

# Financial Literacy and Entrepreneurial Decision-Making Among Informal Traders in Zambia

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*Article DOI: 10.59413/eafj/v3.i2.11*

## Abstract:

Financial literacy is crucial in influencing entrepreneurial decision-making, especially for informal traders in Zambia, who work within a dynamic yet financially limited environment. This research examines how financial literacy affects the decision-making processes of informal traders in Lusaka, Zambia. A mixed-methods approach was used, gathering data from 350 informal traders through structured surveys and qualitative interviews. Results indicate that higher levels of financial literacy are associated with better decision-making in areas such as business planning, investment selections, and financial management. Regression analysis findings show that financial literacy is a significant predictor of entrepreneurial decision-making ( $\beta = 0.54, p < 0.01$ ). The study highlights the importance of enhanced financial education initiatives to promote business sustainability and economic development among informal traders.

**Keywords:** Financial literacy, entrepreneurial decision-making, informal traders, financial education, Zambia

## 1. Introduction

The informal sector is a fundamental component of Zambia's economy, providing employment for a substantial segment of the workforce. Notwithstanding its economic significance, informal traders encounter considerable obstacles, such as restricted access to financial institutions, inadequate financial literacy, and suboptimal financial decision-making habits. Financial literacy the capacity to comprehend and adeptly use financial skills such as budgeting, saving, and investing is essential for entrepreneurs to make educated decisions (Lusardi & Mitchell, 2014).

In Zambia, financial literacy is deficient, since studies reveal that numerous informal merchants lack the requisite financial understanding for prudent business decision-making (Finscope Zambia, 2020). This research investigates the impact of financial literacy on entrepreneurial decision-making among informal traders in Lusaka. By comprehending this relationship, governments and financial institutions may formulate tailored measures to foster company growth and enhance financial inclusion.

## 2. Literature Review

Financial literacy is a crucial factor in entrepreneurial success, affecting financial decision-making, business expansion, and economic resiliency. It includes understanding financial principles such as budgeting, saving, investing, debt management, and risk assessment, which are crucial for making informed financial decisions (Lusardi & Mitchell, 2014). Studies indicate that entrepreneurs possessing elevated financial literacy demonstrate superior financial planning, efficient resource allocation, and prudent investment choices, resulting in enhanced firm sustainability (Beck, Demirgüç-Kunt, & Levine, 2005).

In the African setting, financial literacy is essential for small and informal enterprises, which represent the majority of businesses in numerous economies. Research indicates that financially literate entrepreneurs in Sub-Saharan Africa are more inclined to use and employ financial services, such as credit, insurance, and digital banking, to maintain and grow their enterprises (Fanta, Mutsonziwa, Goosen, Emanuel, & Kettles, 2017). Nonetheless, financial illiteracy persists as a significant obstacle to economic empowerment, since numerous entrepreneurs lack the requisite skills to interact successfully with official financial institutions, resulting in dependence on informal savings and credit systems (World Bank, 2022).

### 2.1 Financial Literacy and Entrepreneurial Decision-Making

Entrepreneurial decision-making involves multiple financial components, such as risk evaluation, investment selection, loan administration, and financial strategizing. Entrepreneurs possessing elevated financial literacy are more inclined to make judicious financial decisions, enhance cash flow management, and execute strategic business expansion initiatives (Klapper & Lusardi, 2020). Mwange (2021) asserts that informal traders in Zambia with robust financial literacy skills have more company resilience, superior debt management, and enhanced savings practices. Chisanga and Phiri (2020) similarly discovered that financial literacy had a positive correlation with business

performance in Zambian SMEs, as it improves their capacity to make long-term investment decisions and mitigate financial distress.

Notwithstanding the advantages of financial literacy, obstacles remain, especially for women entrepreneurs and workers in the informal sector. Mumba, Okonkwo, and Mutale (2021) emphasize that Zambian women entrepreneurs frequently encounter obstacles, including restricted access to financial education, cultural limitations, and diminished confidence in digital financial services, which impede their capacity to make informed financial choices. This aligns with extensive African studies indicating that female-led firms frequently encounter low financial literacy, hindering their access to finance and involvement in formal financial markets (Finscope Zambia, 2020; Atkinson & Messy, 2013).

## 2.2 Financial Inclusion and Digital Finance

The proliferation of mobile banking and digital financial services in Africa has rendered financial literacy increasingly essential. Studies demonstrate that mobile money platforms have markedly enhanced financial accessibility for informal traders, facilitating savings, money transfers, and loan access more effectively (Demirgüç-Kunt et al., 2018). In Zambia, despite significant mobile phone adoption, digital financial literacy is inadequate, hindering many entrepreneurs from effectively utilizing mobile financial platforms (Finscope Zambia, 2020). Chikalipah (2017) discovered that although mobile money has broadened access to financial services in numerous African nations, obstacles such as insufficient trust in digital platforms, cybersecurity issues, and a deficiency in financial literacy persist, hindering its potential effectiveness.

Customized financial literacy programs have been proposed as a method to address this disparity. Research in Zambia indicates that interactive and community-oriented financial education programs might improve financial decision-making among informal traders, hence enhancing their participation in formal financial institutions and digital financial services (Phiri & Kalunga, 2022). Enhancing such programs, especially in rural and neglected regions, might further advance financial inclusion and entrepreneurial success throughout Zambia and the wider African continent.

The current literature highlights the crucial importance of financial literacy in improving entrepreneurial decision-making and financial inclusion. Data from Zambia and several African nations underscores the beneficial influence of financial literacy on business sustainability, lending accessibility, and investment decisions. Nonetheless, considerable obstacles remain, especially for female entrepreneurs and informal vendors, requiring specialized financial education initiatives, enhanced access to digital financial

services, and regulatory reforms. Enhancing financial literacy activities will be essential for promoting economic empowerment and inclusive growth in Zambia and the wider Sub-Saharan African area.

### 3. Policy Implications and Recommendations

A mixed-methods research design was utilized to examine the influence of financial literacy on entrepreneurial decision-making. The research examined 350 informal vendors in Lusaka, encompassing participants from Soweto, City, and Kamwala Markets. A stratified random sample method was employed to guarantee representation across various business kinds and market areas.

The data collection utilized standardized questionnaires to evaluate financial literacy, decision-making skills, and business performance metrics. The questionnaire addressed critical domains including budgeting, investment decision-making, debt management, and access to financial services. Alongside quantitative surveys, qualitative interviews were performed with 25 chosen traders and financial professionals to provide a more profound understanding of financial literacy obstacles and contextual impediments.

The survey instrument's dependability was validated with a Cronbach's alpha of 0.89, signifying strong internal consistency. The questionnaire was pre-tested with a limited sample of traders to establish validity prior to full deployment. Multiple regression analysis was employed to assess the predictive association between financial literacy and entrepreneurial decision-making, while thematic analysis was utilized on qualitative interview responses to discern recurring themes and patterns.

### 4. Results and Discussion

The results indicate a substantial positive association between financial literacy and entrepreneurial decision-making ( $r = 0.62$ ,  $p < 0.01$ ). Regression analysis indicates that financial literacy significantly predicts business decision-making ( $\beta = 0.54$ ,  $p < 0.01$ ), corroborating the hypothesis that financially educated traders engage in more informed business choices.

Traders possessing elevated financial literacy scores exhibited enhanced business planning, efficient financial management, and increased investment caution. Critical domains of financial literacy influencing decision-making encompassed:

- Budgeting and Cash Flow Management: Traders who comprehended budgeting principles were more inclined to manage resources effectively and prevent cash flow deficits.
- Investment Decision-Making: Traders with financial literacy were more inclined to invest in business

expansion, equipment enhancements, and inventory restocking. • Debt Management: Individuals with elevated financial literacy exhibited superior debt management skills, hence diminishing their dependence on high-interest informal loans.

Nonetheless, obstacles remain. A significant number of informal traders persist in depending on informal money sources, constraining their access to formal banking services. Obstacles such as insufficient financial education, inadequate digital financial literacy, and distrust towards formal financial institutions impede financial inclusion. Mitigating these deficiencies via focused financial literacy initiatives and enhanced access to digital financial services may bolster entrepreneurial success and economic stability.

## 5. Conclusions and recommendations

This research indicates that financial literacy has a significant impact on the entrepreneurial decision-making of informal traders in Zambia. It is essential to enhance financial education programs specifically designed for informal entrepreneurs to foster business sustainability and economic development. Policymakers ought to:

- Broaden financial literacy training efforts, concentrating on budgeting, investment management, and debt management.
- Improve access to financial services for informal traders, facilitating financial inclusion through mobile banking and microfinance options.
- Reinforce regulatory frameworks to safeguard informal traders against exploitative lending practices and financial scams.

Future studies should investigate the long-term effects of financial literacy programs on business success and assess the influence of digital financial literacy on enhancing entrepreneurial decision-making. Strengthening the financial education ecosystem in Zambia will aid in building a more inclusive and resilient economy.

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