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The Effect of Financial Literacy on the Growth of Small and Medium Enterprises: A Case study of Mbala District

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Abstract

Financial literacy has been identified as a one of the key competencies required for the establishing, management and thriving of SMEs. However, the exact effect they have on the growth of SMEs hasn't been fully established by the available literature thus the need for further research in this area. This study addressed the effect of financial literacy on the growth of Small and Medium Enterprises in Mbala District of Northern Province. The researcher used a descriptive research design. A sample of 66 SMEs was selected using simple random technique. The study population comprises of Small and Medium Enterprises (SMEs) sectors, financial institutions and other Non-governmental organisations which support SMEs in Mbala District. The main study instrument was a questionnaire which comprised of both open ended and close ended questions each addressing the study's objectives. The finding reviewed that high levels of financial literacy helps in improving the growth of Small and Medium Enterprises. However financial literacy levels remained low among the SME owners and there is need for more effort for all stakeholders to focus on promoting good financial behavior such as budgeting, debt management, savings and record keeping that contributes to the growth of SMEs. Also, positive attitude towards future, risk management and pursuit for acquisition of skills that translates into profits for Micro and Small Enterprises. The study therefore recommends that awareness to be increased on the importance of financial literacy on growth of SMEs.

Key Words: *Financial Literacy (FL), Small and Medium Enterprises (SMEs), Debt Management Literacy, Budgeting Literacy, Banking Services Literacy and recordkeeping Literacy.*

CHAPTER ONE

1.0 Introduction

This section of the study focusses on elaborating the background of the problem at hand. It further outlines the statement of the problem, the purpose of the study, its objectives, research questions that guided the study, significance of the study, theoretical framework, and operational definition of terms.

1.1 Background of the Study

Small and Medium Enterprises (SMEs) are the main driving forces of economic growth and job creation that have a special importance, not only in developed countries but also in developing and emerging economies (Lockea, 2012). SMEs in most countries have barriers to access to finance, difficulties in exploiting the technology, insufficient managerial capabilities, low productivity and regulatory burdens in their business environment. According to Capital Market Authority (2010), Small and Medium Enterprises form more than 99% of all enterprises in the world. Small and medium scale enterprises (SMEs) play an important role in the Zambian economy such as creating jobs, but face serious challenges such as finance setbacks, discrimination, problems associated with government regulation, tax and government levies, poor access to justice, and lack of education, among others. 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).

1.1.1 Financial Literacy

Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Making the right financial choices is very important decision in the life of individuals with long-term financial consequences. Management of finances of a firm is not an easy task; SMEs need to make a choice out of a large menu of financial needs of which many have complicated features. Financial literacy provides knowledge and understanding of financial concepts and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts and to improve the financial well-being of SMEs (Hogarth, 2012).Mutegi *et al* (2015) affirms that financial literacy facilitates the decision-making processes such as payment of bills on time, proper debt management that 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. 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 financially 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.

1.1.2 Small and Medium Enterprises

SMEs are the backbone of the economy, providing a prime source of new jobs, playing a crucial role in income generation, reducing poverty by helping boost employment in rural areas and recognized as an engine of economic growth and development. Common SMEs include farming, hawking, public transport service, professional services such as lawyers and doctor, hospitality etc. Most SMEs operates in urban areas but majority of farming takes place in rural areas. Entrepreneurship cuts across all the demographics in different countries be it from developed or developing countries. Men and women, young and old, educated and uneducated are all involved in entrepreneurship. Most small enterprises are family owned and are run by two or more employees who are mostly immediate family members.

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 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. The Government in an effort to improve the skills of the workforce promote a bias towards training programmes and investments in technical and vocational skills that tend to promote self-employment, especially among the youth. Vulnerability of the economy should be tackled at various fronts, one of which should include focusing on the country's human capital, especially the youth, to effectively participate in employment opportunities that may arise from increased economic activities in sectors that will drive economic diversification.

Moreover, efforts are made to match investment prospects that tend to define future labour characteristics, to the supply of skills. The Government in the 7NDP period facilitate investment in generating information on job prospects and strengthen the interface between job seekers and the market (SNDP, 2017).

Despite the numerous benefits of MSEs worldwide, these enterprises are reported to have both a high birth rate and high death rate (Turyahebwa *et al*., 2014). These studies indicate that a large number of SMEs do not survive to celebrate their third birthday because they tend to remain small hence vulnerable to failure as a result of simple management mistakes as compared to large enterprises. 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 (Oluoch, 2014). Individuals with financial literacy skills tend to make better financial decisions with fewer management mistakes than their counterparts who are financially illiterate (Njoroge, 2014). Sound financial management is therefore critical to the survival and management of SMEs because financial literacy skills empower and educate investors so that they are able to evaluate financial products and make informed decisions and facilitates proper debt management, which improves the credit worthiness of potential borrowers (MasterCard, 2011). 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.

1.2 Statement of the Problem

The overall research problem being addressed in this study is that financial literacy has an effect on the growth of SMEs. Commercial banks in Zambia in the past expressed concern on the high levels of financial illiteracy that leads to lack of skills regarding how SMEs can run their businesses (OECD, 2011). 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).

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 above evidence shows that many SMEs in still Zambia 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 Mbala District

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1.3 Objectives of the Study

1.3.1 General Objective

This study sought to assess the effect of financial literacy on the growth of SMEs in Mbala 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 Mbala district.
2. To find out challenges SMEs face accessing financial information in Mbala district.
3. To establish measures that can be used to address the challenges that are faced by SMEs in accessing financial information in Mbala district.
4. To explore the benefits of financial literacy on the growth of SMEs in Mbala District.

1.4 Research Questions

a. What are some of the types of financial literacy being offered to SMEs in Mbala district?
b. What challenges are faced by SMEs in accessing financial information in Mbala district?
c. What measures can be used to address the challenges that are faced by SMEs in accessing financial information in Mbala district?
d. How beneficial is financial literacy on the growth of SMEs in Mbala District?

1.5 Significance of the Study

The finding of the study would greatly benefit SMEs owners as it has highlighted the benefits that can 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 would help training institutions in understanding the significance of financial literacy to performance of SMEs. It would also help academicians in establishing the relevance of curriculum taught in business schools to the actual business world. Considering that, the vast majorities of SMEs are in the informal sectors where SMEs has no or only have basic education, the government policy makers will find out whether the basic financial education taught in school has any bearing to SMEs performance. The study had further established whether there is need for financial literacy programs amongst SMEs in a bid to stimulate growth in the sector. Furthermore, the research adds to the existing literature and provide background information to research organizations and scholars who may need to carry out further study on SMEs Growth as a result of financial literacy.

1.6 Limitation of the study

The study respondents of the study were SME owners whose responses may have been subjective and biased. This is due to the fact that information from SMEs may be contaminated by source bias because due to legal reasons small firms tend to manipulate some data, and control such manipulation through subjectively adjusting measures.

1.7 Theoretical Framework

Based on the life cycle hypothesis by (Ando and Modigliani, 2013) economic agents derive utility from consumption/savings over their lifetime. In the simplest format, the consumer has a lifetime expected utility, which is the expected value of the sum of per-period utility discounted to the

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present from the consumer's current age to his/her oldest attainable age. Assets and consumption in each period are determined endogenously by maximizing this utility function subject to an intertemporal budget constraint, which represents the present discounted value of future resources. In this basic formulation of the saving decision, the actual requirements for making saving decisions are demanding: economic agents should be assumed to have information and make forecasts about many variables such as rates of interest, investment returns, incomes and projected inflation. The economic agent uses that information to formulate and execute optimal consumption/saving plans. Moreover, they have to perform calculations that require, at minimum, an understanding of compound interest and the time value of money. Decisions about how much to accumulate and how much to borrow to be able to smoothen consumption over the life cycle require an understanding of the working of interest rates. Borrowing can be envisioned as a two-step process. The decision of whether or not to borrow is the first step in that process. Once a decision is made to borrow, the next step is to decide how much to borrow, taking the cost of borrowing into consideration.

Analysis of the borrowing decision is complicated by the need to both have and understand credit market information. Difficulties can arise when this information is complex, incomplete, or otherwise not sufficient for making effective market decisions. Economic decision-making theory underscores the importance of product knowledge in making effective consumer choices. Aryeetey *et al.* (2014), has shown that the desire for financial service may only remain a potential demand because it cannot be actualized due to market imperfection arising from information asymmetry. This underscores the fact that information is critical in demand for financial service. Theoretically, we posit that greater financial knowledge should enhance understanding of all costs and benefits associated with using financial service; whereas, a lack of knowledge of financial markets and instruments makes it difficult to judge actual costs and benefits.

1.8 Operational Definition of Terms

Micro and Small Enterprises are businesses in both formal and informal sectors classified into farm and non- farm categories employing 1-50 workers (GOK, 2005). Financial Literacy is the ability of an individual to use knowledge and skills to manage financial resources effectively (USAID, 2009).

Debt literacy is a component of financial literacy, and refers to the ability to make simple decisions regarding debt contracts and to apply basic mathematical knowledge about interest compounding to everyday financial choices about loans, credit cards, interest rates, and fees (Lusardi and Tufano, 2009). It entails knowledge of why borrow, when to borrow, how much to borrow and where to borrow (FSD, 2009).

Budgeting literacy is the possession of skills and knowledge to set financial goals, prepare and use budgets to monitor financial performance of a business (Nugus, 2016).

Banking services literacy is the knowledge and awareness of the various bank instruments, how and why to use money transfer services e-banking and m- banking and ability to understand saving products (FSD, 2009).

Book keeping Literacy Is the art of recording all money transactions so that the financial position of an entity and its relationship to proprietors and outside persons can be readily ascertained (Larry and Cristopher, 2009). Book keeping involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statements (Ademola *et al*., 2012).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

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 effects 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 will focus on the types of financial literacy being offered to SMEs, challenges faced by SMEs in accessing financial information, measures that can be used to address the challenges faced by SMEs in accessing financial information and the benefits of financial literacy on the growth of SMEs.

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2.1.1 Financial Literacy

Financial literacy is defined as ones' knowledge of facts, concepts, principles, and technological tools that are fundamental to being smart about money (Garman and Gappinger, 2012). While several widely used definitions of financial literacy exist, all of them generally imply the ability of individuals to obtain, understand and evaluate information required to make decisions to secure their financial future as best as possible. After analyzing a host of papers on the subject, Huston (2010) proposed that financial literacy must also include application of financial knowledge; the argument being that absent demonstrated ability to apply financial knowledge, an individual cannot be regarded as being financially literate.

After due consideration of different views and the feasibility of using the definition for research, the OECD definition of financial literacy was adopted for the study, which defines it as, a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (OECD, 2011). The key competencies of financial literacy are money basics, budgeting, saving and planning, borrowing and debt literacy, financial products, and recourse and self-help. Money basics relates to the knowledge, skills and understanding required for the most essential day-to-day calculations. Examples include numeracy and money management skills. Numeracy is the skill that allows people to assess the suitability of expenses for themselves. Numeracy is the foundation of considering which financial products are cost effective. In addition, numeracy

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has been found to play an important role in influencing saving and even budgeting.

Higher numeracy has been linked with higher levels of household wealth and good financial decisions while poor numeracy has been linked with unnecessary expenses. The need for financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit, the ready issue of credit cards, the rapid growth in marketing financial products. According to Mandell (2013), there should be more emphasis on raising up the level of financial literacy as this would help in achieving many objectives such as promoting public knowledge and understanding of the financial system as well as enhancing consumer protection and eliminating financial crime.

According to Ambre (2012) financial literacy starts at home itself where children are educated about how to handle money such as to save and spend wisely. Rezak *et al*. (2017) proposed that most managers and specialists in human resources discipline should be provided with business acumen training. This will help them in making confident and informed recommendations as financial literacy courses are usually linked with business acumen courses. According to Green (2016), training and learning programs on financial literacy improve and make communication of financial information between employers and employees much easier and effective.

At the highest level, financial literacy around the world appears strongest in countries with developed and advanced economies, especially Western Europe and English-speaking countries. There are no countries in South America where more than 50% of people are financially literate, and only one country in all of Africa (OECD, 2011).

Here's a thought-provoking exercise. When we compare a number of countries in the world, we will find that there does not seem to be a clear correlation between poverty and financial literacy. After all, there are many places with very few extremely poor people, like Russia and China, and yet these same places also have extremely low financial literacy rates. That means poor people are not necessarily financially illiterate, and neither are rich people (Ademola *et al*., 2012).

The obvious conclusion to draw from the poverty situation is that like in North America, financial literacy improves the further north one travels. Mexico's 32% compares favorably to countries further south, but it stands in stark contrast to the US (57%) and Canada (68%) (OECD, 2011).

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 its 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 paulty 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).

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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).

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 isn't 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. Yet, on average, less than 60% of the total adult population in sub-Saharan Africa can read and write with understanding - one of the lowest adult literacy rates in the world. The rates are below 40% (the supposed threshold for rapid economic growth to take place) in Benin, Burkina Faso, Chad, Mali, the Niger, Senegal and Sierra Leone, but above 90% in Seychelles and Zimbabwe (Southern African Regional Poverty Network, 2017). Evidence from direct assessments suggests that actual literacy levels may be much lower than reflected in data presented here, which are based on conventional methods of measurement that do not actually test a person's literacy skills. 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 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).

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).

Accordingly, a resolute commitment to financial literacy must begin as early as in Early Childhood Education (World Bank, 2015). The two-tier education system introduced in 2014 under the current education reform initiative is a demonstration of the government's continuing commitment to finding a way forward on skills education where financial literacy falls. Modeled along the German philosophy of giving equal importance to academic and skills education, the two-tier system is targeted for Grades 8-12. With implementation beginning in schools that are equipped to support this new resolve, the Ministry of Education is prioritizing improving infrastructure and ensuring that teachers are qualified to teach skills education. To avoid another good intention falling short of its desired goal (as has been the case for basic education), the two-tier approach needs the requisite capacity to significantly raise the levels of participation in skills education under which financial literacy should fall. The nature and approach of implementing this system is very critical from the onset given the complexities surrounding it in the face of resource constraints. The unit cost of offering vocational education is generally higher than conventional education. Therefore, modalities need to be worked on to make it financially manageable and sustainable in the long term. The government will also need to assess progress by establishing robust common database to evaluate the gains that will accrue (UNESCO Institute for Statistics, 2017).

2.1.2 Financial Literacy and Small and Medium Enterprises

Overall, the government has made progress in addressing the educational needs of the youth. The 2010 census shows, for example, that the literacy rate for persons aged 5 years and older was 70.2 per cent in 2010. This represents an increase of 14.9 per cent from 55.3 per cent in 2000. The literacy rates increased for both males and females between 2000 and 2010 in rural and urban areas although that of males was higher (73.2%) than that of females (67.3 %). Youth literacy is one of the indicators used to assess the achievement of the universal primary education and important for SMEs. At national level, youth literacy was 88.7 per cent in 2010, an increase from 70.1 per cent in 2000. Between 2000 and 2010 the male and female literacy rate increased by 15.8 percentage points for males and 21.0 percentage points for females. The challenge remains in translating these gains to sustain the growth of SMEs based on financial literacy.

Financial literacy when paid attention to can help SMEs to critically understand the environment they operate in and how well they can use the financial skills they have in changing the conditions surrounding them. Financial skills acquisition is not an end in itself but a means of extending individual efforts towards education, involving overall interdisciplinary responses to man's problems. For this study the financial literacy approach is used since it is the one which is centered on the growth of SMEs and how they can function in business with the skills they have.

2.2 Types of Financial Literacy offered to SMEs

Most governments in developed and developing economies are concerned about the financial literacy of their citizens. The Organization for Economic Cooperation and Development (Pisa,2013) posits that the rising interest in financial literacy as a key life skill has been brought about by a number of factors such as; transfer of risk from both governments and employers to individuals as a result of introduction of contributory pension to replace the automatic pension which has shifted to workers the responsibility to save for their own financial security upon retirement, upsurge of contributory health schemes, increased number of financial decisions that individuals have to make both at the personal and business level as a result of the changing market place and increased supply of a wide range of financial products from a variety of providers which requires complex financial knowledge to select from a wide array of alternatives. All of these trends have transferred the responsibility of major financial decisions to individuals which require that individuals must be sufficiently financially literate to take the necessary steps to protect themselves from fraudulent schemes.

Accessing finance is a key element for MSEs to succeed in building productive capacity, compete, create jobs and contribute to poverty alleviation in developing countries. However, small businesses especially in Africa can rarely meet the conditions set by financial institutions which see MSEs as risky because of poor guarantees and lack of information about their ability to repay loans (Siekei et al., 2013). As a result of these constraints, most MSEs finance a smaller share of their investment with formal sources of external finance than do large firms and instead, relies more heavily on informal sources of finance, such as borrowing from family and friends or from unregulated moneylenders which inhibits their growth. However, although self-financing and money lenders are an alternative, self-financing is constrained by low saving capabilities of most MSEs while money lenders charge high interest rates due to the perceived high risk of default by MSEs (Rweyemamu, Kimairo & Urasa, 2003; G20 Seoul Summit, 2010).

Studies reveal that individuals with less financial literacy are likely to face more challenges with regard to debt management, savings and credit, and are less likely to plan for the future while those with higher financial literacy are better able to manage their money, participate in the stock market and perform better on their portfolio choice and are more likely to choose mutual funds with lower fees (Hilgert, Hogarth, & Beverly, 2003; Lusardi & Mitchell, 2011; FSD, 2009). Moreover, those who have greater financial knowledge are more likely to accumulate higher amounts of wealth, have better debt management skills and avoid high interest payments (Lusardi & Mitchell, 2011; Wachira & Kihiu, 2012). On the contrary, those who are financially illiterate tend to borrow too much and generally use more expensive sources of finance that may impact negatively on their business performance and are also likely to report excessive debt position or inability to measure their debt position (FSD, 2009; Master card, 2011). 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 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-percentage point higher probability of stock market participation.

Lusardi and Tufano (2009) in a study on Debt Literacy, Financial Experiences, and over indebtedness among Americans found that only one-third of respondents in the target population could apply concepts of interest compounding to everyday situations or understand the workings of credit cards. They further established that debt illiteracy is particularly severe among women, the elderly, minorities, and those who are divorced or separated. Problems resulting from poor financial management also affect the productivity of employees. Brown et al., (1993) as cited by Obago (2014) found that many employees suffer from stress as a result of money problem behaviors which include: over-indebtedness, overspending, unwise use of credit, poor money management and inadequate resources to make ends meet which impacts negatively on their productivity at work. As a result of these employee problems, many companies in the United States adopted financial education at work places aimed at equipping their employees with personal financial management skills. The Financial capability Report of 2009 reveals that a significant population of Kenyans i.e. 25% has credit difficulties and tends to borrow loans to repay loans and admit that they are not in control of their finances. Therefore, acquisition of financial literacy skills would have a positive impact on an individual's behaviors in terms of increased savings, wealth accumulation and avoidance of unnecessary expenses. This would make MSE managers better customers for the banks, prudent managers of the limited financial resources in their businesses and better able to select the most suitable products for their businesses.

financial services because financially literate consumers demand for more appropriately priced and transparent services from financial institutions by comparing options, asking the right questions, and negotiating more effectively (Fatoki, 2014). Besides, financially literate consumers pose less risk to the financial system due to their responsible use of financial products and services which help to strengthen financial market stability and contribute to increased savings and wider economic growth (Master card, 2011; PISA, 2005).

According to Siekei et al., (2013) consumers who are financially literate are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, and navigating complex loan application procedures so as to make optimal decisions. However, a major challenge for most financial institutions is a low level of financial awareness of most business owners as established by the Association of Chartered Certified Accountants (2014). In addition, financial literacy impacts on access and payment of loans which provides development finance for business expansion. According to Fatoki (2014), lack of personal financial literacy impacts negatively on the financial management of new ventures and can lead to possible failures of MSEs. Hence a good financial foundation of the entrepreneurs is a significant barometer of the success and growth of the enterprises which helps improve access to finance by new ventures (Wise 2013), facilitates an objective evaluation of credit worthiness of MSEs (Mills, & McCarthy,2014) and reduces the chance of loan default and improve sales and business performance (Fatoki, 2014).

2.3Challenges faced by SMEs in accessing financial literacy

Whilst access to financial services has positive effects, a number of barriers impede account penetration in a number of countries. Demirgüç-Kunt and Klapper (2012) and Demirguc-Kunt et al. (2015) found out that less than a quarter of adults in Africa are formally banked and many are reported to be using informal methods of saving and borrowing. Furthermore, the majority of SMEs were unbanked due to the unavailability of financial service providers, low income which does not warrant one to have a bank account, insufficient documentation, high costs of opening and maintaining bank accounts, and distance from the bank (Dupas et al., 2012; Dupas et al., 2016). Dupas et al.'s (2012) study revealed that poor infrastructure and telecommunication systems and heavy branch regulation constrained the opening of bank branches in rural areas. They also reported that some respondents did not have a bank account because of lack of trust. Thirteen per cent of the respondents in Demirgüç-Kunt and Klapper's (2012) study stated that they were not formally banked because they did not trust the financial institutions providing the service.

Despite the stated importance of financial education, and the move by many countries to enact national strategies to promote it, many individuals lack an understanding of basic financial skills. A 2005 OECD funded study on financial literacy found significant gaps in knowledge levels in even highly developed economies. For example, in Japan, 71 percent of respondents lacked knowledge of equities and bonds, 57 percent lacked knowledge of financial products in general, and 29 percent lacked knowledge of insurance and pensions. In the United States, 40 percent of workers are not saving for retirement. Surveying high school students in South Korea, the study found that most students answered fewer than 60 percent of questions correctly on a test asking questions like how to manage a credit card and save and invest for retirement (Hecklinger, 2010).

Research into financial literacy also finds that people tend to overestimate their understanding of financial issues. According to the OECD survey, 67 percent of Australians indicated they understood the concept of compound interest, but only 28 percent were actually able to solve a problem using the concept. Similarly, a Commerzbank AG survey conducted in Germany in 2003 found that although 80 percent of respondents said they were confident in their understanding of financial issues, only 42 percent of them could correctly answer half the questions on a financial literacy test (Hailwood and Doug, 2007).

The data from OECD or S&P agencies shows the need to have more information and education for improving level of financial literacy. Workplace is one of the ideal places to do it. It is important not only for workers, but for employers and company at whole, because it may contribute to the productivity and effectiveness (Eniola & Entebang, 2015). Approaches to improving financial literacy include client services, community service, and general workforce outreach. Cakebread (2014) suggests strong financial literacy skills and knowledge can influence on a national economy. For individuals, it also can mean higher wealth and inclination to plan for retirement. However, advantages are not only one-sided: providing employees with information to become financially knowledgeable will not only result in a healthier workforce, but also improve an employer's bottom line. According to the Adomako and Danso (2014, p.8), "financial literacy is an important major driver of firm performance and should be developed as an integral part of the entrepreneurial activities."

2.4The Role of Government in Providing Access to Finance

The role of government becomes even more pronounced when it comes to the issue of strengthening the institutional foundations of lending. Strengthening creditors' rights through, among others, establishing quasi-legal institutions for processing legal suits brought by banks against defaulting borrowers, helps improve repayment behaviour and enhance banks' willingness to finance SMEs. Similarly, improving the Collateral Classification System incentivizes banks to introduce products like leasing, invoice discounting, and factoring, which attempt to circumvent the problems of collateralized lending to SMEs.

Research shows that introducing SME Credit Bureaus significantly reduces the cost of lending to SMEs and improves access to finance. Moreover, research shows that governments have continued to use credit guarantee schemes to increase SME lending in order to avoid SME failure.

In Namibia, a lot of effort has been put in place by the government 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. The DBN mostly caters for the larger firms and larger projects, yet, through their Special Development Fund (SDF), also focuses on SMEs, thereby supporting key sustainable development projects and programmes.

2.5 Benefits of financial literacy to the growth of SMEs

The Micro and Small enterprise sector plays a critical role in economic growth of both developed and developing economies which affirms the recent attention to the growth and sustainability of this sector. This focus has been boosted by the formation of worldwide networks such as the Global Entrepreneurship Network that aims at marshalling resources for the sector through forums such as the Global Entrepreneurship Summit held in Kenya in July 2015. Enterprise growth can be measured in various ways. Gupta ,Guha, & Shiva (2013) suggests the use of quantitative features such as; value addition, revenue generation, volume of assets and volume of business or qualitative features like market position, quality of product, and goodwill of the customers, on the contrary Mateev and Anastasov (2010) opines that financial structure, productivity, sales revenue and total assets have a more direct impact on growth but caution that the number of employees, investment in R & D, and other intangible assets have minimal influence on the enterprise's growth prospects. Chaston and Mangles (1997) suggest that if an enterprise adopts multi-strategy transformation initiatives, the probability of achieving the growth objective increases.

A number of factors have also been identified by various scholars as determinants of MSE growth; Muthaih and Venkatesh (2012) suggest that presence of institutional and financial barriers may hinder MSE growth. Institutional barriers include the enterprise's interaction with government, legal requirements and procedures, taxation while financial barriers involve lack of financial resources. Gilbert, McDougall and Audretsch (2006) suggested that it is the how and where questions that are more important in the context of the growth of an enterprise. They opine that growth is a function of the decisions an entrepreneur makes, like how to grow internally or externally and where to grow in domestic market or international market. Conversely, Lorunka, Kessler, Frank and Lueger, (2011) argue that the gender of the founder, the amount of capital required at the time of starting the business, commitment of the entrepreneur and growth strategy of the enterprise are the most important factors in predicting growth in a small enterprise. Men owned enterprises exhibited faster growth than women owned enterprises. This could be attributed to the assertion that men tend to acquire knowledge on financial literacy earlier in life while women will do so late in life particularly in anticipation of death of a spouse (Lusardi & Mitshell, 2013). Consequently, growth may be achieved quickly, slowly, or not at all. It depends on the strength of the growth aspirations and growth-enabling factors of an enterprise (Mckaskill, 2010).

Various studies further confirm that while some entreprepreneurs aspire to grow either for recognition as founders of business empires or to serve their customers better (Penrose, 1959) others are not able to grow due to inability to manage transition (Greiner, 1972) and others do not want to grow. A study by Kolvereid and Bullvag (1996) found that almost 40% of the respondents do not want to grow. Further, they found that there is a significant relation between education, industry, past growth in turnover, and entrepreneur's aspiration to grow. They concluded that entrepreneurs who want their firms to grow will have higher level of education and will tend to have manufacturing firms rather than service firms. However, Njoroge (2013) argues that education may not be the only determinant of growth as there are also cases of illiterate persons running successful enterprises in Kenya especially in informal sector, many Jua Kali and farming entrepreneurs are financially illiterate and yet they run very successful MSEs. A clear understanding of factors that greatly influence the growth of MSEs would ensure that they are measured and enhanced to promote the growth of MSEs. More research is also needed to find out whether the financially illiterate entrepreneurs would be better if they had financial literacy.

In a study to investigate the effect of business development services on the performance of Small-Scale enterprises in Kisii Town Osinde, Iravo, Munene, & Omaiyo (2013) found that the entrepreneurs who received business training services recorded an improvement in the growth of sales and market shares. 83.3% of MSE managers who always attended training recorded an improvement in their businesses in terms of growth in sales and profits as opposed to only 41.2% of those who never attended training. This study focused on the financial literacy skills of the entrepreneur and how it affected the growth of MSE businesses in Kakamega Central Sub County. Growth was measured in terms of sales revenue, accumulated assets and number of employees.

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. On the other hand, SMEs are a nursery for the larger firms of the future; many large firms started as SMEs before growth and development.

It is, therefore, in this regard that SMEs are an important step for expanding micro enterprises as they contribute directly and often significantly to aggregate savings and the investment of any nation and are involved in the development of appropriate technology. In asking how "important" the SME sector is, it must of course go beyond simply looking at its share of output, employment or any other aggregate variable. Assessment should involve how much difference does it make to the overall economic performance whether the SME sector is large or small, or whether it grows rapidly or slowly? It is a fact of life, at any level of a country's development, that some needed activities involve few or no economies of scale, while others involve considerably higher economies of some sort. The size of this distribution is greatly influenced by SMEs, which can also be influenced by international trade.

2.7 Critique of the Literature Reviewed

Empirical studies reviewed present 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) concur 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 concur that growth brings about organizational complexities and it's only those organizations that are able to reorganize that will transit to the next level of growth.

Whereas Penrose (1959) proposes a participatory management style to push decision making to lower levels of management so as to avoid managerial limitations to growth and take advantage of existing talent in the business. Greiner (1972) and Lewis & Churchill (1983) propose a new management style at each level of complexity with main emphasis on appropriate delegation of responsibility and sound financial controls and capacity building of managers. This implies that with appropriate financial management literacy MSE managers can put in place adequate financial controls to enhance accountability of employees for faster growth. Kolvereid and Bullvag (1996) opine that high growth firms have entrepreneurs with high level of education. On the contrary Njoroge (2013) argues that the level of education may not be the only determinant as there are very successful MSEs run by illiterate managers while others run by highly educated managers have failed.

Lorunka et al., (2011) argues that the gender of the founder is significant in predicting growth in small enterprises. Men owned enterprises experience faster growth than women owned enterprises a view that is supported by Lusardi and Mitchel (2013) and Wachira and Kihiu (2012) who opine that men tend to acquire financial knowledge earlier in life than women. Although access to finance is crucial for MSEs to build productive capacity, compete and create employment, Siekei et al., (2013) argues that it is the poor guarantees and lack of financial information that makes MSEs to be rationed out in access to loan finance. They therefore tend to rely on money lenders who are expensive and family and friends who may not raise adequate funds thus they miss out on investment opportunities that could bring growth. The G20 Seoul Summit (2010) and Wachira and Kihiu (2013) confirm that lack of relevant information is a major reason for credit rationing of MSEs by financial institutions.

Financial literacy has also been associated with positive behaviors such as debt management, increased savings, wealth accumulation and avoidance of over indebtness (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. Wachira and Kihiu (2012) further suggest that increase in knowledge about financial services reduces the probability of an individual being financially excluded by 8.5%. This view is corroborated by Lusardi and Mitchell (2011) who opine that increase in financial literacy of an individual with average characteristics would increase the probability of stock market participation by 17%. This implies that with increased sensitization more people can be pulled out of the excluded strand. Ezijiofor et al.,(2014); Fatoki, 2014; and Agyei,(2014) opine that although book keeping allows a business to file tax returns, compare its business performance with others and put in place appropriate financial controls to prevent business failure most MSEs do not keep proper business records due to lack of accounting knowledge. On the contrary, Waweru (2007) asserts that failure to produce financial information by MSEs particularly in the informal sector in Kenya is a strategy to avoid taxation although it eventually impacts on their ability to access external finance due to information opacity. These studies also reveal limited use of budgeting by MSE managers which negatively impacts on business performance as well as personal money management (FSD, 2009; Warue and Wanjira, 2013; Fatoki, 2014).Through business training, MSE managers can acquire the right skills, knowledge and attitudes necessary to improve financial management of their businesses and increase their uptake of financial products to realize growth and transit to the next level of enterprise size.

2.8 Research Gaps

Reviewed literature reveals that many studies especially in Kenya have mainly dwelt on importance of financial literacy and its effects on household or personal financial behavior with little effort to ascertain the role of financial literacy on the growth of MSEs (FSD, 2008 & 2009; Mastercard, 2011). MSEs account for over 75% of the private sector in Kenya which are expected to spur economic growth under the devolved governance system. Although deliberate efforts have been made to avail subsidized capital to this sector, the failure rate remains high. Very few micro and small enterprises have been able to transit to medium scale. There is need to delve further on how financial illiteracy inhibits growth, results to poor performance and subsequent failure of MSEs in Kenya.

Njoroge (2013) sought to find out whether there is a relationship between financial literacy and MSE success by interviewing a sample of seventy-nine entrepreneurs who are registered and operate in Nairobi County. The study concluded that there is a positive relationship between financial literacy and entrepreneurial success in Nairobi County. However, the study used respondents from MSEs with at least 3 employees, 5 years operation with a turnover of 5 million. This means that micro enterprises with a lower turnover were left out yet these form the bulk of traders in this sector. The current study mainly targeted MSEs with a turnover of less than 500,000 who are majority in the country. Siekei et al., (2013) looked at the role of financial literacy on performance of MSE enterprises whose managers had undergone the Equity foundation financial literacy training in Njoro district. The findings revealed a positive relationship between the financial literacy training and the performance of the MSE managers that had been trained. However, for a

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conclusive picture, it is necessary to measure the level of literacy of all MSEs and how their level of literacy impacts on MSE performance so that those that have not been reached by financial education training can be prioritized by future efforts. Moreover, there is need to identify which of these variables are most significant in influencing enterprise growth to inform future program design.

CHAPTER THREE
RESEARCH METHODOLOGY
3.0 Introduction

This chapter outlined the methodology adopted by the researcher in studying the research problem. The main focus is on research design, description of the study area, the study population, the sampling frame and sample size, sampling techniques, types and sources of data, data collection methods, and the way data was analysed and presented.

3.1 Study area

The study conducted involved three selected markets. This study was carried out in Mbala town because it has a large number of businesses or Small and Medium Enterprises and it was also easy to access information from the targeted groups.

3.2 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 enhances 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 Mbala 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 Mbala District. A well-structured questionnaire was also administered to senior officials from organisations that promotes financial literacy program in Mbala District.

3.3 Sample size and Sampling procedure

3.3 .1 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 using the formula below.

N=the size of population (80), n= the sample size=Acceptable margin of error (5%) 1=unit (a constant)

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

$$n = \frac{80}{1 + 80(0.05)^2}$$

$$n = 66.6$$

In this study 67 SMEs owners in Mbala were selected at random. Most of businesses were not registered by PACRA thus posing a challenge to come up with the exact population to be used in determining the sample size through variability and level of confidence. In addition, the sample size was selected taking in to consideration time constrain and the cost aspect of data collection.

3.3 Target population

In research, the term population is used to refer to the entire set of entities or members which the conclusion or generalization to be made is to embrace (De Vos, 1998). It refers to all members of a hypothetical set of people to which the results of a research can be generalized (Borg and Gall, 1979). The study was conducted in Mbala District which is located in Northern Province of Zambia .The reason for the selection of this location was the presence of good number of emerging SMEs.Aditionaly 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 Mbala Township were used in data collection for this study. This place includes old Location Market and Lucheche Market. For the purpose of this study, the population adopted for the study was 67 SMEs and 4 senior officials who were directly involved in the promotion of financial literacy programs

3.4 Sampling techniques and procedure

Sampling technique is a statistical method of selecting the sampling unit that would be representative of the population in study. It can be classified into probability and non-probability sampling (Krishnaswami & Satyaprasad, 2011). Probability sampling is further described as a sampling process that utilizes some form of random selection where each unit has an equal chance of being selected in the sample. Non-probability sampling on the other hand is a process where probabilities cannot be assigned to the units objectively (Barreiro & Albandoz, 2001). In this research, a simple random sampling was used to select sample from SMEs population of the selected markets in Mbala District. Probability sampling was used to select owners of SMEs while snowball sampling was used for non-participants

3.5 Data collection methods and procedure

3.5.1 Data collection instrument

There are a variety of data collection tools available to researchers depending on the type of data
to be collected. The two types of data are primary data which are collected afresh and for the
first time, and thus happen to be original in character and the secondary data, on the other hand
which are those that have already been collected by someone else and which have already been passed through the statistical process (Kothari, 2004).This research used primary data to answer the research questions through distribution of questionnaires to respondent's interview on selected officials from commercial Banks. The questionnaires were structured with questions that required respondents to tick the right answer and true or false questions. The rationale behind the
structure of the questionnaire was to limit the answers to those relevant to the area of study.

3.5.2 Data collection procedures

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

3.5.2.1 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 question was open and flexible so as to allow the greater opportunity for an individual. A set of predetermined questions where be used to guides the respondent in order to provide the necessary information to meet the research objectives. The questions were distributed to both the owners of the small business enterprises (SME's), Non-Governmental organisations (Vision Fund) and Three (03) Banks (CAVMONT, ATLASS MARA, Barclays Bank)

3.5.2.2 Questionnaires method

This method of data collection is quite popular, particularly in case of enquires. It is being adopted by private individual's research workers, private and public organizations and even by governments. In this method a questionnaire was sent to the person's concerned with a request to answer the questions and turn to the questionnaires. A questionnaire consists of number of questions printed or typed in a definite order on a form or set of forms. The respondents had to answer the questions on their own with exception of few SMEs owners who were unable to read and write.

3.5.2.3 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.

3.6 Data Analysis

Cooper and Schindler (2014), defined data preparation or analysis as the processes that ensure
the accuracy of data and their conversion from raw form into classified forms appropriate for analysis. After data collection, data analysis is carried out by completing the steps of questionnaire checking, editing, coding, transcribing, data cleaning, adjusting the data and selecting a data analysis strategy to gather sense or meaning from the data collected and the final information can be tabulated in the form of graphs and pie charts.
The data that was collected in this study was analyzed using quantitative methods of analysis because of the nature of the data. 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 (1999) who suggest that in analyzing qualitative data, the initial task is to find concepts that help "make sense of what is going on".

CHAPTER FOUR

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PRESENTATION OF RESEARCH FINDINGS

4.1Introduction

This chapter focuses on data analysis, interpretations and presentations of findings. The main purpose of the study was to access the effect of financial literacy on the growth of SMEs in Mbala District. Presented data was based on major results of both statistical and descriptive
information derived from questionnaires gathered from various business areas. An interview guide was used to collect data from the officials of non-government institutions who provide support to SMEs including Vision Fund and credit officers from banking institutions, and various SMEs owners who conducts different
business within the coverage area of the study. The data was analyzed and interpreted based on the study objectives and the research questions. In this chapter the results and outcome of the research are disclose wisely. Furthermore, it is a chapter that tries to answer the research objectives and questions from various interviewed areas of study as started below: -

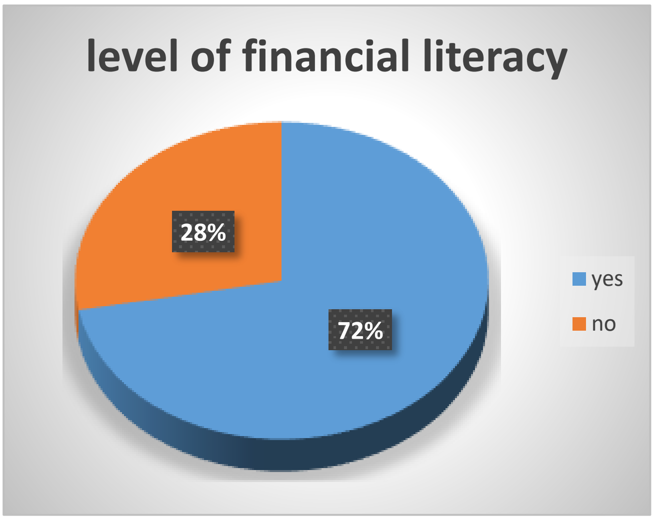
a. What are some of the types of financial literacy being offered to SMEs in Mbala district?
b. What challenges are faced by SMEs in accessing financial information in Mbala district?
c. What measures can be used to address the challenges that are faced by SMEs in accessing financial information in Mbala district?

d. How beneficial is financial literacy on the growth of SMEs in Mbala District?

The first objectives of this study sought to establish the type of financial services offered to SMEs in Mbala District.

The figure below shows the responses with regards to the level of financial literacy. As can be seen, the majority of the SMEs had an idea on financial literacy representing 72% of the respondents and only 14 respondents depicting 28% had less understanding of financial literacy.

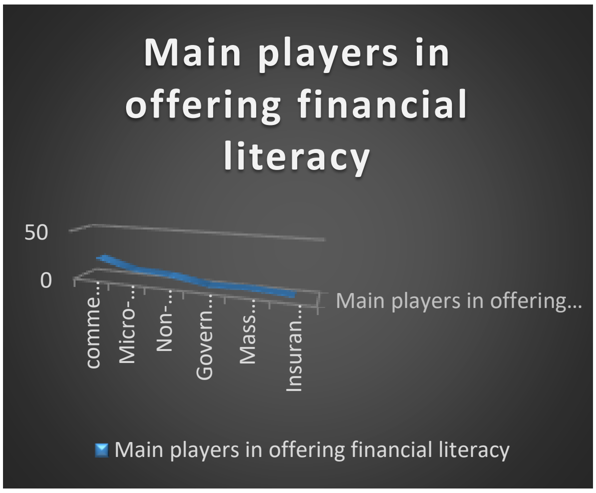
Fig 1 responses on the level of financial literacy



Source: field data, 2019

The figure below shows responses when SMEs were asked to identify the main players in offering financial literacy in the District. We can see from figure 2 that 21 respondents cited commercial banks as the main players in offering financial literacy, 11 cited micro-financial institutions, 9 mentioned non-governmental organisation,3 mentioned Government line ministries ,4 mentioned mass media and 2 talked about insurance companies.

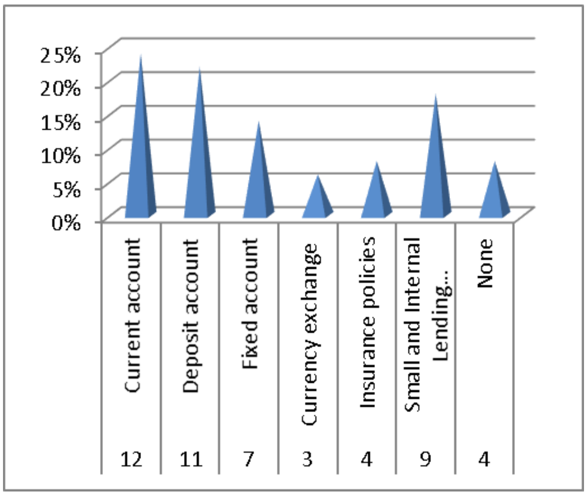
Fig 2 responses on the main players of financial literacy



Source: field data, 2019

Furthermore, SMEs were asked on financial services which they personally utilize. The figure below shows the number of respondents and percentages with those with views. 12 respondents stated that they utilized current accounts, 11 respondents stated that they utilized deposit account, 7 respondents stated that they utilized fixed account, 3 respondents stated that they utilized currency exchange, 4 respondents stated that they utilized insurance policies, 9 respondents stated that they utilized small internal leading communities SILC and 4 could no admit any of the financial services

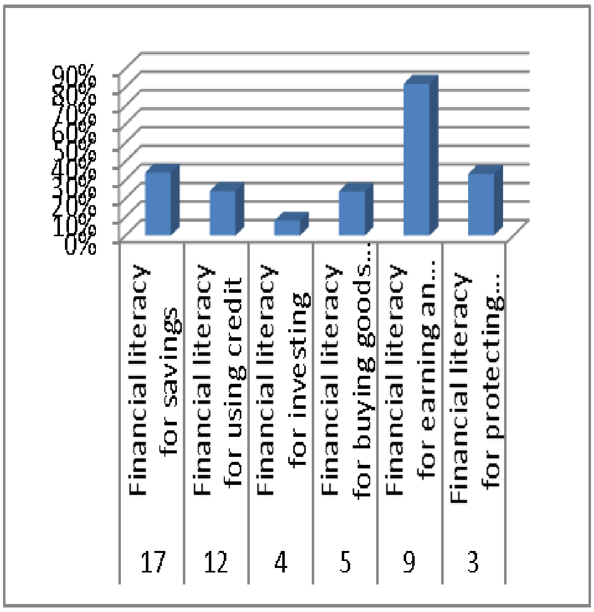
Fig 3 responses on financial literacy personally utilized by SMEs in Mbala District.



Source: field data, 2019

Furthermore SMEs owners were asked about the most utilized financial services in Mbala District and the following percentage distribution represents responses from participants ,34% ,17 respondents cited financial literacy for saving, followed by Financial literacy for using credit representing 24%,4 respondents cited Financial literacy for investing representing 8%,5 respondents cited Financial literacy for buying goods and services representing 24%,9 respondents cited Financial literacy for earning an income representing 82%and 3 cited Financial literacy for protecting and insuring .

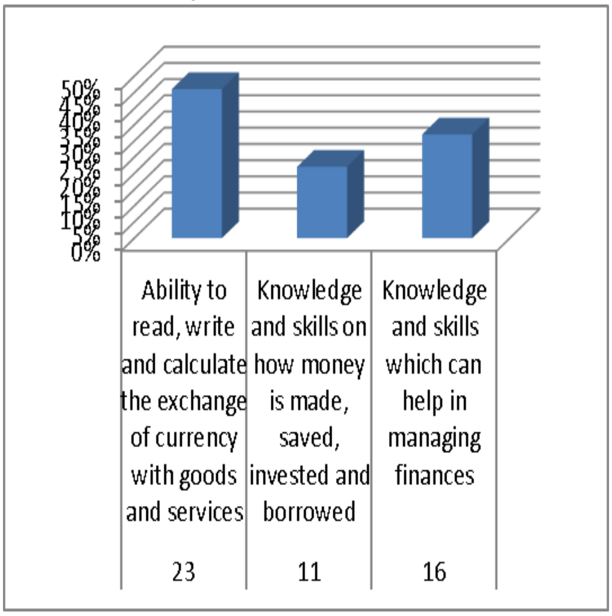
Fig 4 responses on the most utilised financial services



Source: field data, 2019

During the study, the researcher tested the respondent's knowledge on financial literacy. The following were the findings

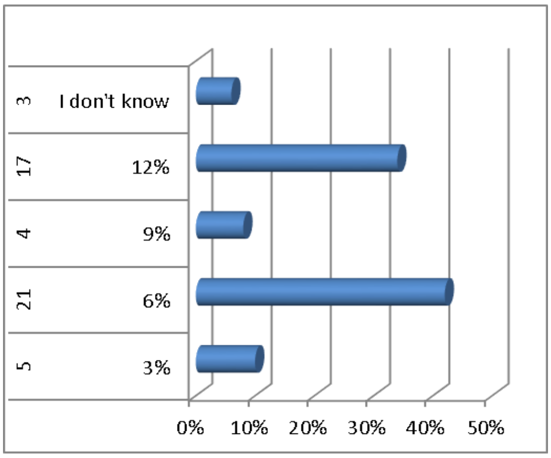
Fig 5 responses on the respondent's knowledge on financial literacy.



Source: field data, 2019

From the figure above, we can see that the findings indicated that 23 respondents had ability to read, write and calculate the exchange of currency with goods and services representing 46% of respondents, 11 respondents representing 22% had Knowledge and skills on how money is made, saved, invested and borrowed and 16respondents had Knowledge and skills which can help in managing finances representing 32% of the respondent The researcher also sought to establish weather respondents are aware that high inflation means that the cost of living is increasing rapidly. Respondents were asked to imagine that they had deposited the money in the bank account at 8% interest rate, while the inflation rate was 10%. Can the money in their account buy more or less or some amount of goods and services on average now or a year ago? The responses were as follows:21 respondents answered more than a year ago 42%,15 respondents answered the same 30%,9 respondents answered less than a year ago 18% and 5 respondents answered I cannot estimate roughly10

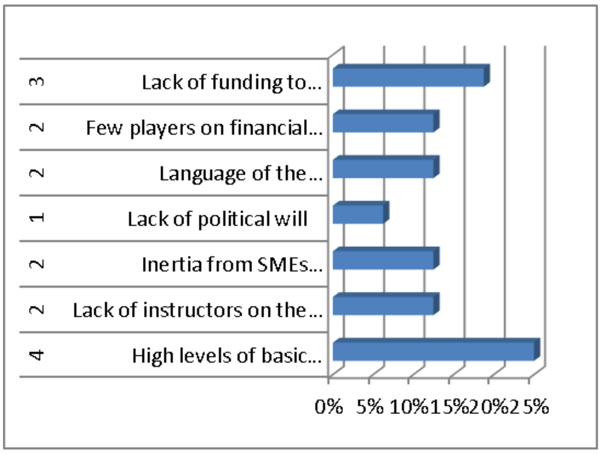
Fig 6 responses on inflation.



Source: Field data, 2019

The second objective of this study sought to establish the challenges faced by SMEs in accessing financial information in Mbala district. Respondents were asked to state the challenges Small and Medium Enterprises facing with regard to financial literacy in Mbala District.4 respondents cited High levels of basic illiteracy25%,2respondentscited lack of instructors on the ground13%,2 respondents cited Inertia from SMEs owners since they do not want to expose their ignorance13%,1 respondent cited Lack of political will 6%,2 respondents cited language of the materials acts as barrier13%,2 respondents cited few players on financial literacy13%3 respondents cited lack of funding to support financial literacy19%.

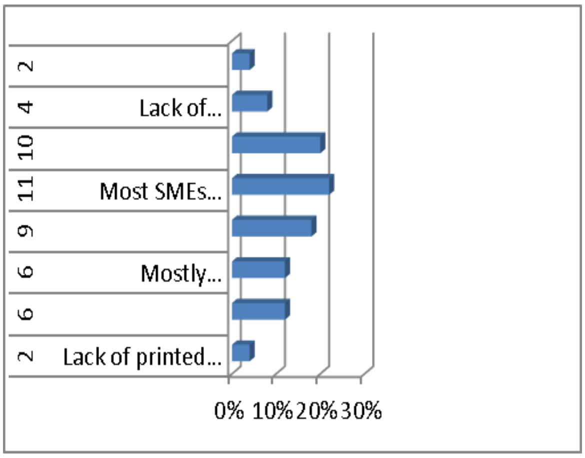
Fig 7 responses on challenges faced by SMEs in accessing financial information.



Source: Field data, 2019

The figure below shows percentage distribution representing responses on challenges faced by SMEs with regards to financial literacy,2 respondents cited lack of printed material on financial literacy4%,6 respondents cited few players are offering financial literacy12%,6 respondents cited mostly insurance companies are the ones which visit SMEs Owners,12%,9 respondents cited lack of sensitization on financial literacy18%,11 respondents cited that most SMEs owners are illiterate to understand English 22%.10 respondents cited lack of programmes on financial literacy by different players 20%,4respondents cited lack of knowledge on different services being offered by financial institutions 8% and 2respondents cited Lack of financial skills and knowledge to help SMEs to grow 4%.

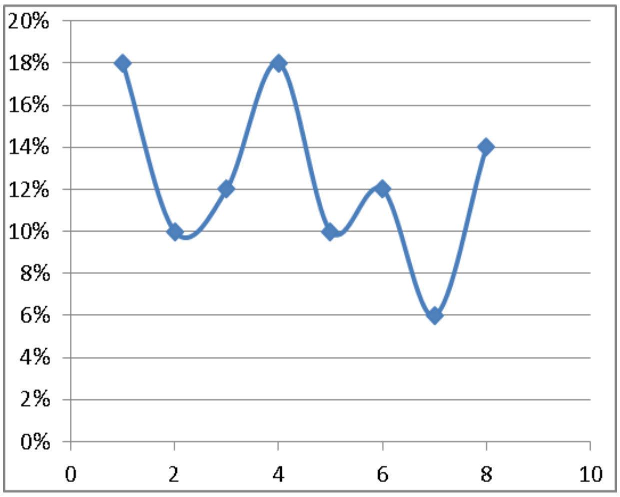
Fig 8 responses on challenges faced by SMEs in accessing financial information.



Source: Field data, 2019

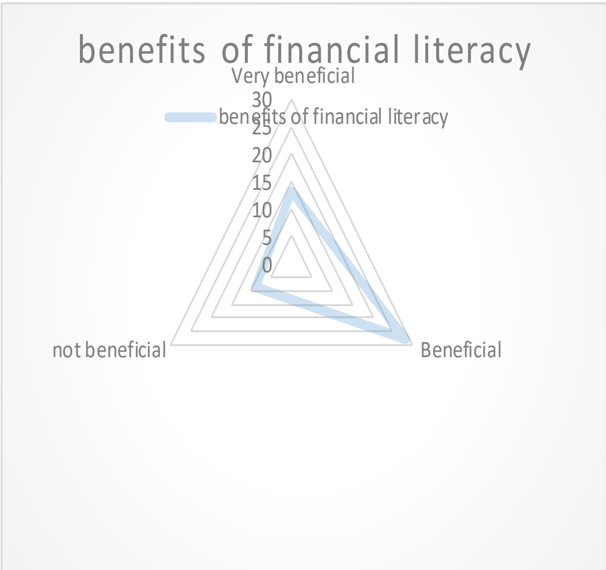
The third objective of this study sought to establish measures to be used in addressing the challenges that are faced by SMEs in accessing financial information in Mbala district. The findings indicated that measures are being put in place in order to address the challenges faced by SMEs 9 respondents suggested Broadcasting financial literacy lessons on TV and Radio 18%,5Engange SMEs, Owners in Seminars10%,6respondents suggested that all players in financial literacy should visit SMEs owners12%,9respondents 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 Mambwe and Namwanga10%,6 respondents suggested that Programmes 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 bus

Fig 9 measures to be used in addressing the challenges.



Source: Field data, 2019

The fourth objective of this study sought to establish benefits of financial literacy on the growth of Small and Medium in Mbala district.



As can be seen from the table above, the bulk of respondents specifically 28 stated that financial literacy was beneficial, 13 respondents stated that financial literacy was very beneficial representing 26% of the sample population. Lastly 9 respondents representing 18% stated that financial literacy was not beneficial on the growth of SMEs in Mbala

CHAPTER FIVE

5.0DISCUSSION, CONCLUSION AND RECOMMEDATIONS

5.1 Overview

This chapter discuses the finding of the study which sought to accesses the effect of financial literacy on the growth of SMEs in Mbala District. The themes from the findings under each objective are brought out.

5.2 Summary of the Study

The main objective of this study was to assess the effect of financial literacy on the growth of Small and Medium Scale Enterprises (SMEs) in Mbala District of Northern Province .The study aimed at determining the types financial literacy being offered to SMEs in Mbala district, finding out challenges SMEs faces in accessing financial information in Mbala district, establishing measures that can be used to address the challenges that are faced by SMEs in accessing financial information in Mbala district. To explore the benefits of financial literacy on the growth of SMEs in Mbala District, the study adopted descriptive method for obtaining necessary primary data as a way of giving clear understanding of the research objectives. The study involved samples drawn from three main markets within the township of Mbala District namely town center main market, Old location market and Lucheche market. To achieve the objectives, a deductive approach was used, where primary data was collected through issuing a set of structured questionnaires to a sample population of 67 Small and Medium Scale Enterprises business owners.50 samples successfully provided data that is useful for this study. Probability sampling was used to randomly select the respondents to collect data. A descriptive statistic was used employed for analyzing the effect of financial literacy on the growth of small and Medium Scale Enterprises. The analysis was carried out using Statistical for the Social Sciences (IBM SPSS) statistical software and Microsoft excel and the report was presented using frequency tables, pie charts and graphs. The findings suggest that 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). The study further reviewed that financial literacy have an effect of the growth of SMEs in Mbala District. The study assessed the effect of financial literacy of the growth of SMEs in Mbala District and found that financial literacy slightly affect the growth of SMEs The study observed the challenges faced by SMEs in accessing financial services .It was fund that most of the respondents cited high level of basic illiteracy, lack of instructors on the ground, inertial from SMEs owners as a way of avoiding exposing their ignorance, language of material act as barrier, lack of political will and lack of funding to support financial literacy. The study also reviewed that the majority of SMEs owners do not believe in risk prevention as a way of ensuring security of their business and they do not have attitude of attempting to acquire more financial skills through training programs. The study established that there is a meaningful relationship between the growth of SMEs and the financial attitudes of SMEs owners.

5.3. Discussions

This study reviewed findings as per objective of the study.

5.3.1 Types of financial literacy being offered to SMEs in Mbala district.

The findings from the study uncover that the majority of the respondents are aware of the type of financial literacy offered to SMEs in the District as the higher percentage could answer the basic questions on the types of financial literacy offered in the District. However they were same parts which were not correctly answered as it will be discussed below on the types of financial literacy which is more beneficial to SMEs owners .According to empirical evidence of research by (Pisa,2013) The rising interest in financial literacy as a key life skill has been brought about by a number of factors such as; transfer of risk from both governments and employers to individuals as a result of introduction of contributory pension to replace the automatic pension which has shifted to workers the responsibility to save for their own financial security upon retirement, upsurge of contributory health schemes, increased number of financial decisions that individuals have to make both at the personal and business level as a result of the changing market place and increased supply of a wide range of financial products from a variety of providers which requires complex financial knowledge to select from a wide array of alternatives. All of these trends have transferred the responsibility of major financial decisions to individuals which require that individuals must be sufficiently financially literate to take the necessary steps to protect themselves from fraudulent schemes. The finding reviewed that majority of the respondents 51% had interest of acquiring financial literacy for saving. This in line with the life cycle hypothesis by (Ando and Modigliani, 2013) which state that economic agents derive utility from consumption/savings over their lifetime. In the simplest format, the consumer has a lifetime expected utility, which is the expected value of the sum of per-period utility discounted to the present from the consumer's current age to his/her oldest attainable age. Assets and consumption in each period are determined

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endogenously by maximizing this utility function subject to an intertemporal budget constraint, which represents the present discounted value of future resources. From the finding the answer was very clear from SMEs owners, financial literacy for saving was the mostly offered to SMEs owners in the district .17respondents agreed that the had benefited at one point on financial literacy for savings34%, 12Financial literacy for using credit24%4Financialliteracy for investing8% 5Financial literacy for buying goods and services24%9Financial literacy for earning an income 82%3 Financial literacy for protecting and ensuring 33%. In the simplest format ,studies reveal that individuals with less financial literacy are likely to face more challenges with regard to debt management, savings and credit, and are less likely to plan for the future while those with higher financial literacy are better able to manage their money, participate in the stock market and perform better on their portfolio choice and are more likely to choose mutual funds with lower fees (Hilgert, Hogarth, & Beverly, 2003; Lusardi & Mitchell, 2011; FSD, 2009). Moreover, those who have greater financial knowledge are more likely to accumulate higher amounts of wealth, have better debt management skills and avoid high interest payments (Lusardi & Mitchell, 2011; Wachira & Kihiu, 2012). On the contrary, those who are financially illiterate tend to borrow too much and generally use more expensive sources of finance that may impact negatively on their business performance and are also likely to report excessive debt position or inability to measure their debt position (FSD, 2009; Master card, 2011). 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 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-percentage point higher probability of stock market participation.

5.3.2 Challenges faced by SMEs in accessing financial information in Mbala district

The results on the second objectives revealed that although the majority of the respondents listed few challenges faced in accessing financial information, there are a lot of challenges faced by SMEs owners in Mbala District with regards to accessing financial information .The findings therefore coincides with A 2005 OECD funded study on financial literacy which found significant gaps in knowledge levels in even highly developed economies. For example, in Japan, 71 percent of respondents lacked knowledge of equities and bonds, 57 percent lacked knowledge of financial products in general, and 29 percent lacked knowledge of insurance and pensions. In the United States, 40 percent of workers are not saving for retirement. Surveying high school students in South Korea, the study found that most students answered fewer than 60 percent of questions correctly on a test asking questions like how to manage a credit card and save and invest for retirement (Hecklinger, 2010).The findings reviewed that most of the respondents were not able to access financial literacy skills which is key on the growth of their business. This is supported by the finding of (Sucuhi, 2013) which insinuated that small business owners focus more on cash flow than budgeting. The findings reviewed that most of the respondent faces challenges in accessing financial information from micro finance and commercial banks within Mbala District. It however it contradicts with finding of Njoroge (2013) who argues that the level of education may not be the only determinant as there are very successful MSEs run by illiterate managers while others run by highly educated managers have failed. Also, Carlin and Robinson (2010) found that people that went through training were somewhat better at making current-cost and current-benefit tradeoff decisions as compared to those that did not. The results of the findings revealed that the respondents did not attend any training programs to attain financial skills. This is supported by the finding of (Everlyn, 2016) who conducted a study on micro and small enterprises in Kakamega county of Kenya found that a small percentage of MSE owners in that area attended training on financial literacy due to lack

of awareness on training programs. The finding of this study shows that most business owners are uncertain about debt financial literacy. That is there not able to access various source of finance, not Knowledgeable on effect of inflation and interest and not conversant with making accurate calculations. This finding agreed with the findings of Greiner, 1972; Churchill and Lewis, 1983) concur that skills and competencies of the entrepreneur play a crucial role in attaining growth. Financial literacy education can thus improve the growth of MSEs by equipping the entrepreneur with skills to make sound financial decisions, raise the required capital and put in place appropriate financial performance measurement systems to monitor and measure performance of the business and take corrective action. Researches like (Hilgert, Hogarth, & Beverly, 2003; Lusardi & Mitchell, 2011; FSD, 2009) emphasized the importance of involvement in saving money as one way of understanding financial literacy and building positive financial behaviour and attitude. Furthermore, individuals who are not able to save are considered to be financially illiterate and on the other hand Mandell and Klein (2009), cited that financial literacy does not mean being saving-oriented and does not mean better financial behaviour. In light of both arguments, the findings of this research can be concluded to be most respondents are moderately literate on savings as most of them are neutral when it comes to saving behaviour. That is, the respondents must be aware of the benefits of saving money in order to run the business more effectively and to help their expansion in the future. The findings indicated that 2

respondents cited lack of printed material on financial literacy4%,6 respondents cited few players are offering financial literacy12%,6respondentscited mostly insurance companies are the ones which visit SMEs Owners12%,9 respondents cited lack of sensitization on financial literacy18%,11 respondents cited most SMEs owners are illiterate to understand English22%.10 respondents cited lack of programmes on financial literacy by different players20%,4respondents cited lack of knowledge on different services being offered by financial institutions8% and 2respondents cited Lack of financial skills and knowledge to help SMEs to grow4%.According to (Leora et al., 2015), people that are financially literate do better job having plans and savings for retirement. This research however reveals that most of the respondents disagree on basing their long-term financial decisions to suit their retirement plans (2.88). Drexler et al., (2015), found that the micro entrepreneurs in the US are not able to understand basic financial concepts which led to their inability to make good retirement plans. Agreeing with Drexler

etal, this research found that most of the respondents are not certain on having knowledge on economic concepts that will guide their retirement plans in terms of ability to make sensible
saving and investment decisions (3.29). The findings also suggest that most of the respondents do not have other sources of income apart from the business and do not have plans regarding retirements. Sucuahi (2013) found that a low financial skill or poor financial behavior might have an adverse effect in the future of a business. Also, (Lusardi & Mitchell, 2007) argued that a good financial foundation of the business owners is a significant barometer of the success and growth of the enterprises in the competitive environment. The study by (Grohmann et al., 2015) has shown that financial literacy is positively related to financial behaviors such as cash flow management, debt management, savings and investment practices that maximizes benefits for micro and small Enterprises. The studies above are in line with the findings of this study that reveals that financial literacy plays a role on the growth of the SMEs.

5.3.3 Measures that can be used to address the challenges that are faced by SMEs in accessing financial information in Mbala district.

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. Governments can also work with commercial banks in an effort to correct capacity constraints in order to better service the SME market. This helps SMEs to avoid failure. In order to improve demand-side constraints, countries like Thailand have established Capacity Building Funds to improve SMEs' internal competitive structures. In this regard, the role of government is important to ensure appropriate training interventions. Subsidised training and mechanisms for banks to experiment with new approaches towards SME lending are a further solution presented. The findings indicated that measures are being put in place in order to address the challenges faced by SMEs 9 respondents suggested Broadcasting financial literacy lessons on TV and Radio 18%,5Engange SMEs Owners in Seminars10%,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%,5respondents suggested that Materials on financial literacy to be translated and printed in Mambwe and Namwanga 10%,6 respondents suggested that Programmes 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 businesses14%.

5.3.4 How beneficial is financial literacy on the growth of SMEs in Mbala District?

The Micro and Small enterprise sector plays a critical role in economic growth of both developed and developing economies which affirms the recent attention to the growth and sustainability of this sector. This focus has been boosted by the formation of worldwide networks such as the Global Entrepreneurship Network that aims at marshalling resources for the sector through forums such as the Global Entrepreneurship Summit held in Kenya in July 2015. 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 Mbala District.

5.4 Conclusion of the Study

This study concludes that there is a strong positive effect of financial literacy on the growth of SMEs. SMEs that are more successful are run by entrepreneurs who are financial literate and understand key financial concepts that include, risk management, debt management, record keeping and budgetary skills. Financial literacy regarding the budgeting skills assist in reducing the SMEs running costs and ultimately enabled advance planning on loan repayment. In addition, financial literacy skills enhanced the ability to do a self-internal audit that enabled beneficiaries to identify resource leakages and ensure proper channeling of resources towards credit management. This revelation appears to compliment Miller's (2009) argument that 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. This study has also shown clearly that Financial literacy go hand in hand with formal education; entrepreneurs that scored high in financial literacy seemed to be well educated and have been attending financial education class or seminars, while in contrast, entrepreneurs with low level of financial literacy demonstrated low level of formal education or have never attended financial literacy training.

5.5 Recommendations

Have carried the study the following recommendations that should made:

- SMEs should consider enrolling in financial literacy program or any other related programs to enhance their capability.
- Formation of mergers for those SMEs facing constraints in the market in order to remain competitive in the market.
- The study further recommends that Zambian financial literacy policies should be reviewed and updated so as to meet and satisfy the need to SMEs in current situations since there is high economical and technological changes 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.
- Lastly 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.

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- Finance and other line ministries and commercial banks need to ensure that all SMEs have the basic financial literacy. This is very important owing to the fact that SMEs plays a paramount role in economy and growth in this sector means grow the economy.
- 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.

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