

The Role of Financial Capability in Entrepreneurial Success Among Informal Traders in Lusaka, Zambia

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Abstract

Financial capability is a crucial factor influencing entrepreneurial success, especially in the informal sector, where access to financial resources, literacy, and business acumen profoundly affect business performance. In Zambia, informal traders represent a substantial segment of the economy yet frequently encounter financial exclusion and knowledge deficiencies that impede their business development. This study investigates the influence of financial competence on entrepreneurial success among informal traders in Lusaka. The study examines financial self-efficacy, financial literacy, access to financial services, and financial behavior as essential elements of financial competence through a comprehensive literature analysis. The results indicate that enhanced financial literacy, access to finance, and improved financial practices contribute to superior entrepreneurial performance. The study indicates that financial capacity is a crucial catalyst for sustainability and business expansion among informal traders, advocating for financial education initiatives and inclusive financial laws to bolster economic participation.

Keywords: Financial capability, financial literacy, informal traders, financial behavior, financial access, entrepreneurial success, Zambia

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1. Introduction

Entrepreneurship is acknowledged as a crucial catalyst for economic growth, employment generation, and poverty alleviation in developing nations. The informal sector, especially in Zambia, offers work opportunities to a significant portion of the population. The success of these informal firms is frequently impeded by financial limitations, insufficient financial literacy, and restricted access to formal financial services (Finscope Zambia, 2020). Financial capacity, characterized as the proficiency in managing financial resources and making informed financial decisions, is crucial for the viability and expansion of informal enterprises (Lusardi & Mitchell, 2014).

Notwithstanding its significance, financial aptitude is deficient among numerous informal merchants, resulting in inadequate financial management, restricted reinvestment, and susceptibility to financial shocks (World Bank, 2022). This study offers a thorough examination of the current literature regarding financial competence and its influence on entrepreneurial success within the informal sector, specifically targeting informal traders in Lusaka. The research seeks to elucidate the impact of financial literacy, financial access, and financial behavior on business sustainability and growth.

2. Literature Review

2.1. Financial Capability: Concepts and Dimensions

Financial capability is a multifaceted concept that includes financial knowledge, financial self-efficacy, financial behavior, and access to financial resources. Financial literacy denotes the comprehension and awareness of financial principles, including budgeting, saving, borrowing, and investing (OECD, 2020). Financial self-efficacy denotes an individual's confidence in executing financial tasks, whereas financial behavior pertains to the practical use of financial knowledge in decision-making and business operations (Atkinson & Messy, 2012). Access to financial services, such as credit, banking, and insurance, significantly impacts an entrepreneur's capacity to make educated financial decisions and maintain business operations (Demirgüç-Kunt, Klapper, & Singer, 2017).

Studies indicate that financial literacy profoundly influences financial decision-making and business achievement. Individuals possessing elevated financial literacy are more inclined to conduct sensible financial management, evade excessive debt, and allocate resources effectively (Beck, Demirgüç-Kunt, & Levine, 2005). Moreover, access to financial services allows informal traders to invest in business growth, manage cash flow, and reduce financial risks (World Bank, 2022).

2.2. Financial Literacy and Entrepreneurial Success

Financial literacy is essential for corporate decision-making and long-term viability. Informal traders possessing elevated financial literacy are more inclined to develop budgets, track expenditures, and execute strategic investment choices (Lusardi & Mitchell, 2014). Nevertheless, research demonstrates that financial literacy among informal entrepreneurs in Zambia is inadequate, hindering their capacity to secure credit and proficiently manage firm funds (Finscope Zambia, 2020).

Research conducted by Mwange (2021) on financial literacy and entrepreneurial success in Zambia revealed that entrepreneurs engaged in financial literacy programs demonstrated enhanced financial management abilities and attained superior firm growth rates. This indicates that specialized financial education initiatives can improve business sustainability and profitability for informal merchants. Additionally, financial literacy is associated with enhanced financial planning and risk management, hence bolstering firm resilience (World Bank, 2022).

2.3. Financial Access and Business Performance

Access to financial services is a crucial factor in determining business success. Informal traders frequently encounter difficulties in securing credit due to elevated collateral demands, rigorous lending regulations, and insufficient financial paperwork (FSD Zambia, 2021). In the absence of sufficient capital, informal businesses face challenges in scaling operations, acquiring goods, or investing in business enhancements (Demirgüç-Kunt, Klapper, & Singer, 2017).

Microfinance institutions and digital financial services have surfaced as viable remedies for financial exclusion. Mobile banking platforms, such as MTN MoMo and Airtel Money, have enhanced access to financial services for informal traders, enabling them to execute transactions, store funds, and obtain credit with minimal documentation (Finscope Zambia, 2020). Notwithstanding these developments, obstacles such as inadequate digital literacy and transaction costs persist in hindering the use of formal financial services by informal entrepreneurs (OECD, 2020).

2.4. Financial Behavior and Business Success

Financial behavior, encompassing saving habits, budgeting techniques, and debt management, affects business performance and sustainability. Entrepreneurs that practice disciplined financial behaviors are more likely to attain business stability and sustainable growth (Beck et al., 2005). Studies indicate that informal traders who practice regular saving and reinvestment strategies experience better business outcomes than those who rely solely on daily earnings for survival (Lusardi & Mitchell, 2014).

Research by Mwange (2021) shown that financial education interventions markedly enhanced financial behaviors among informal businesses in Zambia. Participants who had training in record-keeping, budgeting, and investment planning exhibited improved financial management capabilities and increased business profitability. These findings highlight the significance of financial conduct in guaranteeing business success and sustainability.

2.5. Challenges Faced by Informal Traders in Achieving Financial Capability

Notwithstanding the advantages of financial competence, informal traders in Lusaka have numerous obstacles in attaining financial literacy, accessing financial services, and adopting prudent financial practices. A primary obstacle is the absence of financial education programs customized for informal entrepreneurs. A significant number of merchants possess little formal education and find it challenging to understand intricate financial concepts, hence hindering their capacity to make educated financial judgments (Finscope Zambia, 2020).

A further difficulty is the hesitance of official financial institutions to extend loans to informal traders owing to their absence of collateral and financial paperwork. Consequently, numerous traders depend on informal credit sources, including loan sharks and savings organizations, which frequently impose excessive interest rates and heighten financial vulnerability (World Bank, 2022). Cultural and socioeconomic variables also affect financial behavior, as numerous informal traders favor rapid consumption rather than long-term financial planning (OECD, 2020).

3. Methodology

This study uses a mixed-methods approach to evaluate, among informal traders in Lusaka, Zambia, the influence of financial capacity in entrepreneurial success. 350 unofficial traders were given a standardized questionnaire to complete which gathered quantitative information about business performance, financial literacy, and financial behavior. Twenty particular merchants were also subjected to qualitative in-depth interviews to provide understanding of their financial decision-making practices and difficulties.

A reliability investigation on the survey tool yielded a Cronbach's alpha of 0.89, suggesting great internal consistency. Multiple regression analysis among other descriptive and inferential statistical techniques was applied to ascertain the link between business success and financial capacity. Thematic analysis of qualitative data revealed repeating trends and themes on financial behavior and decision-making.

4. Results and Conclusions

Results show that among informal merchants, financial capacity greatly influences their level of success in entrepreneurship. Financial literacy improves budgeting abilities ($\beta = 0.55$, $p = 0.05$), saves behavior ($\beta = 0.49$, $p = 0.05$), investment decision-making ($\beta = 0.44$, $p = 0.05$). Higher financial literacy levels of informal traders showed better financial planning, which enhanced firm stability and expansion.

One of the main factors influencing corporate performance turned out to be access to financial services. Compared to those depending on unofficial financial sources, traders who used official financial services claimed better business profitability and expansion. For many traders, nevertheless, access to financial services was limited by rigorous lending criteria, lack of financial documents, and poor computer literacy.

Business sustainability was found to be much enhanced by financial conduct including sensible debt management and disciplined saving practices. Regular savings and reinvestment programs helped traders reach better company success rates than those who survived just on daily income. Nonetheless, several traders still found it difficult to implement ideas of financial literacy in practical corporate environments, which emphasizes the need of continuous financial education and assistance.

Following suggestions are meant to improve financial capacity and business performance among Lusaka's informal traders: Policymakers and financial institutions could create focused financial literacy initiatives catered to the demands of informal traders, hence expanding their programs of financial education. Important subjects including budgeting, savings, investing, and sensible debt management ought to be covered by these courses.

Financial institutions should create inclusive loan facilities with adjustable terms to fit the financial reality of informal traders, therefore improving access to financial services. Improving financial access can help to lower collateral requirements and simplify loan application procedures.

Digital financial literacy programs should be launched to equip traders with the skills required to properly apply mobile banking, digital payments, and online financial services given the growing importance of fintech solutions and mobile banking.

Supporting community-based savings organizations and cooperatives and connecting them to official financial institutions can help to strengthen informal savings and credit mechanisms, hence improving financial inclusion and business development.

Policies created by the Zambian government should support financial inclusion for informal traders by means of financial education requirements and incentives for financial service providers to serve the informal sector.

Additional investigation on long-term financial capability influence Future research should investigate the long-term consequences of financial education programs and evaluate the efficiency of several financial inclusion initiatives to guarantee sustained business growth in the unofficial sector.

Following these suggestions can help stakeholders increase the financial capacity of informal merchants, therefore promoting more business success, economic involvement, and poverty reduction in Zambia.

5. Conclusion and Recommendations

Conclusion and Policy Recommendations

This study emphasizes among Lusaka's informal traders the crucial part financial capacity plays in entrepreneurial success. Business performance and sustainability are strongly influenced by financial knowledge, availability to financial services, and good financial practices. Still, low financial literacy and financial exclusion remain fundamental challenges to the expansion of informal businesses.

Policymakers should give financial education initiatives targeted at small-scale enterprises top priority in order to improve financial capability among informal merchants. To suit the financial reality of informal traders, banking institutions should create easily available credit facilities with adjustable terms. Furthermore, efforts on digital financial literacy should be enlarged to help to increase the acceptance of fintech products and mobile banking.

Future studies should look at the long-term effects of financial capability interventions on firm performance and evaluate the efficiency of several financial inclusion policies. Strengthening Zambia's financial ecosystem would help to create a more inclusive and vibrant entrepreneurial climate thereby ensuring that informal merchants may flourish and significantly support economic development.

Conflict of Interest

The authors declare that they have no conflicting interests.

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Data availability statement

The data used to support the findings of this study are available from the corresponding author upon request.

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