

Examining the Effects of Financial Inclusion on SMEs Business Growth in High Density Areas: A Case Study of Lusaka District

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ARTICLE INFORMATION	ABSTRACT
<p>Article history: Published on 2nd Jan 2026</p> <p>Keywords: SMEs Growth Financial Literacy Mobile Money Financial Inclusion Lusaka Zambia</p>	<p>This study examines the effects of financial inclusion on improving livelihoods in high-density areas of Lusaka, with a focus on small and medium-sized enterprises (SMEs). The study main specific objectives were to investigate the types of financial inclusion mechanisms utilized by SMEs, their impact on business growth, the relationship between financial inclusion and access to financial services, and the limitations hindering SMEs' economic enhancement. Using a sample size of 98 different SMEs in Lusaka drawn from various sectors, the findings reveal that financial inclusion mechanisms play a critical role in promoting SME growth, operational efficiency, and resilience. Mobile money services emerge as the most widely used mechanism due to their speed, convenience, and accessibility, while village banking, savings groups, and cooperatives provide complementary community-based support. Microfinance institutions primarily facilitate access to credit, whereas traditional banks remain underutilized due to high fees, procedural complexities, and limited accessibility. Engagement with formal financial systems improves SMEs' financial management by enabling better separation of personal and business finances, fostering accountability, and enhancing strategic resource allocation. However, persistent barriers—including high transaction costs, limited credit access, low financial literacy, and inadequate digital infrastructure—constrain the full potential of financial inclusion. The study's findings align with the Resource-Based View, emphasizing that effective access to and utilization of financial resources are crucial for sustainable SME growth and competitive advantage. Recommendations include promoting mobile money adoption and digital payment literacy, strengthening community-based savings and cooperative structures, and expanding access to affordable credit through microfinance and tailored SME loan products. Overall, financial inclusion emerges as a pivotal enabler of SME performance, entrepreneurship, and household socioeconomic improvement in underserved urban areas</p>

1. Introduction

1.1 Background

Globally, financial inclusion has gained much attention by policymakers, for instance in development cooperation, as well as in the academic field. With increasing inequality and social divides, the support of financial integration is viewed as a means for closing income and social imbalances. There is a clear upward trend in the number of people with access to financial products, for example through Microfinance Institutes (MFIs) and instruments like financial technology and mobile banking. This enables a better access to financial products, like micro credits, micro insurances and micro savings. There has been a remarkable increase in banked adults over time. According to the World Bank (2019), 51% of the adults worldwide had access to a bank account, whereas 69% of all adults were banked in 2017. At the same time, poverty is one of the core problems of every economy all over the world. According to the most recent estimates of the World Bank (2019), in 2020, 10% of the world's population lived on less than 1,90 USD a day. More than half of the extreme poor live in Sub-Saharan Africa.

In Zambia, despite the importance of financial inclusion, the country still faces significant challenges in expanding access to financial services to SMEs. According to the Financial Inclusion Survey (2020), only about 36% of the population have access to formal financial services, leaving a significant proportion of the population financially excluded. This has significant implications for household income, poverty reduction, and economic growth. Studies have shown that financial inclusion can increase household income by providing access to credit, savings, and other financial services (Demirguc-Kunt & Klapper, 2022).

Access to credit is a critical aspect of financial inclusion, as it enables households to invest in income-generating activities, smooth consumption, and manage financial shocks (Banerje & Duflo, 2021). Research has shown that access to credit can increase household income by enabling households to invest in productive activities, such as agriculture or entrepreneurship (Karlan & Zinman, 2022). For instance, a study by Banerje et al. (2021) found that access to microcredit increased household income by 15% in rural India. In Zambia, financial inclusion is critical for economic development and poverty reduction. According to the Bank of Zambia (2020), only 36% of the population have access to formal financial services.

1.2 Problem Statement

Despite efforts to promote financial inclusion in Zambia, SMEs in Lusaka Province continue to face significant challenges in accessing financial services. This limitation hinders their economic opportunities and perpetuates poverty. The existing literature highlights the importance of financial inclusion in improving household income, asset ownership, and economic empowerment. In the national financial inclusion strategy of 2024-2028 published by bank of Zambia (2023), there are many provisions that outline a strategy which Zambia commits to enhancing financial inclusion, with a focus on underserved population in both urban and rural areas. It provides a framework for understanding the national efforts aimed at promoting sustainable livelihoods through financial inclusion.

However, there is a paucity of research on the specific context of low-income households in Lusaka province. Financial exclusion denies these households access to credit, savings, and other financial services. As a result, they rely on informal financial mechanisms, perpetuating cycles of debt and poverty. Lwanga (2020) examined the welfare gains following changes in aggregate financial access in Zambia between 2018-2019. The study finds that increasing financial access points improved the quality of life, particularly in rural areas, suggesting potential benefits for urban high density as well. Lack of financial services also limits their ability to invest in income-generating activities, education, and healthcare. Consequently, low-income households remain vulnerable to financial shocks, undermining their economic resilience. The Zambian government has implemented initiatives to promote financial inclusion, but progress remains slow in that most small-scale business such as marketers are not financially included (Chibbota, 2023). The findings reviewed that most marketers who were included in micro finance institution (MFIs) significantly proved the livelihoods of the marketers, highlighting the role of financial inclusion in enhancing economic wellbeing in urban Zambia. Limited financial infrastructure, high operational costs, and lack of financial literacy hinder the expansion of financial services.

Furthermore, financial institutions often view low-income households as high-risk clients, exacerbating financial exclusion. This study aims to address this knowledge gap by examining the impact of financial inclusion on the livelihoods of low-income households in Lusaka province. It will investigate the challenges faced by these households in accessing financial services and explore strategies to enhance financial inclusion, household income and economic empowerment. This research will inform policy decisions and interventions. In this study, the observation is that effective financial inclusion strategies can improve household well-being, reduce poverty and promote economic growth.

1.3 Research Objectives

Main Objective

The primary objective of this study is to examine the effects of financial inclusion in improving livelihoods in high density areas in Lusaka.

Specific Objectives

1. To establish types of financial inclusion mechanisms utilized by SMEs high density areas
2. To determine the effects of financial inclusion on SMEs growth
3. To ascertain the relationship between financial inclusion and access to financial services
4. To identify the limitations of financial inclusion and SMEs economic enhancement

2. Literature Review

2.1 Types of financial inclusion mechanisms used by SMEs

Affordable financial products and services—such as transactions, payments, savings, credit and insurance—help people manage risks, build wealth and invest in businesses. Financial inclusion means that individuals and businesses have access to and use affordable financial products and services that meet their needs, which are delivered in a responsible and sustainable way. Financial inclusion is a catalyst for achieving seven of the 17 Sustainable Development Goals (SDGs). It fosters economic growth and employment, promotes economic empowerment of women, and contributes to eliminating poverty.

Financial inclusion supports entrepreneurship and business growth. Access to credit and capital, secure savings, and efficient payment services enable small businesses to expand, create jobs, and drive economic development. Access to insurance enhances resilience by offering protection against unforeseen risks and financial shocks providing individuals with peace of mind and allowing entrepreneurs to undertake ventures with greater confidence. By bringing more people and enterprises into the formal economy, financial inclusion strengthens economic activity, boosts productivity, and lays the foundation for inclusive and sustainable economic growth.

Financial inclusion empowers women. By reducing barriers to economic participation, financial services equip women with tools and resources to start and grow businesses, manage household finances, and invest in their futures. This strengthens their voice in decisions affecting them and narrows gender gaps in financial access, promoting broader social and economic equality.

One of the key functions of BI in risk management is its ability to perform predictive analytics. Predictive analytics uses historical data to forecast future outcomes, allowing organizations to anticipate risks and plan accordingly. For instance, BI can analyze market trends to predict economic downturns, enabling companies to adjust their strategies in advance (Smith, 2022). This foresight is critical in minimizing the impact of risks on an organization's operations and financial stability.

Financial inclusion helps build resilience for people and businesses vulnerable to climate change and natural disasters. Over 80% of the world's 1.4 billion adults without financial accounts reside in places at risk from climate, intensifying their susceptibility to economic and environmental shocks. Financial services enable individuals and businesses to invest in climate-resilient infrastructure, adopt sustainable agricultural practices, and implement energy-efficient technologies, thereby contributing to climate mitigation. Moreover, availability of insurance and savings products speed recovery from environmental shocks.

Transaction accounts enable people to securely store funds and efficiently conduct transactions and are typically the first step to use other financial services. The expansion of digital financial services has helped decrease the number of adults without access to an account from 2.5 billion in 2011 to 1.4 billion in 2021, with 76% of the global adult population owning an account by 2021. Despite these advancements, challenges persist. This disparity in account ownership between low- and high-income countries underscores the need for continued efforts to bridge the financial inclusion gap and ensure equitable access to financial services worldwide.

Between 2017 and 2021, the gender gap in account ownership in developing countries narrowed from 9 to 6 percentage points. Despite these advancements, persistent disparity continues to impede women's ability to fully manage their financial lives. Early indications suggest that mobile money accounts are playing a role in bridging this gap across various nations. The adoption of mobile money in Sub-Saharan Africa has contributed to the general increase of access and has been successful in closing the gender gap in financial inclusion. In October 2024, we unveiled our Gender Strategy 2024-2030, setting ambitious goals to boost economic opportunities for women by 2030, including to facilitate capital for 80 million more women and women-led businesses. Another study investigated saving among dependency ratio and the determinants of development by Kelley and Schidmt (2016). They discussed Mason and Leff modeling together using 88 countries and growth periods between 1960 and 1990 and also there was a comparison between them. Interesting results were, despite there being no relationship between dependency ratio and savings in the literature, this study showed that in the chosen time period the major indicator of saving contains demographic terms (Kelley and Schidmt, 1996). Yasin (2007) used 14 North African and Middle Eastern 4 countries as a cross section and between 1960 and 2001 as the time section for a panel data analysis of the life cycle hypothesis, using demographic variables. He divided the population's data within three groups, respectively children (under 14), working group (15-65), and retired (over 65), and the findings show that there are negative savings in the retired and children groups of populations, and positive effects on savings appeared only in the working group (Yasin, 2007). Moreover, a higher child dependency ratio means more children provide care and financial assistance during old age, and less need to save on one's own for old age, and hence the child dependency ratio could have a negative impact on the saving rate for this reason as well. Park and Shin (2009) and most other studies find that the aged dependency ratio and the youth dependency ratio both decrease the saving rate, as expected. Moreover, they also find that life expectancy has a positive impact on the saving rate because a lengthening of life expectancy increases people's retirement spans and necessitates more saving for retirement. The labor force participation rate of the aged has a negative impact on the saving rate because an increase in the labor force participation rate of the aged shortens people's retirement spans and reduces the amount of saving needed for retirement.

For countries where 80% or more of the population holds accounts—such as China, Kenya, India, and Thailand—the next frontier is transitioning from access to active usage of a broader range of financial services. Between 2011 and 2021, savings increased globally, yet the gap between advanced economies and the developing ones widened, with savings rates at 58% and 25%, respectively. Similarly, while borrowing also saw improvement, the divide remains pronounced, with rates of 56% in AEs compared to 23% in EMDEs.

Small businesses also face a substantial and growing financing gap, estimated at \$5.7 trillion, equivalent to 19% of GDP, or 1.5 times the current supply of funding. This shortfall affects 40% of formal Micro-, Small- and Medium-sized enterprises (SMEs) in these regions, leaving their financing needs unmet. When informal enterprises are considered, the gap widens further. MSMEs are vital to economic growth, making up more than 50% of employment in these regions. However, limited access to finance restricts their ability to expand operations, invest in new technologies, and enhance productivity. Closing the persistent finance gap will help boost productivity, drive long-term growth, and create more and better jobs in EMDEs.

Since 2010, more than 60 nations either launched or developed National Financial Inclusion Strategies, uniting diverse stakeholders to coordinate efforts, including financial regulators, ministries of telecommunications, competition, agriculture, environment and education. Countries achieving significant progress have implemented large-scale policies, such as India's Aadhaar initiative, which has provided over 1.2 billion residents with universal digital identification, facilitating the opening of Jan Dhan Yojana (JDY) accounts. Leveraging government payments has also been instrumental; for instance, 35% of adults in low-income countries who received government payments opened their first financial account for this purpose.

In fostering uptake and market development of financial products and services, policymakers must address the range of risks financial consumers may face, and to be responsive to new and changed consumer issues from innovative products and providers. Effective financial consumer protection regulation and market conduct supervision assists in ensuring that uptake and usage of financial products and services is beneficial to consumers. As highlighted in the most recent World Bank Global Financial Inclusion and Financial Consumer Protection Survey (2022), international good practice and trends clearly show the importance for a country to have a regulatory framework and supervision addressing financial consumer and market conduct issues.

The World Bank actively collaborates with the G20 to advance financial inclusion worldwide and advocates for implementation of the G20 High-Level Principles for Digital Financial Inclusion. Additionally, the G20 has endorsed the G20/OECD High-Level

Principles on SME Financing, which support efforts to enhance access to a diverse range of financing instruments for small and medium-sized enterprises, including micro-enterprises and entrepreneurs. Through this partnership, the World Bank and the G20 strive to ensure that all individuals and businesses have access to affordable and effective financial services, fostering inclusive economic growth and development.

Personal Finance

Personal finance is specific to an individual's situation and activity. Therefore, related financial strategies depend largely on a person's earnings, living requirements, goals, and desires. Financial planning involves analyzing the current financial position of individuals to formulate strategies for future needs within financial constraints. For example, individuals must save for retirement. That requires saving or investing enough money during their working lives to fund their long-term plans. This type of financial management decision falls under personal finance. Personal finance covers a range of activities, including using or purchasing financial products such as credit cards, insurance, mortgages, and various types of investments. Banking is also considered a component of personal finance because individuals use checking and savings accounts as well as online or mobile payment services such as PayPal and Venmo.

2.2 Effects of financial inclusion on SMEs business growth

Financial inclusion is often understood as the provision of micro credits, insurances or micro saving accounts to populations without access to financial products. The concept of financial inclusion covers a broad range of conditions that need to be given. According to Sarma (2008), financial inclusion is the both the access, the availability and the usage of a proper and formal financial system for all individuals and participators of an economy. Mubiru (2012) categorizes financial inclusion as an aspect of social inclusion, which is the possibility for members of an economy to actively be part of economic and social advancements, both to benefit from it and to contribute to it. In recent years, the importance of social indicators in economics has been rising remarkably. After the worldwide economic crisis, it is clear that householder's behaviours, including their social 19 status, age and other demographic indicators, have more effect on macro-economic variables such as saving and consumption than theoretical expectations. After the 2008 global economic crisis in the US, the number of papers based on savings ratios and financial institutions increased and were placed widely in the literature.

Parasad and Chamon (2006) discussed Chinese Householders' saving behaviours using Urban Household Surveys between 1990 and 2005 in China. There are two key findings from the analysis: firstly, age of participants showed that young age groups have a higher saving rate than older age groups; secondly, around 45 years old individuals' savings are decreasing remarkably. The explanation of the findings can be written that health expenditure and education expenditure act as the major roles on determining saving behaviors, so in China, individuals' savings behaviors expressed that health expenditure is more effective than education expenditure (Parasad & Chamon, 2006). Bosworth and Reich (2006) examined whether demographic changes affected the growth of savings using annual data between 1960 and 2005 for 85 countries. In this study, scarcity of saving growth and on the other hand pressures of higher real interest rates may well be affected by the structure of the population. The findings pointed out that aging has a negative impact on saving ratios, and also Asian economies have stronger demographic effects on saving ratio. For industrial countries there is no evidence of demographic influences. Leff (2005) stated that with high birth rates it is not possible to achieve higher savings for underdeveloped countries, using 47 underdeveloped, 20 developed and 7 communist countries' data. Lee et.al. (2000) indicates that demographic transition might well cause high saving ratio (Cansin Doker et al. 2019).

Other researchers, such as Amidžić, Massara and Mialou (2014) define financial inclusion as an economic state where individuals and firms are not denied access to basic financial products and services. These services can be remittances, payments, savings and insurance services. In accordance to this definition, any means of financial inclusion has not solely to be accessible, but also affordable to the excluded borrowers as well as practicable in usage. It should also ensure a reduced dependence on informal money lenders over time and a smooth integration and inclusion into the formal banking network. In this context, the World Bank (2019) differentiates between voluntary and involuntary exclusion, since there can be members of the economy that choose not to make use of financial services and exclude themselves voluntarily. This may be due to no special need of the usage or because their cultural or religious background does not allow the usage of certain financial products. On the other hand, the case of involuntary exclusion may exist because of a high-risk profile or insufficient income and wealth of the client, or because of market failures or market imperfections. Parc and Mercado (2015) argue that 10 appropriate programs can address the issue of involuntary exclusion and can correct market failures and imperfections.

Typically, financial exclusion is higher in rural than in urban areas, since the density of bank branches is much lower in remote areas. The higher distance between bank branches makes the access more difficult for people living there. In addition, the profit potential in those areas resulting from a lower level of economic activity makes rural areas unattractive for banks. Also, the education level and therefore the level of financial literacy is usually lower in remote areas.

The Impact of Financial Inclusion on Poverty in Low- and Middle Income Countries as stated by Hussaini and Chibuzo (2018), so that clients are less likely to make use of financial products. Former research, as stated by Dashi, Lahaye and Rizvanolli (2013), has also shown that financial services are typically not offered due to an inconvenient regulatory framework or an inflexible product structure. Moreover, Honohan (2008) tested country characteristics that may have an influence on financial access. In his assessment, he found that variables such as aid as a percentage share of gross national income (GNI), population density and the age dependency ratio significantly reduce financial access. According to his study, variables that increase financial access significantly are mobile phone subscriptions and the quality of institutions. In order to measure financial inclusion, various researchers have constructed different financial inclusion indices. One example is the composite indicator of Amidžić et al. (2014), who include variables of the geographic and demographic coverage, the usage of deposit and lending financial products, and quality. The latter consists of assessments of disclosure requirements, dispute resolutions and the cost of usage, such as interest

payments. Another, much simpler, financial access indicator by Honohan (2008) is the fraction of the adult population in a given economy with access to formal financial intermediaries. In case of no available data on individual's financial access, the indicator is derived using information on bank account numbers. Beck et al. (2007) use the broader concept of financial development and the measure of private credit, which is the fraction of private sector credit over the GDP. Private sector credit does not include credits by the central bank or by development banks and captures the transformation of credit by savers through banks to private firms. The concept of financial inclusion can be classified as part of financial development in general. Levine (2005) states that financial contracts, markets and intermediaries are needed because of the costs of making transactions, enforcing contracts and acquiring information.

Throughout history, various types and combinations of transaction costs, information and enforcement, together with various legal, regulatory and regulatory systems produced different financial contracts, markets as well as intermediaries in different countries. Also, the development of bond and stock markets, as part of the financial development, may greatly change the extent and the products people use to allocate their savings. The allocation of resources across space and time is in this context a natural consequence of combating market frictions, as described by Merton and Bodie (1995). The emergence of banks clearly modifies the allocation of credit through the improved information about firms. Additionally, the confidence in the repayment of loans by firms will rise among investors through the use of financial contracts. This, in turn, is likely to impact people's decision of how to allocate their savings. There are various ways of how to classify the functions provided by the financial system. Merton and Bodie (1995) distinguish six core functions: The financial system provides means to clear and settle payments that facilitate trade, to pool resources and therefore to subdivide shares in firms and to provide ways to manage risk. It also provides ways to transfer economic sources across time, borders and industries, it provides price information and it provides means of how to solve incentive problems.

Levine (2015) concentrates on the following five functions, where the first two are the provision of information about possible investments beforehand and allocate financial resources and the monitoring of investments and exertion of corporate governance after providing finance. Through financial systems the trading, diversification and management of risk is facilitated, savings are mobilized and pooled and the exchange of goods and services is facilitated. The Impact of Financial Inclusion on Poverty in Low- and Middle-Income Countries 13 Even though all financial systems provide these core financial functions, there are big differences in the quality of how these functions are provided. So, financial development takes place when financial instruments, markets and intermediaries provide those functions in an improved way. Each of the stated functions may have an impact on investment and savings decisions. Financial sector development thus takes place the effects of information, enforcement, and transaction costs are eased by financial intermediaries, instruments and markets and therefore provide the core functions of the financial sector in the economy in a better way. According to the World Bank (2019), a proper measurement of financial development is important to assess the development of the financial sector and to understand the influence of financial development on economic growth and poverty reduction. In practice, however, it is difficult to measure financial development as it is a enormous concept including several dimensions.

The results obtained revealed that SMEs failed to get financial assistance due to among other financial barriers; the lack of information on financing options; the failure of SMEs to formalize their businesses; lack of proper financial statements demanded for by the lending institutions; lack of appropriate and adequate collateral; the high cost of borrowing; the intensity of documentation when attempting to access finance; financial indiscipline and poor credit history; and the negative image that lenders have about entrepreneurs. These were barriers to access of finance by entrepreneurs that were desirous of either starting up enterprises or growing their already existing ones. Central to the successful access of finance by SMEs was financial literacy and availability of information on the services and products that financial institutions and government agencies such as Citizens Economic Empowerment Commission (CEEC) offer. The lack of Information about the where to go to access finances by SMEs were cited barriers to access of finance by SMEs. This asymmetric information between the borrowers and lenders as is a problem to new SMEs who would want to enter the market and to some extent the older SMEs. The study by Nachibanga has brought important information on an Analysis of financial barriers to indigenous enterprise formation on the Copperbelt Province in Zambia. However, this study is limited because it did not specifically focus on assessing the level of financial literacy among SMEs. This has created an information gap in literature.

The (World Bank 2017) report on improving financial literacy in the Sub-Sahara revealed that the recent trend in finance and economics in developed countries made financial knowledge not just convenient, but an essential survival tool because of the fact that lack of financial knowledge leads to poor financial choice and decisions, which could result in undesired financial and economic consequences to individual, financial system and entire economy. The importance of improving personal financial literacy of population has become an important concern in policy making across countries in all regions.

The National Strategy on Financial Education for Zambia (2015) conducted a study on financial literacy on the working class in Zambia. The study used qualitative method using interviews. The findings revealed that many people lacked the knowledge, skills and confidence to be able to manage their finances well. The study further revealed that Zambia's low- and medium-income earners were typically not familiar with basic financial terminology, were not aware of the financial products and services that were available and were not confident to approach financial institutions, and did not have a positive attitude towards them.

The Finscope Survey of 2016 revealed that the financial education programmes and initiatives at national level remained fragmented in Zambia. This contributed to the high financial exclusion rate. The survey concluded that the National Financial Education Strategy was expected to galvanize existing initiatives and assist in generating a stream of resources in order to support sustainability over the long-term.

Some researchers found that those who completed university or college degree were more likely to be financially knowledgeable than those with low education level Almenberg and Save-Soderbergh (2011), In addition the correlation between literacy and

education is present at the early stages of lifecycle. It was revealed that children of college graduates perform better on numerical test. Nuwagaba (2015) conducted a study on Micro Financing of Small and Medium Enterprises (SMEs) in Zambia. The Research objectives were to assess micro financing in Zambia and how they can help in the development of SMEs sector in the country. The study was quantitative and tested the hypothesis that business shift from social factor to profit making by Micro finance institution contributed to poor funding of SMEs in the country. The study was done on two MFIs namely, Christian Enterprise Trust of Zambia (CETZAM) and Genesis.

The data was collected using interviews and review of SMEs data. It covered period of three years i.e. 2012-2014. Correlation coefficients were used to test data. The study, with regards to CETZAM, revealed that there was a strong correlation between business shift from social factor to profit making by Micro finance institution and poor funding of SMEs in the country. The study also found that MFIs were not willing to take risks on providing loans to SMEs that may even be lacking collateral and once this was not done, and then it hampered the development of the sector. This could be that microfinance might have been performing below standard due to lack of financial information on financial products and services. Financial literacy means different things to different people, and to this end, there is no universally agreed definition of financial literacy (Cude 2010; Huston 2010; Knoll & Houts 2012; Remund 2010; Schmeiser & Seligman 2013). However, United States Agency for International Development (USAID) (2009) define a financially literate SME owner as someone who makes sound financial decisions at various stages of the business cycle and shows an exceptional ability to secure correct financial products. The same individual is able to interact confidently with the suppliers of products and services. Financial literacy is acknowledged globally as a critical component of human capital that influences both financial stability and economic growth (Lusardi & Mitchell 2011; OECD 2013). The research is informed by two main theories, the resource-based theory and economic theories of savings and consumption.

According to the resource-based theory by Penrose (1959), later developed by Lippman and Rumelt (2003); Wernerfelt (1984); Barney (1991); Grant (1991) and Peteraf (1993), a firm's resources can be combined to create a competitive advantage (Alvarez & Busenitz 2001; Barney 1991; Ferreira, Azevedo & Ortiz 2011). This will enable a firm to identify new opportunities and new venture growth and consequently realise its full economic value (Foss 2011). Theories of savings and consumption, such as the relative income hypothesis by Duesenberry (1949), the life cycle theory of consumption and spending (Modigliani & Brumberg 1954) and the permanent income hypothesis (Friedman 1957) assume that consumers are able to vary savings and consumption during their lifetime and this requires exceptional levels of financial literacy (Lusardi & Mitchell 2011). It has been proven that financial literacy is essential in any economy (Arrellano et al. 2018; Cucinelli et al. 2019; Mancebon et al. 2019), and there are four groups of beneficiaries for financial literacy identified as the individual (Kezar & Yang 2010; Lusardi & Mitchell 2011), the economy (Capuano & Ramsay 2011; Lusardi & Mitchell 2011; RBZ 2016)

Financial literacy is important to the individual who makes daily decisions on budgets (Capuano & Ramsay 2011; Wachira & Kihui 2012), savings (Cole et al. 2011) and wealth creation (Japelli & Padulo 2013; Lusardi & Mitchell 2011), among other critical decisions. Previous research studies documented that the financially literate display an outstanding ability to manage their financial resources, they are active participants in the stock market as evidenced by their accumulation of a diversified portfolio of assets (Lusardi & Mitchell 2011), and are cautious of debt (Calderon 2014; Gerardi, Goette & Meier 2013; Wachira & Kihui 2012). To the financial sector, financial literacy also enhances efficiency through fostering market discipline (Wachira & Kihui 2012), ensuring efficient allocation of resources (Capuano & Ramsay 2011; Wachira & Kihui 2012) and facilitating an inclusive financial sector (Nunoo & Andoh 2012). For the small business owner, financial literacy is not an optional skill. Entrepreneurs who are financially literate make routine decisions that direct operations of the firm (Adomako et al. 2015). Most studies have concluded on a relationship between financial literacy and financial business outcomes (Adomako & Danso 2014; Bruhn & Zia 2011; Fatoki & Oni 2014; Lusardi & Scheresberg 2013). Lusardi, Mitchell & Curto (2009) mention that SMEs that make inappropriate financial decisions have a heavy presence in the informal financial systems and make incorrect borrowing decisions, such as taking up expensive debt, hence, the increasing interest in financial literacy of SMEs (Bruhn & Zia 2011; Cumurovic & Hyll 2019; Jayachandran & Pande 2010; McKenzie & Woodruff 2014). The need for financial literacy by SMEs has been emphasized by different scholars. Financial literacy is the mastery of a set of knowledge, attitudes and behaviors. It is defined by Nkundabanyanga and Kasozi (2014), as the ability of an individual to make informed judgment and take effective decisions regarding the use and management of money. They added that such person also possesses a facilitating attitude to the effective and responsible management of financial affairs. That is the ability to read, analyses, manage and communicate personal financial conditions that affect well-being and the ability to distinguish financial choices, discuss money and financial issues without discomfort. It has assumed the role in allowing people to make responsible decisions as they strive to attain financial wellbeing (Ani, Kelmara and Wesley, 2016). Financial literacy has become essential in the running of businesses and operations of organizations in the complex and dynamic environment today.

Atkinson and Messy (2012), added that governments around the world are interested in finding effective approaches of improving financial literacy of their populations through developing strategies for financial education with the main aim of providing various learning opportunities. Many countries have developed strategies for the implementation of financial education to improve financial literacy of their population as it is perceived as a life skill necessary for intelligent financial conduct in modern life and an important basis for the economic and financial stability of society and the state (Tali, 2016). Studies have been conducted on the importance of financial literacy on performance in terms of profitability and growth of SMEs and have shown that lack of financial literacy level among people around the world has cause business failures (Niwaha, Schmidt & Tumuramy, 2016). Many studies conducted on financial literacy focused on personal finance and fail to relate it to business management. They tend to look at factors like bookkeeping literacy, banking services literacy and ratio analysis on personal and household finance. These studies, however, focused on the numeracy skills of individuals and how these skills affected their financial decisions; no attempt was made to establish how the level of literacy of these individuals affected the performance of their businesses. Unlike the previous

studies, this study focused on various components of financial knowledge, financial behavior and financial attitude and how they affect the performance of SMEs

Dimensions of financial literacy

i. Financial Knowledge Financial knowledge is defined as the understanding of key financial terms and concepts needed to function daily (Huston, 2017). It is defined by (Potrich, Kelmar & Wesley, 2016) as a particular kind of capital acquired in life through the ability to manage income, expenditure and savings in a safe way. Financial knowledge is wisdom acquired through learning the ability to manage income, expenditure and savings in a safe way (Lusardi and Mitchell, 2008). Financial knowledge is associated with a number of “best practice” financial behaviors, including possessing an adequate emergency fund, monitoring credit reports, avoiding checking account overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection (Robb, 2014). The Organization of Economic Co-operation and Development (OECD), added that financial knowledge is an important determinant of whether the individual is financially literate, involving questions related to concepts such as simple and compound interest, risk and return and inflation (OECD INFE, 2011).

ii. Financial Behaviour Financial behavior as defined by Zeynep(2015) is the capability to capture of understanding overall impacts of financial decisions on one’s circumstances and to make the right decisions related to the cash management, precautions and opportunities for budget planning. Research has shown that financial literacy consistently predicts measures of financial behavior of individuals (Hung, Parker and Yoong, 2009). Sucuahi (2013) highlighted that a good financial behavior involves the ability to make financial decisions that increase wealth and prevent uncertainties of businesses and individuals. These activities generate more financial assets, prevent over indebtedness, finance retirement, and insure against major life contingencies.

iii. Financial Attitude Financial attitude can be defined as the application of financial principles to create and maintain value through decision making and proper resource management (Latif, Razak, and Lumpur, 2011). Financial attitude is one of the factors that have significant impact on financial management practice. It is defined by Eagly and Chaiken(1993) as psychological tendency that is expressed by valuating a particular entity with some degree of favor or disfavor”. That is, it is a psychological predisposition when it comes to agreeing or disagreeing with certain financial management practices. Latif et al.(2011) defined financial attitude as the creation of value in decision making and resource management through application of financial principles. Financial attitude is improved through procurement of adequate information (Abiodun, 2016).

Concept of small and medium scale enterprises performance Generally speaking, there is no consensus on the definition or nature of SMEs worldwide. Different countries, institutions and individuals have put forwards various descriptions of a small business based on some parameters. Obitayo (1991) argued that; the main criteria used throughout the world to describe small-scale enterprise include: number of employees, sales volume, financial strength, relative size, initial capital outlay, and independent ownership. Furthermore, Akinyande (2004) highlighted the definitions of small and medium scale industries by different institutions in Nigeria as follows: The Federal Ministry of Industry defines medium enterprise as the one having asset value of not more than N200million with not more than 300 workers, while it defines small-scale enterprise as the one having asset value of not more than N50million, with not more than 100 workers. Small and medium scale enterprises performance involves growth as a result of expanding the sales operations or assets and usually a major strategic objective of a business. SMEs performance is common to associate improvements in firm performance with increased profitability, higher efficiency and increased output (Teruel, 2008). Extant research addressing SMEs performance has relied on accounting-based financial indicators (Vuong, 2008; Van, 2010), market-based indicators as well as combinations of both (Waweru, 2009). Measures of small and medium scale enterprises performance The measures of small and medium scale enterprises performance used in this study are profitability and sales growth.

i. Profitability Profitability is the ability for an organization to make profit from its activities. Agha (2014) defines profitability as the ability of a company to earn profit. Profit is determined by deducting expenses from the revenue incurred in generating that revenue.

Financial knowledge is a very critical aspect of any decision making regardless of the subject matter, as it is argued to result in a more effective decision (Robb, 2014). It impacts key outcomes including borrowing, savings, investment and even future plans in terms of retirement income (Lusardi and Mitchell, 2014). In 2006, Lusardi and Michell proposed that financial literacy is needed to create a measure of financial competence in terms of participation in financial market and ability to manage financial matters. A few researchers have attempted to show the relationship between financial knowledge and growth in terms of profitability and size of businesses. Lusardi and Mitchell (2014) have conducted various surveys on financial literacy and have come up with set of questions that are commonly used to measure financial knowledge. They performed an examination on the impacts of financial literacy on economic decision making in the United States and elsewhere.

ii. Financial behaviour and SMEs performance The profitability of micro and small enterprises highly depends on the financial decisions that are made by the owners ranging from financing to working capital management and saving decisions. Given that Micro and small enterprises have significant impact on economic activity of most countries, a low financial skill or poor financial behavior might have an adverse effect in the future of the business (Sucuahi, 2013). Good financial behavior leads to competitiveness in a globalized economy and financial illiteracy would lead to shut down of the business. It has been argued that a good financial foundation of the business owners is a significant barometer of the success and growth of the enterprises in the competitive environment (Lusardi and Mitchell, 2007).

Financial attitude and SMEs performance Financial attitude such as the risk averseness, time orientation, social environmental factors and training may add value to the profitability of a business. The willingness to learn more on how to manage finances is also of benefit to business owners because it will allow for the application of learnt financial concepts into practice. Financial attitude of business owners is improved through procurement of adequate information (Abiodun, 2016).

Many studies have shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation to mention a few. Review of Related Empirical Studies Chepkemoi (2007) examined the effects of financial literacy training on business profitability of SMEs in Coastal region Kenya using Kwale Country as a case study. The study used a sample of 74 SMEs drawn from the 3 sub-countries of Kwale which included Kinang, Matuga and

Msanbweni. The research design used was descriptive survey methods which involve the use of questionnaires and interviews. The population of the study included SMEs who benefited from the training offered by World Bank through the Kenya Coastal Development Project in Kwale country. Simple random sampling method was used to determine the sample size. The finding of the study established that financial literacy training positively influenced the performance of International Journal of Economics, SMEs and profitability. The study concluded that financial literacy affected profitability of SMEs and it recommended that financial institutions should provide training to the SMEs to build their capacity on the available financial products and how to access them. The study used both questionnaire and interview as data collection instrument however this present study used questionnaire only to collect data from the respondents. Njoroge (2013) assessed the relationship between financial literacy and entrepreneurial success in Nairobi County Kenya. The objective of the study was to find out whether there is a relationship between entrepreneurial success and SMEs success by interviewing a sample of seventy-nine entrepreneurs who are registered and operates in Nairobi County. The samples were randomly picked from a population of 27,485 SMEs where questions in both financial literacy and SMEs success were asked. The data collected was then analyzed to establish relationship between financial literacy and SMEs success. The findings of the study indicated that, all the SMEs interviewed were found to have some level of financial literacy and on average most entrepreneurs scored well above average in financial literacy. Highly successful entrepreneurs scored highly in financial literacy and demonstrated high understanding of finance. In contrast, less successful entrepreneurs exhibited stagnant growth, and low level of financial literacy majority of who were found to be in informal sector. The study concluded that there was a positive relationship between financial literacy and entrepreneurial success in Nairobi County. It also concluded that financial literacy plays a key role in SMEs success both in formal and informal sectors. The study recommended that business owners and entrepreneurs need to be literate in order to succeed in their businesses. The measures of financial literacy used in the study are replicated in this present study. The study unlike this study used interviews which creates the gap for this present study. Cherugong (2013) examined the effect of financial literacy on performance of small and medium enterprises in Trans Nzoia County, Kenya. The study was carried out to examine the aspect of the present day financial literacy of small and medium scale enterprises in Trans Nzoia County on business performance. More specifically, the study addressed the effect of financial literacy on performance of small and medium enterprises in Trans Nzoia County. The study used a descriptive research design. A sample of 85 SMEs was selected using stratified random sampling technique. The study population was stratified as hardware businessmen, clothes dealers, general retail traders and others. The study employed questionnaires to collect data from the field. Data collected were analyzed with the aid of Statistical Package for Social Sciences (SPSS 20). Data was then tabulated and presented using descriptive statistics. The results of the study indicate that more performing SMEs employ more than three permanent employees, have been in business for more than five years, has an annual revenue growth of more than 10% and are basically financial literate. Secondly it was established that there was a positive strong effect of financial literacy on SMEs performance. The research focused on 109 small and medium entrepreneurs in Urwego Opportunity Bank. A descriptive survey design was adopted in the study and questionnaire was used as the instrument of data collection. Regression analysis was used for test of hypotheses and findings of the study revealed that the quality of financial information available for financing institutions is rather poor. It also indicated that credits decisions become difficult and collateral requirements as well as interest rates are high, substantially aggravating access to credit and controlling the loan Book was equally difficult. It concluded that the combinations of smaller enterprises without access to cash to grow their business and banks, which are increasingly reluctant to lend to smaller clients, hamper much needed economic and social development.

2.3 Relationship between financial inclusion and access to financial services

Demirgüç-Kunt, & Levine (2012) develop a framework which identifies four sets of proxy variables characterizing a well-functioning financial system: financial depth, access, efficiency, and stability. In this context, financial depth is the size of financial institutions and markets and financial access is the extent to which people can and also make use of financial services. Efficiency represents the efficiency of financial intermediaries and markets when facilitating transactions and providing means to intermediate resources and the stability is the stability regarding financial institutions and markets. Here, it can be seen that the concept of financial inclusion is part of the broader concept of financial development. In particular, financial inclusion is one dimension of financial development, since it considers rather the access, availability and usage of financial products and services. The Effects of Financial Inclusion on Household Income Inflation has far-reaching consequences for businesses, affecting various cost components that ultimately impact profitability. This study investigated the effects of inflation on cost components. Inflation leads to increased material costs as suppliers pass on higher prices to manufactures (Mweene, 2018). This is particularly significant for industries heavily reliant on raw materials, such as construction and manufacturing (Bhattacharya et al., 2019). A study by International Monetary Fund found that a 1% increase in inflation leads to a 0.5% increase in material costs (IMF, 2020). Research has further investigated the effects of inflation on firm profitability to have an indirect impact through labor costs. Studies revealed that inflation not only does it affect firms' profitability through material costs but also through labor costs as it drives up labor costs, as employees demand higher wages to maintain their purchasing power (Gordon, 2019). This can lead to increased production costs and reduced profit margins (Mishkin, 2016). Research by the Federal Reserve Bank of New York found that a 1% increase in inflation leads to a 0.7% increase in labor costs (FRBNY, 2019). Overhead costs, including rent, utilities, and insurance, also rise with inflation (Cavusgil et al., 2019).

Businesses may need to absorb these increased costs or pass them on to consumers (Kotler et al., 2017). As study by the bureau of labor statistics found that overhead costs increase by 0.3% for every 1% increase in inflation (BLS, 2020). Not only does inflation affect firm profitability through overhead costs, inflation can also lead to higher energy costs, particularly for industries reliant on fossil fuels (IEA, 2020). This can have a significant impact on profitability, especially for energy-intensive industries (IEA, 2020). Research by the International Energy Agency found that a 1% increase in energy costs (IEA, 2020). The impact of inflation

on a firm’s profitability is also significant. Inflation can lead to higher costs for firms, as they must pay more for raw materials, labor, and other inputs (Subramanian & Rao, 2016). This can lead to a decrease in profit margins, making it more difficult for firms to maintain profitability (Porter, 2011). However, some firms may be able to pass on these increased costs to consumers through higher prices, mitigating the impact on profitability (Kotler & Keller, 2016). Based on these findings, it is imperative in this study to conclude inflation has a profound impact on various cost components, including material costs, labor costs, overhead costs, and energy costs

3. Research Methodology

3.1 Research Design

In conducting this study, the use of a quantitative approach was useful in order to sharpen the research methods suitable for the subject matter under investigation.

3.2 Target Population.

The target population was from the respondents who have various businesses under SMEs in Lusaka. The estimated total is well more than 2000 in the district.

3.3 Sample Size

A sample size of 98 different respondents from the SMEs was used from a target of 100. The justification was centred on time limitation as well as the similarities in attributes across the SMEs.

3.4 Sampling Procedure

A purposive random sampling was used to secure the representative sample.

3.5 Data Analysis

Data was analysed in MegaStat and much of the analysis was qualitative.

4. Research Results/Findings

4.1 Characteristics of Respondents

Based on the data collected from 98 respondents, the study presents a detailed profile of the individuals involved in SMEs in the surveyed area. The gender distribution shows a slightly higher representation of males, with 54 respondents (55.1%) being male, while 44 respondents (44.9%) were female, indicating a relatively balanced gender composition among SME owners and managers. In terms of age, the respondents were predominantly in the 35–44-year age bracket, comprising 43 individuals (43.8%), followed by 37 respondents (37.8%) aged 25–34 years, and 18 respondents (18.4%) below 25 years. This suggests that SMEs in the area are largely managed by young to middle-aged adults, who are likely in their most economically active years. Regarding educational qualifications, a significant portion of the respondents had attained formal education, with 50 respondents (51.0%) holding a bachelor’s degree, 42 respondents (42.9%) having completed secondary education, and only 6 respondents (6.1%) reporting no formal education. This indicates that the majority of SME owners and managers possess at least a secondary-level education, which could influence their business management skills and decision-making. When considering their positions within the business, most respondents were owners, accounting for 69 individuals (70.4%), while 31 respondents (31.6%) were serving as CEOs or founders, highlighting that the sample was largely composed of decision-makers with significant influence over business operations. Lastly, the type of business operated by respondents was primarily retail, with 64 respondents (65.3%) engaged in retail activities, and 34 respondents (34.7%) involved in manufacturing, demonstrating a higher prevalence of retail enterprises among SMEs in the surveyed high-density areas.

Table 1: Summary of Demographic Attributes

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	54	55.1
	Female	44	44.9
Age	Below 25 years	18	18.4
	25–34 years	37	37.8
	35–44 years	43	43.8
Educational Qualification	No formal education	6	6.1
	Secondary education	42	42.9
	Bachelor’s degree	50	51.0
Position in Business	Owner	69	70.4
	CEO/Founder	29	29.6
Type of Business	Retail	64	65.3
	Manufacturing	34	34.7

4.2 Types of financial inclusion mechanisms utilized by SMEs high density areas of Lusaka

The study examined the types of financial inclusion mechanisms utilized by SMEs in the surveyed area. The findings indicate that the majority of SMEs (42%) primarily used mobile money services for their financial transactions. Village banking or savings

groups were also commonly used, with 31% of respondents participating in such community-based financial arrangements. Microfinance institutions (MFIs) accounted for 22% of usage among SMEs. In contrast, traditional banking services were the least utilized, with only 5% of SMEs reporting their use, suggesting limited engagement with conventional banks among small business operators in the area.

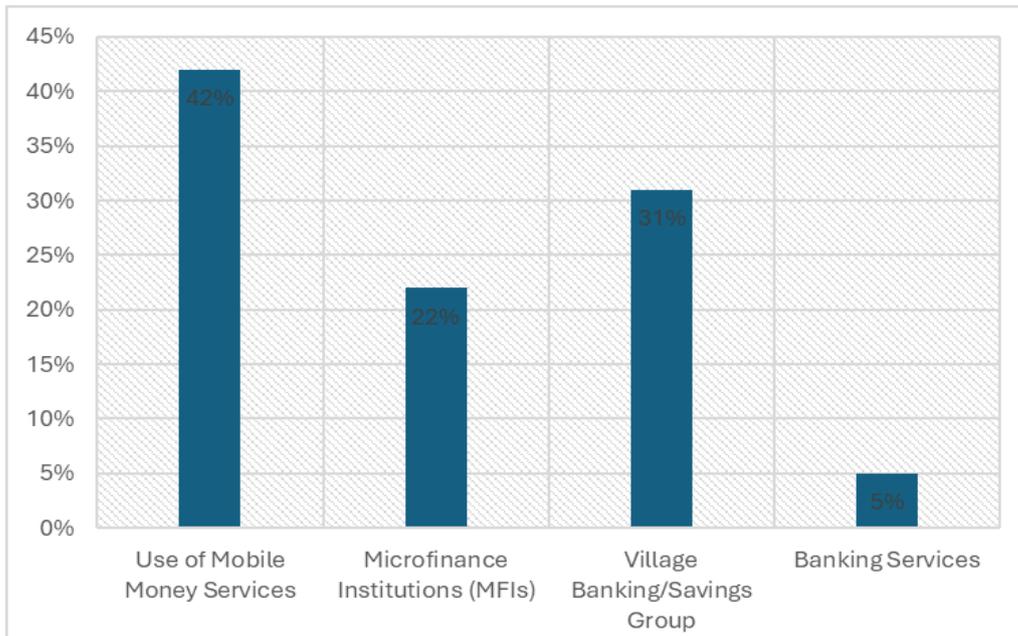


Figure 1: Types of Financial Inclusion Mechanisms

The study sought to find out from the respondents in categories of their preferred type of financial inclusion. Those who used mobile money services were majority and expressed preference due to speed, convenience and accessibility of the services. One participant said,

'I prefer Airtel Money because it allows me to complete transactions quickly and efficiently, especially in areas where banks are not easily accessible.' [SME03]

Another one, SME07 added *'Using Airtel Money is very convenient for my daily business operations since I can send and receive payments without any long queues at the bank.'*

The researcher sought to find out from the respondents who indicated preference of Microfinance Institutions (MFIs) as type of financial inclusion. 22 of the respondents who indicated accessing loans accounted for 16 (72.7%) while those utilizing saving products from MFIs accounted for 6 (27.27%).

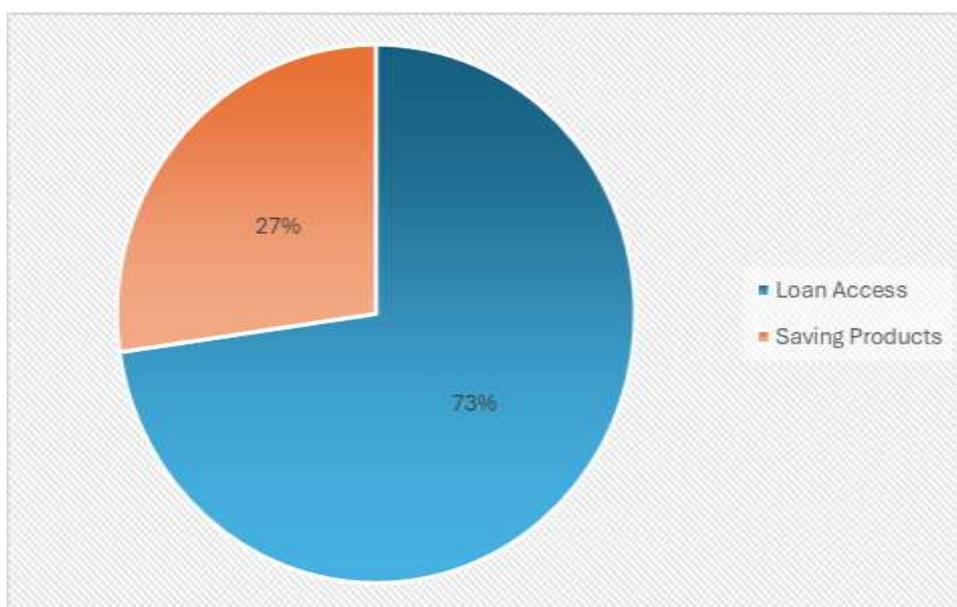


Figure 2: Proportion of financial services types

The study established the different preferences of Village banking/saving group as type of financial inclusion. The respondent indicates preference of informal mechanisms like rotating savings groups (chilimba) and cooperatives. One of the respondents' interview indicated that,

'We rely on informal mechanisms like chilimba and local cooperatives to save and access funds when we need them, because formal banks are too far or require complicated procedures.' [SME02]

Another one added,

"Joining a rotating savings group has really helped our business. Through cooperatives, we can pool our money together and support each other without depending on banks." [SME03]

Furthermore, the table below capture the categories for those who preferred banks and also expressed barriers.

Table 2 Access and Barriers

Theme	Key Findings	Respondents (n=5)	Percentage (%)
Access to Formal Financial Services	SMEs generally have access to formal bank accounts, enabling structured financial engagement.	1	10%
Barriers to Using Personal Accounts	SMEs rarely use personal accounts for business due to high fees and cost considerations.	4	90%

4.3 Determining the effects of financial inclusion on SMEs growth

In matters related to accessing credit and business expansion, majority respondents (73%) indicated access to microloans while digital credit facilities recorded 27%.

Table 3: Effect of FI on SMEs Growth

Variable	Mean	Standard Deviation (SD)	Observation	Explanation
Financial Inclusion (Participation in financial services; scale 1-5)	3.72	0.84	98 SMEs surveyed	Indicates moderate participation of SMEs in financial services
Access to Financial Services (Availability and use of services; scale 1-5)	3.55	0.91	98 SMEs surveyed	Shows that SMEs have moderate access to financial services
Correlation (r)				0.68 – Positive

Respondents reported that these financial inclusion mechanisms enabled them to expand their operations, purchase additional stock, and increase their business capacity as summarised in figure 3 below,

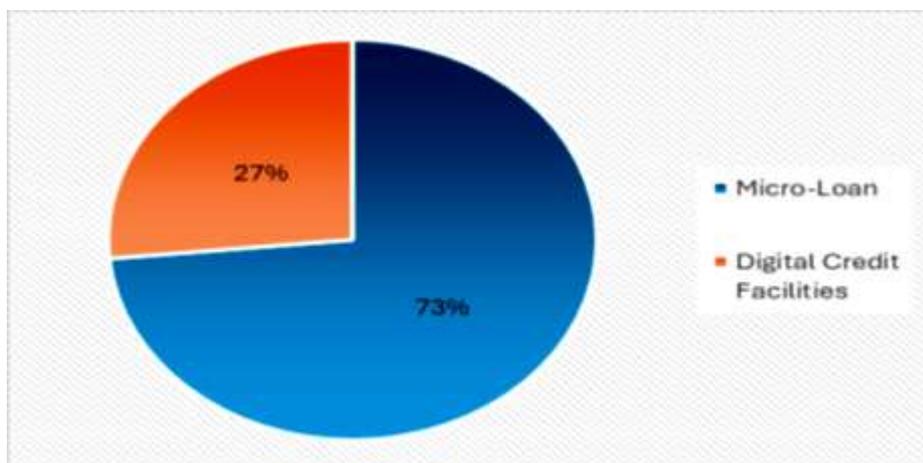


Figure 3: Mechanisms of Financial Inclusion Additional Services

In matters related to improved financial management through formal accounts, interviews revealed that formal banking encouraged SMEs to separate business and personal money, which in turn enhanced financial planning and accountability among

small business owners. One of the respondents urged; *“Having a business account helped me keep my business money separate from my personal spending. It makes it easier to track what comes in and goes out, so I can plan better and stay accountable.”* [SME09].

In matters related to increased market reach via Digital Payment Systems, 59.2% of respondents agreed that using the digital payment attracted new customers while 40% did not agree.

Table 4: Effect of Digital Payments on New Customers

Response Category	Number of Respondents	Percentage (%)
Agreed (using digital payments attracted new customers)	58	59.2%
Did not agree	40	40.8%
Total	98	100%

Matters related to enhanced savings and business resilience interviews revealed that financial inclusion initiatives, such as access to mobile savings platforms and group savings schemes, *‘helped us save small amounts regularly,’* making it easier to accumulate funds over time [SME04]. Another one added that *“this consistent saving habit not only strengthened financial discipline but also provided a safety net for emergencies and unexpected expenses. Many participants added that even modest savings contributed to long-term goals such as business growth, household improvements, and children’s education, thereby fostering a sense of financial security and empowerment among small business owners and low-income earners.”* [SME07].

4.4 Ascertaining the relationship between financial inclusion and access to financial services

The correlation coefficient of 0.68 indicates a positive relationship between financial inclusion and access to financial services. SMEs that are more engaged in financial inclusion activities like using mobile money platforms, opening bank accounts, or obtaining microloans; are more likely to report improved access to financial services. This implies that promoting financial inclusion can directly enhance SMEs’ ability to utilize financial resources efficiently for business growth as shown in the statistical table below.

4.5 identifying the limitations of financial inclusion and SMEs economic enhancement

The data indicates that the most significant barrier faced by respondents is high transaction costs (28%), which many small business owners noted as a major constraint to their daily operations and profitability. This is followed by limited access to credit facilities (24%), reflecting ongoing difficulties in obtaining affordable financing for business expansion. Lack of financial literacy (18%) and inadequate digital infrastructure (14%) further limit entrepreneurs’ ability to utilize available financial tools effectively. Meanwhile, collateral requirements (10%) and low trust in formal financial institutions (6%) were identified as less frequent but still relevant issues, highlighting persistent structural and perception-based barriers to financial inclusion among respondents.

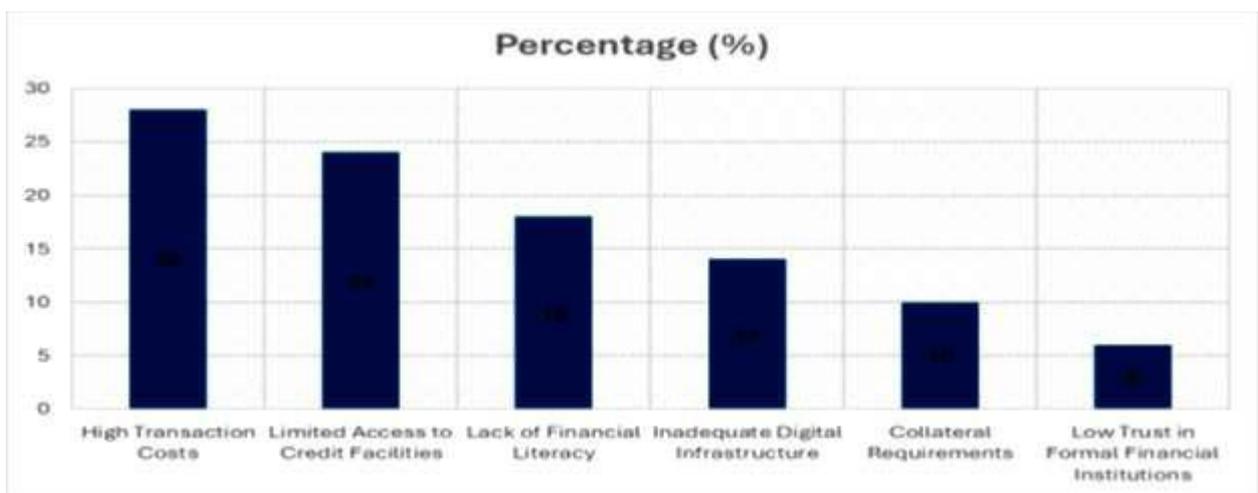


Figure 4: Limitations of Financial Inclusion

The study inquired further on why high transaction was reported as a major limitation. The respondents provided information that led to the findings below. The table presents findings on the main barriers affecting financial inclusion among respondents. The most significant challenge identified is high transaction costs (28%), which many small business owners highlighted as a major constraint to their day-to-day operations and overall profitability. This barrier limits their ability to conduct frequent transactions, discourages the use of formal financial services, and reduces profit margins. Other challenges include limited access to credit facilities (24%), lack of financial literacy (18%), and inadequate digital infrastructure (14%), while collateral requirements (10%)

and low trust in formal financial institutions (6%) were less frequent but still notable. Overall, the results suggest that reducing transaction costs could play a critical role in enhancing financial participation and sustainability for small enterprises.

Table 5: Performance Challenges of FI

Sub-Result Category	Description	Percentage (%)
Increased Operating Expenses	<i>Respondents indicated that high mobile money and bank charges significantly increase daily business costs.</i>	10%
Reduced Profit Margins	<i>Many SMEs reported that transaction fees reduce their overall profitability, affecting reinvestment capacity.</i>	8%
Preference for Cash Transactions	<i>Some business owners avoid digital payments to minimize costs, limiting participation in formal financial systems.</i>	6%
Limited Customer Transactions	<i>High costs discourage frequent transactions, especially for small-value sales.</i>	4%
Total	High Transaction Costs as a Barrier	28%

The researcher inquired further through an interview on why limited access to credit facilities was reported as a second major limitation. The findings reveal that limited access to credit facilities is the second most significant barrier, affecting 24% of respondents. Many small business owners reported that obtaining credit from formal financial institutions remains a major challenge due to stringent eligibility criteria, high collateral demands, and lack of financial history. As a result, most SMEs rely on informal lending sources or personal savings to sustain their operations. Participants noted that even when credit options are available, the loan amounts are often too small to meet business needs, and repayment periods are short. This limited access restricts business expansion, procurement of raw materials, and investment in new technologies. Respondents emphasized that easing access to affordable credit could significantly enhance their productivity and competitiveness in local markets. Participant SME02 stated that, “Banks ask for collateral we don’t have, so we end up borrowing from friends or informal groups just to keep the business running.” This sentiment underscores the persistent financing gap that hinders small enterprise growth and long-term stability.

5. Discussion of Findings

5.1 Types of financial inclusion mechanisms utilized by SMEs high density areas

The study’s findings indicate that the majority of SMEs in the surveyed area primarily rely on mobile money services (42%) for their financial transactions. This is consistent with the broader literature highlighting the growing role of digital financial services in increasing access to financial products, particularly in regions where conventional banking infrastructure is limited (World Bank, 2022). Respondents indicated that mobile money is preferred due to its speed, convenience, and accessibility, reflecting global trends where mobile money services have reduced barriers to account ownership and facilitated financial inclusion, particularly in Sub-Saharan Africa (World Bank, 2022; G20/OECD, 2022). One respondent noted, “I prefer Airtel Money because it allows me to complete transactions quickly and efficiently, especially in areas where banks are not easily accessible” [SME03]. This illustrates how digital solutions can bridge geographic and logistical gaps in financial access. Village banking and savings groups, including informal mechanisms like chilimba and cooperatives, were utilized by 31% of respondents. These findings support existing literature emphasizing the importance of community-based savings and lending as a financial inclusion mechanism, particularly for populations underserved by formal financial institutions (Kelley & Schmidt, 1996; Yasin, 2007). Respondents highlighted the practicality and social support inherent in such arrangements: “Joining a rotating savings group has really helped our business. Through cooperatives, we can pool our money together and support each other without depending on banks” [SME03]. Informal financial structures, while outside formal regulatory frameworks, often enhance resilience, promote savings behavior, and enable access to working capital in contexts where formal banking is less accessible.

Microfinance institutions (MFIs) accounted for 22% of SME usage, primarily for loans (72.7%) rather than savings products. This aligns with the literature suggesting that MFIs provide crucial credit access to SMEs, enabling investment in growth and mitigating capital constraints (World Bank, 2022; G20/OECD, 2022). The reliance on MFIs also reflects the persistent financing gap for small businesses in developing regions, estimated at \$5.7 trillion globally, which disproportionately affects MSMEs (World Bank, 2022).

Traditional banks were the least utilized financial inclusion mechanism, with only 5% of respondents reporting use. Barriers identified include high fees, distance, and complicated procedures, echoing the literature that notes high transaction costs and administrative burdens as significant constraints for SMEs engaging with formal banking systems (World Bank, 2022). One respondent mentioned, *“We rely on informal mechanisms like chilimba and local cooperatives to save and access funds when we need them, because formal banks are too far or require complicated procedures”* [SME02]. These findings demonstrate that physical accessibility and cost considerations remain major determinants of financial inclusion for SMEs in developing regions.

Overall, the findings support the view that financial inclusion mechanisms; whether digital, formal, or informal; play a critical role in fostering economic growth, resilience, and entrepreneurship. Access to mobile money and MFIs enables SMEs to manage liquidity, expand operations, and invest in business growth, aligning with literature emphasizing financial inclusion as a driver of productivity, economic empowerment, and sustainable development (World Bank, 2022; Kelley & Schmidt, 1996). Moreover, the prevalence of informal savings mechanisms underscores the continued relevance of community-based financial solutions in complementing formal services.

5.2 Determining the effects of financial inclusion on SMEs growth

The findings from this study demonstrate the significant role of financial inclusion mechanisms in supporting the growth, management, and resilience of SMEs. In terms of access to

credit and business expansion, the majority of respondents (73%) relied on microloans, while 27% utilized digital credit facilities. This aligns with the broader understanding of financial inclusion as not merely the provision of financial products but also their accessibility and usage by underserved populations (Sarma, 2008; Amidžić et al., 2014). Microloans and digital credits appear to directly enhance SME capacity, allowing for expansion, stock acquisition, and overall operational growth, which resonates with the resource-based theory (Penrose, 1959; Barney, 1991) suggesting that firms leverage available resources to gain a competitive advantage.

The study further highlights that formal banking contributes to improved financial management. SMEs that maintained business accounts were able to separate personal and business finances, enhancing financial planning and accountability. This observation is consistent with the literature indicating that financial literacy and access to formal financial services empower business owners to make informed financial decisions, improve resource allocation, and strengthen accountability mechanisms (Lusardi & Mitchell, 2011; USAID, 2009; Wachira & Kihui, 2012). The respondent’s testimonial underscores the practical implications of financial knowledge and behavior in facilitating better cash management, consistent with the dimensions of financial literacy outlined in the literature: financial knowledge, financial behavior, and financial attitude (Huston, 2017; Zeynep, 2015; Latif et al., 2011).

Regarding the use of digital payment systems, 59.2% of respondents agreed that digital payments increased market reach by attracting new customers. This reflects the literature on the transformative effect of financial technology on SMEs’ operational efficiency and market expansion (Honohan, 2008; Beck et al., 2007). Digital payments reduce transaction costs and enhance customer convenience, facilitating greater participation in formal economic activities and aligning with the principles of financial inclusion that emphasize both accessibility and effective usage of financial services (Amidžić et al., 2014; World Bank, 2019).

The findings also indicate that financial inclusion mechanisms, such as mobile savings platforms and group savings schemes, contributed to enhanced savings and business resilience. SMEs emphasized that regular small savings fostered financial discipline, provided a safety net for emergencies, and enabled investments in business growth and household welfare. This echoes previous studies that link financial inclusion and literacy to improved savings behavior, wealth accumulation, and long-term economic security (Parasad & Chamon, 2006; Lusardi & Mitchell, 2011; Chepkemoi, 2007). Savings behavior is further influenced by demographic and socio-economic factors, as highlighted in studies on household savings and financial decision-making (Bosworth & Reich, 2006; Leff, 2005), indicating that financial literacy and access to formal mechanisms can mitigate structural barriers to financial participation. However, the study also confirms persistent barriers to financial inclusion. SMEs face challenges such as lack of information on financial products, inadequate collateral, high borrowing costs, and the reluctance of financial institutions to extend credit without formal documentation or strong credit history. These constraints reflect findings by Nuwagaba (2015) and Nachibanga, indicating that microfinance institutions, while critical, are often risk-averse and underperform in reaching underserved SMEs. The literature further supports that financial literacy plays a critical role in bridging this gap, enabling SME owners to navigate complex financial systems and improve access to credit (Lusardi & Scheresberg, 2013; Adomako et al., 2015).

5.3 Relationship between financial inclusion and access to financial services

The findings of this study demonstrate a strong positive relationship between financial inclusion and access to financial services among SMEs, as evidenced by the correlation coefficient of 0.68. This suggests that SMEs actively participating in financial inclusion mechanisms, such as mobile money platforms, formal bank accounts, or microloans, are more likely to experience improved access to financial services. The moderate engagement of SMEs in financial services (mean = 3.72, SD = 0.84) and moderate access to financial services (mean = 3.55, SD = 0.91) indicate that while there is progress in financial inclusion, there remains room for enhancement, particularly in creating more inclusive mechanisms tailored to SMEs.

These results are consistent with the broader literature, which emphasizes the role of financial inclusion in enhancing SME performance. Beck et al. (2007) and Demirgüç-Kunt et al. (2018) highlight that access to formal financial services enables firms to manage liquidity more effectively, increase investment capacity, and improve operational efficiency. Similarly, empirical studies in emerging economies show that digital financial services, particularly mobile money, significantly reduce barriers to credit and financial management for small enterprises (Jack & Suri, 2014; Suri, 2017). These findings underscore the importance of leveraging inclusive financial mechanisms to promote SME growth.

Furthermore, the study's findings intersect with issues of financial literacy, a critical determinant of financial inclusion. The World Bank (2017) and the National Strategy on Financial Education for Zambia (2015) emphasize that limited financial knowledge among low- and medium-income populations constrains the effective use of financial services. SMEs with limited awareness of financial products, low confidence in approaching financial institutions, or poor understanding of financial management principles are less likely to fully benefit from financial inclusion initiatives. This aligns with studies showing that educational attainment positively correlates with financial knowledge (Almenberg & Save-Soderbergh, 2011), and that lack of financial literacy contributes to suboptimal borrowing and investment decisions in SMEs (Lusardi, Mitchell & Curto, 2009; Bruhn & Zia, 2011).

Microfinance institutions (MFIs) also play a pivotal role, but findings from Nuwagaba (2015) indicate that a shift from socially oriented lending to profit-driven models limits SME funding, especially when collateral is required or financial information is insufficient. This suggests that while financial inclusion mechanisms exist, structural and informational barriers persist, constraining SME growth.

From a theoretical perspective, the results can be interpreted through the lens of the resource-based view (Penrose, 1959; Barney, 1991), which posits that firms' resources—including financial resources and the capability to utilize them effectively—are critical to achieving competitive advantage and growth. Financially literate SMEs can better combine available resources, identify growth opportunities, and leverage inclusive financial mechanisms to maximize economic value (Ferreira, Azevedo & Ortiz, 2011). Economic theories of savings and consumption further reinforce that effective financial management, informed by literacy, enables SMEs to make strategic investment and savings decisions over the business lifecycle (Modigliani & Brumberg, 1954; Friedman, 1957).

5.4 Limitations of financial inclusion and household social economic enhancement

The findings from the study indicate that small and medium-sized enterprises (SMEs) face multiple barriers to financial inclusion, with high transaction costs emerging as the most significant challenge (28%). This aligns with the literature emphasizing the critical role of financial resources in determining firm performance. As the Resource-Based View (RBV) suggests, tangible resources such as financial capital are essential for sustaining competitive advantage and supporting strategic firm operations (Eniola & Entebang, 2014; Barney, 1991). High transaction costs, including elevated mobile money and bank charges, reduce SMEs' available financial capital, thereby limiting their ability to invest in operations, expand their businesses, and maintain profitability. This is consistent with observations by Ihua (2009) and Wiklund and Shepherd (2005) that access to financial resources positively influences firm performance, while increased costs can constrain operational efficiency and growth potential. Limited access to credit facilities, affecting 24% of respondents, further reinforces these resource-based constraints. SMEs often struggle to obtain formal financing due to high collateral requirements, stringent eligibility criteria, and insufficient financial history. This resonates with the literature noting that access to external financing enables firms to acquire productive resources, implement technological innovations, and pursue growth opportunities (Hewitt-Dundas, 2006; Eniola & Entebang, 2014). As participants highlighted, reliance on informal lending channels or personal savings often results in suboptimal investment and restricted expansion, directly impacting firm performance.

Lack of financial literacy (18%) and inadequate digital infrastructure (14%) compound these challenges. Lusardi and Tufano (2009) emphasized that financial literacy, including debt management and financial decision-making, is critical for effective resource utilization and strategic management. Moore (2003) also highlights the importance of practical financial experience in shaping knowledge and behaviors. Without sufficient financial literacy, SMEs are less able to navigate complex financial systems, leading to underutilization of available services and suboptimal firm outcomes.

Finally, collateral requirements (10%) and low trust in formal institutions (6%) underscore structural and perception-based barriers to financial inclusion. These factors reflect broader challenges identified in the literature regarding SMEs' ability to access strategic resources and achieve superior performance (Barney, Wright, & Ketchen, 2001; Eniola & Entebang, 2014). Collectively, the findings indicate that reducing transaction costs, improving access to affordable credit, and enhancing financial literacy could significantly strengthen SMEs' resource base, enabling improved operational efficiency, competitiveness, and overall performance.

In essence, the study supports RBV principles, suggesting that SMEs' constrained access to financial resources; whether through high transaction costs, limited credit, or low financial literacy; directly limits their capacity to deploy strategic resources effectively, innovate, and achieve sustained competitive advantage.

6. Conclusion and Recommendations

6.1 Conclusion

The study demonstrates that financial inclusion mechanisms play a critical role in promoting the growth, resilience, and operational efficiency of SMEs in high-density areas. Findings indicate that mobile money services are the most widely used mechanism, offering speed, convenience, and accessibility in contexts where conventional banking is limited. Village banking, savings groups, and cooperatives complement formal financial services by providing community-based support, while microfinance institutions primarily facilitate access to credit. Traditional banks remain the least utilized due to high fees,

procedural complexities, and limited accessibility. Financial inclusion mechanisms, including digital platforms and microloans, significantly enhance SMEs' capacity to expand operations, manage liquidity, and improve financial planning. Furthermore, SMEs that engage with formal financial systems exhibit better separation of personal and business finances, fostering accountability and strategic resource allocation. The study also highlights persistent barriers, including high transaction costs, limited credit access, low financial literacy, and inadequate digital infrastructure, which constrain the ability of SMEs to fully leverage financial resources. These findings align with the Resource-Based View, indicating that access to financial capital and the ability to utilize it effectively are crucial for competitive advantage and sustainable growth. Overall, financial inclusion emerges as a pivotal enabler of SME performance, entrepreneurship, and household socioeconomic enhancement in underserved regions.

6.2 Recommendations

1. Promote mobile money adoption and digital payment literacy to enhance transactional efficiency and market reach for SMEs.
2. Strengthen community-based savings and cooperative structures to provide alternative, accessible financial support.
3. Expand access to affordable credit through microfinance institutions and tailored SME loan products.
4. Implement financial literacy programs to improve SME owners' understanding of financial management and strategic resource utilization

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