THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND LIQUIDITY AMONG SMALL AND MEDIUM SIZED ENTERPRISES IN MOGADISHU, SOMALIA

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A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF SCIENCE (MCS) FINANCE IN THE FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

NOVEMBER, 2023

DECLARATION

I declare that this research project is my original work that has not been presente for any degree award

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ACKNOWLEDGEMENT

I appreciate Allah for the grace I was provided with as I was developing this project.

DEDICATION

I dedicate this project to my friends for the support they accorded me

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ABBREVIATIONS

SMEs Small and Medium Enterprises

SPSS Statistical Package for Social Sciences

ABSTRACT

Despite the critical role played by SMEs in growth of developing countries like Somalia, these firms have been characterized by interplay of many challenges. These include liquidity constraints attributed to limited financial literacy among managers and owners. Misuse of funds, lack of financial planning and risk management skills among managers have been established as other challenges curtailed liquidity levels of SMEs in Somalia. It is therefore important to enhance liquidity levels of these firms so that they can have a meaningful contribution towards recovery and growth of Somalia's economy. This study sought to determine the effect of financial literacy on liquidity. Descriptive survey design was adopted targeting 110 SMEs in Mogadishu and census was adopted. Both primary and secondary data was gathered and the analysis was supported by descriptive statistics like means and standard and regression analysis and presented through tables. The study noted that financial planning (β=0.911) had the greatest effect on liquidity of SMEs in Somalia followed by risk management (β=0.384) and lastly debt management (β=0.247). The study concludes that financial literacy has significant effect on liquidity. It was recommended that management team working with SMEs in Somalia should maximize their liquidity position by balancing between their current assets and liabilities in their balance sheets. The policy makers working with SMEs in Somalia should create relevant policies on financial literacy that will see its increased uptake for better liquidity ion the said enterprises.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Liquidity of firm is an important variable that drive their day to day operations. Liquid firms are in position of settling their short term obligations as they fall due to ensure steady operations. Firms under liquidity constraints may encounter interruptions especially when suppliers fail to supply required raw materials to support the daily operations. Financial literacy covering financial planning, debt management and insurance plays an instrumental role in safeguarding the financial health of the firm. Much of the existing literature relates financial literacy with profitability (Kihara, 2019), poverty reduction (Koomson, Ansong, Okumu & Achulo, 2023), financial management behavior (Yap, Komalasari & Hadiansah, 2018) and investment decisions (Baihaqqy, Disman, Sari & Ikhsan, 2020) among other variables.

Liquidity preference theory and the dual process financial literacy theory was used to underpin the study variables. Developed by Keynes (1936), liquidity preference theory argues that firms and people hold money transaction, speculative and precautionary motives. This theory will therefore shed more light the dependent variable being liquidity and why firms should hold sufficient cash to meet the aforementioned motives. Developed by Taylor (1981), the dual-process financial literacy theory argues that cognitive and intuitive process is key in driving financial decisions. This implies that financial literacy may not necessarily result into maximum financial decisions. The argument of this theory is that actions of people with greater level of financial literacy may be informed by cognition and intuition.

Small and Medium Enterprises (SMEs) create employment opportunities to thousands of people in the country. Given the efforts of economic recovery of Somalia after decades of civil war, the SME sector is among the pillars that the country can leverage to achieve greater economic prosperity. Despite this being a fact, SME is among sectors in Somalia that have been neglected (Ahmed, 2020). In Somalia, most of the owners of these SMEs have limited financial literacy knowledge while other enterprises have been financial excluded hence limiting their access to formal financial services including loan facilities that they can use to finance operations (Duale, Njeru and Karemu, 2015). An interaction of all these factors have led to liquidity constraint issues among SMEs in Somalia.

1.1.1 Financial Literacy

Financial literacy (FL) is a collection of knowledge and skills that allow that enable people to make effective and informed decisions in respect to their financial resources (Galstian, 2017). It is defined as understanding and knowledge of risks and financial concepts alongside beliefs, motivation and skills needed for applying the same in making sound financial related decisions. It is further defined as ability to comprehend and read issues linked to financial concerns (Muneeb & Atal, 2019). It is the ability to gather relevant information and have strong capability of differentiating between adverse financial choices and make discussion of financial concerns (Gupta & Gupta, 2018). Thus, a synthesis of the above definition shows that financial literature is the ability and knowledge that people possess that enable them to effectively manage their finances so as to enhance their welfare.

There are different measures of financial literacy that have been adopted in literature. These include budgeting, financial planning, debt management, insurance and savings as well as borrowing (Gupta & Gupta, 2018). Other widely available measures of financial literacy include retirement planning, risk management, investment and tax planning among other indicators. Financial literacy covering financial planning, debt management, investments, risk management and tax planning play an instrumental role in safeguarding the financial health of the firm (Muneeb & Atal, 2019). In this study, financial literacy was measured by financial planning, debt management and risk management.

1.1.2 Liquidity

Liquidity (L) is the ability of an entity to ensure its short term obligations have been attained using the available current assets. A firm is said to be liquid when it has adequate current assets that can enable it meet short term obligations once they fall due (Jihadi, Vilantika, Hashemi, Arifin, Bachtiar & Sholichah, 2021). A firm has liquid assets when the same can immediately and easily be converted in cash with no or little value loss. Liquidity is an important factor that guides and informs daily operations of the firm. Liquidity allows an organization to run its operation even when a financial crisis or recession emerges abruptly (Pattiruhu & Paais, 2020).

Liquidity is recognized through its various components like cash, current assets and liabilities. One of the widely recognized and adopted measures of liquidity is the ratio of current assets and current liabilities (Pattiruhu & Paais, 2020). It then implies that liquidity is about striking a balance between current and current liabilities of the firm as it runs operations on a daily basis. Other key ratios that are used for measuring liquidity include acid test or quick ratio and quick assets to current liabilities (Jihadi et al., 2021). In this study, liquidity was measured using current ratios since it assists to measure the liquidity status of the organization. The other justification of selecting upon current ratio as a proxy for liquidity was because it offers useful information on the operational cycle of the firm.

1.1.3 Relationship between Financial Literacy and Liquidity

There is scanty of empirical evidence linking financial literacy and liquidity, but this relationship can only be inferred in respect to other variables like financial performance and investments. Akims, Abayomi, Akims, Avedi, Josephat and Ouma (2023) noted that financial literacy is positively linked with investment decision which in turn means it also has a direct effect on liquidity. Ocansey (2022) established that investment and saving decisions were negatively linked with financial literacy. Sumidartini and Muhyi (2022) indicated that financial literacy and financial access hence liquidity are positively linked with each other.

Alshebami and Al-Marri (2022) indicated that financial literacy has no significant connection with entrepreneurial intent hence liquidity. Barno, Cheboi and Muganda (2020) established that financial literacy was significant with investments hence liquidity. Kihara (2019) indicated that financial planning and risk management were positively and significantly interlinked with profitability as a component of liquidity. Jayantilal (2017) pointed out that financial literacy has a positive interplay with finance management as a component of liquidity of an enterprise. Hence, the empirical link between financial literacy and liquidity is mixed and inconsistent providing a justification for the proposed study.

1.1.4 Small and Medium Sized Enterprises in Mogadishu, Somalia

Small and Medium sized Enterprises (SMEs) have been defined differently based on assets, revenues generated and number of employees. Gannett (2011) defines an SME as a firm having 0-100 staff. These firms operate across all sectors of an economy. Some of the sectors where these firms operate include telecommunication, service and manufacturing segments. These firms create thousands of job opportunities while contributing towards payment of taxes (Ahmed, 2020).

In Mogadishu Somalia, SMEs face a number of challenge, key one being liquidity constraints occasioned by limited access to funds, poor management of the limited funds attributed to limited financial literacy among owners of these firms (Duale, Njeru & Karemu, 2015). These challenges have threatened operation and continuity of these firms resulting in some occasions where some of them have collapsed. Given the critical role played by these SMEs in growth of an economy (Ahmed, 2020), it is imperative that an analysis of financial literacy-liquidity nexus is conducted hence the motivation of the present study.

1.2 Research Problem

Liquidity is an important variable that allow firms to carry out operations steadily. Liquidity allows a firm to meet its entire short term obligation (Pattiruhu & Paais, 2020). Financial literacy of owners of firms is an important consideration that can allow managers to effectively utilize debts, engage in financial plan and effectively manage risks that can enhance liquidity of their firms (Baihaqqy, Disman, Sari & Ikhsan, 2020). Thus, on this account, a positive relationship is anticipated and predicted between financial literacy and liquidity of the firm.

Despite the critical role played by SMEs in growth of developing countries like Somalia, these firms have been characterized by interplay of many challenges. These include liquidity constraints attributed to limited financial literacy among managers and owners. Misuse of funds, lack of financial planning and risk management skills among managers have been established as other challenges curtailed liquidity levels of SMEs in Somalia (Ahmed, 2020). It is therefore important to enhance liquidity levels of these firms so that they can have a meaningful contribution towards recovery and growth of Somalia’s economy.

The existing studies include Sumidartini and Muhyi (2022) who did an appraisal of FL and its implication on access to finances basing on 25 markets around the world where a positive link was registered. Ocansey (2022) did a study on FL and investment decisions focusing on households in Ghana where negative link was registered between FL and investment decisions. Alshebami and Al-Marri (2022) conducted an analysis of FL and its link with entrepreneurial intent within the context of Saudi Arabia. It emerged after data processing that no relationship was evident between study variables.

Locally in Kenya, Barno, Cheboi and Muganda (2020) adopted a moderation perspective to determine implication of biasness arising from overconfidence, financial literacy and investment decision. It emerged that financial literacy was significant in its moderation role. Kihara (2019) did a study focusing on FL and profitability among SMEs in Ruiru where it was noted that financial planning and risk management were significant FL aspects. The study conducted by Jayantilal (2017) was the analysis of FL and personal finance management taking staff working in Bank of Baroda as the case and a significant direct link was noted.

However, the above studies like Alshebami and Al-Marri (2022 were done in Saudi Arabia and not in Kenya. Other studies like Barno, Cheboi and Muganda (2020) used FL as a moderating and not independent variable. There are other studies like Kihara (2019) that used profitability and not liquidity as dependent variable. Against these gaps, the present study sought to provide answers to the following research questions: what is the relationship between FL and L among SMEs in Mogadishu, Somalia?

1.3 Research Objective

The objective of the study was to establish the relationship between financial literacy and liquidity among small and medium enterprises in Mogadishu, Somalia

1.4 Value of the Study

The study would allow owners and managers working among SMEs in Somalia to gain financial literacy skills needed in their daily operations and decision making process. Policy makers working among these firms would leverage this study to come up with relevant policies informing financial literacy of managers and owners. The study would contribute to existing literature on FL and liquid.

CHAPTER TWO: LITERATRURE REVIEW

2.1 Introduction

The chapter covers theories, determinants of liquidity and empirical studies. Gaps as well as conceptual framework with variables are also indicated.

2.2 Theoretical Review

The liquidity preference theory and the dual process financial literacy theory informed the inquiry.

2.2.1 Liquidity Preference Theory

This theory was developed by Keynes (1936) and it established three motives of why firms should hold cash as far as their operations are concerned. These motives include for transaction, precautionary or speculative purpose. The argument of this theory is that when the level of interest rate is very low, a rise in supply of money in the economy has little effect of increase in investments but only reduces the available cash balances. In the event that there is a rise in interest rate, the theory argues that people would demonstrate more willingness of holding low amount of money so that more profit is secured. Elgar (1999) indicated that people require money on the fact that he/she has an expenditure plan for financing or has some speculations on future state of interest rate or because of uncertainty concerning future.

In terms of transaction motive, money is required at an enterprise level so as to ensure that all economic transactions have been completed (Keynes, 1936). Holding cash for precautionary motive means that enterprises hold some liquid cash so that they are able to manage some emergencies that are unforeseen (Keynes, 1936). In view of speculative motive, it implies that people hold cash so that they are able to maximize opportunities arising from variation in prices of securities and bonds in stock markets (Keynes, 1936). The present study has liquidity as its dependent variable. Thus, liquidity preference theory was used to underpin this variable.

2.2.2 The Dual–Process Financial Literacy Theory

The proponent of this theory was Taylor (1981) and it argues that actions of people with greater level of financial literacy may be informed by cognition and intuition. The definition of intuition is that it is one's ability to gain knowledge without reasoning or drawing inferences. It provides judgment, understanding or views whose empirical verification is hard. Intuitive individuals have strong preference of using mental short cuts that are mostly guided and shaped by their individual emotions. Glaser and Walther (2013) was on the opinion that favorable implication of FL on sound and viable investment decisions is negatively affected by high degree of intuition.

Cognition is a process where there is transformation of sensory inputs followed by reduction, elaboration, storage, recovery and utilization to make decisions. It is a mental process that involves understanding, calculation, reasoning, solving of problems and making of decisions (Chan & Park 2013). Highly cognitive individuals derive greater satisfaction in thinking with high level of analytical skills and they can retain information for long. Hence, through intuition, people can make sound financial planning, debt management and risk management decisions which are important elements of FL. In the present study, FL is the broad independent variable and it was therefore underpinned by this theory.

2.3 Determinants of Liquidity of SMEs

The study focused on financial planning, debt management and risk management as key determinants of liquidity

2.3.1 Financial Planning

Financial planning includes budgeting, forecasting and projection of future cash flows. Budgets allow an enterprise to tract its expenses and engage in variance analysis so that over expenditure are minimized. This allows an enterprise to optimize its liquidity position. Financial planning also entails determination of future sources of funds and how the same finances will be utilized to achieve the main goal of maximizing the wealth of owners (Barno, Cheboi & Muganda, 2020).

2.3.2 Debt Management

Debt incorporates an element of financial leverage in the capital structure of the firm. The advantage that is associated with levered enterprises is that they enjoy the advantages of interest tax shield arising from use of debts in their capital structure. However, poor management of debts can have adverse effect on liquidity position of an enterprise. This is because a levered firm has an extra obligation of honoring interest payment when it falls due besides other expenses. When owners and managers of enterprises are proficient in debt management, liquidity positions of their firms may not be affected negatively (Jayantilal, 2017).

2.3.3 Risk Management

Risks are unforeseen events whose occurrence may have negative effect on liquidity position of an enterprise. Thus, maintenance of a high liquidity position requires an enterprise to effective manage its exposure to credit, market, economic and financial risks. Depending on the magnitude and severity of these risks, their occurrence may have negative effect on liquidity of an enterprise. Thus, it is expected that managers with sound debt management skills will be in position to enhance their liquidity levels (Kihara, 2019).

2.4 Empirical Review

Akims, Abayomi, Akims, Avedi, Josephat and Ouma (2023) did a study focusing on financial literacy and is implication on investment decisions. This approach adopted in this study entailed systematic theoretical and empirical review of existing literature on the variables. At the end of this review, it emerged that financial literature enhances and results into sound and effective investment decisions. This is because it offered investors with ability and capacity to take part in fundamental and technical analysis that in return supports sound investment decision making. It was further discovered that the level of awareness of investors has potential benefit of strengthening how they make their investment decisions.

Ocansey (2022) did an examination on financial literacy and how it is connected with investment decision borrowing evidence from households in Ghana. Among key techniques that were adopted by this study included gathering of information from participants in its primary mode guided by questionnaire and the adoption of survey design. In total, 70 participants were randomly selected and included in the survey. It became apparent after analysis that people having relatively high levels of education have high level of financial literacy besides possessing greater financial awareness. A negative link was identified between investment decisions, saving ad financial literacy.

Sumidartini and Muhyi (2022) did an examination on financial literacy and its implication on financial awareness. The study was conducted among traders in traditional markets in Egypt. The approaches adopted include the use of quantitative methods and application of structural equal modeling (SEM) for the purpose of analysis. In total, 14,384 small entities in the said markets were targeted as the study population. From the analysis, it emerged that there exists a positive link between financial literacy and financial access.

Alshebami and Al-Marri (2022) did an analysis of financial literacy and its implication on intent of entrepreneurs within the context of Saudi Arabia. Information was gathered through online platforms from 270 participants. Processing of the data was supported by SME. It emerged at the end of data processing entrepreneur intention and financial literacy are not significantly linked with each other. It further emerged that saving attitude has potential to mediate the link existing between the intentions of entrepreneurs and financial literacy.

Kihara (2019) did an appraisal of financial literacy and its interaction with financial performance focusing on SMEs in Ruiru. The adopted variables in this study included financial planning and risk management. While leveraging descriptive survey design, 125 respondents covering accountants, supervisors and managers were sampled. Information gathering was supported by questionnaires. It emerged once data had been processed that financial planning and risk management are important aspects of financial literacy that positively affect profitability of SMEs.

Jayantilal (2017) focused on staff working at Bank of Baroda (Kenya) Limited to explore the link between FL and personal finance management. The aspects of personal finance management that were covered included investments, savings and debt. The adopted methodologies included quantitative descriptive design targeting 173 staff and information gathering was aided by questionnaire. The sample of the study added to 64 participants. It was noted after processing of information that financial literacy affected the ability of people to invest, save and manage their debts positively and significantly.

Lusimbo (2016) did an assessment of the link between FL and growth of SMEs operating ion Kakamega. Key methodologies that were adopted include descriptive cross sectional survey as the design with 1300 SMEs being targeted from which 306 were sampled through stratified random method. Primary information was gathered supported by questionnaire. Frequencies and percentages guided the analysis. It was noted that the level of debt management financial literacy among managers working in the studied SMEs was rated as fair. The implication of interest rates and inflation on loans borrowed was not known by majority of the managers.

Cherugong (2015) focused on SMEs in Trans-Nzoia County to establish the effect of financial literacy on their performance. The adopted design was descriptive and the sample added up to 85 enterprises whose selection was achieved through stratified random sampling. Information in its primary form was gathered as supported by questionnaire. The analysis was guided by descriptive statistics. After processing of the gathered information, it was suggested that financial literacy positively affected performance of the studied enterprise.

2.5 Summary of Literature and Gaps

This study has reviewed a number of international and local studies that create gaps which the present study sought to fill. Akims, Abayomi, Akims, Avedi, Josephat and Ouma (2023) used investment decisions as the dependent variable and not liquidity. The study was further limited to mere systematic review of literature to make conclusions. Ocansey (2022) did an examination in Ghana and not in Kenya. Sumidartini and Muhyi (2022) used financial awareness and not liquidity as the dependent variable. Alshebami and Al-Marri (2022) did an analysis in Saudi Arabia and not in Kenya.

2.6 Conceptual Framework

Figure 2.1 is the conceptual framework that guided the study:

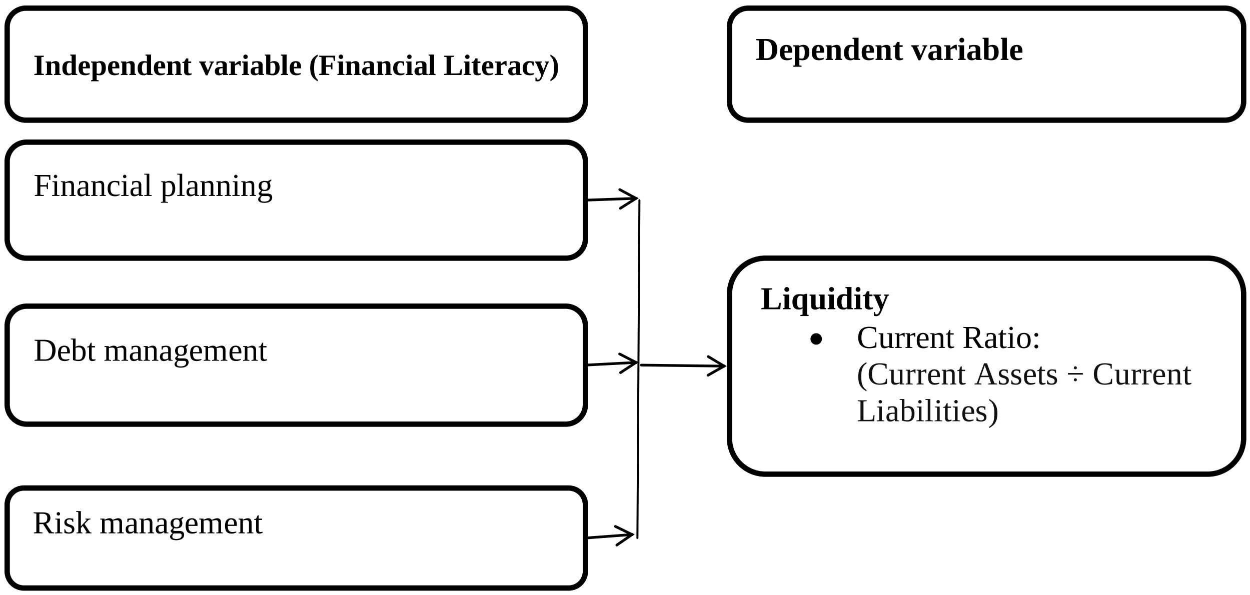

Figure 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter details research design, target population and data collection. Information on data analysis was also detailed.

3.2 Research Design

The study adopted descriptive cross sectional survey design. This design was successfully applied by Kihara (2019) and Galstian (2017) in related studies. The design was used to provide an accurate description of the relationship existing between FL and liquidity which is the main focus of the present study.

3.3 Target Population

This study targeted 110 SMEs operating in Mogadishu town and it's environing according the Census Statistic of 2020. Since this population was small and could easily be accessed, census was adopted.

3.4 Data Collection

Information was obtained in their primary form through questionnaire. The reason for using questionnaire is because of scanty and limited availability of secondary data in Somalia. Questionnaire also provides an opportunity for respondents to share huge amount of information over limited time. The questionnaire was administered among owners of each of the SME. It will designed on a 5-point Likert scale where 1-strongly disagree and 5-strongly agree. The questionnaire was divided into sections covering general information, financial literacy with structured items. Secondary data was obtained on liquidity on a period of 5 years and an average figure for the five years across the said firms was utilized for the purpose of merging with secondary data during analysis. Secondary data was gathered on annual basis on current assets and current liabilities to determine liquidity.

3.5 Data Analysis

The analysis was done through SPSS guided by means and standard deviations as well as correlation and regression analysis and presented through tables. The following regression model was used to guide the analysis of the inferential statistics:

3.5.1 Model Specification

$L_I = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where L_I= liquidity (measured using current assets and current liabilities)

β_0 is the constant

β_{1-n} are regression beta coefficients

X_1 is financial planning measured through a 5-point Likert scale

X_2 is Debt management measured through a 5-point Likert scale

X_3 is Risk management measured through a 5-point Likert scale

ε is the error term

3.5.2 Specification Tests

Such p values lower than 0.05 implied existence of significant relationship between concerned variables accompanied t- test Analysis of Variance was used to test significance of the overall regression model through F-test.

3.5.3 Diagnostic Tests

The assumptions of regression analysis were tested through normality test, multicolinearity test and heteroscedacity test and the resultant values were appropriately interpreted to draw inferences.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The chapter is set out to document the findings of analysis based on the data that was gathered. The specific contents of the chapter include response rate, descriptive statistics, diagnostic tests and regression analysis.

4.2 Response Rate

From the 110 questionnaires that were administered to SMEs operating in Mogadishu town, 81 were completely filled and returned. This led to a response rate of 73.6% which was adequate to support analysis of findings.

4.3 Descriptive Statistics

The findings of descriptive statistics on the variables of the study were determined and presented as shown in subsequent sections.

4.3.1 Financial Planning

The findings on financial planning were determined and summarized as shown in Table 4.1.

Table 4.1: Financial Planning

Statements on Financial Planning	Mean	Std. Dev
Budgets allow this enterprise to tract its expenses	3.77	.707
Budgets helps to minimize over expenditure in this firm	3.67	.771
Financial planning entails determination of future sources of funds of this enterprise	3.50	.834
Financial planning involves determination how finances will be utilized in this enterprise	4.06	.713
Average	**3.75**	**.756**

Source: Survey Data (2023)

The findings in Table 4.1 indicate that respondents agreed on the fact that financial planning was practiced in their enterprise (M=3.75). In the studied enterprises, financial planning involved determination of how finances were to utilized in the studied enterprise (M=4.06), budgets allowed the enterprise to tract its expenses (M=3.77), budgets helped to minimize over expenditure in the firm (M=3.67) and that financial planning moderately entailed determination of future sources of funds of the enterprise (M=3.50). This means that most of the studied enterprises could determine how funds were being sourced and utilized.

4.3.2 Debt Management

The results on debt management were determined and summarized as shown in Table 4.2.

Table 4.2: Debt Management

Statements on Debt management	**Mean**	**Std. Dev**
Leverage helps this firm to maximize wealth of its owners	2.49	1.091
This enterprise pays interests on debts on time	1.80	.857
The amount of debts accumulated by this enterprise is sustainable	2.48	.634
Debts are preferred to equities in this enterprise	2.62	.857
Average	**2.35**	**.860**

Source: Survey Data (2023)

The findings in Table 4.2 show that on overall, there was low utilization of debts in the studied enterprises (M=2.25). This low utilization of debts by the studied enterprises could be attributed to the general challenges that are encountered by SMEs in accessing debts and other credit facilities from lenders. In particular, the fact that payment of interest on time was lowly rated, the possible explanation of the same could be due to the fact that they access loan products that are Sharia compliant and thus prohibit interest payment. All other statements on debt were lowly rated, implying that its uptake and utilization among the studied enterprises.

4.3.3 Risk Management

Table 4.3 is a breakdown of the findings on risk management as an aspect of financial literacy in the studied enterprises:

Table 4.3: Risk Management

Statements on Risk management	**Mean**	**Std. Dev**

Risk identification is conducted in this enterprise	3.71	.575
Risk assessment is carried out in this enterprise	3.81	.923
Risk analysis is done for classification of risks into respective categories	3.71	.977
Risk monitoring is conducted to track different risk scenarios in this enterprise	4.02	.547
Average	**3.81**	**.756**

Source: Survey Data (2023)

Table 4.3 indicate that risk management was an evident as an aspect of financial literacy in the studied enterprises (M=3.81). Respondents agreed that risk monitoring was conducted to track different risk scenarios in the enterprise (M=4.02) and that risk assessment (M=3.81), identification (M=3.71) and analysis were conducted in the studied enterprises. This means that risk management in the studied enterprises entailed risk monitoring, assessment, identification and analysis.

4.3.4 Liquidity

Secondary data on current assets and liabilities was obtained to compute the value of liquidity across the period 2018-2022. An average figure across this period was computed and factored in the analysis. Table 4.4 is an overview of the findings of descriptive statistics on this secondary data.

Table 4.4: Liquidity

	n	Minimum	Maximum	Mean	Std. Deviation
Liquidity	81	.02	7.95	1.6412	1.85297
Valid N (listwise)	81				

Source: Survey Data (2023)

Table 4.4 shows that on average, the average current ratio of the studied SMEs in Mogadishu was 1.6412, meaning that majority of the studied enterprises were highly liquid.

4.4 Diagnostic Tests

The study conducted diagnostic tests covering normality test,

4.4.1 Normality Test

Normality test was conducted through Skewness and Kurtosis and Table 4.5 gives an overview of the findings.

Table 4.5: Normality Test

	n	Skewness		Kurtosis	
	Statistic	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Liquidity	81	2.580	.267	1.225	.529
Financial planning	81	-.963	.267	2.018	.529
Debt management	81	.046	.267	-.548	.529
Risk management	81	-1.250	.267	2.180	.529

Source: Survey Data (2023)

The findings in Table 4.5 indicate that all the Skewness and Kurtosis values were all in the range of +/-3, an indication that there was normality in the data set that was adopted in the present data set.

4.4.2 Autocorelation Test

The findings in Table 4.6 provide an overview of results on autocorrelation test.

Table 4.6: Autocorrelation Test

Model	Durbin-Watson
1	1.729

Source: Survey Data (2023)

Table 4.6 indicates that Durbin Watson Statistic value for the data set was 1.729, which is closer to 2. This signifies absence of serial correlation in the sample data.

4.4.3 Multicolinearity Test

The findings in Table 4.7 show findings of multicolinearity test:

Table 4.7: Multicolinearity Test

	Collinearity Statistics	
	Tolerance	**VIF**

Financial planning	.480	2.085
Debt management	.416	2.407
Risk management	.333	2.999
Average	**.410**	**2.497**

Source: Survey Data (2023)

Table 4.7 show the value of average VIF as 2.497, which is within range of 1-10. This is an indication of absence of serial correlation in the data that was used in the study.

4.4.4 Heteroscedacity Test

Heteroscedacity Test was conducted graphically using scatter plot and the findings were established as shown in Figure 4.1

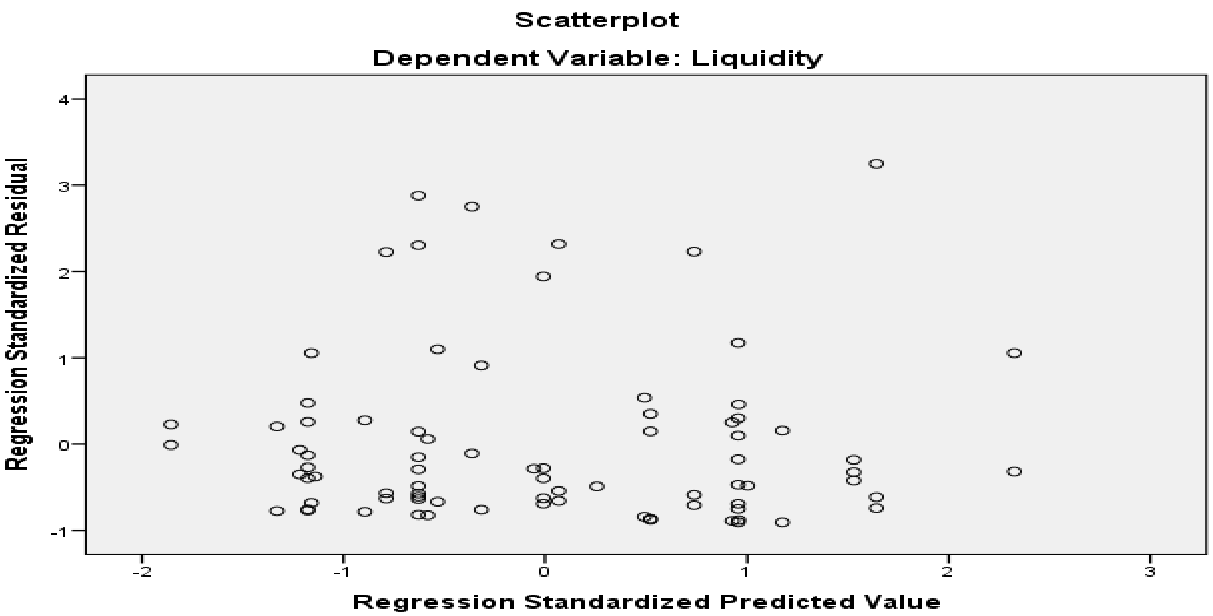

Figure 4.1: Heteroscedacity Test

Source: Survey Data (2023)

The findings in Figure 4.1 indicate absence of a clearly established pattern from the spread of data, an indication that Heteroscedacity was absent in the sample data.

4.5 Correlation Matrix

Correlation analysis was conducted to establish the relationship between variables and Table 4. 8 is a summary of the findings.

Table 4.8: Correlation Matrix

		Liquidity	Financial planning	Debt management	Risk management
Liquidity	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	81			
Financial planning	Pearson Correlation	.710	1		
	Sig. (2-tailed)	.000			
	N	81	81		
Debt management	Pearson Correlation	.658	.619	1	
	Sig. (2-tailed)	.000	.000		
	N	81	81	81	
Risk management	Pearson Correlation	.641	.710	.756	1
	Sig. (2-tailed)	.000	.000	.000	
	N	81	81	81	81

Source: Survey Data (2023)

Table 4.8 indicate that financial planning (r=0.710), debt management (r=0.8) as well as risk management (r=0.641) were all strong, positive and significant correlates of liquidity. This means that financial literacy is positively related with liquidity.

4.6 Regression and Hypothesis Testing

Regression analysis was conducted to test the formulated hypotheses of the study. Table 4.9 gives an overview of the findings of the model summary.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764[a]	.584	.568	1.21852

Source: Survey Data (2023)

Table 4.9 shows that 56.8% of variation in liquidity of SMEs in Somalia is explained by the financial literacy (Adj. R^2=0.568). This has an implication that other factors exits aside from financial literacy that have an effect on liquidity of the said enterprises which future studies should seek to establish. Table 4.10 is a breakdown of the ANOVA findings from the regression analysis.

Table 4.10: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	160.350	3	53.450	35.998	.000[b]
Residual	114.329	77	1.485		
Total	**274.679**	**80**			

Source: Survey Data (2023)

The ANOVA findings in Table 4.10 indicate the value of F calculated as 35.998 with $p<0.05$. This means that on overall, the regression model adopted in the study was significant. Significance and coefficients were established and summarized in Table 4.11.

Table 4.11: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	17.145	2.298		7.461	.000
Financial planning	.911	.209	.462	4.356	.000
Debt management	.247	.089	.316	2.774	.007
Risk management	.384	.146	.073	2.630	.016

Source: Survey Data (2023)

From Table 4.11, the following equation is predicted between financial literacy and liquidity:

$$L_I = 17.145 + 0.911X_1 + .0247X_2 + 0.384X_3 + \varepsilon$$

Where L_I= liquidity (measured using current assets and current liabilities)

X_1 is financial planning measured through a 5-point Likert scale

X_2 is Debt management measured through a 5-point Likert scale

X_3 is Risk management measured through a 5-point Likert scale

ε is the error term

From Table 4.11, it is clear that financial planning (β=0.911) had the greatest effect on liquidity of SMEs in Somalia followed by risk management (β=0.384) and lastly debt management. (β=247). In terms of p-values, the study noted that financial planning ($p<0.0511$, risk management ($p<0.04$) and lastly debt management ($p<0.05$) were all regarded to be significant predictors of liquidity among SMEs in Mogadishu. Thus, financial literacy has significant implication on liquidity of an enterprise.

4.7 Discussion

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter covers the summary of the findings and conclusion. Recommendations, limitations and areas that require further research are also indicated.

5.2 Summary of the Study

This study was set out to determine the relationship between FL and liquidity among SMEs in Mogadishu, Somalia. While the dependent variable was liquidity, the independent variable was financial literacy. Descriptive survey design was adopted targeting 110 SMEs in Mogadishu and census was used. Information in primary and secondary nature was gathered and processed to provide results as shown in subsequent sections.

From descriptive statistics, the study established that while financial planning and risk management was practiced in the studied SMEs, debt management was not evident. Among most of the studied enterprises, financial planning involved determination of how finances were utilize in the studied enterprise, budgets allowed the enterprise to tract its expenses. For risk management, the study pointed out that risk monitoring was conducted to track different risk scenarios in the enterprise and that risk assessment, identification and analysis were conducted in the studied enterprises.

In view of correlation analysis results, financial planning, debt management as well as risk management were all string, positive and significant correlates of liquidity. Over half percent proportionate variation in liquidity of SMEs in Somalia is explained by the financial literacy.

Hence, financial planning had the greatest effect on liquidity of SMEs in Somalia followed by risk management and lastly debt management.

5.3 Conclusion

It is concluded that most of the studied enterprises could determine how funds were being sourced and utilized. Risk management in the studied enterprises entailed risk monitoring, assessment, identification and analysis financial literacy is positively related with liquidity. On the contrary, there was a low rate and level of adoption of debts in the studied firms. Similarly, the dents taken up by h studied SMEs did not attract any interest and thus no interest was payable.

The conclusion drawn from correlation analysis is that financial planning, debt management and risk management were all key and significant predictors and enablers of liquidity. Thus, financial literacy positively contributes towards liquidity of SMEs in Mogadishu, Somalia. From regression analysis debt and risk management as well as financial planning were significant enablers of liquidity. Thus, it is concluded that financial literacy significantly leads to liquidity.

5.4 Recommendations of the Study

The finance managers working with SMEs in Mogadishu should consider balancing the adoption of debts and equities so as to maximize the wealth of their respective shareholders. The management team working with SMEs in Somalia should maximize their liquidity position by balancing between their current assets and liabilities in their balance sheets. The policy makers working with SMEs in Somalia should create relevant policies on financial literacy that will see its increased uptake for better liquidity ion the said enterprises.

5.5 Limitations of the Study

The present study was limited to two variables: financial literacy and liquidity. In this regard, while financial literacy was considered as the independent variable, liquidity was the dependent variable. There was no control variable although information was gathered in its primary and secondary nature. Gathering of the said information was aided by questionnaire and data collection sheet.

5.6 Areas for Further Research

In the present study, the value of adjusted R square was established as 56.8%, this means that there additional factors aside from financial literacy that have an effect on liquidity of the studies SMEs which should be of key focus by future studies. Similarly, the focus of future studies should be on other dependent variables like profitability or even financial performance which are conceptually different from liquidity.

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

1. Kindly indicate the number of years your enterprise has been in operation

Less than 10 year ( )

11-20 years ( )

21-30 years ( )

Over 31 years ( )

2. Kindly indicate the number of employees in your enterprise

Less than 20 staff ( )

21-30 staff ( )

31-40 staff ( )

Over 41 staff ( )

SAECTION B: FINANCIAL LITERACY

3. Given below are statements on financial literacy. Kindly indicate the extent of your agreement with these statements using a scale of 1-5 where 1-strongly disagree, 2-disagree, 3-undecided, 4-agree and 5-strongly agree.

Statements on Financial Planning	**1**	**2**	**3**	**4**	**5**
Budgets allow this enterprise to tract its expenses	1	2	3	4	5
Budgets helps to minimize over expenditure in this firm	1	2	3	4	5

Financial planning entails determination of future sources of funds of this enterprise	1	2	3	4	5
Financial planning involves determination how finances will be utilized in this enterprise	1	2	3	4	5
Statements on Debt management	**1**	**2**	**3**	**4**	**5**
Leverage helps this firm to maximize wealth of its owners	1	2	3	4	5
This enterprise pays interests on debts on time	1	2	3	4	5
The amount of debts accumulated by this enterprise is sustainable	1	2	3	4	5
Debts are preferred to equities in this enterprise	1	2	3	4	5
Statements on Risk management	**1**	**2**	**3**	**4**	**5**
Risk identification is conducted in this enterprise	1	2	3	4	5
Risk assessment is carried out in this enterprise	1	2	3	4	5
Risk analysis is done for classification of risks into respective categories	1	2	3	4	5
Risk monitoring is conducted to track different risk scenarios in this enterprise	1	2	3	4	5

THANK YOU

Appendix II: Data Collection Sheet

Year	Current assets	Current liabilities
2018		
2019		
2020		
2021		
2022		

Appendix III: Regression Outputs

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Risk management, Financial planning, Debt management[b]	.	Enter

a. Dependent Variable: Liquidity

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764[a]	.584	.568	1.21852

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

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	160.350	3	53.450	35.998	.000[b]
	Residual	114.329	77	1.485		

	Total	274.679	80			

a. Dependent Variable: Liquidity

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

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17.145	2.298		-7.461	.000
	Financial planning	.911	.209	.462	4.356	.000
	Debt management	.247	.089	.316	2.774	.007
	Risk management	.384	.146	.073	2.630	.016

a. Dependent Variable: Liquidity