



The Link Between Financial Knowledge, Financial Product Awareness and Utilization: A Study among Small and Medium Enterprises in Zimbabwe

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ABSTRACT

This paper reports on the findings from a survey which was conducted to examine the level of utilization of financial products by small and medium enterprises (SMEs) and its linkage with financial knowledge among SMEs in Zimbabwe. The study was conducted following a realization that a significant number of SMEs were financially excluded despite efforts by the financial services sector to tailor make products to their needs. A quantitative research method was used where data was collected among a randomly selected sample of 400 SMEs in the capital city Harare, using a self-administered questionnaire. Findings indicated a lack of awareness of most financial product and hence low usage of these products by SMEs. An association between financial product awareness and financial knowledge was noted but no relationship between financial product usage and financial knowledge. The study concluded that although SMEs are financially knowledgeable, there is no link with their participation in the main financial stream. The study therefore recommended the need to further increase awareness at the same time encouraging participation in the financial markets to reduce vulnerability associated with financial exclusion.

Keywords: Financial Knowledge, Financial Product Awareness, Financial Product Utilization, Small and Medium Enterprises, Zimbabwe

JEL Classifications: D8, G1

1. INTRODUCTION

Active participation in the main financial stream is increasingly becoming recognized as an effective tool for poverty reduction, mainly benefiting the poor and the disadvantaged groups in the economy (Demirguc-Kunt and Klapper, 2012; Honohan and King, 2012, Dupas et al., 2012, Rhine and Greener, 2013). In Zimbabwe, financial inclusion is defined as '...the effective use of a wide range of quality, affordable and accessible financial services provided in a fair and transparent manner through formal or regulated entities to all Zimbabweans. (RBZ, 2016. p. 36). Indeed global policy makers have shifted their attention to the creation of an inclusive financial sector upon realizing its significant contribution towards the national economic development. Several studies point to the numerous benefits that accrue from an inclusive financial system to households, businesses and the economy at large. Rhine and Greener (2013) suggest that a financially inclusive economy enables households to accumulate assets thereby increasing

their net worth and cushion themselves against unfair lending practices. Firstly, an inclusive financial sector broadens access to a variety of financial products and services by small and medium enterprise (SMEs) and low income households. Furthermore, financial inclusion reduces the cost of capital by facilitating efficient allocation of resources, ensures access to credit from formal sources thereby reducing the exploitative impact of usury, facilitates the provision of financial products and services at low cost hence including low income groups in the economy, facilitates savings and investment which are key drivers of economic growth and stability (Levine, 2005, Honohan and King, 2012; Demirguc-Kunt et al., 2015; RBZ, 2016).

Whilst Zimbabwe has made significant strides to create an inclusive financial sector, a high level of financial exclusion is still evident especially in special groups such as the youths, rural population, women and micro SMEs (Chitokwindo et al., 2014; RBZ, 2016; Finmark Trust, 2013). Challenges are noted with regards to

levels of access to financial services, usage of financial services, awareness of financial services and the quality of financial services. Amongst SMEs financial exclusion is high, with a majority actively participating in the informal financial sector (Finmark Trust, 2013). Of major concern is the fact that Zimbabwe's SME sector is a source of employment for approximately six million people and contributes US\$7.4 billion to the economy (Finmark Trust, 2013), but there is no evidence that the money contributed is accounted for in the formal banking system.

While researchers have documented several factors to explain the low level of financial inclusion, the current study sought to document the extent to which financial literacy can explain the phenomenon among SMEs. Whilst there is no consensus on what financial literacy really is, (Moore, 2003; Huston, 2010; Remund, 2010; Cude, 2010; Knoll and Houts, 2012; Schmeiser and Seligman, 2013), as the term means different things to different people, what is evident in most definitions is that the term entails an individual's ability to make informed financial decisions regarding financial matters such as budgeting, saving and borrowing and the possession of adequate knowledge of key financial concepts such as interest rates and accounts payables (RBZ, 2016; Remund, 2010; Huston, 2010). Thus the main objectives of the current study were firstly to determine the level of financial awareness among SMEs and test the existence of a relationship with financial literacy. Secondly the study examined the extent to which SMEs utilize financial products and test whether there is an association between financial service utilization and financial literacy.

2. LITERATURE REVIEW

Literature identifies a number of benefits associated with increased access and usage of financial services. Economists have established a positive relationship between financial development and economic growth (Levine, 2005). For example, In Mexico Bruhn and Love (2014) established that increased financial access especially by low income groups results in a reduction in poverty. In their study they found that opening new bank branches resulted in a 7.6% increase in the number of informal businesses since increased availability of financial services stimulated business. An increase in the number of branches also resulted in a 7% increase in income over a period of 2 years due to a 1.4% reduction in unemployment. The previously unemployed were able to secure jobs in the new branches and self-employment also increased due to the increase in the number of informal businesses. The study concluded that increased access to finance promotes economic growth through opening new businesses and ensuring their continued existence hence reducing unemployment. Similarly Mckenzie and Woodruff (2008) found that microenterprises have high rates of return and hence benefit from improved access to finance. Karlan and Zinman (2010) noted that increased access to credit facilities led to increased employment and income. Aggarwal and Klapper's (2013) results show that the use of formal accounts facilitates ease of transactions such as funds transfers, payment of salaries, and remittances to government, among others. Furthermore, access to formal savings channels enables individuals and companies to increase investment and smooth consumption.

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

The impact of financial literacy on financial awareness and usage of financial products and services is documented in several studies. Researchers have noted that experience gained through the usage of financial products is directly associated with financial knowledge (Nicolini et al., 2013; Agarwalla et al., 2013). Cole et al. (2011) point out that, most emerging economies have a sizeable informal sector which if drawn into the formal sector would foster financial development. They add that low demand for financial services could be due to the high fixed costs involved; indeed, informal savings, credit and insurance are evident in most emerging markets.

Financial literacy has also been identified as one of the factors that explain the low demand for financial services as individuals will not demand products that they are not familiar with (Cole et al., 2011). It is argued that the high cost of financial services and low levels of financial literacy have important implications for financial development and thus deserve further scrutiny by governments, policy makers, financial institutions and international organizations that aim to increase utilization of financial services. The 2014 World Bank Global financial Report notes that financial illiteracy is the reason for the low levels of use of financial products among the poor (Calderon, 2014). Pipreka (2009) argues that increasing financial literacy levels has a positive influence on access to credit by SMEs.

Extensive research has been conducted to determine the level of awareness and utilization of financial services by economic agents. In Ghana, Nunoo and Andoh (2012) found that financial markets have a number of financial products but the level of financial utilization was low. The study measured the level of financial literacy among SMEs in the country, identified the factors that influence it and investigated the association between financial product utilization and financial literacy. Findings revealed a modest level of financial literacy among small and medium entrepreneurs in Ghana and that more financially literate entrepreneurs were more likely to utilize financial services. The study concluded that financial literacy is important in explaining utilization of financial services. Gupta and Kaur's (2014) study

sought to establish the level of awareness and usage of financial institutions among micro entrepreneurs. The results showed that most of the respondents were aware of financial institutions and had bank savings accounts but lacked awareness of the different financial products. Cole et al.'s (2011) study in India and Indonesia examined households' financial literacy and their demand for financial services. A field experiment conducted revealed that financial literacy influenced the demand for financial products although there was no relationship between financial literacy and the possibility of opening bank accounts.

Guiso and Jappelli (2005) investigated awareness and stock market participation and found respondents were aware of stocks (65%) and mutual funds (50%) but lack of awareness of investment accounts (70%). A study by Honohan and King (2009) established an association between financial literacy and financial service utilization in Africa. Wachira and Kihiu (2012) found that financial literacy explained the high level of financial inclusion (at 90% confidence interval) in Kenya.

3. METHODOLOGY

The study adopted a survey method due to the large population size of SMEs. Data was collected in the capital city of Harare which houses 38% of the adult population (Finmark Trust, 2013) using a questionnaire which was randomly distributed to 400 SME owners or managers. The reliability of the instrument was tested using internal consistency that ensures that there is consistency in the way participants respond to the multiple items on the scale (Adams and Lawrence, 2015). Validity was ensured through a pilot study conducted with some SMEs who were not part of the study. The questionnaire was hand delivered to all respondents and later personally collected as a way of determining who actually completed it, thereby improving the reliability of the data. Data was analysed using Statistical Package for Social Sciences Version 23.

Financial literacy was measured using a set of questions derived from past research studies by Lusardi (2011) and the OECD/INFE toolkit (OECD, 2013). Nine questions were included in the questionnaire and these tested knowledge of interest rates, inflation, diversification and numerical ability. Consistent with existing studies (Chen and Volpe, 1998; Volpe et al., 1996) financial knowledge scores were grouped into three, those who scored between one and three, four to six, and seven to nine. This resulted in the formation of three financial knowledge levels, those with low financial literacy, medium financial literacy and high financial literacy respectively. These were then used to ascertain whether financial knowledge levels are associated with various variables in the study.

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

An overall response rate of 69.5% was achieved where a majority of the respondents were the youths aged between 18 and 40 years, approximately half of the respondents were married (54.7%)

and were fairly educated with only 4,3% having attained only primary education. About one third of the respondents were in the wholesale and retail sectors with only 14% in the manufacturing sector and 12.6% in the agricultural sector and the rest in education, art sport and culture. Of the total respondents, 86.7% had <5 years of business experience and 83.8% had been in business for <5 years.

4.1. Financial Products Awareness

Data was analysed to determine the level of awareness of financial products amongst SMEs and determine whether there is an association between financial knowledge and awareness. Seven products were included in the study namely, savings accounts, term deposits, loans, investments, shares, insurance and mobile banking services and results are presented in Table 1.

Table 1 shows that 95% of the respondents were aware of savings accounts, 37.4% knew about investments and 29.9% had knowledge of shares, whilst 75.8% were knowledgeable about loans. A significant proportion of the respondents (69.4%) were aware of mobile banking services such as eco-cash, Tele-cash and net-cash and about 18.3% were aware of term deposits.

Whilst it could be assumed that there is a positive relationship between financial knowledge and financial product awareness this might not necessarily be the case; hence, the need for further analysis to test this claim (OECD, 2013). According to the OECD (2013) an indicator that counts the number of products an individual knows about is not a sufficient measure of financial awareness. Rather, it recommends a measure that captures an individual who knows about more than five products. Following this recommendation, the data was analyzed to show the number of respondents who were aware of more than five products. These were classified as having high levels of financial awareness. The results are presented in Table 2.

Table 2 shows that 83.1% of the respondents were not aware of at least five financial products and hence were classified as having low financial product awareness. Only 16.9% were aware of more than five financial products. This shows that SMEs are not aware of many financial products confirming the findings from Finmark

Table 1: Financial awareness

| Financial product | Frequency (%) (awareness) |
|--------------------|---------------------------|
| Savings account | 95 |
| Investments | 37.4 |
| Shares | 29.9 |
| Term deposits | 18.3 |
| Loans | 75.8 |
| Insurance | 78 |
| Eco-cash/tele-cash | 69.4 |

Source: SPSS analysis of primary data

Table 2: Financial awareness level

| Level | Frequency (%) |
|----------------------------------|---------------|
| Low financial product awareness | 231 (83.1) |
| High financial product awareness | 47 (16.9) |
| Total | 278 (100.0) |

Source: SPSS analysis of primary data

Trust (2013) where high levels of financial exclusion were noted. Similar research findings were also noted by Atkinson et al. (2006) where 98% of the respondents held at least one of the financial products and on average respondents had seven different types of products. Gupta and Kaur's (2014) study also found a lack of awareness of financial products.

4.1.1. Financial knowledge and financial product awareness

A cross tabulation was done between financial awareness and financial knowledge levels to determine the existence of an association between the two. The results are shown in Table 3.

From Table 3 there is evidence of a relationship between financial knowledge and financial product awareness. The proportion of respondents with low financial product awareness declined with an increase in financial knowledge levels. Respondents with low financial product awareness were concentrated in the low financial knowledge category whilst those with high financial product knowledge were found in the high financial product awareness category.

A Chi-square test was also conducted to determine the significance of the level of association between financial knowledge levels and financial product awareness levels. It was hypothesized that respondents who are financially knowledgeable are more financially aware of products and services. The results are presented in Table 4.

Table 3: Knowledge levels and awareness levels cross tabulation

| Knowledge levels | Awareness levels | | Total |
|------------------------------|---------------------------------|----------------------------------|-------|
| | Low financial product awareness | High financial product awareness | |
| Low financial knowledge | | | |
| Count | 31 | 2 | 33 |
| % within knowledge levels | 93.9 | 6.1 | 100.0 |
| Moderate financial knowledge | | | |
| Count | 79 | 7 | 86 |
| % within knowledge levels | 91.9 | 8.1 | 100.0 |
| High financial knowledge | | | |
| Count | 121 | 38 | 159 |
| % within knowledge levels | 76.1 | 23.9 | 100.0 |
| Total | | | |
| Count | 231 | 47 | 278 |
| % within knowledge levels | 83.1 | 16.9 | 100.0 |

Source: SPSS analysis of primary data

Table 4: Results of Chi-square tests

| Ratios from SPSS | Value | Df | Asymptotic significance (2-sided) |
|------------------------------|---------------------|----|-----------------------------------|
| Pearson Chi-square | 13.003 ^a | 2 | 0.002 |
| Likelihood ratio | 14.151 | 2 | 0.001 |
| Linear-by-linear association | 11.359 | 1 | 0.001 |
| Number of valid cases | 278 | | |

^a0 cells (0.0%) have expected count <5. The minimum expected count is 5.58

Source: SPSS analysis of primary data

For the Chi-square value with two degrees of freedom to be significant at 5% level of significance, it has to take a value that is 5.99 or more. In this case the Chi-square calculated value is 13.003 showing that there is an association between financial knowledge levels and financial awareness. We therefore fail to reject the null hypothesis and conclude that those who are financially knowledgeable tend to be more financially aware of financial products compared to those who are not.

4.2. Financial Product Utilization

Seven financial products were used for this study, namely, savings accounts, term deposits, loans, investments, shares, insurance and mobile banking services. As part of measuring product utilization, respondents were asked to indicate whether they owned any form of insurance. It was found that 75% did not have insurance and only 25% had some form of insurance. This shows that insurance schemes were not considered important by the majority of the business owners, indicating a low level of financial utilization of the product. According to RBZ (2016), barriers to financial inclusion in the insurance industry are a lack of innovation by service providers, low levels of financial literacy, lack of product accessibility and low confidence in suppliers of insurance, among others. Atkinson et al.'s (2006) study in the UK reported that 66% of the respondents had insurance, mainly motor vehicle and building insurance. The results of this research study are similar to those of Finmark Trust (2010) that found that only 22% of the respondents had formal insurance. Most SMEs were not insured and used savings and sold assets to cope with unexpected shocks. In Singapore, only 20% of the respondents did not have insurance (JMedia Research Consultancy Pvt., Ltd., 2005). Findings also revealed that the majority (73%) of the respondents had motor vehicle insurance. Only 20% had fire insurance and health insurance whilst only 9.4% had pension funds. About 8.3% of the respondents had building insurance and only 4% insured the building contents. Further it was found out that most of the respondents took insurance after considering premiums charged (42.8%), the level of cover (36.7%) and only 22% were concerned about the reputation of the insurer. There is high uptake of motor vehicle insurance mainly because it is mandatory. The low uptake of building insurance could be due to the fact that very few SMEs own buildings, with the majority using rented premises or operating informally. These results differ from those reported in Singapore where 35% of the respondents that had insurance had car or home policies and 52% had medical insurance. Bayrakdaroglu and Botan also found low utilization of financial market instruments by SMEs.

4.2.1. Payment methods

Data was also collected to establish the payment methods used by SMEs in their businesses. The responses are shown in Table 5.

The results reveal that the majority of the respondents used cash (79.5%), while a significant proportion also used mobile banking services such as eco-cash and tele-cash (65.8%). Responses were low for all the other forms of payment because they were associated with the use of banking facilities that the majority of respondents did not utilize. Electronic Funds Transfer was used by nearly a fifth of the respondents. This shows that this payment mode was gaining popularity due to the cash crisis experienced

Table 5: Payment methods

| Payment methods | Frequency (%) |
|-----------------------------|---------------|
| Cash | 79.5 |
| Cheque | 12.2 |
| Money orders | 3.6 |
| Electronic funds transfer | 16.9 |
| Direct debit | 6.5 |
| Internet banking | 10.8 |
| Lay-bye | 10.8 |
| Eco-cash/tele-cash/net-cash | 65.8 |
| Other | 6.8 |

Source: SPSS analysis of primary data

in Zimbabwe at the time of the study. Those who had bank accounts conducted business transactions through the use of RTGS as this did not involve the actual handling of cash. The high level of financial exclusion confirms Demirgüç-Kunt and Klapper's (2012) finding that high growth SMEs were not using formal financial services mainly because financial institutions were not providing appropriate products to suit their needs. They also confirm the findings of the Finscope survey in Zimbabwe where only 14% of SMEs were banked and 99% paid employees in cash (Finmark Trust, 2013). Several studies have established that sub-Saharan Africa is characterised by low levels of financial inclusion (Demirgüç-Kunt et al., 2015). The results of this study also confirm Demirgüç-Kunt and Klapper's (2012) conclusion that SMEs were less likely to use formal financial services. The extensive use of mobile money recorded in this study confirms the findings of numerous researchers who note the growing use of mobile banking with the greatest success recorded in Kenya where M-Pesa is now extensively used (Klein and Colin; Dermish and Kneiding, 2012; Hannig and Jasen, 2010). Worldwide, mobile money is now regarded as an effective tool for financial inclusion.

4.2.2. The use of financial products

Table 6 shows the number of SMEs who were using different financial products.

The results show that the majority of the SMEs used savings accounts (80%), loans (70.7%) and mobile banking services through Eco-cash, Tele-cash and Net-cash (65.8%). Increased ownership of savings accounts shows that SMEs are now aware of the importance of a bank account in business especially as a way of maintaining records. In addition SMEs are tapping into the benefits that come with the use of a bank account such as safety of funds, the possibility of automated bill payments and reducing the risks associated with carrying cash. More SMEs were aware of the existence of loans due to the expansion of micro finance institutions as many have been granted operating licenses by the central bank. Loans from micro finance institutions and banks have become a common source of funding for many SMEs; hence the increased use of these facilities. The increased use of mobile banking facilities is a result of the convenience and ease of banking associated with these facilities. Zimbabwe is currently confronting a liquidity crisis and a drive for a cashless society, explaining the increased use of mobile banking.

A low level of utilization was noted for investments (17.6%), shares (25.2%), insurance (25%) and term deposits (7.9%). This

Table 6: Financial product utilisation

| Financial product | Frequency (%) (utilisation) |
|-----------------------------|-----------------------------|
| Savings account | 80 |
| Investments | 17.6 |
| Shares | 25.2 |
| Term deposits | 7.9 |
| Loans | 70.7 |
| Insurance | 25 |
| Eco-cash/tele-cash/net-cash | 65.8 |

Source: SPSS analysis of primary data

Table 7: Financial product utilization

| Financial product utilization | Frequency (%) |
|------------------------------------|---------------|
| Low financial product utilization | 266 (95.7) |
| High financial product utilization | 12 (4.3) |
| Total | 278 (100.0) |

Source: SPSS analysis of primary data

is mainly due to the unfavourable economic environment that has created a high level of uncertainty in investments. Citizens have lost confidence in the banking system following the closure of a number of financial institutions. This tends to discourage investment activities. Insurance uptake is also low as SMEs do not see the importance of the service. Those using insurance have motor vehicle insurance because it is mandatory. The study's results confirm the findings by the OECD (2013) that insurance product utilization was only significant only in Ireland, while in other countries individuals held insurance policies that were a legal obligation such as motor vehicle insurance for those who had cars and life insurance for mortgage holders.

In order to create an indicator for financial product utilization, the responses were classified as high financial product utilization for those who indicated using five products and above. Those who indicated using <5 financial products were classified as having low financial product utilization. The results are presented in Table 7.

The results in Table 7 show that 95.7% of the respondents were utilizing <5 financial products and only 4.3% were using more than five.

4.2.3. Financial knowledge and financial product utilization

A cross tabulation was done between financial knowledge levels and financial product utilization to determine whether there is an association between financial knowledge levels and financial product utilization. The results are reported in Table 8.

Surprisingly, Table 8 shows a negative relationship between financial knowledge levels and financial utilization levels. A majority of the respondents in the high financial knowledge category were found in the low financial utilization category (96.2%). There is low financial product utilization irrespective of the level of financial knowledge. This finding contradicts the findings by Nanoo and Andoh (2012) who found out that the more financially literate are more likely to use financial resources.

A Chi-square analysis was conducted to test the existence of an association between financial product utilization and financial knowledge levels. The results are shown in Table 9.

Table 8: Knowledge levels and utilization level cross tabulation

| Knowledge levels | Utilization level | | Total |
|------------------------------|-----------------------------------|------------------------------------|-------|
| | Low financial product utilization | High financial product utilization | |
| Low financial knowledge | | | |
| Count | 32 | 1 | 33 |
| % within knowledge levels | 97.0 | 3.0 | 100.0 |
| Moderate financial knowledge | | | |
| Count | 81 | 5 | 86 |
| % within knowledge levels | 94.2 | 5.8 | 100.0 |
| High financial knowledge | | | |
| Count | 153 | 6 | 159 |
| % within knowledge levels | 96.2 | 3.8 | 100.0 |
| Total | | | |
| Count | 266 | 12 | 278 |
| % within knowledge levels | 95.7 | 4.3 | 100.0 |

Source: SPSS analysis of primary data

Table 9: Results of Chi-square test between financial knowledge levels and financial product utilization levels

| Ratios from SPSS | Value | Df | Asymptotic significance (2-sided) |
|------------------------------|--------------------|----|-----------------------------------|
| Pearson Chi-square | 0.713 ^a | 2 | 0.700 |
| Likelihood ratio | 0.688 | 2 | 0.709 |
| Linear-by-linear association | 0.034 | 1 | 0.853 |
| Number of valid cases | 278 | | |

^a2 cells (33.3%) have expected count <5. The minimum expected count is 1.42

Source: SPSS analysis of primary data

Table 9 shows that the Chi-square calculated value is <5.99 with a P = 0.7; therefore, we fail to reject the null hypothesis and conclude that there is no association between financial product utilization and financial knowledge levels. These results are contrary to the findings of Cole et al. (2011) where they established that financial knowledge influenced demand for financial services. Similarly Honohan and King (2009) found a relationship between financial literacy and financial service utilization. Such a result could be explained by a depressed economy prevailing within the Zimbabwean economy characterized by a liquidity crisis which suppresses the use of the formal financial system. The demand for financial services can be explained by other factors besides financial literacy.

A close link between awareness and utilization was noted especially for savings accounts where 90% of the respondents were aware of this product and 80% were utilizing the service. A discrepancy was noted for insurance products where 78% of the respondents knew about insurance but only 25% had some form of business insurance. Insurance is an unsought after product and hence the majority of respondents would not use it. Previous studies have shown that those who had insurance products held motor vehicle insurance which was mandatory by law. The results also show intensive knowledge and use of mobile banking services such as Eco-cash, Tele-cash and Net cash, with 65.8% of the respondents indicating that they used these services. There is a low level of awareness of investments and shares.

5. CONCLUSION

In light of the research findings, the study concluded that SMEs were not aware of most financial products and services. A relationship between financial knowledge and financial product awareness was evident. Those who are financially knowledgeable are more financially aware of products and services in the financial markets. However, financial product utilization is low among SMEs confirming that the sector is financially excluded. Financial knowledge does not account for the low financial product utilisation, hence financial exclusion could be explained by other factors. The study however recommends that the government should focus on increasing awareness and utilization of financial products that are available for use by SMEs. This can be achieved through awareness campaigns and workshops targeted at the SMEs ensuring that the sector can benefit from financial inclusion and the economy at large.

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