

The Role of Digital Financial Literacy in Enhancing Financial Inclusion Among Informal Entrepreneurs in Zambia

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Abstract:

Digital financial literacy is widely seen as a vital element in advancing financial inclusion, especially among informal entrepreneurs who depend on mobile and digital financial services. Despite the increasing prevalence of digital payment systems, numerous informal business proprietors in Zambia have difficulties in efficiently employing digital financial instruments. This research examines the impact of digital financial literacy on improving financial inclusion for informal enterprises in Lusaka, Zambia. A mixed-methods strategy was employed to collect data from 350 informal traders in several markets. Research demonstrates that digital financial literacy substantially affects financial inclusion, with digital knowledge ($\beta = 0.52, p < 0.05$), mobile banking utilization ($\beta = 0.44, p < 0.05$), and confidence in digital platforms ($\beta = 0.39, p < 0.05$) identified as key determinants. The study advocates for specialized financial literacy initiatives, enhanced digital infrastructure, and regulatory assistance to promote digital financial inclusion.

Keywords: Digital financial literacy, financial inclusion, mobile banking, informal entrepreneurs, Zambia

1. Introduction

Financial inclusion continues to be a global imperative for promoting economic development and alleviating poverty. In Zambia, informal entrepreneurs represent a substantial segment of the economy; nonetheless, numerous individuals face financial exclusion due to obstacles including inadequate financial literacy, restricted access to banking services, and diminished trust in digital financial solutions (Finscope Zambia, 2020). Digital financial literacy, defined as the capacity to comprehend and proficiently utilize digital

financial instruments, is essential for surmounting these obstacles and advancing financial inclusion (World Bank, 2022).

Digital finance, encompassing mobile money, online banking, and fintech technologies, presents a dramatic opportunity to improve financial access for informal entrepreneurs. Mobile money services, including MTN MoMo and Airtel Money, have proliferated in Zambia; however, several informal traders face challenges related to transaction security, fraud susceptibility, and comprehension of digital financial instruments (Demirgüç-Kunt, Klapper, & Singer, 2017). This study examines the impact of digital financial literacy on financial inclusion among informal business proprietors, focusing on elements such as digital proficiency, mobile banking utilization, and trust in digital platforms.

2. Literature Review

Digital financial literacy is the capacity to effectively use digital financial services, including making payments, obtaining credit, and managing savings via mobile and online platforms (OECD, 2020). The swift growth of digital financial services globally has made digital literacy a vital factor in advancing financial inclusion, especially in developing countries. Studies have repeatedly demonstrated that digital literacy improves financial decision-making and results in better financial inclusion outcomes (Lusardi & Mitchell, 2014). People with greater digital literacy can more effectively navigate digital financial services, make knowledgeable financial choices, and interact with formal financial institutions.

The connection between digital financial literacy and economic empowerment is demonstrated in various studies. Entrepreneurs with elevated digital literacy are more inclined to utilize mobile banking services, seek digital credit, and perform secure transactions via online platforms (Beck, Demirgüç-Kunt, & Levine, 2005). The advent of mobile banking has notably changed the landscape in Sub-Saharan Africa, allowing millions to access financial services that were previously out of reach. However, challenges remain, such as inadequate digital literacy, limited confidence in digital platforms, and persistent worries regarding cybersecurity (World Bank, 2023). These obstacles continue to hinder the complete adoption of digital financial services, especially for informal entrepreneurs in the region.

In Zambia, despite a high mobile phone penetration rate, digital financial literacy is still quite low. A report from Finscope Zambia (2020) indicates that many informal traders struggle to effectively utilize mobile financial platforms, which limits their access to formal financial services. This deficiency in digital financial literacy hinders informal entrepreneurs from fully engaging in the economy, as they encounter challenges in

managing digital transactions, safeguarding against fraud, and making informed financial choices. Targeted digital financial literacy programs are considered essential for closing this gap, allowing informal entrepreneurs to acquire the skills needed to confidently use digital financial tools (Mwange, 2021).

Digital financial literacy is particularly crucial in informal economies, where individuals frequently face exclusion from conventional banking institutions due to geographic, economic, or social obstacles. Digital literacy facilitates financial inclusion, enabling informal merchants to access essential financial services such as savings accounts, loans, and insurance products that would otherwise be unavailable to them. This study extends prior research by examining the impact of digital financial literacy on financial inclusion for informal enterprises in Zambia. This study aims to identify the primary determinants of financial literacy to guide policy formulation and initiatives for enhancing digital financial inclusion in Zambia.

3. Research Methodology

This study employed a mixed-methods approach to investigate the influence of digital financial literacy on enhancing financial inclusion for informal enterprises in Zambia. This methodology facilitated an extensive research, integrating both quantitative and qualitative data to examine the intricate elements affecting financial inclusion within the realm of digital finance.

The quantitative aspect was a study of 350 informal entrepreneurs in three principal towns of Zambia: Lusaka, Kitwe, and Ndola. These cities were chosen to exemplify various geographical regions and economic conditions within Zambia. The poll employed a structured questionnaire aimed at assessing multiple aspects of digital financial literacy, encompassing digital knowledge, mobile banking utilization, trust in digital platforms, and degrees of financial inclusion. The questionnaire comprised both closed and open-ended questions, facilitating the acquisition of numerical data as well as insights into participants' attitudes and actions concerning digital financial services.

Reliability tests were performed to ascertain data dependability, resulting in a Cronbach's alpha of 0.89, which signifies substantial internal consistency and strength of the measurement tool. This indicates that the questionnaire items consistently assessed the constructs of digital financial literacy and financial inclusion.

Alongside the poll, comprehensive interviews were performed with financial service providers and digital finance specialists. The interviews yielded significant qualitative insights into the problems and opportunities associated with digital financial literacy and

inclusion in Zambia. The interviews sought to obtain expert insights into the obstacles to digital financial literacy, the efficacy of current programs, and the possibilities for future interventions.

Multiple regression analysis was utilized to investigate the correlation between digital financial literacy characteristics and financial inclusion outcomes. The regression model demonstrated statistical significance ($F(3,346) = 35.67, p < 0.001$), indicating that it explained a substantial percentage of the variance in financial inclusion. The analysis identified key predictors of financial inclusion among informal entrepreneurs: digital knowledge ($\beta = 0.52, p < 0.05$), mobile banking usage ($\beta = 0.44, p < 0.05$), and trust in digital platforms ($\beta = 0.39, p < 0.05$), all of which were significantly correlated with increased financial inclusion.

This mixed-methods approach offered an in-depth knowledge of the impact of digital financial literacy on the uptake and utilization of digital financial services, along with its wider implications for financial inclusion in Zambia. The results from both quantitative and qualitative data provide significant insights for policymakers and financial institutions aiming to enhance financial access for informal enterprises in Zambia and analogous environments.

4. Results and Discussion

This study's findings highlight the essential importance of digital financial literacy in improving financial inclusion for informal enterprises in Zambia. Informal traders exhibiting elevated digital literacy were markedly more inclined to employ mobile banking, access digital credit services, and oversee their money via savings applications. This corresponds with the extensive literature indicating that individuals possessing greater digital literacy are more adept at navigating and deriving advantages from digital financial platforms (Lusardi & Mitchell, 2014; Beck et al., 2005).

A significant discovery is the function of mobile banking as a crucial facilitator of financial inclusion. Informal entrepreneurs employing mobile banking services facilitated frictionless transactions, executed money transfers, and accessed financial services without reliance on physical banking infrastructure. This was especially significant for traders in urban and peri-urban regions, where access to conventional banking services is restricted. Mobile banking not only streamlined daily company operations but also offered entrepreneurs a handy means to save and obtain loans, so bolstering their financial stability and fostering sustained economic engagement.

Nevertheless, in spite of the beneficial effects of digital financial literacy on financial inclusion, various challenges remain. A significant obstacle highlighted by participants was

the fear of fraud. Numerous informal traders voiced concerns about the safety of digital platforms, especially in relation to online transactions and the possibility of financial scams. This worry was exacerbated by technical issues like inadequate internet connectivity, which affected the dependability and access to digital financial services. Furthermore, many entrepreneurs mentioned a deficiency in customer support, especially when problems occurred with digital platforms, which presented a hindrance to their regular usage.

5. Conclusion and Policy Implications

This research establishes that digital financial literacy is a crucial factor in promoting financial inclusion for informal enterprises in Zambia. Augmenting digital literacy, advocating for mobile banking adoption, and bolstering confidence in digital platforms can substantially enhance financial accessibility and economic engagement.

Policymakers ought to establish comprehensive digital financial literacy initiatives specifically designed for informal entrepreneurs. Financial institutions must improve user-friendly digital financial products and reinforce fraud protection measures to establish trust. Enhancing digital infrastructure, especially in underprivileged regions, will bolster financial inclusion.

Future study should investigate the enduring impacts of digital financial education programs on economic empowerment and evaluate the influence of emerging technologies, such blockchain and artificial intelligence, on the evolution of digital finance. Enhancing Zambia's digital financial ecosystem would foster a more inclusive and robust economy.

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