

**WEIGHING THE EFFECT OF FINANCIAL LITERACY
ON THE GROWTH OF SMEs:
A CASE STUDY OF LIVINGSTONE DISTRICT.
(Paper ID: CFP/1159/2019)**

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ABSTRACT.

Financial literacy is one of the key factors that impact on the success of small and medium enterprises (SMEs) globally. The low levels of financial literacy of entrepreneurs influence the SMEs ability to grow and achieve sustainable results. The general objective of this study is to weigh the effect of financial literacy on the growth of Small and Medium Enterprises (SMEs). The study also aims to establish the relationship between the use of financial literacy concepts and the performance of the SMEs. This study was quantitative and descriptive in nature. The data was collected through questionnaires during face to face structured interviews. A total of 50 entrepreneurs from the city of Livingstone in Southern Province of Zambia participated in this study. The results of the study indicated that most of the SMEs did pursue all the three financial literacy concepts in managing their business finances. Furthermore, the study revealed that entrepreneurs lacked the knowledge regarding other sources of capital such as venture capitalist funds and government agencies.

In addition, the study findings revealed challenges that affect the implementation of financial literacy among Small and Medium Enterprises in Livingstone District. In fact, the identified factors that affect the effectiveness of financial literacy education were found to be the major challenges. Therefore, respondents suggested some possible measures that could be taken in order to overcome the identified challenges. Among the suggested possible measures, the findings of the study revealed included the need to encourage SMEs owners to further their education qualifications, ongoing sensitization of financial literacy and the need to consider employing more qualified officers to be attached to market places.

1. INTRODUCTION

1.1 Back ground

An acute awareness of the need to improve financial literacy of people has become one of the main lessons of the current financial crisis. Knowing the basics of the financial economy allows people not only to avoid a number of mistakes and financial losses, but also to see new benefits and interesting opportunities, regardless of what position and in what area they work. For the business' owners, in our opinion, financial literacy may help to guarantee health and stable economic situation. The importance of financial literacy has been already recognized by many researchers in the volume of dedicated research papers and policymakers by investing resources in financial education programs. The trend of accessible financial markets and an enormous variety of financial services requires from people a better understanding of economic processes. Ignorance of financial literacy might be crucial on the existence key-factors, since it has influence on financial decision-making process (Lusardi & Mitchell, 2014)

Financial literacy is the education and understanding of knowing how money is made, spent, and saved, as well as the skills and ability to use financial resources to make decisions. These decisions include how to generate, invest, spend, and save money. Financial literacy has also been associated with positive behaviors such as debt management, increased savings, wealth accumulation and avoidance of over indebtedness (Lusardi & Mitchell, 2011; Mastercard, 2011; Obago, 2014).

However, Chan, and Park (2013) caution that financial literacy may not always yield optimal results where an individual relies heavily on intuitions in decision making.

Despite all these challenges, SMEs have ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovation. According to Wanjohi (2011), SMEs enhance competition and entrepreneurship hence has external benefits on economy wide efficiency, innovation and aggregate productivity. They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations. According to Normah (2017), the concentration of SMEs has a close relationship with the dominant economic activities. SMEs dominate the world economies in terms of employment and number of companies, yet their full potential remains remarkably untapped (Atsede *et al*, 2018).

According to Miller *et al* (2009), facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services. This is because financial literate investors create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Investors on their part are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, to make optimal decisions.

The government of Zambia has recognized the importance of SMEs in creating employment and eradicating poverty in the country. It has provided initiatives that are aimed to spur growth in the sector. The youth fund and women fund are just examples of government efforts in supporting small enterprises. SMEs are considered in the Policy recommendations contained in the Seventh National Development Plan (7NDP) for the period 2017- 2021 as the successor to the Revised Sixth National Development Plan (R-SNDP) for the period 2013-2016 following its expiry in December

2016. The goal of the 7NDP is to create a diversified and resilient economy for sustained growth and socio-economic transformation driven, among others, by agriculture.

Furthermore, this Plan responds to the Smart Zambia transformation agenda 2064 and embeds in it the economic recovery necessary for the actualisation of a Smart Zambia. This is in support of the United Nations 2030 Agenda for Sustainable Development and the African Union Agenda 2063. Distinctively, the realisation of this goal will be achieved through the contribution of a number of developmental outcomes and this makes the Seventh National Development Plan (7NDP) an effective guide towards Zambia's aspirations of being a developed middle-income nation. The key outcomes include economic diversification and job creation; poverty and vulnerability reduction; reduced developmental inequalities; enhanced human development; and an enhanced governance environment for a diversified and inclusive economy.

In the Seventh National Development Plan, the government recognises the positive correlation between the growth of SMEs and job creation; efforts are being made to address factors that impinge on the growth of SMEs. These factors include prohibitive interest rates, lack of collateral to enable entrepreneurs borrow and expand their businesses, poor access to technology, weak entrepreneurial culture, weak collaboration among indigenous businesses and a weak policy environment to support SME growth (SNDP, 2017). The Seventh National Development Plan recognises that even though Zambia is well within the Vision 2030's objective of maintaining the unemployment rate below 10 percent, the country still lacks adequately skilled workers. The major challenge that the country faces is that most workers enter the labour force after dropping out of

school and without attaining basic numeracy, ICT and literacy skills.

Financial literacy also builds the risk management skills of individuals. Siekei *et al.*, (2013) argue that financial literacy prepares investors for tough financial times through strategies that mitigate risk such as accumulating savings, diversifying assets and avoiding over indebtedness. Through this study in Livingstone, Zambia, I weighed the effect of financial literacy on the growth of Small and Medium Enterprises.

1.2 Statement of the Problem

In Zambia, access to financial products and services by the majority adult citizens has not been easy. According to FinScope Zambia (2017), a total of 63% of Zambian adults have no access to any form of financial product (financially excluded) to manage their financial lives, be either formal or informal. Even with the few who can access financial services and products, weaknesses can still be identified such as limited outreach of banks and a high spread between deposit and lending rates. As a result of low levels of access to financial services, the Bank of Zambia (BOZ) has adopted financial inclusiveness as one of its strategic objectives to ensure enhanced levels of access for all especially for isolated rural populations (BOZ, 2017). Following the publication of the FinScope Zambia 2009 report, the Bank of Zambia has made a commitment in the Maya Declaration of 2011 to at least achieve financial inclusion of 50% in the medium term from the 37% of Zambia's population by 2015. Targeting to have at least half of the adult population to have access to financial services and products in the medium term implies achieving this in the next five years (Alliance for Financial Inclusion (AFI), 2016).

It is for this reason that the Zambian Government through Bank of Zambia developed a National Strategy to set out direction to improving financial

literacy and the mechanism and tools to achieve this. Furthermore, Bank of Zambia and other commercial banks took financial literacy week seriously starting in 2014 with a call to improve on the culture of saving.

The Financial Literacy Week is an annual public awareness campaign; on financial literacy concepts that help people make financial decisions. This contributes to the vision of the National Strategy on Financial Education for Zambia for citizens to have the knowledge, understanding, skills and confidence to make prudent financial decisions for themselves, their families and their communities. The above evidence shows that many SMEs in Zambia still lack basic financial literacy skills and knowledge that allows an individual to make informed decisions with all of their financial resources.

However, while efforts to offer financial literacy skills and knowledge to SMEs is worthwhile, the types of financial literacy being offered to SMEs, the challenges being faced by SMES in accessing financial information, measures to increase the level of financial literacy and benefits of financial literacy to SMEs in the district are not known. Therefore, this research is about how financial literacy would help in advancing the growth of SMEs in Livingstone District

1.3 OBJECTIVES OF THE STUDY

1.3.1 General Objective

This study pursued to assess the effect of financial literacy on the growth of SMEs in Livingstone district.

1.3.2 Specific Objectives

The study addressed the following specific objectives;

1. To determine the types financial literacy being offered to SMEs in Livingstone district.
2. To find out challenges SMEs face accessing financial information in Livingstone district.
3. To establish measures that can be used to address the challenges that are faced by SMEs in accessing financial information in Livingstone district.
4. To discover the benefits of financial literacy on the growth of SMEs in Livingstone District.

1.4 Significance of the Study

This study greatly benefited SMEs owners as it high lightened the benefits that would be realized by acquisition of financial literacy skills to improve the financial management of their businesses so as to improve growth prospects and profitability and their credit rating by financiers.

The study also helped training institutions in understanding the significance of financial literacy to performance of SMEs. It also helped academicians in establishing the relevance of curriculum taught in business schools to the actual business world.

1.5 THEORETICAL FRAMEWORK

In the views of Potter and Riddle (2007), theories are important for guiding research and providing justification of ideas and findings. There are many theories that link financial literacy with other variables. However, this proposed study will be anchored on the financial literacy theory:

Financial Literacy Theory

According to this theory, Gallery, Newton and Palm (2011) framework financial knowledge is a form of investment in human capital, and many

empirical surveys establish that people need to know much more to become informed. The authors show how financial literacy shapes economic outcomes. They conclude with thoughts on research needs to better inform theoretical and empirical models as well as public policy. Financial literacy theory argues that the behavior of people with a high-level financial literacy might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories (Idowu 2010) embrace the idea that decisions can be driven by both intuitive and cognitive processes. Dual-process theories have been studied and applied to many different fields, e.g., reasoning and social cognition (Idowu 2010).

Financial literacy remains an interesting issue in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the finance landscape. Atkinson and Messy (2005) define financial literacy as the combination of investors understanding of financial products and concepts and their ability and confidence to appreciate financial risks and

opportunities, to make informed choices, to know where to go for assistance, and to take other effective actions to improve their financial well-being. Financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions.

It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets (Lusardi and Oliver, 2006). Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance.

Financial literacy facilitates the decision-making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes.

2. LITERATURE REVIEW

Financial literacy gives an individual or business owner the ability to make informed and effective decisions regarding management of money through understanding and application of financial concepts. The effect of financial literacy on the growth of small and medium enterprises has attracted increasing attention by various governments and researchers in the recent past. The aim of this chapter therefore is to present a review of existing literature on the effect of financial literacy on the growth of small and medium enterprises. It presents the theoretical framework and comparative analysis drawn from similar surveys from global perspectives, regional perspectives and the Zambian situation.

2.1 Global perspectives

Globally, understanding of basic financial concepts helps people to make day-to day life decisions, which can vary from buying a coffee and to taking a home on mortgage. Financially literate people have competency to decide about investments, savings, borrowing and more (Asaad, 2015). It is markedly important to have financial knowledge in times when complicated financial products are freely accessible on the market to a big number of customers. In many countries, government tries to expand access to financial services, thus the number of people with credit products will increase fast (Klapper, Lusardi & Van Oudheusden, 2014).

Financial literacy should be linked to the concept of financial intelligence. This is a set of skills that must be held by all those who want to run their businesses successfully and to be able to follow and understand the financial world. They must be able to read balance sheets and financial statements of companies and financial institutions and to understand their mutual relations and influences (Novo, 2012). Financial literacy can be described as the ability of consumers to make financial

decisions in their own best short- and long-term interests. Ignoring financial basics may cost people high transaction fees, bigger debts and fewer saving, (Asaad, 2015).

In a word, financial literacy rates in South America are depressing. Uruguay and Chile post the best rates at 45% and 41%, respectively, but most places fall between 21%-30%. There is no doubt lots of historical explanations for this disparity, but Nicaragua (20%) stands out as particularly troubling. It has the lowest score in all of Central and South America excluding the Caribbean, and it's indicative of the desperate situation in that country (Lockea, 2012).

But there is no other place in the world with such wide-ranging differences in financial literacy as Europe.

The continent is anchored by a group of high scoring countries in Scandinavia, most notably Norway and Sweden (both scoring 71%).

In fact, northwestern European countries appear to perform the best on the Financial Literacy Survey, and the further south one looks, the worse the situation. Portugal manages a faulty 26%, the worst in all of Western Europe.

The Eastern Bloc, meanwhile, has some obvious and staggering problems, with no country east or south of Hungary scoring over 50% (OECD, 2011). The situations in Asia and the Middle East are comparable to Africa. Yemen (13%) and Afghanistan (14%) are at the rock bottom of the worldwide rankings, but they are not the only places in the teens. From Kyrgyzstan (19%) to Nepal (18%), Bangladesh (19%) and Cambodia (18%), there are several countries with horrible results. China scored a surprising 28% given it is the second largest economy in the world. The most interesting standout countries in our opinion, however, are Myanmar and Bhutan, where a relatively impressive 50%+ of the population counts as financially literate. These rates are immediately next to some of the worst scores on

the planet, proving that local factors can make a big difference (Huston, 2010).

There is really no surprise in Oceania. Australia (64%) beats out New Zealand (61%) for the top spot, but otherwise the Financial Literacy Survey was not able to collect robust data from any other country in the region (OECD, 2011).

According to Nujoma (2010:8), research by the Asian Development Bank (2008), the World Bank (2008) and Propaco (2010:19), provide recent literature on how countries in Asia, Latin America and Africa can approach the issue of access to finance for SMEs. Various countries have instituted directed lending programmes or policy-based lending to assist SMEs with financing. India, for example, has a Priority Sector Lending programme that directs the public and private banks to earmark 40% of their net credit to sectors like the SME sector. He also states that the Philippines have a mandatory requirement for banks to set aside 8% and at least 2% of their total portfolios for SME loans. Other countries like Pakistan and Thailand have established dedicated SME banks. These are efforts driven towards reducing supply side constraints for SME lending, involve the formation of special development funds or banks for SMEs and also cooperation with commercial banks through directed sector lending policies.

According to Obago (2014) in a study that sought to determine whether financial literacy had any effect on personal financial management practice among employees of commercial banks in Kenya using a sample of 100 respondents, it was revealed that higher numeracy skills have a positive relationship with higher levels of household wealth and good financial decisions while poor numeracy was linked with unnecessary expenses. Individuals with stronger numeracy and financial literacy are also more likely to participate in financial markets and to invest in stocks. Lusardi et al., (2011) found that an increase in the financial literacy of an

individual with otherwise average characteristics is associated with a 17%-point higher probability of stock market participation

2.2 Regional Perspectives

In Africa, a lot of effort has been put in place by the governments to help SMEs have access to finance and other important services that help SMEs to avoid failure. According to Nakusera, Kandhikwa and Mushendami (2008:4-6), the Development Bank of Namibia (DBN) and the Small Business Credit Guarantee Trust (SBCGT) are the main development finance institutions providing access to financial services for SMEs. The objective of the DBN is to fill the existing financing gap in the major medium and long-term development projects of both the private and public sectors.

According to the former Motor Vehicle Accident (MVA) Namibia Chief Executive Officer Jerry Mwadinaohamba (2011:28), SMEs are important to almost all economies in the world, but especially in developing countries like Namibia with major income discrepancies between the rich and the poor and high unemployment. On the termed “static” front, SMEs contribute to output by participating in the mainstream economy and to the creation of some “decent” jobs, especially to those that own or manage SMEs. All this information coupled together, SMEs are major employers and can close economic inequality between the rich and the poor.

The Kenya Revenue Authority (KRA) commissioner general Waweru in his report on “Addressing the different tax policy and tax administrative challenges of micro, small and medium businesses” observed that, many small businesses in Kenya in the informal sector lack detailed business records as a strategy to avoid taxation (Waweru, 2007). He opines that imposing fines on such entities would discourage rather than enforce tax compliance.

These entities may avoid taxation but this information asymmetry has a negative effect on the business as it makes it difficult for financier to quantify accurately the level of risk involved in a business opportunity so as to fix accurate interest rates which results to high transaction costs due to high cost of information gathering, screening and monitoring of MSEs.

Finally, like on so many other measures of economic progress and development, Africa scores the worst of all the continents on financial literacy. Only one country, Botswana, breaks the 50% barrier, with more places falling in the 31%-40% range. The worst country for financial literacy on the entire continent is Somalia, at 15%. The situation in Western Africa is not much better, where Sierra Leone is at 21% (GOK, 2015).

In addition to being a right in itself, literacy, which leads to acquisition of life skills, allows the pursuit of other human rights. It confers a wide set of benefits and strengthens the capabilities of individuals, families and communities to access health, educational, economic, political and cultural opportunities.

The regional literacy rate has increased by ten percentage points since 1990, and most countries have made often-considerable progress.

Even so, many found it difficult to reach the Education for All (EFA) adult literacy target of reducing levels of illiteracy by 50% by the year 2015. Of the thirty countries considered at serious risk of not having achieved this goal worldwide, half are in Sub-Saharan Africa (UNESCO Institute for Lifelong Learning, 2012).

2.3 **Zambian Situation**

According to the 2010 census of population and housing, Zambia's population stands at approximately 13.1 million while growing at a rate of 2.8 per cent per annum. Of this, 49.3 per cent (6,454,647) were males and 50.7 per cent (6,638,019) were females. In terms of distribution,

60.5 per cent (7,923,289) were in rural areas and 39.5 per cent (5,169,377) in urban areas. The 2010 census also estimates that 45.4 per cent of the population is aged below 15 years. In other words, the country has a young population (Central Statistical Office - CSO, 2010).

Providing financial literacy to this population is of strategic importance in the growth of SMEs. Accordingly, the Zambian government has continued to build on the progress made over the past decades. Notable in this regard has been a courageous effort of introducing financial literacy week by the backdrop to Zambia's experience in fighting high levels of financial illiteracy is inextricably linked to educational challenges the country faced in the 1980s and 1990s. These included a sustained decline in enrolment rates and exclusion of the most vulnerable groups, low levels of learning achievements, inadequate educational infrastructure at all levels, a shortage of teaching and learning materials and appropriately qualified teachers, and a general absence of investments in the education sector. These challenges made it difficult for the government to deliver basic literacy effectively (MCDSS, 2013).

Generally, literacy levels in Zambia according to the 2010 population census statistics show that 4.3 million adults (33.5% of the total adult Zambian population) cannot read or write a staggering nearly one in four adults. This literacy crisis is most prevalent in Zambia's underprivileged and rural areas (CSO, 2010). These high illiteracy levels among adults in Zambia are a great source of concern since illiteracy has a bearing on how SMEs can grow since the informal sector is full of people who falls in this category (Southern African Regional Poverty Network, 2017).

In summary, the G20 Seoul Summit (2010) also reports that low levels of financial literacy particularly book keeping skills have contributed to lost opportunities for a large number of MSEs worldwide.

3.0 RESEARCH METHODOLOGY

This chapter necessitates research design, study population, sampling procedure, data collection method and tool, quality of research tool, research procedure and data processing and analysis. This chapter generally contains the approach used to achieve the objectives of the study. From the outset, Smith (2008:158) describes methodology as a set of tools and devices to be used at each time; why and how such tools and devices ought to be used.

Further, Creswell (2014:26) also describes research design as a course of action that guides a researcher in collecting, analysing and interpreting data and observations to find answers to research questions.

3.1 Research Design

The research design is the conceptual structure within which the research is conducted. It constitutes the blue print for the collection, measurement and analysis of data (Kothari 2004). The multiple method strategy was adopted for this study as a way of reducing the possibility of personal bias by avoiding over dependence on one method or response from the owners of SMEs. Adopting this method enhanced the authenticity of the study. The study was designed to combine primary survey-based data with secondary information from organisation that promotes financial literacy in Livingstone District. Both qualitative and quantitative data was used in different ways which included detailed overview of surveyed results on the effect of financial literacy on the growth of SMEs in Livingstone District. A well-structured questionnaire was also administered to senior officials from organisations that promotes financial literacy program in Livingstone District

3.2 Target population

The study was conducted in Livingstone District which is located in Southern Province of Zambia. The reason for the selection of this location was the presence of good number of emerging SMEs. Additionally, the selection of this population was based on convenience because information such as owners' details, phone numbers and location could be easily accessed by the researcher. This helped in minimizing time and other financial demand in terms of expenses. Three markets within the Livingstone Township were used in data collection for this study. These places included Maramba Market, Dambwa Central Market and Zimbabwe Market.

3.3 Sample size

A sample refers to a smaller group or subset of the population in such a way that knowledge gained is representative of the total population under study, (Cohen and Manion, 1994). Bless and Graig (1995) define sample size as the number of participants selected from the universe to constitute a desired sample. Determining the required number of response (sample size) is an important step in designing a survey.

The Taro Yameni technique was adopted for this research work whose sample size was determined by using the formula below.

N =the size of population (57), n = the sample size=Acceptable margin of error (5%) 1 =unit (a constant)

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

57

$$n = 1 + 57(0.05)^2$$

$$n = 49.8905$$

In this study 50 SMEs owners in Livingstone were selected at random.

3.4 Data collection methods

The research study employed the combination of different data collection methods. This includes primary data and secondary data collection method. This enhanced the validity and reliability of data.

Primary Data Collection

3.4.1 Interview method

The interview method of collecting data involves presentation of oral-verbal stimuli and reply in terms oral-verbal responses. This method was used through personal and telephone interviews. Both structured and unstructured question was administered to the respondents. The questions were open and flexible so as to allow the greater opportunity for an individual. A set of predetermined questions were used to guide the respondent in order to provide the necessary information to meet the research objectives.

3.4.2 Questionnaires method

This method of data collection is quite popular, particularly in case of enquires. The respondents had to answer the questions on their own with exception of few SMEs owners who were unable to read and write.

3.4.3 Secondary data collection

Secondary data may either be published or unpublished data. Usually published data are available in various publications of the central state or local government or various publications of foreign governments or international bodies and their subsidiaries organizations, technical and trade journals, books magazines and newspapers, reports and publications of various associations connected with business and industries, banks, stock exchanges etc. Report prepared by research scholars, universities, economists etc. In this work the researcher used many books, SME policy, trade policy and other important articles to collect data which include Zambia Small and Medium Enterprises policy, Zambia Trade policy and

Zambia economic bulletin to collect secondary data.

3.5 Data Analysis

Makinde (1994) states that data analysis is the examination of the given problem in the light of the information collected after which some tentative inferences may possibly be made.

Therefore, the quantitative data that were collected through SMEs owner and bank officials' questionnaires were analyzed using the Statistic Package for Social Sciences (SPSS) and the Microsoft Excel while the qualitative data obtained oral interviews was analyzed by coding and grouping of the most significant sets of emerging themes. This was in accordance to what Marshall and Rossman (2011) who suggest that in analyzing qualitative data, the initial task is to find concepts that help "make sense of what is going on".

In some instances, the computer-generated figures of frequencies and percentages were used in describing the distributions of variables which were presented in form of figures using thematic method.

3.6 Ethical Considerations

The study obtained clearance from the Town Clerk before approaching owners' or managers of SMEs. The questioners were also designed in such a way that could not reveal confidential information of respondent. Participation of the study was also to be voluntary and the researcher also endeavored to give due consideration to ethical and moral issues.

3.7 Summary of the chapter

This research design was chosen because it was cost effective given the binding constraints of time and financial resources at the disposal of the researcher during the course of this study. Great care was exercised to ensure that the findings were representative. However, it was difficult to guarantee the elimination of biases such as central tendency and social desirability associated with completing questionnaire-based questions.

4. PRESENTATION OF RESEARCH FINDINGS

This presents and analyses the study findings on the information provided by the respondents gained from the study instruments. According to this study, analysis of data is a process of inspecting, cleaning, transforming and modelling data with the goal of discovering useful information, suggesting conclusions and supporting decision- making.

SECTION A: GENERAL INFORMATION

4.1.1 Sex of Respondents

The study found that 36 of the respondents were male while 14 were female. Therefore, majority of the respondents were male.

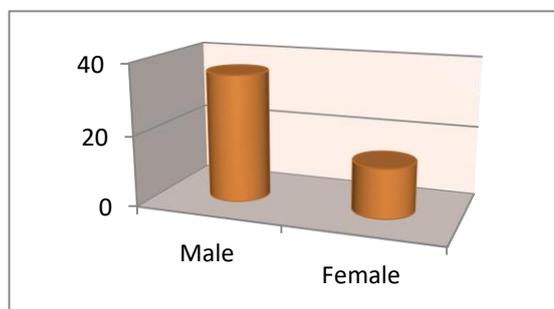


Figure 4.1.1: Sex Distribution of Respondents

4.1.2: SME's Business owner's age

The age of SMEs in Livingstone District mainly depends on the nature of business performed. The SME's owners were asked about their biological age and the answers were obtained. These were very important aspect for the researcher in the research findings because it helped to predict the SMEs who are most active in the entrepreneurship activities.

Basing on this study, it can be observed from figure 4.1.2 that majority of the respondents were between 26 and 35 years of age. They constituted 32% representing 16 respondents from the sampled population, 20% representing 10 respondents were aged between 18- 25years, while 18% respondents

were aged between 36-45 years representing 9 respondents and 16% of the respondents were between 46-55 years respectively representing 8. Lastly 7 respondents were aged above 56 years. Therefore, majority of the respondents were in the age group of 25-35 as shown in figure 4.1.2

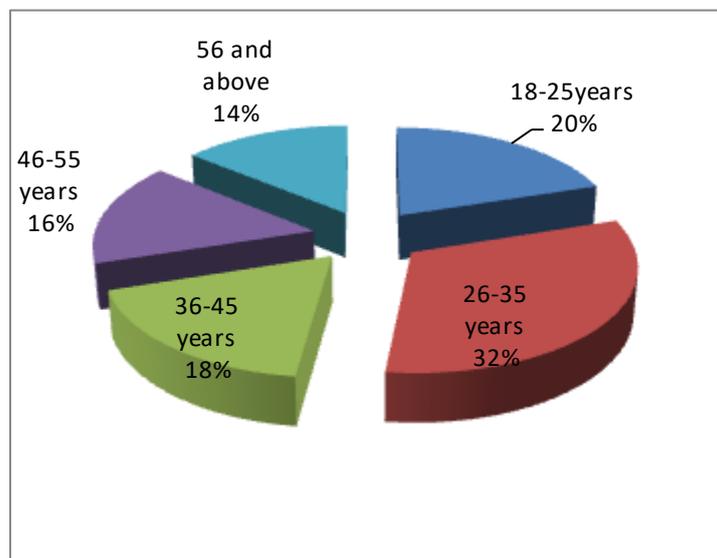


Figure 4.1.2: Age Distribution of Respondents

4.1.3 Religious Affiliation of Respondents

The study found that majority of the respondents accounting for 15 of the total respondents were Catholics, followed by 12 who were SDA, 10 were New Apostolic while another 7 were Pentecostals and 6 were UCZ respectively.

DENOMINATION	NUMBER OF REPDONDENTS
Catholics	15
SDA	12
New Apostolic	10
Pentecostals	7
UCZ	6
GRAND TOTAL	50

Table 4.1.3: Respondents Denomination

4.1.4 Respondents experience.

The experience of SMEs in Livingstone District mainly depends on the nature of business performed.

The SME's owners were asked about their experience in the business activities and the answers were obtained. These were very important aspect for researcher in the research findings because it helps to predict the SMEs who are most active in the entrepreneurship activities.

Basing on this study, the result show that most of the respondents were those with experience from

6 – 10 years in business which takes 38% in total compared to those with experience from more than 10 years which takes 26%. From the findings only Six (06) respondents were obtained who has an experience of 2-5 years in operations. This shows that majority of the SMEs were in operation for over two years but less than 10 years.

However, few SMEs were operational for over a long time of over ten years. This implies that the SMEs owners were knowledgeable of the current market trends and business practices and thus gave valid and accurate information.

Number of years		
Worked in the firm	frequency	Percentage
0-2 years	12	24%
2-5years	6	12%
6-10years	19	38%
More than 10 years	13	26%
Total	50	100%

Table 4.1.4: Respondents experience

4.1.5 Number of employees

The study sought to determine the number of employees in the SMEs. Figure 4.1.5 below presents the findings which show that out of 50 responses, the majority (50%) of participants in SMEs can be considered to be micro enterprises as they employ fewer than 5 employees, employees between 5 and 20 employees can be considered as small businesses, whereas only three (2) responds equivalent to 6% of the participants are medium sized enterprises employing between 20 - 99 employees as shown below. This shows that most SMEs had less than 5 employees (50%) and which may be due to the small nature of the SMEs.

The other reason for the low number of employees may be due to inadequate capital to hire a high number of employees and the SME owners also play a big role in running the SMEs themselves.

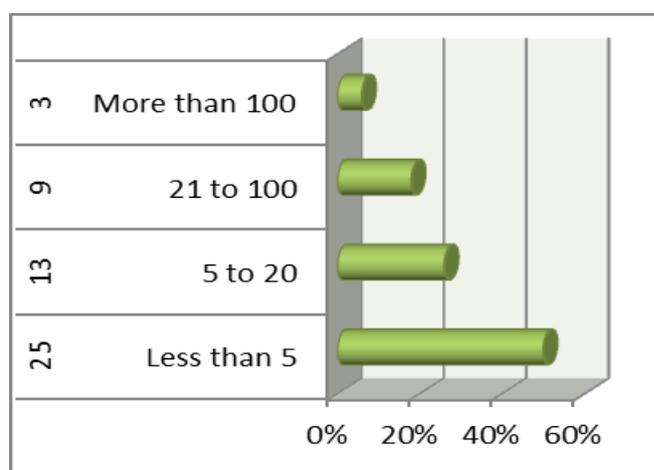


Figure 4.1.5 Number of employees. Source: Research Data, 2019

SECTION B: FINANCIAL LITERACY

4.2.1 What is financial literacy?

SMEs in Livingstone faces high failure rate just like other countries in the world as explained by Turyahebwa *et al.*, 2014. The high failure rate has also been attributed to low financial literacy which results to poor planning, limited access to finance and poor financial management.

From the findings in figure 4.2.1, the majority comprising 36 of respondents representing 72% agreed that they had an idea on financial literacy and only 14 respondents depicting 28% had less understanding of financial literacy.

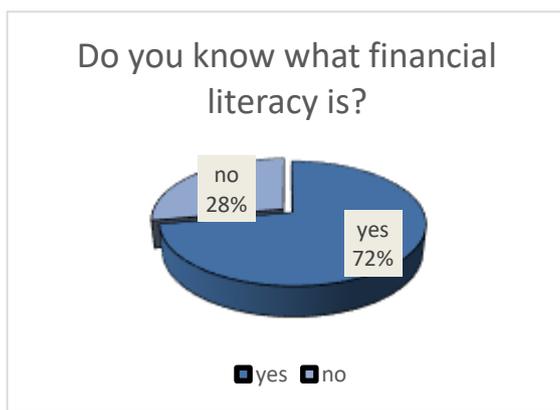
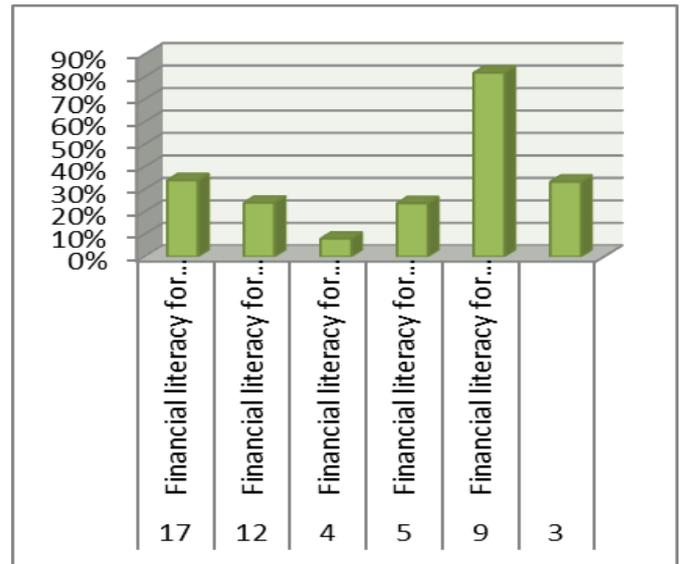


Figure 4.2.1

4.2.2 Types of financial literacy being offered to SMEs in Livingstone District.

The answer was very clear from SMEs owners, financial literacy for saving was the mostly offered to SMEs owners in the district. This can be seen in figure 4.2.2 on the next page where 17 respondents agreed that they had benefited at one point on financial literacy for savings representing 34%, while 12 Financial literacy for using credit representing 24%, 4 Financial literacy for investing representing 8%, 5 Financial literacy for buying goods and services representing 10%, 9 Financial literacy for earning an income representing 18% and 3 Financial literacy for protecting and ensuring representing 6%.

Figure 4.2.2: most utilized financial services in Livingstone District.



4.2.3 Self-evaluation on knowledge and skills

Each respondent was asked to evaluate him or herself on Knowledge and skills using a five-point system where 1: stand for complete absence of knowledge and skill of management of finance and 5: stands for excellent command of subject question. Their responses were as follows: 21 respondents had Good knowledge and skills 42%, 10 respondents had No knowledge and skills 20%, 9 respondents had Unsatisfactory knowledge and skills 18%, 7 respondents had Excellent knowledge and skills 14% and 3 Find it difficult to answer the question denoting 6%. This is shown in figure 4.2.3.

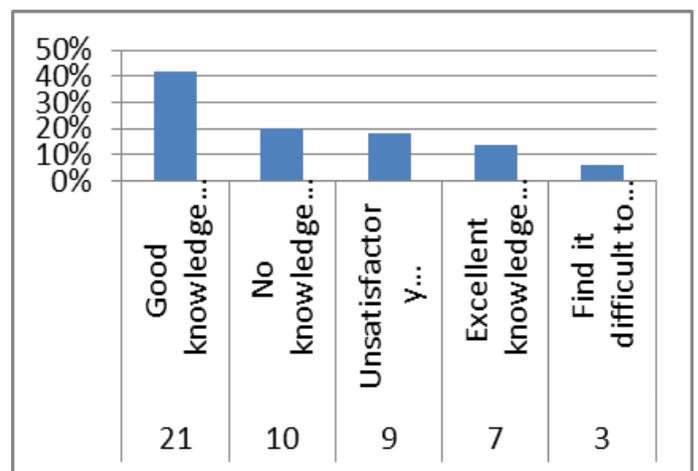


Figure 4.2.3 self-evaluation on knowledge and skills

4.2.4 Level of financial literacy among SMEs

The respondents were asked to assume that they deposit K100, 000 in the bank account for 2 years at 8% interest, how much money will be in your account in 2 years? The findings are illustrated in figure 4.2.4 below and results were as follows: 21 answered that its More than K108, 000 being represented 42%, 12 answered that its exactly K108, 000 denoting 24%, 13 answered that its less than K108, 000; 26% and 4 answered that they cannot come up with even a roughly, they had no idea on the calculations of interest on the money which they may serve in commercial banks and were represented by 8%. The correct answer is more than K108, 000 implying that only 21 of the respondents got the correct answer.

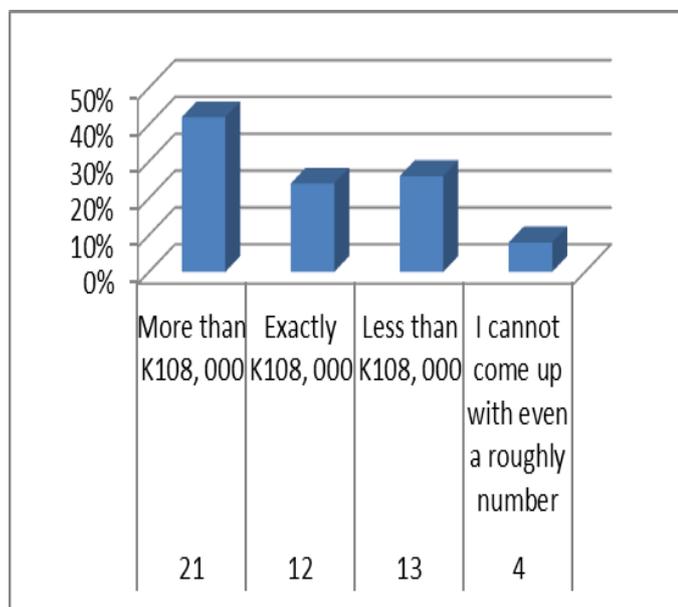


Figure 4.2.4: Level of financial literacy among SMEs. Source: Research Data, 2019

SECTION C: SMALL AND MEDIUM ENTERPRISES.

4.3.1 Benefits of financial literacy on the growth of Small and Medium Enterprises.

According to figure 4.3.1, shown below, the findings indicated that 13 respondents stated that financial literacy was very beneficial representing 26% of the sample population, 28 respondents stated that financial literacy was beneficial representing 56%. Lastly 9 respondents representing 18% stated that financial literacy was not beneficial on the growth of SMEs in Livingstone District.

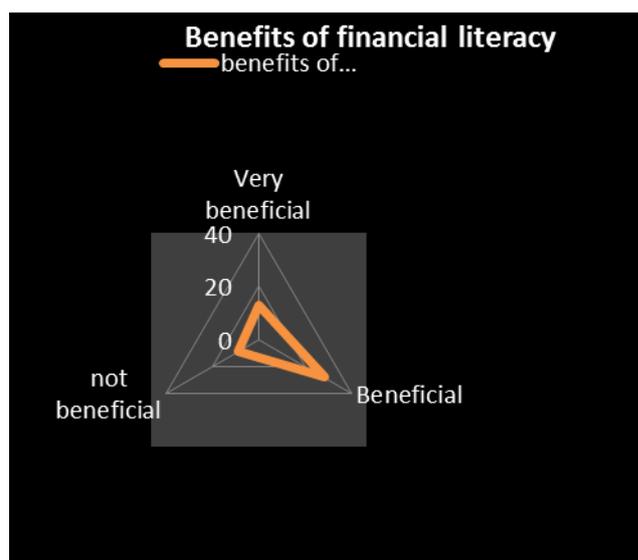


Figure 4.3.1 benefits of financial

4.3.2 Challenges Small and Medium Enterprises faces with regard to financial literacy

Respondents were asked to state the challenges Small and Medium Enterprises facing with regard to financial literacy in Livingstone District. Figure 4.3.2 below shows that 4 respondents cited High levels of basic illiteracy 25%, 2 respondents cited Lack of instructors on the ground 13%, 2 respondents cited Inertia from SMEs owners since they do not want to expose their ignorance 13%, 1 respondents cited lack of political will 6%, 2 respondents cited Language of the materials acts as barrier 13%, 2 respondents cited few players on financial literacy 13% and 3 respondents cited lack of funding to support financial literacy 19%.

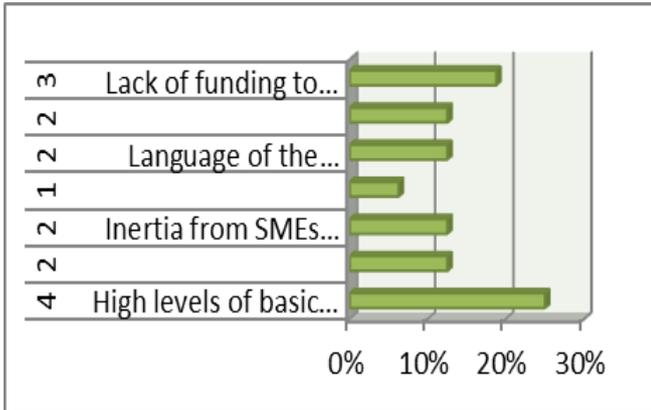


Figure 4.3.2: Challenges faced by SMEs regarding to financial literacy

4.3.3 Measures to be used in addressing the challenges that are faced by SMEs in accessing financial information in Livingstone district.

The findings indicated that measures are being put in place in order to address the challenges faced by SMEs. According to figure 4.3.3, shown below, the finding showed that 9 respondents suggested Broadcasting financial literacy lessons on TV and Radio representing 18% of the sample size, 5 engaged SMEs Owners in Seminars 10%, 6 respondents suggested that all players in financial literacy should visit SMEs owners 12%, 9 respondents suggested that SMEs owners should be sensitized on financial literacy 18%, 5 respondents suggested that Materials on financial literacy to be translated and printed in lozi and Tonga 10%, 6 respondents suggested that programs on financial literacy to be introduced 12%, 3 respondents suggested that Financial institutions to sell their services to SMEs owners 6%.

Lastly 7 respondents suggested that SMEs should be equipped with knowledge and skills to help them grow their businesses which represented 14% of the sample size.

There is need for commercial banks in Zambia to reduce supply side constraints for SME lending, involve the formation of special development funds

or banks for SMEs and also cooperation with commercial banks through directed sector lending policies. Governments can also work with commercial banks in an effort to correct capacity constraints in order to better service the SME market.

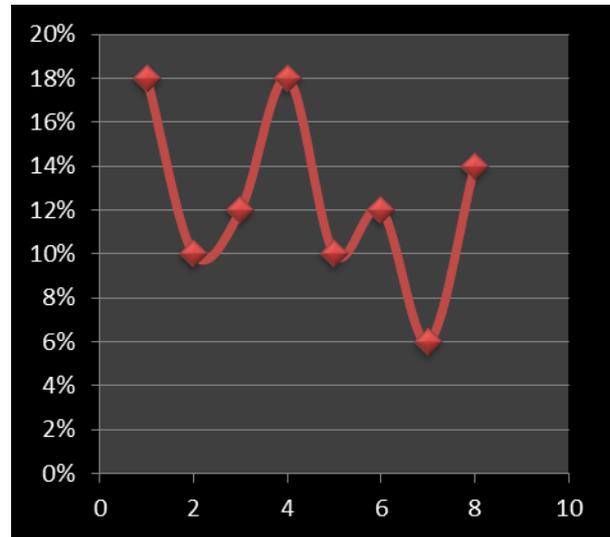


Figure 4.3.3

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study sought to assess the effect of financial literacy on the growth of SMEs in Livingstone District of Southern Province. Based on the study findings, the study concludes that financial literacy has an effect on the growth of SMEs in Livingstone District. The findings are consistent with the empirical studies reviewed. For example, studies reviewed presented both convergent and divergent views on the role of financial literacy on the growth of MSEs. Most scholars concur that financial literacy greatly influences enterprise growth. While various factors may play a role in determining enterprise growth, the skills of the entrepreneur have been found to be a key determinant. Penrose (1959) and Greiner (1972) conquer that enterprise success is dictated by the ability of the owner manager to make sound

business decisions, identify and pursue opportunities and convince others to invest in his venture. They also conquer that growth brings about organizational complexities and it is only those organizations that can reorganize such complexities, will transit to then higher levels of growth.

The study concludes that there is a strong positive relationship between financial literacy and the growth of SMEs capital. Therefore, high levels of financial literacy imply higher financial returns for the SMEs. Consequently, increase in financial literacy can increase financial returns.

They still remain small without expanding their businesses to the other regions of the country, even though SMEs have expressed the desire to do so when they have the financial assistance required.

Several challenges are perceived to be facing SMEs in accessing credit facilities from commercial banks. Some of these challenges are lack of collateral security; stringent lending criteria set by the bank; short loan repayment period; and lack of guarantors.

The other challenges are inflation; lack of adequate capital, high interest rate on loans and in the capital market and exchange rate fluctuation. As a result of several challenges commonly perceived by SMEs, there is a weak and poor relationship between SMEs and commercial banks.

5.2 Recommendations

➤ Zambian financial literacy policies should to be reviewed and updated so as to meet and satisfy the need to SMEs in current situations since there is a high economic and technological change around the world. This is because there are many changes recently such as SME's position, number of medium and large firms, changes in credit facilities from banks etc.

- The study recommends that SMEs should consider enrolling in financial literacy program or any other related programs to enhance their capability.
- The study recommends the formation of mergers for those SMEs facing constraints in the market in order to remain competitive in the market.
- SMEs need physical access to markets and help with registration, assistance in finding staff and managing cash flow.
- The providers of various financial literacy programs should consider implementing a program which fits the culture and traditions of the context targeted and avoid one size fits all because different SMEs have different experiences.
- For financial literacy programs to achieve better results should be provided by neutral providers who may not have any other interest to derive from the program apart from benefiting the target beneficiaries.
- There should be more collaboration between the various association affecting different sectors. This will enable the SMEs achieve a better and bigger effort in their marketing of their products, improved competition and promotion of technological exchange and improved skills on individual members.
- in both rural and urban centers.
- Linkages between the SMEs should be developed especially within the associations to enable better operation, coordination and collective benefits.
- The Government through its responsible ministries which include Zambia chamber of commerce and industry, Ministry of Trade and Zambia Development Agency dealing with SME's and other sectors are supposed to provide related courses for SME's issues, seminars and workshops to enable

SME's sectors including women entrepreneurs to acquire business skills

- Financial institutions especially commercial banks should provide loan financing knowledge to their customers before granting loans in order to avoid the unpaid loan installments which cause sometimes selling of their collaterals. Banks should review and make straightforward their loan repayment procedures.
- To improve financial education, the study recommends that telecommunication companies in the area and other stakeholders should conduct massive campaign drive targeting rural population on the importance of transacting their financial business using agent outlets. This would erase the fear that rural population has towards using agent outlets.
- SMEs' lack the understanding and ability to determine the competencies that are required by an employee to fulfil their role. These skill gaps exist in all the sectors. SMEs will need to invest in training and development that leads to skill development and job enhancement.
- Government through CEEC should strive to provide a solution to the skill gaps in the SME sector. However, this makes the issue of capacity building an important area to focus upon by SMEs in Lusaka' central business district. The building of new and renovation of existing technical colleges is highly advised.
- The competitiveness of nation's economy depends on how effective and efficient utilization of resources in the process of production and marketing of locally produce goods and services, hence the entire chain of production needs to be efficient. However, this implies that production process has to be cost efficient and conform to the needs of the consumers. The operational cost of SMEs should be addressed towards attaining cost efficiency using the latest technology. The issue of power outages and other basic

infrastructure such as trading stands, sanitary facilities, access roads and transportation should also be addressed.

ACKNOWLEDGEMENTS

My deepest gratitude goes to God who has provided all that was needed to complete this project and the program for which it was undertaken for. There was never lack or want. Throughout this entire study, He took care of everything that would have stopped me in my tracks and strengthened me even through my most difficult times.

My sincere appreciation also goes to my supervisor Mr. lungu whose contribution and constructive criticism has pushed me to expend the kind of efforts I have exerted to make this work as original as it can be. Thanks to him I have experienced true research and my knowledge on the subject matter has been broadened. I will never forget you sir.

I am and will forever be grateful to my loving wife Juliet who has given everything possible and even given up important things to make sure I achieve this feat. I cannot find the words that express my gratitude. I also from the depth of my heart appreciate my children; Temwananji, Tebuho and Mwinji (Babe) who even at such tender ages have had to endure so much stress and discomfort just for me. This page cannot tell it all.

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