings and Loan Associations (VSLAs) in Mbale District. The findings revealed that financial literacy positively and significantly affects financial trust. In simpler terms, the more knowledgeable VSLA members are about managing their finances, the more likely they are to trust the financial systems and processes within their group. Members who understand financial concepts such as interest rates, loan terms, and savings management are more confident in the group's financial practices, which fosters greater trust in the institution.

The study found that when members of VSLAs have a solid understanding of financial concepts, they are more likely to trust the organization's leadership, feel assured that financial resources are being managed properly, and believe that their savings are being used responsibly. This trust is crucial for maintaining a cooperative and functional group, as trust enhances participation, encourages members to save regularly, and improves loan repayment rates. These behaviors, in turn, contribute to the overall financial performance of the VSLA.

The findings of this study are consistent with prior research that highlights the role of financial literacy in building financial trust. For instance, Coskun and Dalziel (2020) found that individuals with higher financial literacy tend to have greater trust in financial institutions because they understand the mechanisms and risks involved in financial transactions. Similarly, Lyons and Kass-Hanna (2021) demonstrated that financial literacy promotes trust by increasing individuals' ability to assess financial products and services critically, making them more likely to engage with these systems confidently. The results from this study align with these findings, as members who had higher levels of financial literacy were more likely to express trust in the VSLA's financial management and leadership.

Moreover, the findings echo the results from studies such as those by Nwanyanwu (2020) and Okello and Ntayi (2020), which showed that financial literacy among members of informal savings groups or microfinance institutions enhances trust in the financial system. Nwanyanwu (2020) highlighted that individuals who understand how their savings and loans work are more likely to trust the group's financial processes. Similarly, in Uganda, Muhumuza and Oketch (2020) noted that trust in leadership and transparency is enhanced when members have the knowledge to scrutinize financial decisions and practices. This study builds on these prior findings by showing that financial literacy directly influences financial trust in rural VSLAs, an area that has received less attention in the literature.

By confirming that financial literacy significantly influences financial trust, this study adds to the existing body of knowledge by filling a gap in the literature regarding informal financial systems like VSLAs. While much of the research on financial literacy and trust has been conducted in formal financial institutions or among small businesses, less attention has been given to community-based financial groups in rural settings. This study provides new insights into how financial literacy influences trust within these groups, particularly in Mbale District, Uganda, where access to formal financial services is limited and community-based savings groups play a crucial role in financial inclusion.

In terms of theory, the findings of this study contribute to the Theory of Planned Behavior (Ajzen, 1985). The theory suggests that individuals' behaviors are influenced by attitudes, subjective norms, and perceived behavioral control. Financial literacy, as shown in this study, positively affects individuals' attitudes toward financial behaviors and systems, including their trust in financial institutions like VSLAs. When members understand how their financial systems work, they are more likely to develop positive attitudes and trust in the leadership and management of

the VSLA. This supports the theory's claim that increased knowledge and understanding improve an individual's perceived control over their financial decisions, fostering trust in the system.

Additionally, the study highlights how financial literacy impacts subjective norms—how individuals perceive the behaviors and trustworthiness of others in the group. When members of VSLAs are financially literate, they are better equipped to judge the behavior of the group's leadership and peers, which leads to higher levels of trust in the financial processes. By showing that financial literacy enhances financial trust, this study adds to the body of knowledge by reinforcing the idea that knowledge and understanding shape not only financial behaviors but also the trust dynamics within financial systems.

The findings from this study confirm that financial literacy is a significant factor in building financial trust in VSLAs. By equipping members with the necessary financial knowledge, the study shows that financial literacy fosters trust in the group's financial management, leadership, and decision-making processes. This finding enhances the literature by highlighting the importance of financial literacy in informal financial systems like VSLAs, especially in rural areas where financial literacy and trust are critical for the sustainability of community-based financial institutions. The study also contributes to the Theory of Planned Behavior by demonstrating how financial literacy influences attitudes, norms, and perceived behavioral control, thereby enhancing trust in financial systems and leading to better outcomes in community-based financial groups.

### **5.1.3 Financial trust and financial performance**

Objective three aimed to examine the relationship between financial trust and the financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District. The findings revealed that financial trust has a positive and statistically significant effect on the financial

performance of VSLAs. To explain in simpler terms, the more trust members have in the leadership and financial processes of the VSLA, the better the group performs in terms of savings growth, loan repayments, and returns on funds. Members who trust the financial management of the group are more likely to participate actively, contribute regularly to savings, and repay loans on time. These behaviors directly contribute to better financial outcomes for the VSLA, such as higher savings, fewer defaults, and increased returns.

The results of this study are consistent with several prior studies that have emphasized the importance of trust in the financial performance of informal financial systems. For example, Koomson *et al.* (2023) found that trust in leadership and financial practices significantly improved financial outcomes in community-based savings groups in Ghana. Similarly, Okello and Ntayi (2020) highlighted that financial trust is a key determinant of performance in informal financial systems, as it encourages members to engage more fully in financial activities, leading to better financial performance. These findings support the current study's results, which show that financial trust in VSLA leadership and operations positively impacts the group's financial performance.

In addition, studies like those by Galiani *et al.* (2020) and Wang *et al.* (2024) found that trust in financial institutions promotes greater participation, reduces the risk of defaults, and ensures more disciplined financial behaviors among group members. Trust reduces perceived risks and uncertainties about the financial practices of the group, thus encouraging members to save regularly, participate in loan programs, and engage in reinvestment activities. This trust, in turn, leads to better financial outcomes, such as higher savings growth and increased returns on pooled funds. The current study adds to this body of knowledge by showing that trust in financial management has a direct and significant impact on the financial performance of VSLAs in rural Uganda.

By confirming that financial trust significantly influences financial performance, this study enhances the existing body of knowledge by filling a gap in the literature. While trust in financial institutions has been widely studied in formal financial systems, its effect in informal systems like VSLAs has been underexplored, especially in rural areas where community-based savings groups play a critical role in financial inclusion. This study provides new insights into how trust impacts financial outcomes in these community-based groups, particularly in Mbale District, Uganda, where access to formal financial services is limited and informal financial systems are essential for the community's economic wellbeing.

In terms of theory, the findings of this study contribute to the Theory of Planned Behavior (Ajzen, 1985). The theory suggests that an individual's behavior is influenced by attitudes, subjective norms, and perceived behavioral control. In this study, financial trust impacts individuals' attitudes towards financial behaviors such as saving, loan repayment, and investment. When members trust the financial management of their VSLA, they are more likely to engage in behaviors that contribute to the financial success of the group. This aligns with the theory's assertion that trust, as part of subjective norms, can significantly influence an individual's willingness to participate in financial activities, thus improving the group's financial performance.

Additionally, the study emphasizes the role of financial trust in enhancing perceived behavioral control. When members trust the VSLA leadership and financial systems, they feel more secure in participating in the group's financial activities, knowing that their funds are being managed responsibly. This trust leads to greater engagement and participation, which directly enhances the group's financial performance. By reinforcing the role of trust in the Theory of Planned Behavior, this study highlights how trust influences financial decision-making and behavior, ultimately contributing to better financial outcomes in informal financial systems like VSLAs. The findings

from this study confirm that financial trust is a crucial determinant of financial performance in VSLAs. Trust in the leadership and financial processes of the group encourages members to engage in positive financial behaviors, such as saving regularly, repaying loans, and making wise investment decisions. These behaviors, in turn, contribute to better financial performance for the group. This study enhances the literature by providing new insights into the role of financial trust in informal financial systems, particularly in rural Uganda, and contributes to the Theory of Planned Behavior by demonstrating how trust influences attitudes, norms, and perceived behavioral control, leading to improved financial outcomes in community-based financial groups.

#### **5.1.4 Mediating role of financial trust in the relationship between financial literacy and financial performance**

Objective four of the study sought to explore the mediating role of financial trust in the relationship between financial literacy and financial performance within Village Savings and Loan Associations (VSLAs) in Mbale District. The findings from the study revealed that financial trust partially mediates the relationship between financial literacy and financial performance. In simpler terms, while financial literacy directly influences the financial performance of VSLAs, the effect of financial literacy on performance is strengthened when trust in the group's financial management and leadership is present. This means that even if members have high financial literacy, their ability to effectively apply this knowledge in improving the group's financial performance is significantly enhanced when they trust the leadership and the financial processes of the VSLA.

The study's results are consistent with prior research that suggests trust plays a critical role in translating knowledge into action. For instance, Beckmann et al. (2015) found that financial

literacy alone may not lead to better financial outcomes unless trust in the financial system exists. Similarly, Muteekesa (2022) demonstrated that trust in financial systems significantly enhances the positive effects of financial literacy on savings behaviors and loan repayment, particularly in informal financial settings. These studies, along with the findings of this study, confirm that financial trust is an essential intermediary factor that facilitates the application of financial literacy in achieving better financial outcomes in community-based financial groups like VSLAs.

The current study adds to the existing body of knowledge by providing specific evidence that financial trust not only influences financial performance directly but also enhances the effectiveness of financial literacy in improving performance within VSLAs. Previous studies have explored the direct effects of financial literacy and trust separately, but few have examined how these two factors interact to influence financial outcomes in informal savings groups. By highlighting the mediating role of financial trust, this study fills a critical gap in the literature, especially in the context of rural Uganda, where informal financial systems play a crucial role in economic development.

The findings also contribute to the Theory of Planned Behavior (Ajzen, 1985), which posits that individuals' behaviors are shaped by attitudes, subjective norms, and perceived behavioral control. Financial literacy, as shown in this study, directly influences attitudes toward financial behaviors, such as saving, loan repayment, and investment. However, the study demonstrates that financial trust enhances the effectiveness of these attitudes by fostering confidence in the group's financial management, which leads to more active participation in financial behaviors. Trust, in this context, acts as a mediating factor that influences how well financial knowledge translates into action. This supports the theory's assertion that behaviors are not only influenced by knowledge and attitudes but also by the trust and confidence individuals place in the financial systems around them.

Additionally, the findings support the idea that trust is an integral component of perceived behavioral control. When VSLA members trust the financial system and leadership, they are more likely to believe that their financial behaviors, such as saving and repaying loans, will be rewarded and managed effectively. This confidence increases their willingness to engage in financial activities that contribute to the overall financial performance of the group. By reinforcing the mediating role of trust, this study extends the Theory of Planned Behavior, showing how trust influences the relationship between financial literacy and behavior, ultimately leading to improved financial outcomes.

The findings confirm that financial trust plays a partial mediating role in the relationship between financial literacy and financial performance. While financial literacy is essential for guiding financial behaviors, the presence of trust significantly enhances the ability of individuals to apply their financial knowledge effectively within the group. This study contributes to the existing literature by exploring the interactive role of financial literacy and trust in informal financial systems like VSLAs, especially in rural Uganda, and provides new insights into how these factors work together to improve financial performance. The findings also support the Theory of Planned Behavior by demonstrating how trust enhances attitudes, subjective norms, and perceived behavioral control, ultimately leading to better financial behaviors and outcomes in community-based financial groups.

## **5.2 Conclusion**

The findings confirm that financial literacy is a significant driver of financial performance, as it enables members to make informed decisions regarding savings, loan repayment, and investment, which directly contributes to stronger group performance. The study also reveals that financial

trust plays a crucial role in enhancing the positive effects of financial literacy, as trust in the group's leadership and financial systems encourages members to engage in financial behaviors that support the VSLA's success, such as regular saving and timely loan repayment.

Furthermore, this study highlights the mediating role of financial trust in the relationship between financial literacy and financial performance. While financial literacy directly influences the performance of VSLAs, the presence of trust strengthens the effectiveness of financial knowledge, suggesting that trust is an essential intermediary factor that facilitates the application of financial literacy in achieving improved financial outcomes. The study contributes to existing literature by filling a gap in research on how financial literacy and trust interact to affect financial performance in informal financial systems, particularly in rural settings like Mbale District, where community-based financial groups play a vital role in economic inclusion.

The findings of this study also have important theoretical implications. By extending the Theory of Planned Behavior (Ajzen, 1985), the study shows how financial literacy influences individuals' attitudes, subjective norms, and perceived behavioral control, and how trust enhances the relationship between financial literacy and financial outcomes. This provides a more nuanced understanding of how knowledge and trust shape financial behavior and performance within informal financial systems.

The study hence underscores the critical role of both financial literacy and financial trust in ensuring the financial success of VSLAs. To promote better financial outcomes in these groups, it is essential to foster financial literacy programs while simultaneously strengthening trust among members through transparent leadership, reliable financial management, and inclusive decision-making processes. These insights offer valuable recommendations for policymakers, development practitioners, and financial institutions working with VSLAs, emphasizing the importance of

integrated approaches that combine financial education and trust-building strategies to enhance the performance and sustainability of community-based financial groups.

### **5.3 Recommendations**

Based on the findings of this study, the study draws several recommendations to enhance the financial performance of Village Savings and Loan Associations (VSLAs) in Mbale District:

Given the positive impact of financial literacy on the financial performance of VSLAs, it is recommended that promoting financial literacy among through imparting knowledge skills and self-efficacy to VSLAs customer would improving financial performance by accelerating the growth of savings, increasing the loans repayment rates and return on funds.

The study found that financial trust plays a critical role in the financial performance of VSLAs. Therefore, it is recommended that VSLA leaders foster trust by instilling confidence into the customers to believe in the VSLAs institutions, promote reliability of the loans and ensure transparency in financial processes, by regularly sharing financial reports, and practicing openness in all financial dealings can boost financial performance.

To enhance financial trust within VSLAs, it is essential to develop activities that promote unity, cooperation, and inclusivity which include regular group meetings, conflict resolution and workshops.

Since financial trust partially mediates the relationship between financial literacy and financial performance, programs should be developed that combine both financial education and trust-building.

Government agencies, NGOs, and other development partners working with VSLAs should design and implement programs that provide ongoing financial literacy training and support for trust-building.

#### **5.4 Limitation of the study**

This research is not without its limitations;

First, the study was conducted in Mbale District, Uganda, and the findings may not be directly applicable to other regions or countries with different socio-economic environments.

The study employed a cross-sectional design, which limits the ability to establish how changes in financial literacy or trust over time impact the financial performance of VSLAs.

The study relied on self-reported data from VSLA members, which could introduce biases such as social desirability bias or response bias.

While the sample size of 74 VSLAs was statistically sufficient for the analysis (Creswel, 2010), a larger sample size could have provided more robust results and a higher level of confidence in the findings.

The study focused on informal financial systems like VSLAs, which are inherently different from formal financial institutions. The results, therefore, may not be directly comparable to those of formal financial institutions such as banks or microfinance institutions.

#### **5.5 Areas for further research**

Future research could include VSLAs from different regions to allow for a more comprehensive understanding of how financial literacy and trust impact financial performance in various environments.

Further studies can use a longitudinal approach to track VSLAs over a longer period to show how financial literacy and trust evolve and their long-term impact on savings growth, loan repayment, and returns on funds.

Since this study focused on informal financial systems like VSLAs, future research could explore how financial literacy and trust affect financial performance in both informal systems (e.g., VSLAs, savings groups) and formal financial institutions (e.g., banks, microfinance institutions).

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# APPENDIX 1: INTRODUCTION LETTER



P.O. Box 236, Tororo, Uganda  
Gen +256 - 45 444 8838  
Fax +256 - 45 4436517  
Email: info@adm.busitema.ac.ug  
www.busitema.ac.ug

## FACULTY OF MANAGEMENT SCIENCES

Date: 02/06/2025

To: CHIEF ADMINISTRATIVE OFFICER  
MBALE DISTRICT

Dear Sir/Madam,

RE: WABUTEYA MACMILLAN BU/GSR3/MBA/37

On behalf of Busitema University, Faculty of Management Sciences, please allow me extend my appreciation to your organization for the continued support and commitment to providing services to our community. The Faculty looks forward to continuously partner with your organization in pursuance of excellence of our students by exposing them to practical learning experiences.

It's a University requirement that every student must carry out research and write a report in order to satisfy the requirement for the award of a Master's Degree. The purpose of this letter is therefore to humbly request you to allow our fore mentioned student, who is in SECOND year of study on a programme of Master of Business Administration / Master of Public Administration of Busitema University, to carry out research by way of collecting data in your esteemed organization.

We look forward to your supportive and positive response to our request above.

Yours faithfully,

  
Esuku Joseph

+256772181090/+25670181090 esuku01@gmail.com.

Ag. HOD (Economics & Management).



RESEARCH TOPIC: FINANCIAL LITERACY, FINANCIAL TRUST AND FINANCIAL PERFORMANCE OF VSLAs IN MBALE DISTRICT.

## APPENDIX II: ACCEPTANCE LETTER

Mobile: CAO: 077 2 498 824  
Email: [llokuda1986@gmail.com](mailto:llokuda1986@gmail.com)  
[caombale@gmail.com](mailto:caombale@gmail.com)

In Any Correspondence On  
This Subject Please Quote No.  
CR.164/2



**Mbale District Local Government**  
Office of the Chief Administrative Officer  
P.O. Box 931  
**Mbale.**

**June 16, 2025**

To whom it may concern

### **RESEARCH – WABUTEYA MACMILLAN**

This is to acknowledge receipt of a request for permission for the above mentioned who is a student of **Busitema University** pursuing a **Masters in Accounting and Finance**. As a requirement, he is to carry out a research on **“Financial Literacy, Financial Trust and Financial Performance of Village Savings and Loan Associations in Mbale”** a case study of **Mbale District Local Government**.

The purpose of this letter is to grant him permission to carry out his research in Mbale District Local Government for a period of **one month** with effect from **16<sup>th</sup> June to 16<sup>th</sup> July, 2025**.

  
Juliet Cheptook  
FOR: CHIEF ADMINISTRATIVE OFFICER



The stamp is circular with a blue border. The text inside the border reads 'CHIEF ADMINISTRATIVE OFFICER' at the top, 'MBALE DISTRICT' in the middle, and 'P.O. BOX 931, MBALE (U)' at the bottom. In the center of the stamp, the date '16 JUN 2025' is stamped in red ink.



**Scale:**

1 – Strongly Disagree    2 – Disagree    3 – Neutral    4 – Agree    5 – Strongly Agree

**SECTION C: Financial Literacy**

<b>Indicator 1: Financial knowledge</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
B1	I understand basic financial concepts such as interest rates and savings.	1	2	3	4	5
B2	I can differentiate between various types of financial products (e.g., loans, savings accounts)	1	2	3	4	5
B3	I understand the implications of taking a loan with a high interest rate.	1	2	3	4	5
B4	I am knowledgeable about the procedures for obtaining and repaying a VSLA loan.	1	2	3	4	5
B5	I can interpret a basic financial statement (e.g., income and expenses).	1	2	3	4	5
B6	I am aware of the benefits of regular savings and reinvestment in a VSLA.	1	2	3	4	5
B7	I know how to budget for my household or business needs.	1	2	3	4	5
<b>Indicator 2: Financial skills</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
L1	I can prepare a personal or household budget.	1	2	3	4	5
L2	I am able to keep track of my income and expenditures effectively.	1	2	3	4	5

L3	I have the ability to plan and manage loan repayments on time.	1	2	3	4	5
L4	I regularly set financial goals and work towards achieving them.	1	2	3	4	5
L5	I compare different loan options before borrowing.	1	2	3	4	5
L6	I am able to analyze risks associated with investment or savings decisions.	1	2	3	4	5
L7	I can use basic financial tools (e.g., ledger book, calculator) to monitor performance.	1	2	3	4	5

<b>Indicator 3: Self efficacy</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
S1	I am confident in my ability to make sound financial decisions.	1	2	3	4	5
S2	I believe I can handle financial challenges effectively	1	2	3	4	5
S3	I feel in control of my financial future.	1	2	3	4	5
S4	I believe I can improve my financial situation through better financial management.	1	2	3	4	5
S5	I feel capable of saving money even in difficult times.	1	2	3	4	5
S6	I trust my financial planning ability.	1	2	3	4	5
S7	I believe my financial behavior positively affects the performance of my VSLA.	1	2	3	4	5

## SECTION D: Financial Trust

<b>Indicator 1: Confidence</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

C1	I have confidence in the leadership of my VSLA.					
C2	I believe VSLA members will act in the group's best interest	1	2	3	4	5
C3	I trust that decisions made in the VSLA are well informed	1	2	3	4	5
C4	I am confident that my financial contributions to the VSLA are well managed.	1	2	3	4	5
C5	I trust that members will repay their loans as agreed.	1	2	3	4	5
C6	I believe the VSLA's financial records are accurate and reliable.	1	2	3	4	5
C7	I feel secure sharing my financial issues with fellow VSLA members.	1	2	3	4	5
C8	I believe in the integrity of our financial reporting processes.	1	2	3	4	5

<b>Indicator 2: Transparency</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
T1	The VSLA regularly shares financial information with all members..	1	2	3	4	5
T2	All financial transactions are openly discussed during group meetings.	1	2	3	4	5
T3	I feel that no important financial decision is made without member input.	1	2	3	4	5
T4	The criteria for accessing loans in our VSLA are clear and known to everyone.	1	2	3	4	5
T5	Financial reports and balances are disclosed accurately and on time.	1	2	3	4	5
T6	I have access to financial information whenever I need it	1	2	3	4	5
T7	Members are free to question financial decisions without fear	1	2	3	4	5
T8	There is openness about how funds are used in the VSLA	1	2	3	4	5

<b>Indicator 3: Reliability</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

C1	The VSLA consistently delivers on its financial promises.	1	2	3	4	5
C2	The leaders of the VSLA are dependable when it comes to financial matters.	1	2	3	4	5
C3	I can trust the VSLA to support members in times of financial need	1	2	3	4	5
C4	Members can be counted on to follow financial rules and procedures.	1	2	3	4	5
C5	Our VSLA follows through with scheduled financial meetings.	1	2	3	4	5
C6	Members are consistent in their financial contributions.	1	2	3	4	5

**SECTION E: Financial Performance**

<b>Indicator 1: Savings Growth</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
S1	The total savings of our VSLA have increased over time.	1	2	3	4	5
S2	Members are contributing savings more regularly now than before.	1	2	3	4	5
S3	The average amount saved by each member has grown.	1	2	3	4	5
S4	There is an increase in the number of members actively saving.	1	2	3	4	5
S5	The group is able to fund more loans due to higher savings.	1	2	3	4	5
S5	We have met or exceeded our savings targets as a group.	1	2	3	4	5
S6	New members are attracted to join because of strong savings culture.	1	2	3	4	5
S7	The group discusses strategies to grow savings even further.	1	2	3	4	5
<b>Indicator 2: Loan Repayment Rates</b>						
	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

L1	Most members repay their loans on or before the due date.	1	2	3	4	5
L2	Loan repayment has improved over the past year.	1	2	3	4	5
L3	The group enforce repayment policies consistently	1	2	3	4	5
L4	There is a clear system for following up on late repayments.	1	2	3	4	5
L5	Members feel accountable for repaying loans on time.	1	2	3	4	5
L6	Penalties for late repayment are applied fairly and consistently.	1	2	3	4	5
L7	Defaulting on loans is rare in our VSLA.s loan	1	2	3	4	5

<b>Indicator 3: Returns on Funds</b>						
NO	Statement	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
F1	I receive a reasonable return (share-out/dividend) from my VSLA savings.	1	2	3	4	5
F2	The VSLA has helped me grow my money over time.	1	2	3	4	5
F3	My participation in the VSLA contributes to my financial growth.	1	2	3	4	5
F4	The VSLA uses its funds in a way that yields good returns for members.	1	2	3	4	5
F5	I am satisfied with the profits or returns I receive from the VSLA at the end of each cycle.	1	2	3	4	5
F6	My VSLA investments are more profitable than other informal saving methods.	1	2	3	4	5
F7	The return on my financial contribution is higher than what I would earn from keeping money at home.	1	2	3	4	5

**Thank you for your support**

#### APPENDIX IV: LIST OF VLSAS STUDIED

1. Kama Walk Together VSLA
2. Bukobe Women VSLA
3. Bufumbo United VSLA
4. Naluwere VSLA
5. Mutufu Mosque VSLA
6. Buna Magye VSLA
7. Bukikobe VSLA
8. Bunabibabo VSLA
9. Mijini VSLA
10. Buna Tsomis VSLA
11. Wanale VSLA
12. Khaukha Community VSLA
13. Bukhoma VSLA
14. Wambewo VSLA
15. Kilayi VSLA
16. Bukikoso VSLA
17. Lwasini Masaba VSLA
18. Machese Kukhu VSLA
19. Nabumali Women VSLA
20. Nabumali Youth VSLA
21. Nabumali Trust VSLA
22. Busiyi Women VSLA
23. Busiyi Tabunu VSLA
24. Bunamoli Boda VSLA
25. Magikini VSLA
26. Lusanent VSLA
27. Elgon Millers VSLA
28. Elgon Friends VSLA
29. Nabumali Boda Boda VSLA
30. Bukyonyo Women VSLA
31. Wanale Women VSLA
32. Khuyeefe Women VSLA
33. Bukingala Youth VSLA
34. Mulina Papa VSLA
35. Ntumbi Centre VSLA
36. Budwale Women VSLA
37. Nabini Playground VSLA
38. Nalumoya Haleluya VSLA
39. Muyini Social Centre VSLA
40. Wapodo Trading Centre VSLA
41. Lutembate Wanula VSLA
42. Bunwalitsa Women VSLA
43. Waale Church VSLA
44. Lumbonku Women VSLA
45. Makunda Kenda VSLA
46. True Vine Church VSLA
47. Bukhanga Kumwikhoyo VSLA
48. Bushangi Women VSLA
49. Bunwalitsa Catholic Church VSLA
50. Bumwalikha Atwela VSLA
51. Namugha Yaya VSLA
52. Lukhonge Ginnery VSLA
53. Mavinde Atwela VSLA
54. Waninda Pentecostal Church VSLA
55. Alpha Busiu T/C VSLA
56. Kings Alala VSLA
57. Central Playground VSLA
58. SDA Yetana VSLA
59. Bunambutye Come Together VSLA
60. Bufukhula Social Centre VSLA
61. Buwalasi C.O.U Kumwoyo VSLA
62. Makanga Women VSLA
63. Musese Simali VSLA
64. Lambo C.O.U VSLA
65. Sunu SDA Church VSLA
66. Anghis Women VSLA
67. Lwaleras Women VSLA
68. Sikiya Trading Centre VSLA
69. Malambo Women VSLA
70. Kasongo Women VSLA
71. Siira Kenda VSLA
72. Bukhumeka Khukana VSLA
73. Lukki Mulukhu VSLA
74. Nabikhomwa Upper VSLA