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# An Investigation of the impact of financial Literacy on Financial Inclusion in Zambian rural areas – A case study of two selected townships in Nakonde District.

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## *Abstract*

*The study investigated the impact of financial literacy on Financial Inclusion in Zambian Rural Areas – a case study of two selected townships in Nakonde District. The purpose of the study was to establish if financial literacy has had any impact on financial inclusion on three commercial banks operating in Nakonde considering the low levels of financial inclusion especially among the poor, not only in Zambia but across the globe.*

*Data for the study was collected from 60 respondents, 10 where employees from banks and 50 were from the selected townships. The study used the descriptive survey and data was collected using questionnaires. The data that was collected was entered in word and excel spread spreadsheet and analyzed using excel.*

*Most respondents acknowledged that it was an advantage to open accounts for savings at the bank where funds were safe. However, their income did not allow them to open bank accounts since most of the residents were receiving between K1000 and less per month. K1000 and less is considered to be little money considering other necessities needed to be met or rather local food basket. As a result, the study revealed that the majority (70%) had no bank accounts while only a minority (30%) had bank accounts. Arising from the above findings, only ZANACO provided the cheapest account (Xapit) which has a nil book balance, but all the bank accounts have charges attached as it is a way of making profits. The study made the following recommendations 1. Banks should target more marketers and farmers to achieve the goals of financial literacy unlike the current trend of targeting more school children who are yet to start earning income, 2. Banks should introduce affordable products like those being offered by mobile service providers and minimise certain charges.*

***Keywords**: Impact, Financial Literacy, Financial Inclusion, Rural Areas*

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## DEDICATION

This research project is dedicated to **God** first for giving me life and the grace to do this research, my wife **Rachael** for encouraging me to keep doing my best and my son **Louis Jr** and my entire family.

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## ABBREVIATIONS

| | | |
|---|---|---|
| FI | - | Financial inclusion |
| BOZ | - | Bank of Zambia |
| MFI | - | Micro Financial Institutions |
| FSDP | - | Financial Sector Development plan |
| CFI | - | Center for financial inclusion |
| NBFI | - | Non Bank Financial Institution |
| INFE | - | International Network on Financial Education |
| GPFI | - | Global Partnership for Financial Inclusion |
| GDP | - | Gross Domestic Product |
| WB | - | World Bank |
| SME | - | Small and Medium Enterprises |
| ZANACO | - | Zambia National Commercial Bank |
| FBZ | - | Finance Bank Zambia |
| BAZ | - | Bankers Association of Zambia |
| PIA | - | Pensions and Insurance Authority |
| ATM | - | Automated Teller Machine |
| KYC | - | Know Your Customer Requirements |
| NFIF | - | National Financial Inclusion Framework |
| NIC | - | National Insurance Company |

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# CHAPTER ONE

# INTRODUCTION

## 1.0 Introduction

This chapter explains the back ground to the study, the statement of the problem, the purpose and the objective of the study. It further outlines research questions and the significance of the study. It discusses an investigation of the impact of financial literacy on financial inclusion in Zambian rural areas - a case study of selected townships in Nakonde district.

## 1.1 Background

Zambia is a landlocked country in sub-Sahara Africa with an estimated population of around 15million inhabitants according to the 2010 national census. Zambia has recorded significant economical improvements in the last four decades, yet despite the notable economic achievements Zambia has noticed and recorded over the past few years, a lot of Zambians still live in poverty especially those in rural areas who remain unaffected by these achievements because they are not included in the formal financial sector and because of this, they cannot take part in banking transactions of borrowing and saving. It is estimated that around 62% of our population live in poverty (less than $1.99 per day). The Finscope report (2009) reveals that the overall level of financial inclusion in Zambia has improved between 2005 and 2009. The financial inclusion levels increased marginally from 22.4% to 23.2% of adults, while the overall level of financial inclusion increased from 33.7% to 37.3 % in 2009. This implies that over 62% of the populations are not included in the formal financial sector and these are mostly in rural areas.

There are several levels of financial inclusion which have been highlighted by various scholars, but it is generally accepted that financial inclusion refers to the extension and provision of financial services which includes bank accounts, loans and savings account to the massive poor which constitute a large fraction of our society. The center for financial inclusion (CFI) has defined financial inclusion as the state in which all people have access to a full suite of quality financial services provided at affordable prices, in a convenient manner and with dignity for the clients(Tombini, 2012). This entails that financial inclusion is more than just mere access to financial services as many perceive it but also the understanding or knowledge of products offered by financial institutions. 1

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However, for people to be financially included, financial literacy is vital. The World Bank (2012), reports that although no comprehensive financial capability survey has been conducted in Zambia yet, results from the FinScope survey show that in general the population lacks basic financial knowledge and skills. The 2009 Fin Scope survey showed that many people are not familiar with basic financial concepts, lack awareness of available financial products and services, and have low trust and confidence in financial institutions.

The government, financial sector and civil society institutions have all undertaken some financial education initiatives in Zambia, but their efforts have been largely uncoordinated, and with limited outreach and impact (World Bank, 2012). For instance, The Bank of Zambia has played a leading role in the development of a national financial education strategy, and has been publishing limited information on financial charges. The Pensions and Insurance Authority (PIA) has organized consumer awareness activities through road shows, trade fairs, and the media. Financial sector actors such as the Bankers Association of Zambia, the Zambian Cooperative Federation and individual providers such as most notably ZANACO, but also Barclays Bank, Finca and others have implemented different types of initiatives, especially for micro and SMEs and employees in their workplace. Non-government organizations such as Junior Achievement, Children International and Camfed have mostly focused on initiatives for school children. Also, Microfinance Opportunities has included a mobile payment provider in Zambia (Mobile Transactions) to participate in a three-year multi-country project to design and develop financial education programs that support the adoption and sustained use of branchless banking among low-income populations.

Taking into account the initial results, in 2010 the Zambian authorities also embarked on the development of a comprehensive financial education strategy under the FSDP (World Bank, ibid). This explains the elaboration of the strategy which was commissioned by the BoZ and overseen by the FSDP's Financial Education Working Group, with technical support from Fin Mark Trust. Based on the input of relevant stakeholders from the public sector, the financial sector, the private sector and the civil society, the National Strategy on Financial Education which was finalized and then approved by the Government in the third quarter of 2012. The primary objective of the strategy was "to empower Zambians with knowledge, understanding, skills, motivation and confidence to help them to secure

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positive financial outcomes for themselves and their families by 2017", whereas the long-term goal was "a financially educated Zambian population by 2030" (World Bank, ibid).

The strategy is comprehensive and includes programs targeted for children through school curriculum and through extra-curricular activities; for the youth in universities, colleges and other learning institutions, as well as in youth development Centre's and other agencies; for adults in the workplace, for small-scale farmers, for micro and SMEs and through teachable moments; as well as cross-cutting initiatives through appropriate media and through a website.

It is against this background that that this researcher investigated the impact of financial literacy on financial inclusion in a Zambian rural area of selected townships in Nakonde district.

### 1.2 Statement of the Problem

It has been observed and documented that despite the economic strides noticed in the Zambian economy and an increase in the number of financial institutions on the Zambian market, a large fraction of our population are not included in the formal financial sector and the most affected are the majority poor in rural areas of Zambia. It is estimated that the percentage of the population not included in the formal financial sector stands at a staggering estimation of above 60%. However, few or less studies have been carried out to investigate the impact of financial literacy on financial inclusion and the real challenges facing financial institutions in bridging the gap between the banked and the unbanked and what can be done to narrow the gap. The world we live in is a complex place and the only way to understand what is going on there, there is need to carry out an advanced research study on the topic of concern (Hart, 1998), such as establishing the relationship between financial literacy and financial inclusion on three commercial banks operating in Nakonde District.

**1.3 Purpose of the study**

Among key findings of financial exclusion by World Bank (2012) in Zambia has been that in general the population lacks basic financial knowledge and skills. Many people are not familiar with basic financial concepts, lack awareness of available financial products and services, and have low trust and confidence in financial institutions. Therefore, the purpose of this research is to establish the relationship between financial literacy and financial inclusion on three commercial banks operating in Nakonde District.

1.4 **Research Objectives**

In order to ascertain the viability of financial literacy in the financial sector. An investigation of a number of facets needs to be carried out. It is for this reason that the main aims/ objectives of this study is:

1. To establish the causes of low levels of financial inclusion in rural areas.
2. To investigate the effects of financial literacy on financial inclusion in selected townships in Nakonde District.
3. To investigate the impact of financial literacy and inclusion on household poverty levels.

**1.5 Research questions:**

1. What are the causes of low levels of financial inclusion in Zambia?
2. How does financial literacy contribute to the improvement of financial inclusion levels in Zambian rural areas?
3. How does financial inclusion impact on the national economy?

**1.6 Research Variables**

The variables in this research are financial literacy and financial inclusion. Financial literacy is the independent variable while financial inclusion is the dependent variable.

**1.7. Significance of the Study**

Considering the state of financial inclusion in Zambia, the investigation of the impact of financial literacy on financial inclusion remains an important field for researchers, policy makers, nongovernmental organizations and the players involved in the financial sector. In spite of the low levels of financial inclusion in Zambia, this in-depth research hopes to help to identify the major factors that contribute to low levels of financial inclusion in Zambia especially in rural areas with regards to financial literacy. The study may also contribute to the already existing body of knowledge and finally the study would also provide information that might be used by other researchers who would be dealing with the related problem.

**1.8. Conceptual Framework**

A conceptual framework is a research tool intended to assist to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized and tested, reviewed and reformed as a result of investigation (Guba and Lincoln, 1989)

It should assist a researcher to organize his/her thinking and complete an investigation successfully. It must explain the relationship among interlinked concepts, it explains the possible connection between the variables and answers the why questions. To find out how effective ones conceptual framework is, one should analyze whether the set objectives have been addressed (Smyth, 2004).

In this section, the conceptual framework will show the representation of the main components of the study and their linkages

When investigating the impact of financial literacy on financial inclusion in selected townships in Nakonde district. The researcher considered investigating the causes of low levels of financial inclusion in the study site. This led to finding out what the residents know about the products and services offered by local banks. Thereafter, investigated the financial education carried out by local banks for effects of such financial literacy on financial inclusion on household poverty levels.

The whole process is illustrated in figure 1.

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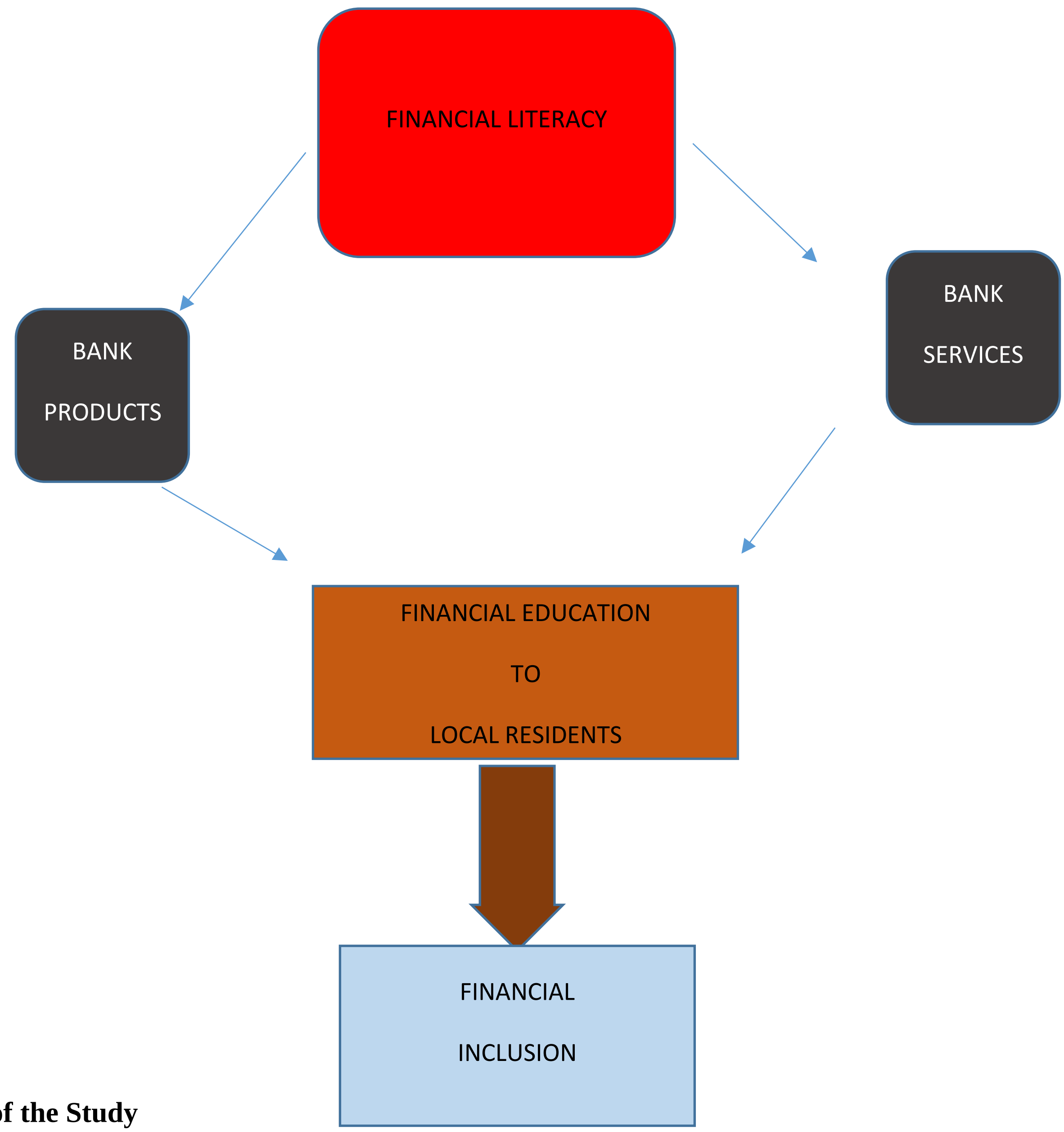
**Figure 1: Conceptual Framework**




**1.9 Scope of the Study**

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This study concentrated on the impact of financial literacy on financial inclusion and to determine the impact on households and levels of poverty in selected townships in Nakonde District of Muchinga province.

### 1.10. Limitation of the Study

The study was confined to Nakonde District of Muchinga province. Owing to finding challenges, the study will only be undertaken in Nakonde district and not all the ten provinces of Zambia. This is because the vast majority of the residents live in a village set up and Nakonde district is classified as a rural district. Although this research was carefully conducted it will stick to its objectives so that it scrutinizes the impact of financial literacy on financial inclusion in rural areas of Zambia only and not the entire Africa in general.

### 1.11 Definition of terms

**Investigation** – This is an exploration to carry out a systematic or formal inquiry to discover and examine the facts of (an incident, allegation, etc.) so as to establish the truth. This study is examining truths about the localization of a curriculum in schools.

**Rural area**–This is an open swath of land that has few homes or other buildings, and not very many people. A rural area population density is very low. In general, a rural area or countryside is a geographic area that is located outside towns and cities.

**Impact -** influence have a strong effect on someone or something.

**Financial literacy**: It is the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. It refers to the ability to make informed judgments and to take effective decisions regarding the use and management of money.

**Financial inclusion**: It is a delivery of financial services to the poor at affordable cost. It is also a delivery of banking services at an affordable cost to the vast section of disadvantaged and low income groups.

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# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

Financial inclusion has become an international policy priority and demand side initiatives which include financial education that have an extremely critical role to play in helping individuals to access and use suitable formal financial products. Due to the recognition of the importance of financial literacy levels around the world, the OECD launched its financial education in 2002, developing policy analysis and recommendations on principles and good practices for financial education awareness. Building on this experience, the International Network on Financial Education (INFE) was established in 2008 by the OECD to facilitate information sharing, research and the development of policy instruments and analytical tools.

## 2.1. Global Perspective

### *The global trends on financial inclusion*

Globally it is estimated that 2.3 billion working adults are financially excluded from the formal financial sector and have no bank accounts which they can use to transact formally. In 2010, the G20 recognized the importance of financial inclusion policy across G20 member countries and others endorsed a Financial Inclusion Action Plan and established the Global Partnership for Financial Inclusion (GPFI) as an implanting mechanism. A large proportion of the world's financially excluded adults are also found in the large, rapidly developing BRIC countries with India (65%), Russian Federation (52%), Brazil (56%) and China (36%) (OECD 2013).

### *Financial Inclusion in Asia*

It is estimated that in Asia alone over 1.5 billion people have no bank accounts and out of these 1.5 million people 92% live in Bangladesh, the People's Republic of China (PRC), India, Indonesia, Pakistan, the Philippines and Vietnam. These seven countries account for 92% of the 1.5 billion unbanked populations in developing Asia. (A. Demirguc-Kunt and L. Klapper 2013). According to the Brookings paper on economic activity in Asia, it was found that 32% of the adult population was

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reported to be saving money but only 21% out of the 32% were saving in a formal financial institution. The saving rates measured in Asia are higher than those in Latin America (26%). However, there are about 300 million Asian adults saving outside the formal financial institutions, representing half of the total world's population that does so. In Sri- Lanka 36% of are reported to be saving money, 77% of these save in formal financial institutions. In Vietnam 35% are reported to be saving money but only a handful of representing 22% use formal financial institutions. In Kyrgyz Republic out of the 36% adults who save money, only 2% of them were found to be using formal financial services. In India's recent commitment to provide access to transactional accounts for all adults illustrates the importance of government policy in strengthening financial inclusion.

### *Financial inclusion in the European Union (EU)*

The European Union is a regional block of European countries which consists of 27 countries but currently the UK decided to break away from the regional block to stand alone. According to the financial inclusion score (FIS); the EU-27 has a high average of FIS of 0.91 indicating an overall high level of inclusion. 11 counties out of the 27 (41%) countries have a FIS score of 1, which indicates that their systems are inclusive to the extents that the available inputs allow. Out of 11 countries that were reported to have good levels of financial inclusion, three countries namely Sweden, Denmark and Finland achieved a score of 1, indicating few differences among them in terms of financial inclusion outcomes (OECD, 2013).

Among the best performers, three countries namely (Latvia, Slovenia and Cyprus) joined the EU as recently as 2004 which is an indicator that financial inclusion is not just limited to "old Europe". It is reported that 70% of the member states of the European Union (19) countries have a financial inclusion score exceeding 0.9, indicating high levels of financial inclusion with an average score of 0.97.

### *Financial inclusion in the UK*

Leeladhar (2005) stresses that in the United Kingdom (UK), the financial inclusion task force took note of three areas of main concern for the purpose of financial inclusion. The three areas of concern are: access to banking, access to affordable credit and access to free face to face financial advice. To ensure

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financial exclusion is kept at low levels in the UK, low cost bank accounts were introduced; a conducive legal environment for credit unions was established, post

Office card accounts were introduced for individuals who were not willing or who were unable to access basic bank accounts and a concept of savings gateway was tested. Additionally, the community finance learning initiatives (CFLIs) were introduced and promoted to spearhead financial literacy programs in the community.

### 2.2 The regional perspective on financial inclusion

***Tanzania***

Tanzania is a country that shares a border with Zambia on the northern part of the country. Tanzania has developed a robust financial sector development plan to foster financial inclusion. Efforts to address the access gap in the financial system in Tanzania can be traced back to the early 1990s; this is when the financial sector reforms were commenced. These reforms enabled new players to enter the financial sector which was previously dominated by financial institutions which were owned by the state just like in many other African countries (IRACST, 2014). This led to an increase not only in the number but also the types of financial institutions. Since 1991 Tanzania has witnessed the following rapid changes in the financial sector:

- The banking sector grew from 4 banks to the current 52 banks with a network of 609 branches.
- The insurance sector grew from 1 National Insurance Company (NIC) to 27 private insurance companies, 2 reinsurance companies, 76 brokers and 520 agents.
- The pension sector grew from 3 to 5 public pension funds largely covering the formal working population.

According to the 2011 Agriculture Finance Markets Scoping Survey (AgFims) of the 519,450 agribusiness SMEs only 168,300 (32% of the total) were able to access formal financial services. Approximately 13% were informally served and slightly over 54% were totally excluded from any formal or informal financial services (IRACST, 2014).

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Micro, Small and Medium Enterprises (MSMEs) is the engine to economic growth in any developing country with a high unemployment rates like Tanzania. However, according to the 2010 Micro Small and Medium Enterprise Survey (MSME Survey) only 20 % of the total 3.1million MSMEs in the country (620,000 MSMEs) are served by formal financial institutions, 12% use informal means and nearly 70% are totally excluded from the formal financial sector.

The levels of formal financial access in the rural area is 8.5% while that of the urban areas is 23% and the totally excluded rural population stands at 60% while the excluded urban population stands at 45%. According to the geospatial census of financial access points conducted in 2012 which is based on latest population census, only 30% of Tanzanians live and conduct banking transactions within a 5km radius to financial access points (National Financial Inclusion Framework 2014-2016).

***Barriers of access to financial services Tanzania***

Tanzania has a huge adult population (56%) that is totally excluded from accessing financial services. Equally a significant portion of the population already accessing financial services is underserved. The barriers to accessing financial services have been studied and documented. The key barriers have been categorized as follows:

***Macro-level***

- Macroeconomic environment

Markets require a stable macroeconomic environment to operate effectively. This is especially true for financial services where changes in macroeconomic fundamentals will affect consumer behavior. Persistent high inflation rates and high lending rates create economic uncertainty.

- Legal and Regulatory framework

The current contract laws do not ensure quick and efficient enforcement of the contracts in cases of default. The current regulatory framework is not enabling easy client on boarding and retention of low income households, businesses and small holder farmers in rural areas. The existing challenges include stringent know your customer (KYC) regulations, high security requirements for bank branches and absence of explicitly consumer protection regulations to mention a few.

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***Meso level***

- Information asymmetry for FSPs

FSPs do not have access to full information about clients to design appropriate products as well as manage risks. For example, the bank cannot easily assess the credit worthiness of a client if the client is able to hide information about past defaults and existing levels of debts. Consequently, the FSP may face higher levels of default or impose higher interest rates to compensate for this risk or avoid giving credit at all.

- Financial Incapability of Customers

Information problems can also apply to customers. A low financial capability also hinders access and usage of financial services. Additionally, a lack of understanding of complex financial products may lead to customers being exploited and being unable to choose effectively between providers and reducing the competitiveness of the market.

- Lack of appropriate market infrastructure

The market has for a long time relied on conventional delivery channels such as brick and mortar branch networks in a highly sparsely populated country with poor physical infrastructure. This has left the majority of people who are far from access points to be un-served. For instance, only 29% of the populations are in the 5km radius to brick branches, ATMs, MFIs (GIS Cash points 2012).

***Micro Level***

- Unmet demand

While the majority of adult Tanzanians do not have access to financial services, in rural areas the low population density, poor infrastructure and low incomes mean that demand is not sufficient to meet high operating costs of FSPs.

- Lack of suitable products addressing the needs of consumers.

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Most FSPs offer generic products that do not consider insights from users. Lack of innovations and weak capacities (human and technical) of FSPs are main reasons for delivering products that do not address the real needs of consumers.

### 2.3 The Zambian Perspective

***Financial inclusion in Zambia***

According to the Fin scope survey of 2015, there has been a significant increase in financial inclusion since 2009 resulting in the national target of 50% of financial inclusion by 2018 being exceeded. In 2009, 37.3% (2.4 million) of adults were financially included whilst 62.7% (4million) of adults were financially excluded.

In 2015, 59.3% (4.8 million) adults are reported to be financially included and exclusion levels have dropped to 40.7% (3.3million) of adults. Fin scope findings indicate that there has been a significant drop in financial exclusion since 2009, largely driven by increased uptake of both formal and informal services. Formal inclusion increased from 23.1 % of adults in 2009 to 38.2% of adults in 2015:

- There has been increased uptake of the services of all providers in the formal sector
- Growth in the non-bank sector was most significantly driven by uptake of mobile money services.

Informal financial inclusion increased from 22.2% of adults in 2009 to 37.9% of adults in 2015:

- Uptake of informal savings as well as informal credit services have increased
- There has been a slight decrease in the informal remittance services.

The landscape of access provides an overview of the types of financial services that Zambian adults have or use. Comparing the landscape of access of 2009 with the landscape access of 2015 reveals that currently, Zambian adults are most likely to have or use electronic payment or money transfer services (36.8%) and/or savings services (32.5%) and less likely to have credit services (22.3%). Only 5.5% of adults have or use insurance services and/or pension services.

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***Perceived barriers of access to financial services in Zambia***

Exploring the factors that prohibit financial inclusion, it is important to consider the demographic profile of the financially excluded adults in Zambia. This profile is skewed to:

- Adults residing in rural areas
- Female
- Adults younger than 25 years and older than 55 years
- Farmers, adults who rely on piece work for income.

Financial inclusion surveys across Africa have illustrated that these are typical characteristics of the financially excluded population.

- Adults residing in rural areas are less likely than those from urban areas to have physical access to financial services access points and also less likely to comply with financial identity requirements (section 8.2 of the fin scope 2015 report).
- Females are less likely than males to be aware of financial services and the benefits thereof; they are also more likely to depend on others for money and therefore less likely to have money of their own to manage as they wish.
- Adults younger than 25 and older than 55 years are less likely than adults in other age categories to be economically active and to have a regular and consistent income.
- Farmers and adults who rely on piece work for income are less likely than adults who rely on salaries and wages to have a consistent income. These are typically low income households with limited investment opportunities and the value of their financial transactions tend to be small. This segment of the population tends to be less profitable for financial service providers and financial services on offer often do not meet the needs of these consumers.

It was expected that carrying out this study would give us a deeper understanding of the relationship between financial literacy and financial inclusion in Zambian rural areas. The results of this investigation would help us comment whether the low levels of financial inclusion can be attributed to financial literacy or other factors.

**Previous Studies**

Financial literacy is defined as "people's ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt and pensions" (Lusardi and Mitchell, 2014) as cited by Wagner (1015). Being financially literate is important for individuals to make sound financial decisions both in the short term and long term.

The subject of financial inclusion has attracted growing interest for various stake holders who include academicians, politicians, business communities, individuals and the international business community. Some studies have linked financial exclusion as one of the factors causing widespread poverty in developing countries. This huge interest exhibits the significance of financial inclusion for economic and social development. It shows a growing recognition that access to financial services has an important role in reducing poverty, boosting shared prosperity and supporting inclusive and sustainable development (World Bank 2014) as cited by Langham Mwanza 2015.

James Frances Wagner (2015) conducted a study on analysis of the effects of financial education on financial literacy and financial behaviors. He found that financial literacy could also change a person's behavior; he notes that people may be more financially literate through their financial experiences.

**Comparative Studies**

Mwanza (2015) investigated the state of financial inclusion in Zambia for bank products. He found that the country's financial deepening for bank products is very low. He further recommends that agency banking models should be established, this will give banks an opportunity to spread their brands and offer customers cheap and affordable products in areas or regions of the country previously unbaked or under banked. This in principal plays a significant role in increasing and enhancing financial inclusion.

Wang'oo (2013) discusses the relationship between financial inclusion and economic development in Kenya. She says that financial inclusion is an important aspect of development. Access to finance enhances people's ability to engage in economic activities that lead to economic development. She concludes that by increasing financial access, economic development in Kenya can be increased. Financial inclusion plays a vital role in economic development and it is important that the government

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recognizes the vital roles played by financial inclusion and develop policies to encourage financial inclusion.

**Personal critique summary**

Many studies have been carried out relating to financial literacy and financial inclusion the world over in countries such as Zambia, Kenya, Zimbabwe, South Africa, Russia including the United States of America. In almost all studies conducted the common phenomena that stands out is that the more financially literate people are, the better they can make informed financial decisions relating to owning, bank accounts, savings, wealth management and investment decisions.

The World Bank (2012), reports that although no comprehensive financial capability survey has been conducted in Zambia yet, results from the FinScope survey show that in general the population lacks basic financial knowledge and skills. The 2009 Fin Scope survey showed that many people are not familiar with basic financial concepts, lack awareness of available financial products and services, and have low trust and confidence in financial institutions.
In view of the above, the studies carried out in Zambia by Fins cope(2015) reveals that financial inclusion has improved and stands at 59.3% (4.8 million adults) and those that are not financially included are 40.7% (3.3million adults). Rural adults are more likely not to be financially included revealed the report. This is against the background of intensive financial literacy programs by financial institutions regulated by the bank of Zambia. The persistence of the problems of low levels of financial inclusion in rural areas demands further research such as this one.

**Establishing the Gap**

Previous and comparative studies have focused on the impact of financial inclusion on economies as well as the effects of financial education on financial literacy and behaviors’ and most of these studies have been conducted outside Zambia and little research has been done on the Zambian perspective at community level, therefore the need to carry out one.

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# CHAPTER THREE

# RESEARCH METHODOLOGY AND DESIGN

## 3.0 Introduction

The literature related to the impact of financial literacy on financial inclusion has been reviewed in the previous chapter. This chapter will give the reader a very clear view of how this research was undertaken.

## 3.1. Research Design

The research design identifies the methods of data collection, which instruments were used, how the instruments were used and how the gathered information was arranged and organized. The purpose of this study was to investigate the impact of financial literacy (independent variable) on financial inclusion (dependent variable) in selected townships in Nakonde.

This study employed in this research was a case study. A case study was chosen because it seeks to describe a unit in detail, in context and holistically. I chose a study because I wanted to understand in detail why financial inclusion is still low in rural areas despite the banks conducting financial literacy programs in communities, markets and learning institutions.

The researcher used both primary and secondary data; primary data was obtained using the questionnaires, while secondary data was obtained from books, journals and the internet.

## 3.2. Target Population

The participants of this research paper were the residents from various walks of life in selected townships in Nakonde as well as junior and senior officers from financial institutions which are based in Nakonde namely Zambia National Commercial Bank (ZANACO), Barclays Bank and Finance Bank. My target was mainly those from the informal sector whose lives depend on farming and small businesses.

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### 3.3 Research Population and Sample size

A research was carried out in selected townships in Nakonde for the purpose of investigating the impact of financial literacy on financial inclusion and the respondents were randomly selected and approached. Since the research involved getting data from financial institutions, the three commercial banks which operate in Nakonde were approached and the meeting interview were scheduled with the branch managers where the research was explained and some information was collected. This information was needed to determine if financial literacy really has an effect on financial inclusion.

Since the research is more qualitative in nature, therefore a small sample size was appropriate (Cohen, et al, 2000). The total number of respondents was (50). According to Sandelowski (1995), determining the adequate sample size in qualitative research is ultimately a matter of judgment and experience on the part of the researcher. A small number of respondents had been chosen in order to carry out the research within 4 months that is from May to 30$^{th}$ August 2017.

### 3.4 Sampling techniques

Sampling techniques is a procedure used by the researcher to gather people, places or things to study; it is a process of selecting a number of individuals or objects from the population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho and Kombo,2002). For the purpose of this study the respondents were approached randomly and the researcher explained what was required of them. The researcher was interested in those from the informal sector, therefore the respondents were asked if they belonged to the informal sector before being considered for participation in this research.

### 3.5. Data collection Instruments

The questionnaires were used to collect data from respondents. Questionnaires greatly assist in collecting valuable information for analysis. Every respondent was given the same questionnaire with the same standards of questions and with the same format. This makes measurement very precise and guarantees the collection of comparable data. The questions were designed clearly to make it easier for the respondents to understand questions clearly.

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A specification of the required information is the first step in choosing the appropriate type of a questionnaire. The different variables are identified through the research question, the research objectives, the research questions and the exploratory research done for the literature review. The questionnaire was chosen in accordance with the selected definition for the variables used in the research.

### 3.6 Data collection procedures

The researcher presented an introductory letter to the would be respondents in this research. The introductory letter made it easier for bank officials to accept taking part in this research. The researcher then explained what the study was about and afterwards questionnaires were distributed and the time frame for completing the questionnaires was explained to respondents.

### 3.7 Data Analysis

The data was collected and edited for correcting errors and inconsistence to ensure correctness of the information obtained from various respondents. The data collected in this study was analyzed using word and excel.

### 3.8 Triangulation

Triangulation is the process of checking the data collected for correctness, the data collected was edited to correct some mistakes. Firstly the respondents were given questionnaires which they were required to fill, after filling the questionnaires; some respondents were subjected to interviews to make sure that the data they gave on questionnaires is correct.

### 3.9. Ethical Considerations

The research was designed in such a way that ethical considerations were upheld. The researcher obtained an introductory letter from the school of business which was addressed to various respondents targeted for this study, after wards questionnaires were distributed. The study was conducted within the ethics respect for:

- The person
- Knowledge

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- Democratic values
- The quality of research
- Academic freedom

A voluntary informed consent was sent to the respondents so that they understand and decide whether to agree to participate or not to participate without any duress.

The study was designed in a way that ensured that all participants in the study understood the process in which they were engaged, why their participation was necessary, how it will be used and to whom it reported (Bank 1998).

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# CHAPTER FOUR

# RESULTS AND INTERPRETATIONS

## 4.0 Introductions

This section presents the views of households and commercial bank officials in Nakonde District. It discusses in detail the findings of the study. The main focus is to bring out the position of such stakeholders the issue regarding an assessment of the impact of financial literacy on financial inclusion in Zambian rural areas. It begins with the households and ends up with bank officials from the three commercial banks. The section gives the profiles of the households and banking staff and further discusses the general findings item by item. The findings helped to assess whether the objectives of the study have been addresses and finally gives the direction to the study.

### 4.1.1 Household population profile

Demographic information of sample household population, 50 respondents, was gathered through questionnaires. The figure below illustrates the gender distribution of 40% male and 60% female respondents with a response rate of 100% for gender.

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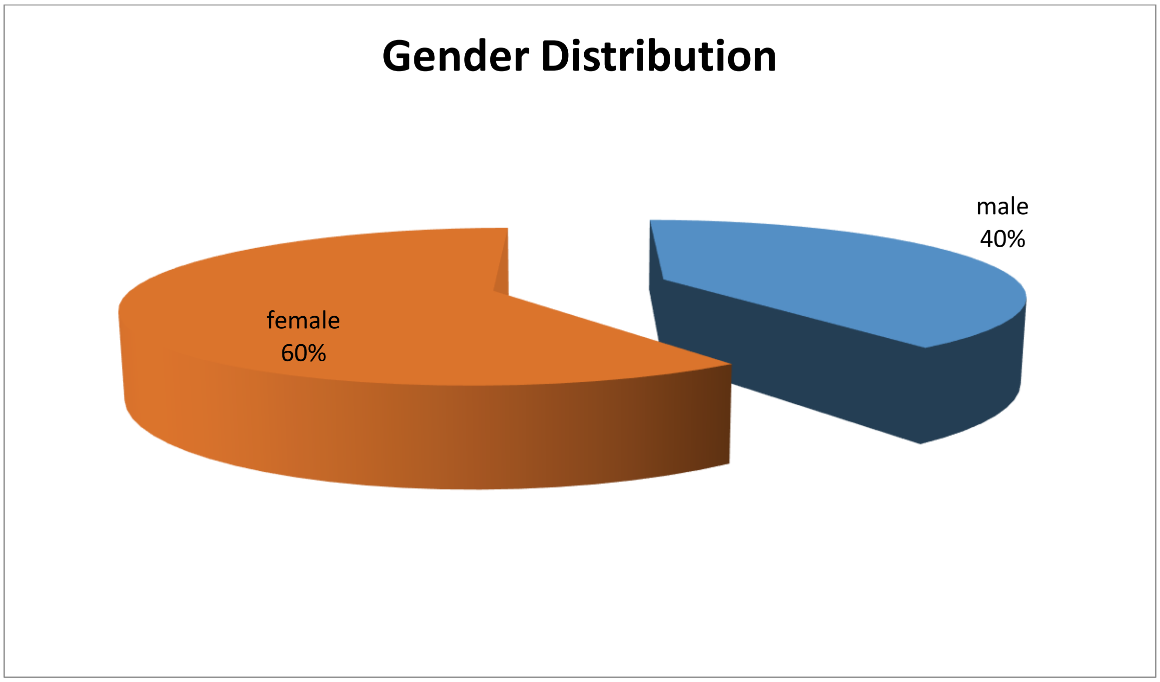
**Figure 1. Gender Distribution**




More females were targeted because most of them are not in formal employment in rural areas. Those in formal employment are already financially included.

### 4.1.2 Age population

The largest group of respondents were in the age of 31 to 40 years of age in the sample and were mainly between 31 and 50 years in age indicating that they had been in the service for long and that they were supposed to know the agenda and was followed by those who were aged between 21 and 30 years. Below is the diagram explaining the same. Those that were 20years and below were 10%, 21 to 30years was 30%, 31 to 40 years was 50% and 41 to 50 years was 10%. None were over 50 years as shown in figure 2.

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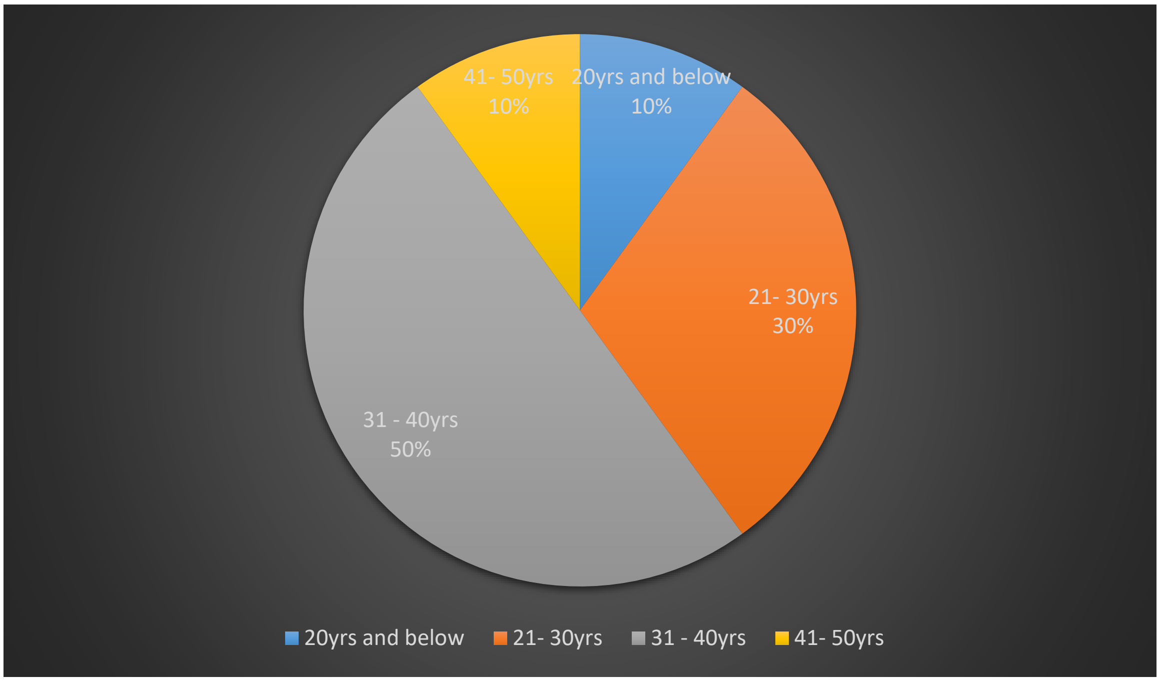
**Figure 2. Age population**




### 4.1.3. Marital status

Being married meant that they were familiar with the financial arrangement of the homes .The marital status was that singles were 7 (14%), married were 28 (56%), widowed 13 (26%), divorced 2 (4%) and none of the respondents were separated as shown in figure 3 below.

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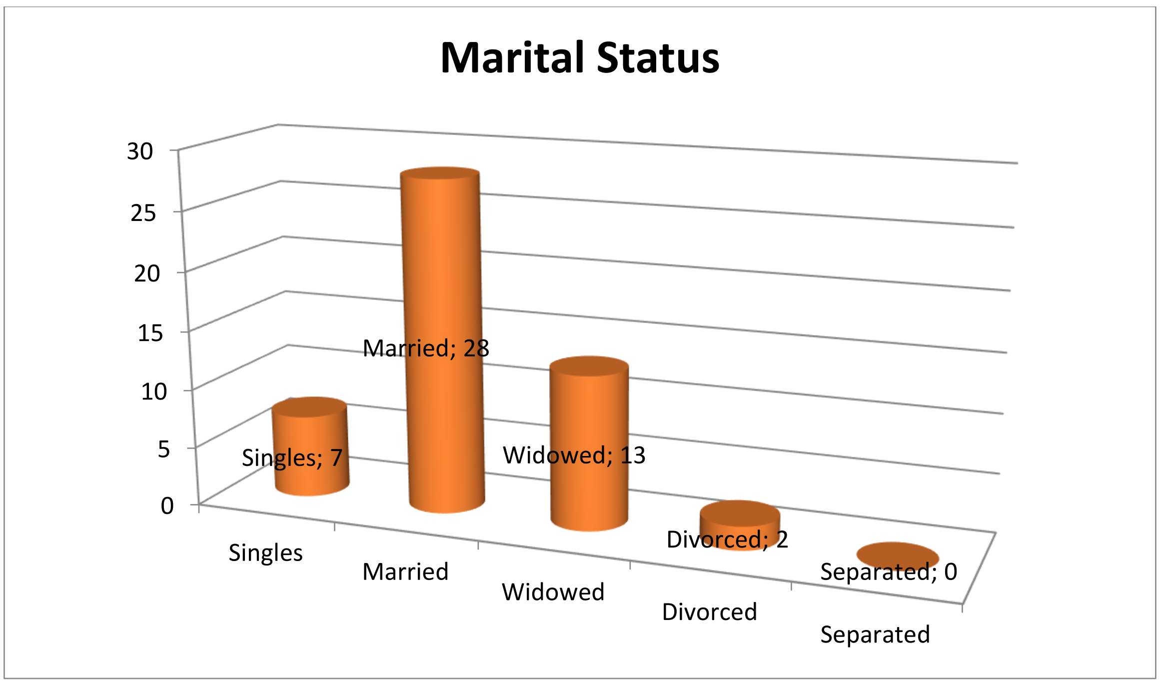
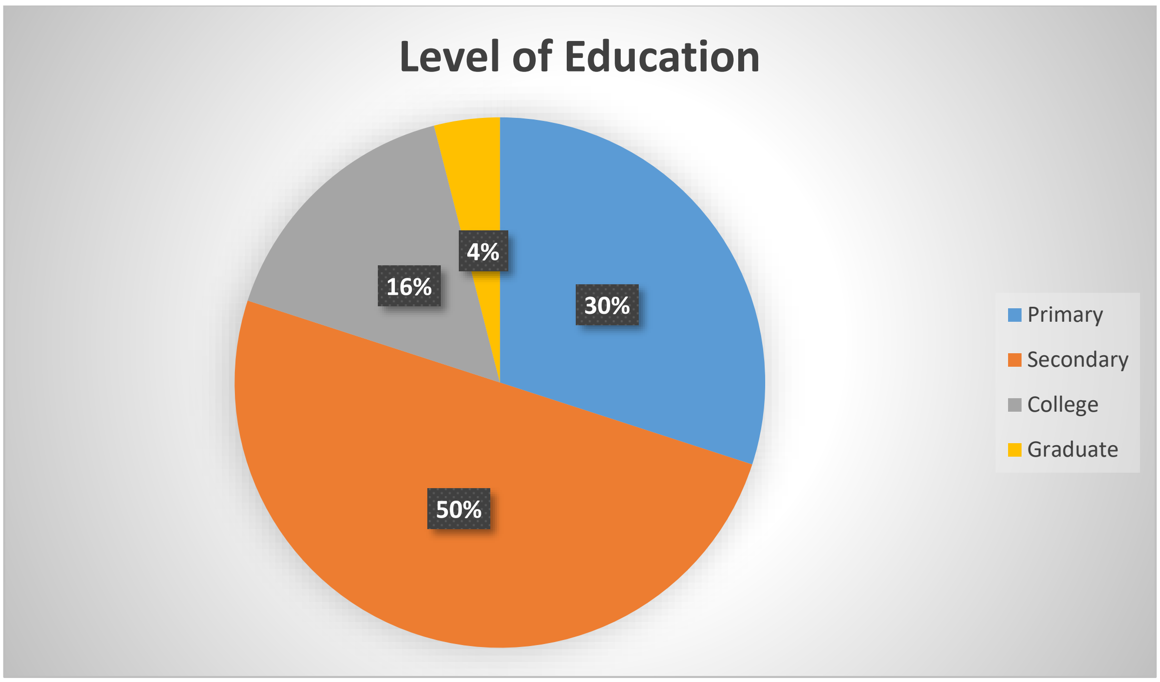
**Figure 3.Marital status**




### 4.1.4. Level of education

Education level is important because the more literate people are the more likely they will be able to read, write and understand the products of the banks. The level of education of respondents were that 15 (30%) had primary education, 25 (50%) had secondary education, 8 (16%) had college education and 2 (4%) were graduates. There were no post graduates and none of the respondents had no education at all. The information is shown below in figure 3.

**Figure 4.Level of education**




### 4.1.5 Current occupation

The current occupation indicated that 90% of the respondents were already in informal sector with only 10% being in formal. This may mean they had a prior knowledge of what savings meant.

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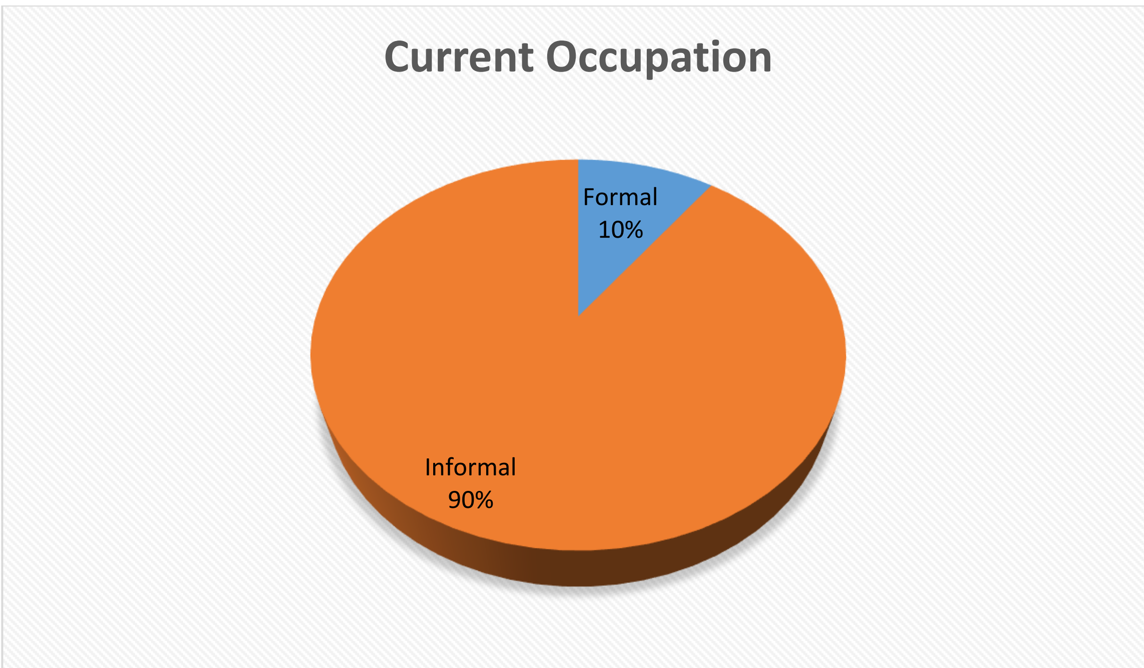
**Figure 5.Current occupation**




### 4.1.6 Monthly income

Most of the respondents30 (60%) were receiving less than K1000.00 of income while15 (30%) were receiving between K1001.00 and K 5000.00 and 5 (10%) were receiving between K5001.00 and K10 000.00. None of the respondents was receiving above K10 000.00.

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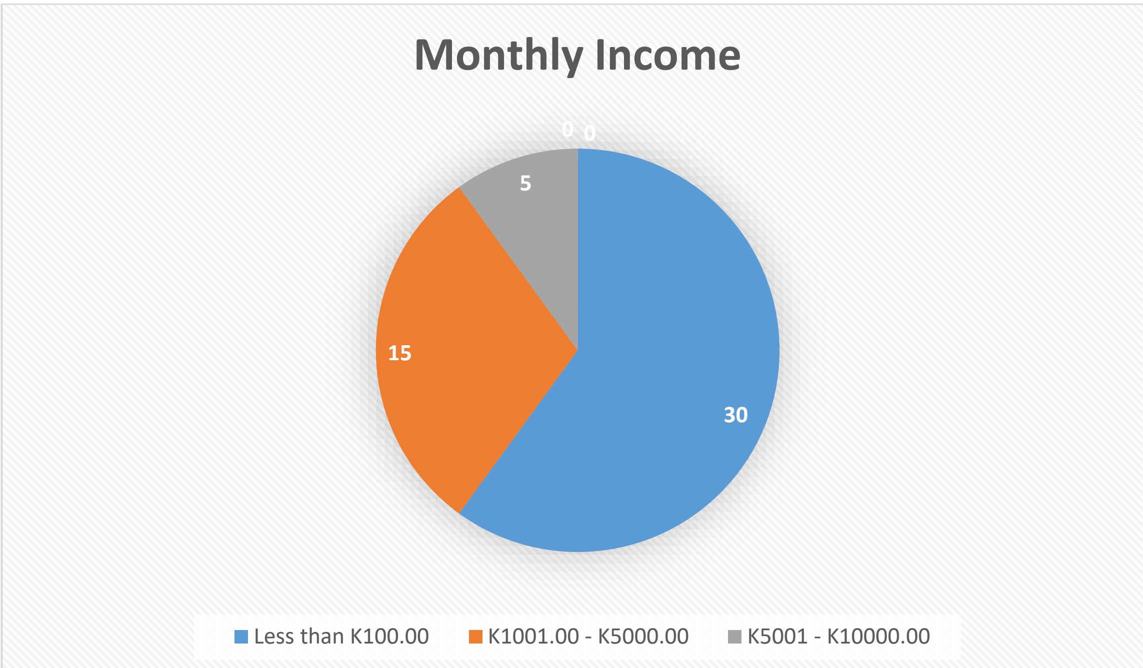
**Figure 6. Monthly Income**




### 4.1.7. Owning an account from a commercial bank

It is a common fact that people who don't bank are not captured statistically and this affects the calculation of the GDP for the country. Surprisingly, 35 (70%) had no bank accounts while 15(30%) had accounts as shown below;

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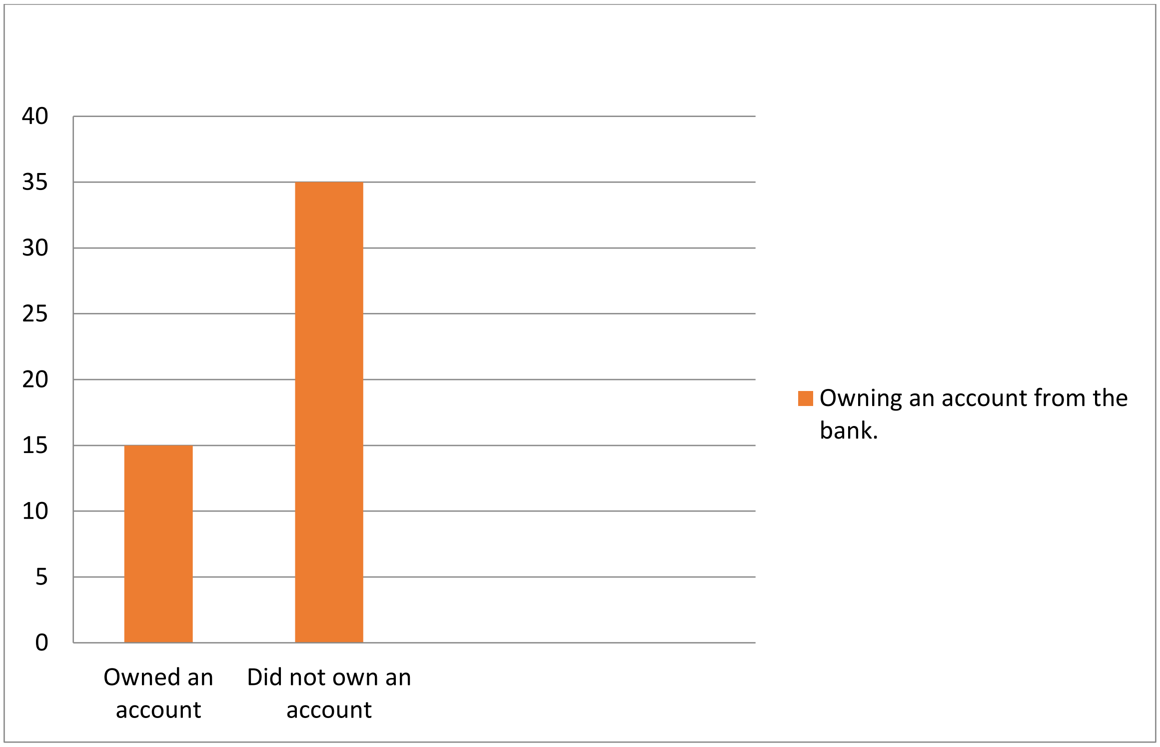
**Figure 7.Owning an account from a commercial bank**




## 4.2 AWARENESS

### 4.2.1 Knowledge about the existing local Bank

20 (40%) of the respondents knew about existing banks from promotions and advertisements,2 (4%) knew from friends, 6 (12%) knew from customers, 7 (14%) from relatives and 15 (30%) knew nothing about existing banks and used MTN mobile money and AIRTEL money as shown figure below;

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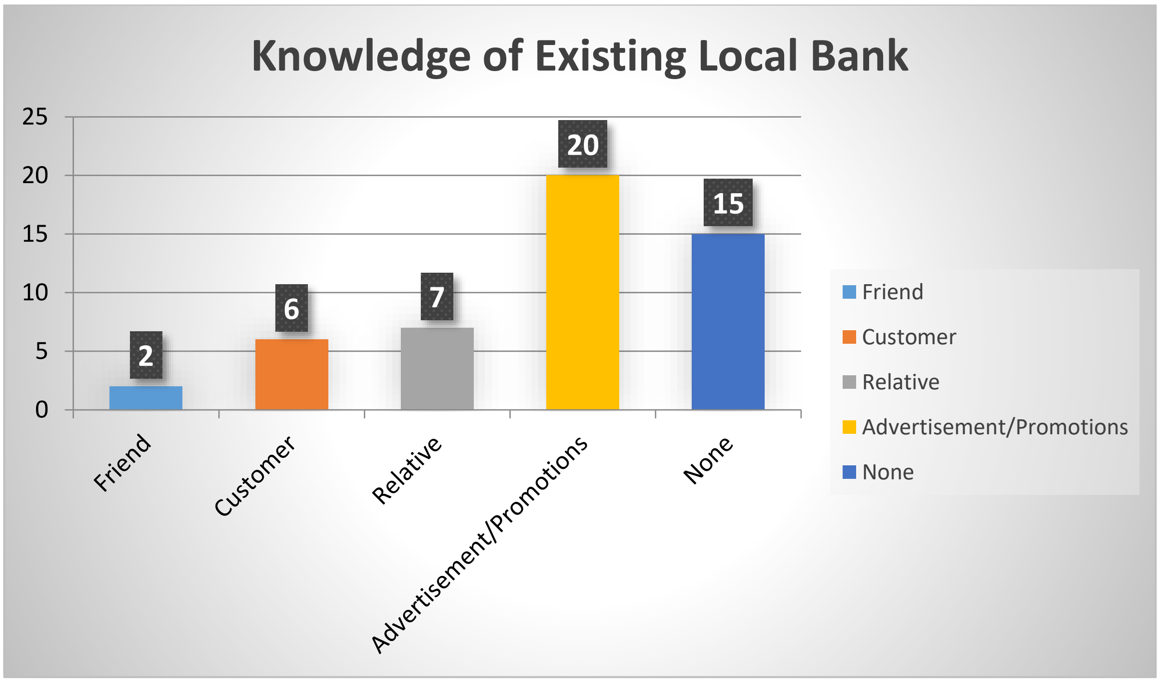
**Figure 8. Knowledge about the existing local Bank**




**4.2.2 Length of being a customer of the bank**

The length of being a customer of the named banks was given as follows; between 1 year and 2 years were 3 (6%), 2 to 5 years were 5 (10%), more than 5 years were 7 (14%) and none of the respondents were below 1 year in length.

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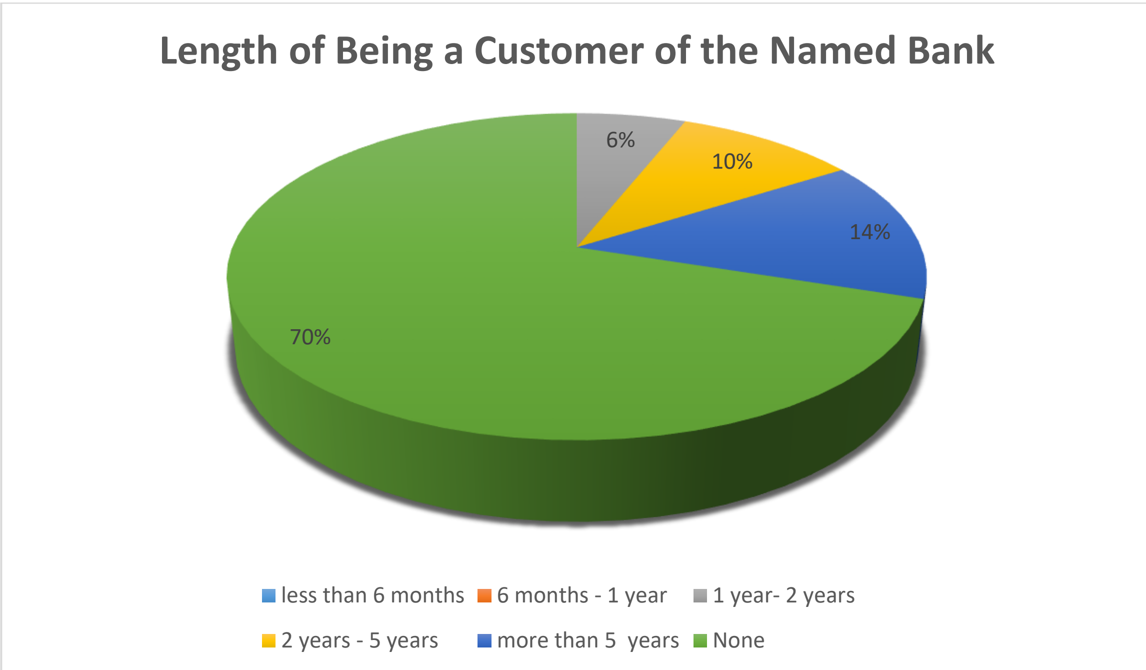
**Figure 9. Length of being a customer of the bank named**




### 4.2.3. Awareness of other products offered by bank

45 (90%) of the respondents were aware of other products offered by banks while 5 (10%) were not aware of them as shown below;

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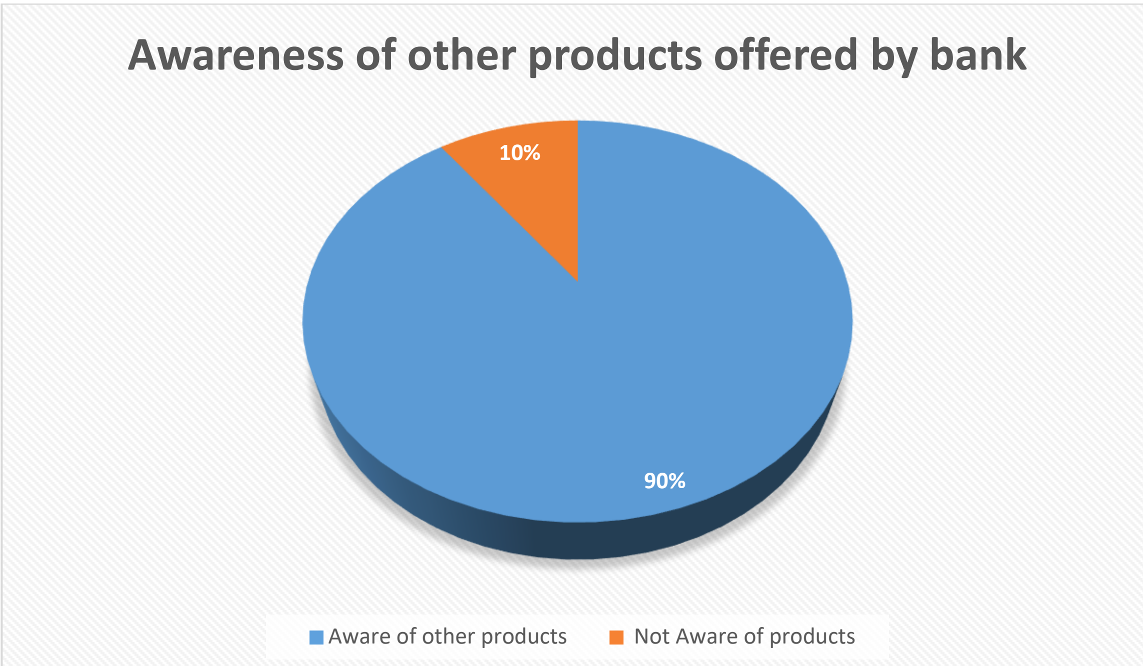
**Figure 10. Awareness of other products offered by bank**




### 4.2.4 Knowledge about the products in bank

Those who knew about the bank through advertisement were 50% but those through friends and brochures were 40%.

**Table 1.Knowledge about the products in bank**

| | Responses | Percentages |
|---|---|---|
| **Brochures** | **10** | **20%** |
| **Advertisement** | **25** | **50%** |
| **Friends** | **10** | **20%** |
| **None** | **5** | **10%** |
| **Totals** | **50** | **100%** |

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## 4.3. BENEFITS DERIVED FROM BANK

### 4.3.1. Product attracted to open an account

**Table 2.Product attracted to open an account**

| Accounts | Responses | Percentages |
|---|---|---|
| Savings | 10 | 20% |
| Salary | 2 | 4% |
| Payment services | 2 | 4% |
| None | 35 | 70% |
| **Total** | **50** | **100%** |

### 4.3.2. Benefits derived from the bank

Only 20% derived benefits from the bank in terms of savings while 8% and 2% from financial advisory and others from credits and loans.

**Table 3.Benefits derived from the bank**

| Benefits | Responses | Percentage |
|---|---|---|
| Savings | 10 | 20% |
| Credit/loans | 1 | 2% |
| Financial advisory | 4 | 8% |
| None | 35 | 70% |
| **Total** | **50** | **100%** |

### 4.3.3 Transactions conducted before opening an account with the bank

Those that had conducted transactions before opening a bank account had access to MTN mobile money and Airtel mobile money.

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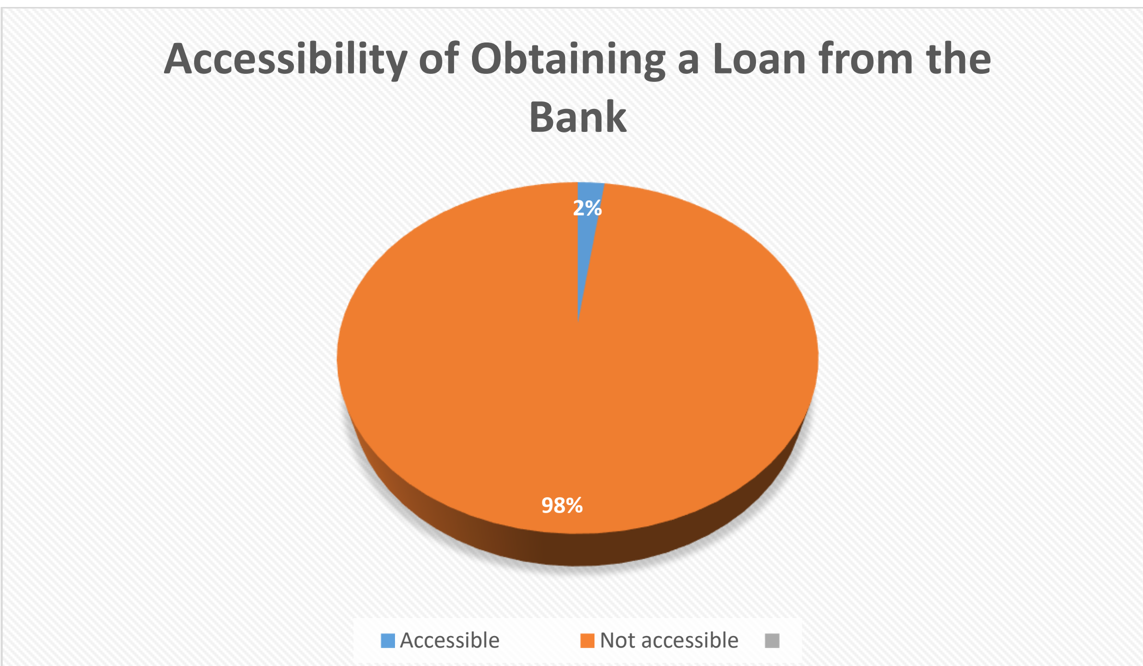
#### 4.3.4 Advantages observed in conducting financial transactions at the bank

Advantages of saving monies at the bank were that it was safe.

#### 4.3.5. Accessibility of obtaining a loan from the bank

The effect of banks not giving loans will result in the bank not making profit, because the interest on loans constitute a large proportion of the banks' profits. Unfortunately, 98% of the respondents have not been able to access the banks loans while only 2% had accessed it.

**Figure 11.Accessibility of obtaining a loan from the bank**




#### 4.3.6. Reasons for responses on challenges of obtaining a loan as indicated above.

Reasons for opening a bank account had mainly been collateral. Otherwise most had found it difficult to obtain the loan since they had no surety.

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**Table 4. Reasons for responses on challenges of obtaining a loan as indicated above.**

| Reasons | Responses | Percentages |
|---|---|---|
| **Lack of collateral** | **35** | **70%** |
| **Difficulty to obtain a loan** | **10** | **20%** |
| **Lack of income for repayment** | **1** | **2%** |
| **Never applied for a loan** | **4** | **8%** |
| **Totals** | **50** | **100%** |

70% said that it had been difficult obtaining a loan because of lack of collateral. While those who found it difficult to obtain a loan and lack of repayment was 22%. But others (8%) had not even attempted to obtain one.

## 4.4. CHALLENGES IN ACCESSING FINANCIAL SERVICES AT BANKS

### 4.4.1. Length of opening an account with the bank

70% had not even attempted to open an account while only 30% had attempted and their accounts were opened between 2 – 3 weeks because most of the applicants were not able to meet all the requirements at once. It must be noted that if all requirements are there, the banks are able to open an account on the same day or in two days' time.

**Table 5.Length of opening an account with the bank**

| Period | Responses | Percentages |
|---|---|---|
| 1 – 5 days | 5 | 10% |
| 2 – 3 weeks | 10 | 20% |
| 1 month and above | 0 | 0 |
| None | 35 | 70% |
| **Totals** | **50** | **100%** |

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#### 4.4.2. Basic requirements needed to satisfy before the account is opened

The basic requirements needed for opening an account were the application letter, introductory letter, proof of residence in form of a utility bill and a minimum opening balance but fortunately all of the above were required to open an account as shown below;

**Table 6.Minimum amount required to open an account**

| Amount | Responses | Percentages |
|---|---|---|
| K50 | 5 | 10% |
| K100 – K200 | 10 | 20% |
| K250 –K500 | 0 | 0 |
| Above K500 | 0 | 0 |
| None | 35 | 70% |
| **Totals** | **50** | **100%** |

With regards to accessibility of opening an account, 70% had no access with only 20% finding it easy and 10% found it difficult as shown in the next section;

**Table 7.Accessibility to opening an account**

| Accessibility | Responses | Percentages |
|---|---|---|
| Easy | 10 | 20% |
| Not easy | 5 | 10% |
| None | 35 | 70% |
| **Totals** | **50** | **100%** |

80% responded that banks were accessible while 10% denied that financial institutions were accessible as shown below;

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**Table 8.Accessibility of banks**

| Accessibility | Response | Percentage |
|---|---|---|
| Yes | 40 | 80% |
| No | 10 | 20% |
| **Totals** | **50** | **100%** |

**4.4.3. Major obstacle in accessing loans at financial institutions:** The major obstacle in obtaining loans were low income from business to support savings for repayment of both the interest and principle amount borrowed (60%) while lack of regular income revealed 30%. However, 10% found it tedious following bank procedures as shown below;

**Table 9.Major obstacle in accessing financial services at financial institutions**

| Obstacles | Responses | Percentages |
|---|---|---|
| **Lack of regular income** | **15** | **30%** |
| **Low income from business to support savings** | **30** | **60%** |
| **Tedious bank procedures** | **5** | **10%** |
| **Totals** | **50** | **100%** |

70% indicated that there was an improvement since opening an account with the bank while 30% indicated an improvement.

## 4.5. IMPACT ON LIVELIHOODS

### 4.5.1. Possibility of improvement in the level of savings since opening an account with the bank

70% indicated that there was no improvement in opening an account while 30% said there was an improvement.

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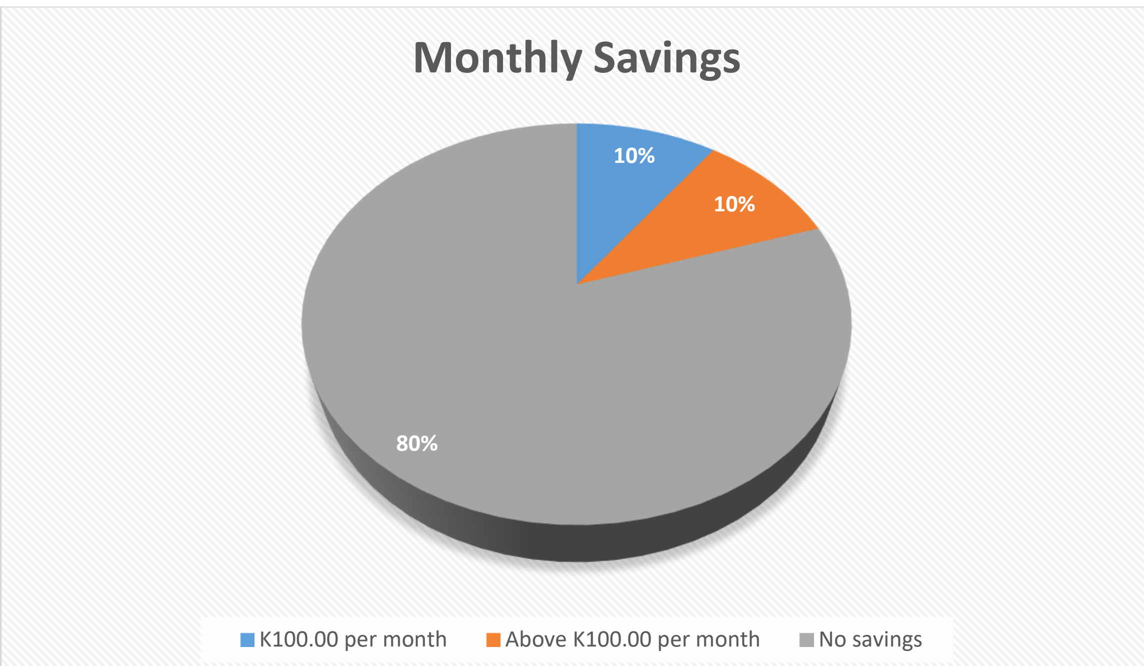
**Table10.Possibility of improvement in the level of savings since opening an account with the bank**

| | **Responses** | **Percentages** |
|---|---|---|
| Yes | 15 | 30% |
| No | 35 | 70% |
| **Totals** | **50** | **100%** |

### 4.5.2. Monthly saving before opening an account

80% indicated that they had no savings before opening an account while 20% responded that they had K100 or above in starting an account.

**Figure 12.Monthly saving before opening an account**



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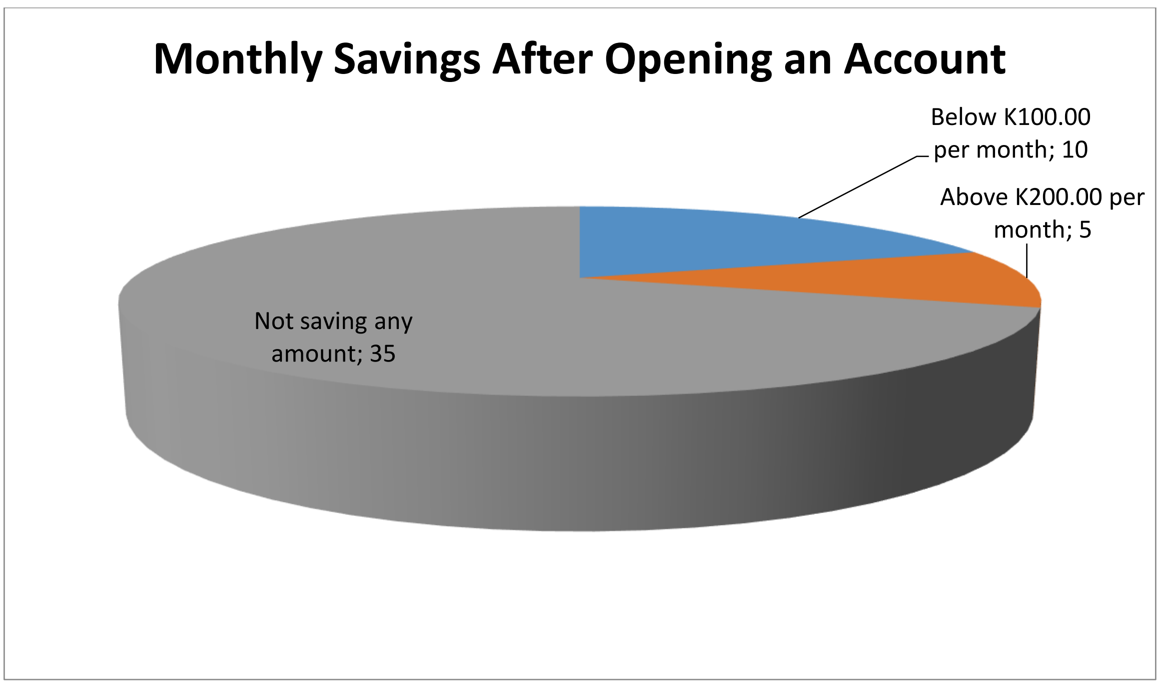
### 4.5.3. Monthly Saving after Opening an Account

Monthly savings after opening an account indicated that 70% had none while 30% had K100 and above in opening an account.

**Figure 13.Monthly saving after opening an account**




### 4.5.4. Improvement in business with the association with the commercial bank

Surprisingly, 96% had no business dealings in terms of business improvement with the bank with only 4% indicating that they were connected to the institutions.

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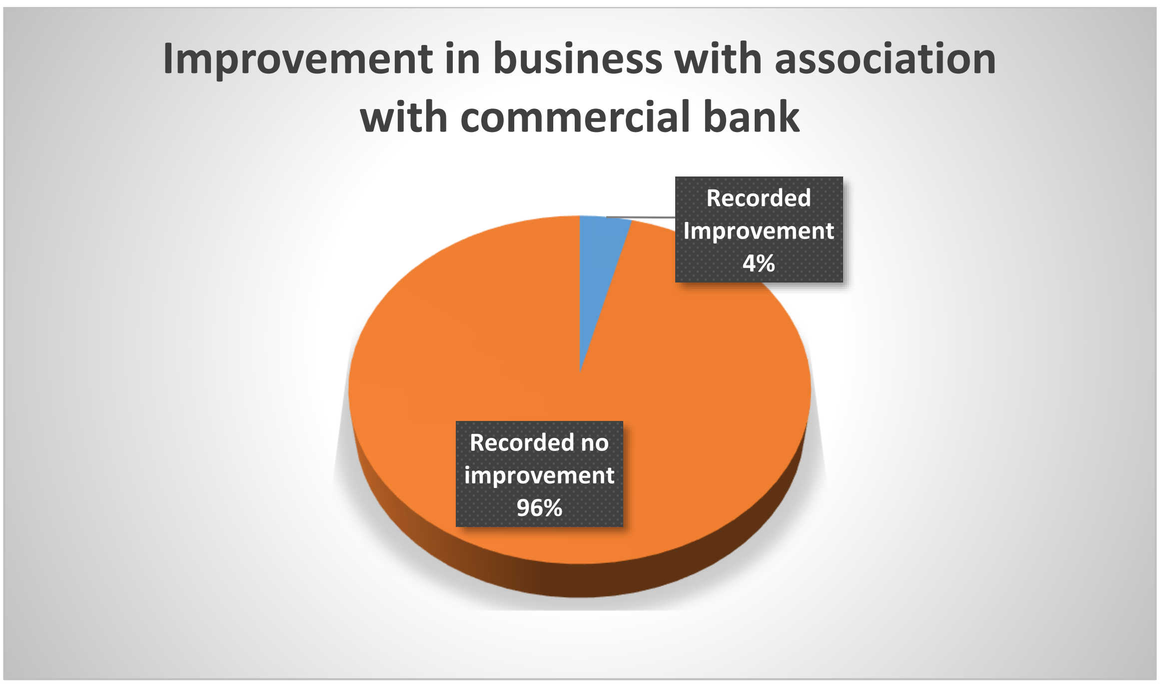
**Figure 14.Improvement in business with the association with the commercial bank**



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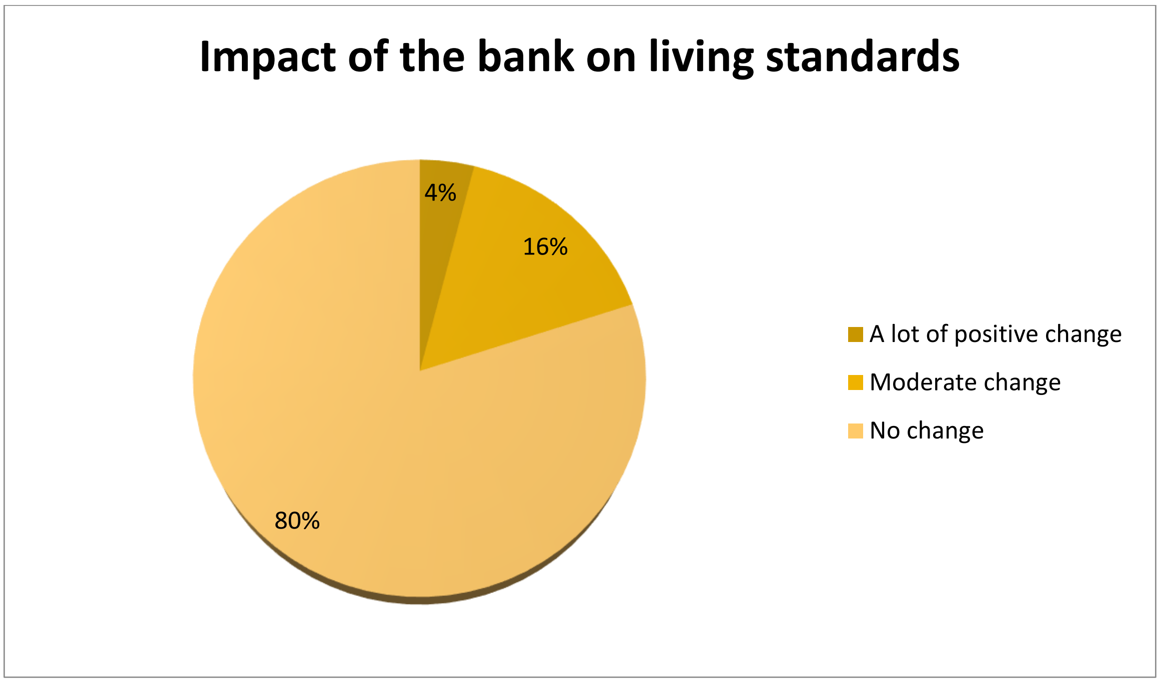
### 4.5.5. Impact the bank has on the living standard

**Figure 15.Impact the bank has on the living standard**




80% indicated that the bank had no impact on their living standards while 16% indicated a moderate change with 4% benefitting from the institutions.

### 4.5.6. Encourage others to also follow the path taken in starting to transact at a bank

30% indicated that they would encourage others to open accounts while 70% had no plans to challenge others to open accounts. Those who claimed they would encourage others said that money was safe at the bank while the rest claimed that had no accounts at the banks and so had nothing to comment.

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**Table 11. Encourage others to also follow the path taken in starting to transact at a bank**

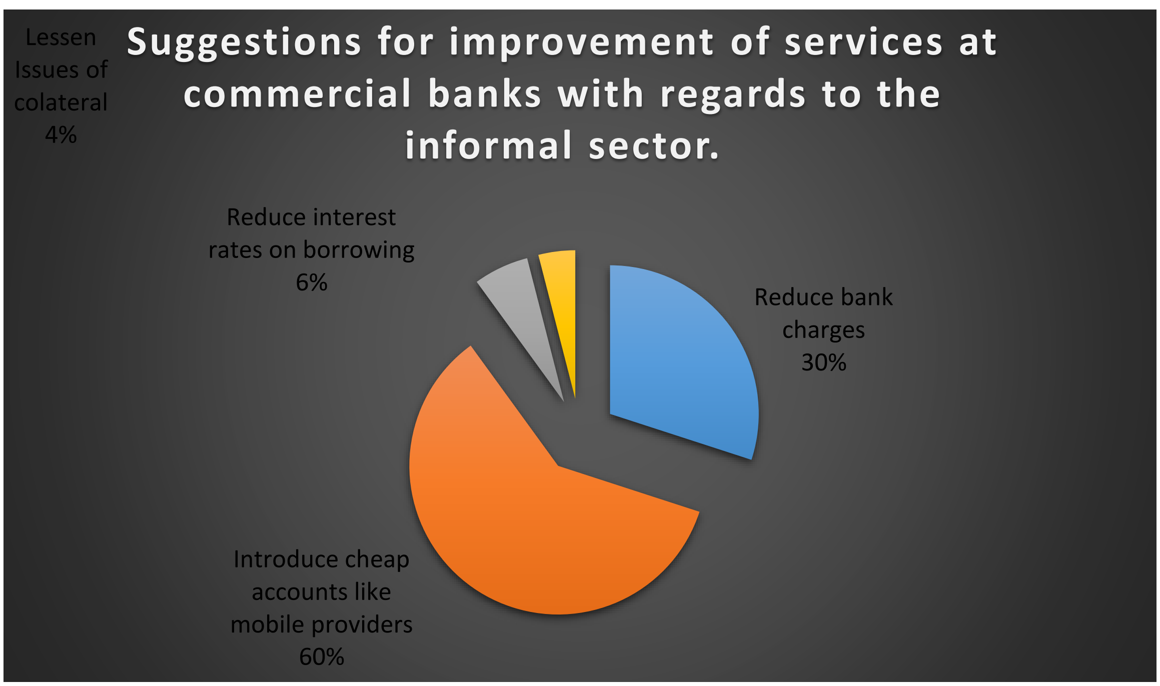
| Give encouragements | Responses | Percentage |
|---|---|---|
| Yes | 15 | 30% |
| No | 35 | 70% |
| Totals | 50 | 100% |

### 4.6. MEASURES

#### 4.6.1. Suggestions for improvement of services at commercial banks with regards to the informal sector.

Suggestions offered for improvements of banks were that 15 (30%) said they should reduce bank charges, 30 (60%) that the banks introduce cheap accounts like those offered by mobile service providers such as MTN, 3 (6%) that reduce interest rates on borrowing and 2 (4%) that they lessen the issues of collateral for small businesses like micro financial institutions.

**Figure 16.Suggestions for improvement of services at commercial banks with regards to the informal sector.**



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The majority responded that services could be improved at the banks if they introduced cheap accounts like those offered by mobile service providers such as MTN. 30% indicated that banks could do well if they reduced bank rates while others (10%) claimed that they should reduce interests on borrowing and lessen the issues of collateral for small businesses like micro financial institutions

### 4.6.2. Commercial Bank Officials Profile

The number of respondents interviewed was 10. 40% were from ZANACO, 30% were from Barclays bank and 30% were from finance Bank.

**Table 12. Commercial Bank Officials Profile**

| **Banks** | **Respondents** | **Percentages** |
|---|---|---|
| ZANACO | 4 | 40% |
| Barclays | 3 | 30% |
| Finance | 3 | 30% |
| **Totals** | **10** | **100%** |

### 4.6.3. Status of bank officials

40% of the respondents were managers while 60% were bank clerks.

**Table 13.Status of bank officials**

| **Status** | **Respondents** | **Percentage** |
|---|---|---|
| **Managers** | **4** | **40%** |
| **Clerks** | **6** | **60%** |
| **Totals** | **10** | **100%** |

**4.6.4. Length of period in the banking institution:** 60% had a period of 10 years while 40% were less than 5 years working with the banks.

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**Table 14.Length of period in the banking institution**

| Period | Respondents | Percentage |
|---|---|---|
| 10 years | 6 | 60% |
| Less than 5 years | 4 | 40% |
| Totals | 10 | 100% |

### 4.6.5. Affordability of cheapest products in the institution

Financial products offered to customers were Loans, savings accounts, current accounts, advances, forex, corporate banking.ZANACO had the cheapest product which could be afforded with a zero amount normally called Xapit, and Finance bank opened an account at K100 while Barclays needed K100 as well for its initial account.

**Table 15.Affordability of cheapest products in the institution**

| Institution | Minimum balance |
|---|---|
| ZANACO | 0 Nil (Xapit) |
| Finance | K100 |
| Barclays | K100 |

### 4.6.6. Banks conducting financial literacy programs

All the banks conducted financial literacy programs.

**Table 16.Banks conducting financial literacy programs**

| | Responses | Percentage |
|---|---|---|
| Yes | 10 | 100% |
| No | 0 | 0 |
| Total | 10 | 100% |

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**4.6.7. Target group for conducting financial literacy programs**

The target groups for financial literacy were 70% being youths in schools and 30% being farmers and marketers.

**Table 17. Target group for conducting financial literacy programs**

| Target groups | Responses | Percentages |
|---|---|---|
| **Youths in schools** | **7** | **70%** |
| **Farmers & marketers** | **3** | **30%** |
| **Totals** | **10** | **100%** |

**4.6.8. Main objectives for conducting financial literacy**

The major reason for conducting financial literacy were to equip the youth with financial knowledge for future use (60%) and also improve savings (30%) and finally to sensitise the community about the banks products (10%).

**Table 18.Main objectives for conducting financial literacy**

| Objectives | Responses | Percentages |
|---|---|---|
| To equip the youth with financial knowledge for future use | **6** | **60%** |
| to improve saving | **3** | **30%** |
| to sensitise the community about the banks products | **1** | **10%** |
| **Totals** | **10** | **100%** |

**4.6.9. Possibility of an increase in the number of customers coming to access financial services after conducting financial literacy programs**

The possibility of an increase in the number of customers coming to access financial services after conducting financial literacy programs was 80% while 20% indicated no increase.

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**Table 19. Possibility of an increase in the number of customers coming to access financial services after conducting financial literacy programs**

| Increase possibility | Responses | Percentages |
|---|---|---|
| **Yes** | **8** | **80%** |
| **No** | **2** | **20%** |
| **Totals** | **10** | **100%** |

**4.6.10Reasons for possibility of increase after conducting financial literacy programs**

Reasons for possibility of increase after conducting financial literacy programs were that People feel empowered to make informed financial decisions (40%), people's perception towards banks change after financial literacy (50%) and that most people have general phobia towards banks (10%).

**Table 20.Reasons for possibility of increase after conducting financial literacy programs**

| Reasons | Responses | Percentages |
|---|---|---|
| People feel empowered to make informed financial decisions | **4** | **40%** |
| People's perception towards banks change after financial literacy | **5** | **50%** |
| Most people have general phobia towards banks | **1** | **10%** |
| **Totals** | **10** | **100%** |

**4.6.11. Language used when conducting financial literacy programs**

In this locality, the language being used was Namwanga (30%), Bemba being 20% and finally English was 50%.

**Table 21.Language used when conducting financial literacy programs**

| Language | Responses | Percentages |
|---|---|---|
| **English** | **5** | **50%** |
| **Bemba** | **2** | **20%** |
| **Namwanga** | **3** | **30%** |
| **Totals** | **10** | **100%** |

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**4.6.12. Financial illiteracy as hindrance to accessing financial services**

80% responded that financial illiteracy was a hindrance to accessing financial services while 30% indicted that it was in finance.

**Table 22.Financial illiteracy as hindrance to accessing financial services**

| | Responses | Percentages |
|---|---|---|
| **Yes** | **8** | **80%** |
| **No** | **2** | **20%** |
| **Totals** | **10** | **100%** |

**4.6.13. Other activities which are conducted to encourage people to start transacting at banks**

Activities conducted to encourage people to start transacting at banks were mainly by distribution of brochures (60%), presentations at schools and markets (20%) and by advertisements through road shows (20%).

**Table 23.Other activities which are conducted to encourage people to start transacting at banks**

| Activities | Responses | Percentages |
|---|---|---|
| distribution of brochures | **6** | **60%** |
| presentations at schools and markets | **2** | **20%** |
| advertisements through road shows | **2** | **20%** |
| **Totals** | **10** | **100%** |

Products that banks have and are suitable for those involved in small scale trade and farming in Nakonde were Seba and Xapit accounts, community accounts, SME accounts, Salima accounts for farmers, SME loans and pension accounts.

**4.6.14. Measures to help and capture the majority of the small business men and women who use mobile money services such as MTN and ZOONA as an alternative to conventional banking**

Measures aimed at helping and capturing the majority of the small business men and women who use mobile money services such as MTN and ZOONA as an alternative to conventional

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banking were Sensitising the community about the importance of banking (40%), conducting more financial literacy programs to the informal sector (30%), abolishing mobile money services such as MTN mobile money and Airtel Money (10%) while the one which was not supported was introducing affordable products for banks to compete favourably with other financial service providers such as MTN and Airtel Money services.

**Table 24Measures to help and capture the majority of the small business men and women who use mobile money services such as MTN and ZOONA as an alternative to conventional banking**

| **Measures** | **Responses** | **Percentages** |
|---|---|---|
| Sensitise the community about the importance of banking | **4** | **40%** |
| Banks should conduct more financial literacy programs to the informal sector | **3** | **30%** |
| Abolish mobile money services such as MTN mobile money and Airtel Money | **1** | **10%** |
| Banks should introduce affordable products to compete favourably with other financial service providers such as MTN and Airtel Money services. | **0** | **0** |
| **Totals** | **10** | **100%** |

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# CHAPTER FIVE

# DISCUSSIONS

## 5.1 INTRODUCTION

This chapter discusses the findings of the study, gives the summary, recommendations and conclusion of the study on 'an assessment of the impact of financial literacy on financial inclusion in Zambian rural areas - a case study of selected townships in Nakonde district'. The main objectives of this study were to:

a) Establish the causes of low levels of financial inclusion.
b) investigate the effects of financial literacy on financial inclusion in Nakonde,
c) Assess the impact of financial literacy and inclusion on household poverty levels.

## 5.2 DISCUSSION

This study targeted to reach more females than men deliberately because most of them were not in formal employment in rural areas and therefore may be excluded financially while those in formal employment already have bank accounts and probably may be financially included. It is evident from the findings that, causes of low levels of financial inclusion in Nakonde depended on a number of factors. Such factors included income conditions, access to banks, inability to obtain loans, documenting procedures in opening accounts and availability of products offered by the banking institutions.

### 5.2.1. Income conditions

Most respondents knew that it was an advantage to open accounts for savings at the bank where it was safe. However, their income did not allow them to open bank accounts since most of the residents were receiving between K1000 and less. K1000 and less is considered to be little money considering other necessities needed to be met or rather local food basket. As a result, the study revealed that the majority (70%) had no accounts while only a minority (30%) had managed to have access to them. Moreover, a low financial capability hinders access and usage of financial services. Probably that was a reason why only a few of the respondents (30%) indicated that they would encourage others to open accounts while

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the majority (70%) had no plans to do so. Rangarajan Committee report (2008), postulated that financial inclusion should as much as possible ensure access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost. Broadly speaking, it is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups.

Access to banks had not been easy as revealed by the study in this location due to sparse population being remote and mostly hilly areas with poor infrastructure and lack of physical access. Almost all the three commercial banks are lumped up together and have no services in form of ATM being offered in areas away from the town center. This is why many respondents knew banks did not exist leaving only a few with the knowledge of the institutions within the town. As a result, 70% of the respondents had no access to formal financial services while 30% had access.Beck et al (2006), postulates that there was a noticeable factor being perceived among bankers that a large number of rural population is un-bankable as their capacity to save is limited, small loan requirements, miniscule margin in handling small transactions. Therefore, other rural towns including some in Zambia may only be served by one financial institution.

Documenting procedures required to open an account was not favorable and this denied most of the respondents (70%) access. The study revealed that only a few (20%) found it easy to open an account.This is because the basic requirements needed for opening an account were the application letter, introductory letter, proof of residence in form of a utility bill and a minimum opening balance and in most cases all of the above were required. On other hand, while 30% had attempted to open an account, most of the respondents (70%) did not even attempt because in most cases it took 2 -3 weeks and some locals could not wait for that period.Atendo et al (2011) refers to these procedures as the Know Your Customer (KYC) requirements (documentary proof of identity and address). These were a very important barrier in having a bank account especially for migrants and rural dwellers because often times they are non-available.

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### 5.2.2. Loans

One of the major difficulties expressed by the respondents in this study was the challenge experienced to obtain a loan from the local bank. In order for one to obtain a loan from the bank, the financial institution required collateral. Otherwise most had found it difficult to obtain the loan. The major obstacles in obtaining loans were low income from business to support savings (60%) while lack of regular income revealed 30%. Some respondents (10%) had found it to be so tedious in obtaining a loan because they lacked collateral.

The above findings are consistent with Honohan (2007), assertion that among all firms and individuals, the financing constraint is more acute among the micro and small firms and also among the informal businesses found in rural Nakonde. For instance, women-owned enterprises often face higher barriers to access the right type of finance that is necessary for growth. Despite the immense strides made by the microfinance sector to serve women, there is an increasing awareness that the growth and start-up needs of women entrepreneurs go beyond micro-loans.

Because of their high risk of default resulting from the limited collateral they can offer, and owing to the lack of information regarding their solvency, most SMEs can rarely meet the conditions for formal financial institutions' financing. Similarly, rural-based – 80.9 percent of borrowers borrowed from family and friends. Most (48 percent) of those who did not borrow did not do so because they were concerned that they would not be able to meet repayment requirements. This risk averseness was significantly skewed towards adults in rural areas, farmers, casual workers' dependents and those from low income households (Fin Scope)

On the other hand, the value of the credit gap for formal SMEs in Africa is over USD 100 billion, out of which USD 70 to 90 billion applies to SMEs in Sub-Saharan Africa alone. To close this credit gap, Sub-Saharan Africa, for example, would need to increase the provision of credit (including loans, overdraft, leasing, factoring and trade finance) to the unserved formal SME market by 270-320 percent. However, according to the IFC Enterprise Finance Gap Database (2011), on average one out of two enterprises in Africa does not have access to formal credit or lacks the appropriate financial product needed to grow and innovate. The funding gap is particularly acute in Sub- Saharan Africa with only around 29% of formal SMEs having access to a loan, line of credit or overdraft. Without the necessary

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financing, these businesses are unable to grow and contribute positively to employment and economic growth in their locations.

### 5.2.3. Products

With regards to products and services offered by financial institutions, this study revealed that banks have suitable products for small scale traders and farmers such as SEBA, Xapit accounts, community accounts, SME accounts, Salima accounts for farmers, while loans and pension accounts were available for others. They also revealed other financial products such as loans, savings accounts, current accounts, advances, forex and corporate banking. Although in the previous section much has been discussed concerning constraints regarding access to loans. It was revealed that ZANACO had the cheapest product which could be afforded with a zero amount normally called Xapit. However, the cheapest at Finance bank for an account was K100 while Barclays needed K100 as well for its initial account.

Arising from the above findings, only ZANACO provided the cheapest but all the bank accounts have charges attached as it is a way of making profits. Nevertheless, it is important to introduce cheaper products because for a rural dweller, K100 can help much greatly to support his family. Cull (2009), reasons that, one of the main reasons for financial exclusion is the provision of unsuitable products. Thus, banks should aim at providing products that can be accessed easily by certain segments of the society that are suitable, low cost, fair, safe financial products at affordable costs.

Respondents from financial institutions considered the following measures as a way of helping and capturing the majority of the small business men and women who use mobile money services such as MTN and ZOONA as an alternative to conventional banking and according to them sensitising the community about the importance of banking (40%) was a major way while others decided on conducting more financial literacy programs to the informal sector (30%). However, others wished abolishing mobile money services such as MTN mobile money and Airtel Money (10%) would work to their advantage. Unfortunately, some did not even want to introduce affordable products for banks to compete favourably with other financial service providers such as MTN and Airtel Money services.

Kauffmann (2005), argues that although people who do not have an account at a formal financial institution may lose out on the security and reliability that such a relationship provides, they often

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employ fairly sophisticated methods to manage their day-to-day finances and plan for the future. A growing number of Africans are using new alternatives to traditional banking made possible by the rapid spread of mobile phones. Kauffmann (2005), reports that 58.7% males used mobile services as compared to 41.3 % males in rural areas.

The recent growth of mobile money sometimes a form of “branchless banking “has allowed millions of people who are otherwise excluded from the formal financial system to perform financial transactions relatively cheaply, securely, and reliably. Mobile money has achieved the broadest success in Sub-Saharan Africa, where 16% of adults’ report having used a mobile phone in the past 12 months to pay bills or send or receive money (overall in Africa, 14% of adults used mobile money in the past 12 months). In Kenya, where the M-Pesa service was commercially launched in 2007, 68% of adults’ report using mobile money. Similarly, in Sudan, more than half of adults used mobile money. In East Africa, more than 35% of adults’ report using mobile money.5 North Africa is one of the regions in which mobile money use is limited (with the exception of Algeria where 44% of adults’ report having used a mobile phone to pay bills or send/receive money) which could be due to regulatory constraints imposed on the mobile money operators and banks. The share of adult’s using mobile money is only 3%. Globally, the share of Adults Using Mobile Money Is Less Than 6% In All Other Regions.

### 6.3. Effects of Financial Literacy on Financial Inclusion in Nakonde

**Financial literacy**

Most respondents from the banks had a banking experience of 10 years (60%) while 40% were less than 5 years working with the institutions. They all claimed to have conducted or are still doing financial literacy programs. According to Tagoe et al (2005), financial Literacy can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. It refers to the ability to make informed judgments and to take effective decisions regarding the use and management of money. It is regarded as an important requirement for functioning effectively in modern society.

This study revealed that in this locality, the language being used mainly in conducting financial literacy was English ((50%), followed by Namwanga (30%) and finally Bemba being 20%. Many of the respondents (80%) from the commercial banks agreed that Financial illiteracy was a hindrance to

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accessing financial services while few (30%) indicted that it was helping in finances.Thus, banks should aim at providing products that can be accessed easily by certain segments of the society that are suitable, low cost, fair, safe financial products at affordable costs.. Probably it could be one reason that may contribute to financial illiteracy since the use of foreign language would be ineffective (Goland et al, 2011). In the developing countries financial literacy can be seen as the first step toward alleviation of poverty and development.

The target groups for financial literacy were youths (70%) in schools while farmers and marketers were only (30%).The major reason for targeting much the youths on conducting financial literacy were to equip them with financial knowledge for future use (60%) and also improve savings (30%) and finally to sensitise the community about the banks products (10%).However, youths in schools are already in the group that are considered to be literate. As already earlier alluded education level is important because the more literate people are the more likely they will be able to read, write and understand the products of the banks and perhaps this was banks used English as a language of communication in this locality. However, if farmers and marketers, the local language would have been effective and would probably increase account holders at banks.

The majority of the respondents (80%) revealed that there was an increase in the number of customers coming to access financial services after conducting financial literacy programs while only 20% indicated that there was minimal or no increase. Reasons for possibility of an increase after conducting financial literacy programs were that people felt empowered to make informed financial decisions (40%), people’s perception towards banks changed after financial literacy (50%) and that most people still had a general phobia towards banks (10%). However, a discussion with a bank official revealed that most residents used commercial banks for the purpose of acquiring foreign exchange for importing vehicles and not necessary for opening useful accounts in the bank because of its location as a border town(Beck et al, 2006). So, increase may not necessarily be an indicator of high financial inclusion level.

The study also revealed that in Nakonde, more respondents (40%) fortunately, knew about the bank through promotions and advertisements while the rest (30%) had no idea about any product offered by the bank.Surprisingly, many respondents (50%) knew about the bank through advertisement more than those who knew through friends and brochures (40%).Investors tend to use thumb rules or seek advice

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from friends and relatives. Most of the time these are poor approximations compared to those that follow from a systematic process

Activities conducted to encourage people to start transacting at banks were mainly done by distribution of brochures (60%) while others (20%) by presentations at schools and markets and the rest (20%) by advertisements through road shows. The rest (40%) knew the accounts from promotions and advertisements and very few from customers, relative or friends. However, others (30%) knew nothing about it all. Since all brochures are written in English language, there is a possibility that local people would not be able to understand the language. Few would understand and make the exercise unfruitful. Unless those done at markets and road shows were done in local language.

**6.4. The Impact of Financial Literacy and Inclusion on Household Poverty Levels**

**6.4.1. Benefits**

Ramakrishna (2016), states that improvement of financial knowledge of households is necessary for them to participate continuously in financial markets. Financial literacy plays a vital role in the efficient allocation of household savings and the ability of individuals to meet their financial goals.The study indicated that 80% revealed that the bank had no impact on their living standards as responded by most households while others (16%) indicated a moderate change with only a few (4%) benefitting from the institutions. Others also (70%) indicated that there was no improvement since opening an account with the bank while a few (30%) indicated an improvement. Very few People (20%)in all derived benefits from the bank but others (26%) benefited through credits, salary and savings and probably those could have been salaried respondents.As indicated above only workers (20%) derived benefits from the bank in terms of savings while the rest (10%) from financial advisory and others from credits and loans.Most respondents (80%) indicated that they had no savings before opening an account while others (20%) responded that they had K100 or above in starting an account. Monthly savings after opening an account indicated that most of the respondents (70%) had none while a few (30%) had K100 and above in opening an account.

Most respondents (96%) had no business dealings with the bank with only a few (4%) indicating that they were connected to the institutions. Besides, other respondents that had conducted transactions

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before opening a bank account had access to MTN mobile money and Airtel mobile money. The majority responded that services could be improved at the banks if they introduced cheap accounts like those offered by mobile service providers such as MTN. The respondents(30%) indicated that banks could do well if they reduced bank rates while others (10%) claimed that they should also reduce interests on borrowing and consider the issues of collateral for small businesses like micro financial institutions since banks derived more profit in loans.Beck et al (2006) states that Financially educated consumers, in turn, can benefit the economy by encouraging genuine competition, forcing the service providers to innovate and improve their levels of efficiency.

In conclusion, it is evident from the findings that causes of low levels of financial inclusion in Nakonde depended on a number of factors. Such factors included income conditions, access to banks, inability to obtain loans, documenting procedures in opening accounts and availability of products offered by the banking institutions. Financial inclusion should as much as possible ensure access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost. Documenting procedures required to open an account were not favorable and this denied most of the potential customers' access. One of the major difficulties expressed in the study was the challenge experienced to obtain a loan from the local bank in terms of collateral. Banks provide products that can be accessed easily by all members of the society that are suitable, low cost, fair and at affordable costs. Financial literacy should not only be aimed at youths in schools but also farmers and marketers and specifically in the local of the people because they will continue to have little impact on the living standards of households.

The study therefore recommends the following based on its findings;

a) It should provide access to basic financial services such as banking and loans.
b) The usage of financial services should address needs of the poor.
c) The financial product should be affordable especially to the poor.
d) Quality of product and services must be enhanced.

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APPENDIX A

**INFORMATION AND COMMUNICATIONS UNIVERSITY**

**SCHOOL OF BUSINESS STUDIES**

Topic: **AN INVESTIGATION OF THE IMPACT OF FINANCIAL LITERACY ON FINANCIAL INCLUSION IN ZAMBIAN RURAL AREAS- A CASE OF SELECTED TOWNSHIPS IN NAKONDE DISTRICT.**

**INTRODUCTION:**

I am a Student from Information and Communications University (ICU) Zambia conducting a research on the topic mentioned above. I am pleased to inform you that you have been randomly selected to participate in this research.

As a researcher I reserve your right to confidentiality and guarantee you that the information obtained will be used purely for academic purposes and only for this study. Therefore, please answer the questions as objectively as possible. I welcome your response and your participation will be highly appreciated.

Thank you in advance.

**INSTRUCTIONS:**

1. Tick [√] the appropriate choice in optional questions.
2. Please do not indicate your name anywhere on the questionnaire

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**SECTION ONE: Personal information**

1. Kindly, indicate your age?

(1) 20Years and Below [ ] (2) 21 – 30 Years [ ] (3) 31 – 40 Years [ ] (4) 41 – 50 Years [ ] (5) Over 50 Years [ ]

2. Please indicate your marital status?

(1)Single [ ] (2) Married [ ] (3) Widowed [ ] (4) Divorcee [ ] (5) Separated [ ]

3. What is your level of education?

(1) Primary Education [ ] (2) Secondary education [ ]
(3) College Level/Certificate/Diploma [ ] (4) Graduate [ ] (5) Post Graduate [ ]
(6) None [ ]

4. What is your current occupation?

(1) Formal [ ] (2) Informal [ ] Any other (Specify)…………………………………………

5. What is your monthly income?
(1) Less than K1, 000.00 [ ] (2) K1, 001.00 – 5,000.00 [ ] (3) K5, 001.00 – 10,000.00 [ ]
(4) K10, 001.00 – 15,000.00 [ ] (5) K15, 001 – 20,000.00 [ ] (6) 20,001-25,000.00[ ]
(7) Over K 26,000.00 [ ]

6. Do you own at least an account from a commercial bank?

(1) Yes [ ] (2) No [ ]

7. If the answer is no to the previous question, give a reason for your answer………………………………………………………………………………………..

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**SECTION 2: AWARENESS**

8. How did you know about the Bank ***mentioned in question 1*** above?

(a) From a: (1) friend [ ] (2) Customer [ ] (3) Relative [ ] (4) Advertisements/promotions [ ] (b) Proximity to: (1) Home [ ] (2) Business [ ]

9. For how long have you been a customer of the bank named above?

(1) Less than 6 months [ ] (2) Between 6 months to 1 year [ ] (3) 1 to 2 Years [ ] (4) 2 to 5 Years [ ] (5) More than 5 Years [ ]

10. Are you aware of any other products offered by bank……………………………………….

11. How did you come to know about the products you have mentioned in the previous question?

…………………………………………………………………………………………………………

……………………………………………………………………………………………………

**SECTION 3: BENEFITS DERIVED FROM BANK**

12. Which of these products attracted you to open an account with the bank? (1) Savings [ ] (2) Credit [ ] (3) salary [ ] (4) Payment Services [ ]

13. What benefits have you derived from the bank?

(1) Savings [ ] (2) Credit/loans [ ] (3) Financial Advisory [ ]

14. Before opening an account with the bank, where were you conducting your financial transactions?

15. What advantages have you seen in conducting your financial transactions at the bank?.........

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16. Have you ever obtained a loan from the bank?

(1)Yes [ ] (2) No [ ]

17. Give a reason for your answer to the previous question.

**SECTION 4: CHALLENGES IN ACCESSING FINANCIAL SERVICES AT BANKS**

18. How long did it take for you to open an account?

(1) 1day – 5days [ ] (2) 2weeks – 3weeks [ ] (3) 1month and above [ ]

19. Which of these basic requirements did you have to satisfy before the account was opened?

(1) Application letter [ ] (2) Introductory letter [ ] (3) proof of residence in form of a utility bill [ ] (4) Minimum opening balance [ ] (5) Others, Please Specify………………………………

20. How much was the minimum amount required to open your account?

(1) K50 [ ] (2) K100- K200 [ ] K250-K500 [ ] Above K500 [ ]

21. How easy was it for you to raise the minimum account opening balance?

22. Are the banks in your area easily accessible (1) Yes [ ] (2) No [ ]

23. What is the major obstacle in accessing financial services at financial institutions for you?

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……………………………………………………………………………………………

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**SECTION 5: IMPACT ON LIVELIHOODS**

24. Has the level of you savings improved since opening an account with the bank the bank? (1) Yes [ ] (2) No [ ]

25. What was your monthly saving before opening an account?..................................................

26. What is your monthly saving after opening an account?........................................................

27. Has the association with the named commercial bank helped to improve your business …

……………………………………………………………………………………………

28. What impact has the bank had on your living standard?

A lot of positive change [ ] Moderate change [ ] No change [ ] Negative change [ ]

Kindly explain further on your choice of answer.

Would you encourage others to also follow the path you took in starting to transact at a bank?

(1) Yes [ ] (2) No [ ]

29. State reason for your answer

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…………………………………………………………………………………………………

…………………………………………………………………………………………………

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**SECTION E: MEASURES**

30. What could you suggest should be done to improve services at commercial banks especially with regards to cater for those in the informal sector?

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*Thank you for your participation*

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## Questionnaire for Commercial Bank Officials

1. Name of institution ……………………………………………………………………….

2. Status of respondent in the institution………………………………………………………..

3. For how long have you been working with the bank?............................................................

4. What kind of financial products do you offer to customers? .....................................................

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5. How affordable are your products, e.g. what is the minimum opening balance for the cheapest account at your institution?...........................................................................................................

6. As a bank do you conduct financial literacy programs?

(1) Yes [ ] No [ ]

7. When conducting financial literacy programs, what is your target group?

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8. What is the main objective for conducting financial literacy.....................................................

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9. Do you see an increase in the number of customers coming to access financial services after conducting financial literacy programs?

(1) Yes [ ] No

10. Give a reason for your answer in the previous question

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11. Considering the fact that a lot of residents of Nakonde use the native language which is Namwanga. Which language is used when conducting financial literacy programs?...............

12. Do you see financial illiteracy is a hindrance to accessing financial services?

(1) Yes [ ] (2) No [ ]

13. Apart from conducting financial literacy programs, what other activities do you conduct to encourage people to start transacting at banks?

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14. The majority of the residents of nakonde are in the informal sector, most of them are involved in small scale trade and farming. What products do you have that are suitable for this type of clientele?

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15. Going forward what should be put in place as measures to help and capture the majority of the small business men and women who use mobile money services such as MTN and ZOONA as an alternative to conventional banking?

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Thank you