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RELATIONSHIP BETWEEN FINANCIAL LITERACY AND BORROWING BEHAVIOUR OF SMALL-SCALE BUSINESS OWNERS IN HOMA BAY TOWN, KENYA

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ABSTRACT

Small-scale businesses play an important role in the global economy with over 60% of the population depending on them for employment. About 30% of the population in Kenya depends on Small-scale businesses for their livelihoods. However, up to 70% of the businesses are collapsing under the burden of unserviced loans. In Homa Bay town, 60% of the non-performing loans portfolio among commercial banks is from small-scale businesses, suggesting poor borrowing behaviour. While prior studies indicate that financial literacy generally influences borrowing behaviour, there is no clear link between financial literacy and borrowing behavior of small-scale business owners, particularly in Homa-bay town. On this basis, the study sought to establish the relationship between financial literacy and borrowing behavior among the small business owners. It was guided by correlational research design and anchored on the theory of Reasoned Action and the theory of Planned Behaviour. Out of 1220 business, a sample of 301 small scale business owners was taken. Stratified random sampling technique was used to draw individual respondents. Primary data were collected using questionnaires while secondary data were from the business records. Reliability coefficient for the questionnaires was 0.815 and content validity index was 0.723. Peason correlation and multiple regression were used to establish the relationship. The study revealed that 65% and 49.8% changes in the borrowing behaviour were associated with the business owners' knowledge of key money concepts and knowledge on the financial institutions respectively. The estimated model could explain up to 59.6% variations in the borrowing behaviour of the business owners. The study concludes that borrowing behavior of the small-scale business owner is significantly related to the owner's financial literacy. It is recommended that the small-scale business owners be educated more on financial matters, particularly the key money concepts and the existing financial institutions. Findings from the study may benefit both the borrowers and lenders in financial planning. Researchers may also use the findings as a source of literature for further research in the field of study.

KEY WORDS: *Financial literacy, Borrowing behaviour, Small-scale businesses, Kenya*

BACKGROUND TO THE STUDY

Borrowing behavior remains an interesting issue in both developed and developing economies and has drawn a lot of attention among scholars. It is seen as a combination of consumers' and investors' understanding of financial products and concepts as well as their ability and confidence to appreciate financial risks and opportunities, and to make informed decisions (Miller *et al.*, 2009). Financial literacy on the other hand is the ability to make informed judgments and to make effective decisions regarding the use and management of money (Worthington, 2005), and it enables individuals to build their financial skills and give them confidence to undertake financial decisions for their pension schemes (Agnew *et al.,* 2007).

The key competencies of financial literacy are money basics, budgeting, saving and planning, borrowing and debt literacy (Schagen and Lines, 2002). Schagen and Lines (2002) further argue that a financial-literate person would demonstrate three critical abilities; an understanding of key concepts central to money management; a working knowledge of financial institutions, systems and services; and a range of specific and general skills (analytical and synthetically) such as cash budgeting.

The relationship between knowledge of key money concepts and borrowing behaviour has been a subject of previous empirical studies. Bruhn and Zia (2011) in their study on the impact on business of financial literacy for young entrepreneurs in Bosnia and Herzegovina using a descriptive design found that training individuals on key money concepts such as interest rates improved their business performance significantly. They also noted that entrepreneurs with relatively high ex ante financial literacy exhibit improvements in sales due to the training program. French and Mackillop (2005) used a correlational research design to study the relationship between financial literacy and over-indebtedness in low-income households in Northern Ireland. Their main finding was that money management skills were important determinants of consumer debt behaviour and household net worth but that numeracy had almost no role to play. These results indicate that financial literacy knowledge of key money concepts had mixed results in terms of influencing debt levels among the low-income households in the Northern Ireland.

Mandel and Klein (2009) conducted a research on the impact of financial literacy on subsequent financial behaviour of young entrepreneurs in the United Kingdom using a survey research design. Results from the survey indicated that there was no significant relationship between numeracy skills and entrepreneurial skills of the students after school. Njoroge (2013) also conducted a research on the relationship between financial literacy and entrepreneurial success in Nairobi County, and revealed that Knowledge of key money concepts had the highest positive significance on entrepreneurial success. On the other hand, Mwangi and Kihiu (2012), using a multinomial logit approach to explain the four major financial service access strands in Kenya, found that financial literacy remains low in Kenya and that there is no relationship between knowledge of key money concepts and borrowing behaviour.

Studies on the relationship between knowledge of key money concepts and borrowing behaviour have demonstrated that there is no agreement on the relationship between the variables. However, a possibility of knowledge of key money concepts influencing borrowing behaviour is demonstrated. Bruhn and Zia (2011) and Njoroge (2013) found a significant positive relationship between knowledge of key money concepts and various measures of financial success. Mandel and Klein (2009) and Mwangi and Kihiu (2012) found no significant relationship between knowledge of key money concepts and various financial performance measures. Methodologically, Bruhn and Zia (2011) and Njoroge (2013) used descriptive research design while Mandel and Klein (2009) used survey research design. Studies based on such designs have the weakness of not providing empirical evidence on the direction and magnitude of influence of the explained and the explanatory variable. Furthermore, the reviewed studies concentrated on entrepreneurs in general which leaves a gap for the specific group of small-scale business owners.

According to economic theory, credit access is expected to have several influences on savings: impatient consumers will be tempted to borrow and consume more in the present, hence save less; some current savers will reduce their saving since future needs can be financed more easily through credit; no change in saving will occur for the very patient and highly risk-averse savers (Rogg, 2000). Studies relating knowledge of financial institutions and borrowing behaviour have also indicated mixed results. Moore (2003), while using a correlational design found that the relationship between knowledge of financial institutions and borrowing behaviour was not significant. In Europe, Miles (2004) showed that United Kingdom borrowers displayed a weak understanding of mortgages and interest rates. However, he revealed a positive significant association between knowledge of financial markets and household financial decision making concerning mortgages.

A study by Olima (2013) on the effects of financial literacy on personal financial management among Kenya Revenue Authority employees in Nairobi, using a descriptive research design concluded that the respondents were "to a great extent" aware that financial literacy aspects such as knowledge of financial institutions affected personal financial management practices such as borrowing among the Kenya Revenue Authority employees. Kempson *et al* (2008) on the other hand carried out a study on measuring and improving financial capability in Kenya with the objectives of establishing the levels of financial capability in Kenya and understanding the potential approaches that could be taken to measure financial capability in a less developed nation where the vast majority of the population does not use formal banking services and to explore levels of financial inclusion in Kenya. He asserted that financial capability has a significant positive relationship with the use of formal banking services. Similarly a related study by Onyango (2014) on the effect of financial literacy on management of personal financial management among employees of commercial banks in Kenya, using descriptive research deign showed that financial literacy had a positive influence on personal financial practices such as borrowing and saving. Knowledge of financial institutions was however, found to be insignificant in terms of influencing personal financial management practices.

From the reviewed literature, it is overt that there are mixed results concerning the relationship between knowledge of financial institutions and borrowing behaviour of different groups of people. Whereas Miles (2004), Olima (2013) and Kempson *et al.* (2008) found a significant positive relationship between knowledge of financial institutions and borrowing behaviour, Moore (2003) and Onyango (2014) found insignificant results. Moreover, the studies have been conducted in different countries, of which some are development and others developing with varying economic structures. While a possibility of the borrowers' knowledge of financial institutions influencing borrowing behaviour is demonstrated, specific studies relating knowledge of financial institutions and borrowing behaviour among small-scale business owners particularly in Homa Bay town are scanty, indicating that the relationship is unknown.

As suggested by Briggs and Singh (2000), a tight cash budgeting policy leads to a fall in the financial transaction costs of the firm. The relationship between knowledge of cash budgeting and borrowing behaviour of individuals is also contentious since some scholars indicate a positive significant relationship while others indicate no relationship between the variables. For instance, Raghumandan *et al.*, (2012) examined the behavioural aspects of budgeting with particular emphasis on public sector in India and results from the study showed that knowledge of cash budgeting has an important significant bearing on the borrowing behaviour of the entrepreneurs in India. In a study by Qi (2010), it was established that cash budgeting has a positive significant effect on a number of financial behaviour of entrepreneurs including their borrowing behaviour. Kytonen (2004) carried out a study on cash management behaviour of firms and their structural change in an emerging money market in Finland, and showed that cash management practices changed significantly during the research period and that cash budgeting had no relationship with borrowing behaviour of the companies. In Kenya, Atieno (2014) conducted a research on assessment of financial education and its implication on individual investment in Kenya and noted that cash budgeting had no relationship with investment and borrowing behaviour of the respondents.

In Homa Bay County, Ombachi (2014) noted that the greatest challenge facing small-scale businesses was repayment of loans advanced to them and therefore, appropriate credit systems could be provided to cater for the financing needs of the small scale enterprises in the rural areas. Onyango (2011) in his study of the effect of working capital management practices on the financial performance of small scale enterprises in Homa Bay district, using a sample of 113 small scale enterprises and using a survey design established that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attend any business training programmes despite the fact that over 60% of them had little or no knowledge in business management which is vital in the running of their enterprises. This was a likely indication for their poor performance. A study by Oyier (2012) on the determinants of non-performing loans among commercial banks operating in Homa Bay town revealed that loans to small-scale businesses formed the greatest portfolio of non-performing loans. Up to 60% of the small-scale businesses in Homa Bay town who borrowed loans from the commercial banks were not able to service their loans, a likely reason for the failure of about 70% of them businesses within the first five years of their start-up.

THEORETICAL REVIEW

Researchers studying financial behaviour have applied two theories to explain borrowing behaviour; the theory of Reasoned Action and the theory of Planned Behaviour. These theories are relevant to the present study since they take into account individual attitudes, which in the end determine the behavior of an individual. These theories jointly inform about borrowing behavior and financial literacy.

The theory of Reasoned Action

The Theory of Reasoned Action was opined by Fishbein and Ajzen (1967). This theory hypothesizes the interventions and processes in the relationship between attitudes and behavior. The proponents argue that individual behavior is influenced by one's intentions to engage in the said behavior. Intentions refer to an individual's decision to act in a particular way. The attitudes of an individual influence his intentions hence his behavior. Fishbein and Ajzen (1967) focused on volitional or voluntary behaviors. This is important because other types of behavior may be subject to external influences. The proponents thus, excluded impulsive behaviors and habitual actions and confined themselves to attitudes toward behavior rather than toward some target. In summary, an individual's behavior is determined by intentions to engage in a particular behavior as observed by Mandel and Klein (2009). The individual's intention is determined by the attitude he/she has toward the behavior and the subjective norm. The individual's attitude is determined by behavioral beliefs and evaluation of expected consequences. The subjective norm is determined by normative beliefs and the urge to be in agreement with his significant others. Since this theory is relevant where behavior under investigation is voluntary, it helped in conceptualizing the borrowing behaviour of the small scale business owners.

Theory of Planned Behavior

In order to improve upon the theory of Reasoned Action, Ajzen (1985) developed the theory of planned behavior in which he incorporated non-volitional behaviors. He argued that individual's behavior could be viewed as a goal or an outcome. The extent to which an individual's intentions to act in a specific way can be executed is determined by the amount of control one wields over one's behavior. According to the theory of Planned Behaviour, an individual's behavior lies on a continuum of behaviors ranging from those that can be easily done at one extreme to those that are difficult to execute at the other extreme. The most challenging behaviors to execute are those requiring the skills, resources, opportunities and cooperation of others (Ajzen, 1991). Therefore, in the theory of planned behavior the individual's perceived control over the behavior to be executed is included as one of the predictors in the model. The individual's perception of being in control in turn depends on the control beliefs, which are the beliefs about the probability that one has what it takes to perform the intended behavior or achieve the set goal (Ajzen, 1991). Therefore, perceived control affects behavior in at least two ways: Firstly, through its influence on the intention to perform the behavior concerned and secondly, through its direct impact on behavior concerned (Ajzen, 1991). This implies that people engage in those behaviors they have confidence to perform successfully and have control over. Ajzen (1991) argued that it is actual control that is most relevant to the theory of Planned Behaviour. By actual control he meant a situation where an individual possesses the requisite skills and resources to perform a particular act and there are abundant opportunities to do so. Since perceptions can be inaccurate or wrong, perceived control could only act as a proxy for actual control (Ajzen, 1991).

RESEARCH METHODOLOGY

Research Design

Kombo and Tromp (2006) referred to research design as the structure of research. Thus, it is the structure and outline of the research which is used to generate the answers to a research problem. Research is usually categorized based on the data collection methods, analysis and purpose. According to Pilot and Hungler (1995) research designs vary with regard to how much structure the researcher imposes on the research situation and how much flexibility is allowed once the study is under way. This study employed a correlational research design. This is because the main purpose of the study was to establish how borrowing behaviour correlates with financial literacy.

Study Area

The study area was Homa Bay town. Homa Bay town is a lake-side town which is situated along the shores of Lake Victoria in the western part of Kenya, approximately 34^0 E and 0^0, 15' S. The population of the town was approximately 1 million according to the 2009 population census (KNBS, 2010). Figure 1.0 shows the map of the study area.

Figure 1.0: Map for the study area

Source: Map data ©2016 Google

Target Population

The study targeted all the small-scale business owners in Homa Bay town, which according to the Homa Bay County Government's Ministry of Finance office was totaling to 1220. The businesses ware stratified into three main strata; retail, service and manufacturing. Distribution of the population is as shown in Table 1.0

Table 1: Population of the Study

Category	Number of Businesses
Retail	578
Service	402
Manufacturing	240
Total	**1220**

Source: Department of Finance and Economic Planning, Homa Bay County (2016)

Sample Size and Sampling Technique

A sample was selected from the 1220 small scale businesses using a formula suggested by Yamane (1967) to determine the sample size. The formula is:

$$n = \frac{N}{\left[1 + N(e)^2\right]} \qquad (1)$$

Where:
n = the desired sample size
N = is the population, 1,220 for the present study.
e = is the level of precision set at 0.05

This translates to:

$$n = \frac{1220}{\left[1 + 1220(0.05)^2\right]} = 301 \qquad (2)$$

The sample of 301 was distributed proportionately among the three categories of businesses as shown in the Table 2.

Table 2: Sample Distribution

Category	Number of Businesses	Sample
Retail	578	143
Service	402	99
Manufacturing	240	59
Total	**1220**	**301**

Source: Department of Finance and Economic Planning, Homa Bay County (2016)

Individual respondents were then drawn using stratified random sampling technique.

Data sources and Data Collection Procedure

A questionnaire was used as the main research tool to collect data from the respondents. The questionnaire comprised of both closed and open-ended questions which were drawn in accordance with the set objective of the study. The research questions adopted a five-point Likert scale in which scores were awarded weights of 5 for the most positive to 1 for the most negative variable. Secondary information was obtained from the records kept by the business operators.

Reliability and Validity Test

According to Mugenda and Mugenda, (2003), a research instrument is reliable when it has the consistency of measurement. Reliability gives the internal consistency of data collected. This ensures that the data has certain internal consistent pattern. When no pattern is found in the responses, this indicates that probably the test is too difficult and as a result the respondents just guess the answers randomly. Creswell, (2009) asserts that reliability means that the findings would be consistently the same if the study were repeated. It ensures that the degree of consistency or stability is high. To achieve this, a test-retest study was done on twenty small-scale businesses located in the town so as to detect any major challenges likely to result from the questionnaires. A correlation coefficient of 0.815 was computed, which against the rule of thumb of 0.7 showed that the research questionnaire was reliable.

Content Validity Index (CVI) was used to ensure validity of the questionnaires. To achieve this, the relevant items in relation to the research objectives in the questionnaire were divided by the total number of items (Fisher, 2004). The validity was described as follows:

$$CVI = \frac{\text{Relevant items}}{\text{Total number of items}} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

Fisher (2004) indicates that for a research instrument to be valid, the CVI should be more than 0.7. For the present study, the index obtained was 0.723 which was considered valid.

Model Specification and Data Analysis

The relationship between financial literacy and borrowing behaviour was first conceptualized in the following deterministic model:

$$BH_i = \phi_0 + \phi_1 KM_i + \phi_2 SFI_i + \phi CBI_i \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(4)$$

Where: *BH is Borrowing Behaviour* that was measured in terms of number of loans borrowed and repaid or being repaid without defaulting

¤ $_0$: The constant term,

¤ $_{1:}$ The coefficient for Knowledge of Key Money Concepts (KM) for Small-scale business owner,

¤ $_{2:}$ The coefficient for Knowledge of Financial Institutions (FI) for Small-scale business owner,

¤ $_{3:}$ The coefficient for Knowledge of Cash Budgeting (CB) for Small-scale business owner,

Stochastic version of the model was specified as below:

$$BH_i = \phi_0 + \phi_1 KM_i + \phi_2 SFI_i + \phi CBI_i + \varepsilon_i \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (5)$$

Where: ε is the error term meant to take care of stochastictiy that may affect the model. It is assumed to possess the following characteristic: $N \sim (0, \pm^2)$

Peason Correlation was computed to show the bivariate association between the study variables and the model estimated using OLS technique.

RESULTS AND DISCUSSION

Response Rate

Out of the 301 questionnaires that were given out, 233 (77%) were returned. Gay (1992) postulates that any sample consisting 60% or more of the sample population is representative enough. The questionnaires that were received were cleaned and coded for clarity. The cleaning involved dropping those questionnaires that were not fully filled. These were dropped from the final analysis. This cleaning resulted into a final 204 (67% of the sample population); 105 (51%) from retailers; 63 (31%) from service providers; and 36 (18%) from manufacturers.

Table 3.0 shows that majority (80%) of the respondents had managed their businesses for a period of less than five years while 12% between 5 to 10 years and paltry 10% for more than 10 years. This is a likely indicator that most of the businesses hardly survive beyond five years.

Table 3: Length of Business Operation

Years	Frequency	Percent	Valid Percent	Cumulative Percent
< 5 yrs	163	80	80	80
5-10 yrs	24	12	12	92
>10 yrs	17	8	8	100
Total	**204**	**100**	**100**	

Source: Survey data (2016)

Commercial loans serviced by the small scale businesses since inception

Since the research sought to establish the borrowing behaviour of small businesses, there was need to establish the number loans serviced or still being serviced by each respondent. As indicated in Figure 2.0, 78%, 12% and 4% of the respondents had between 1and 2 loans, 3and 4 loans and more than 5 loans to service respectively. Only 6 percent had no loans to service at the time of the survey.

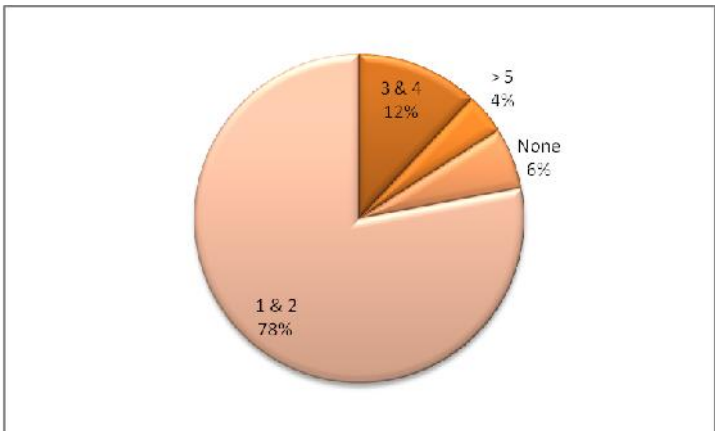

Figure 2.0: Commercial loans serviced by the small scale businesses since establishment

Level of Financial Literacy

The level of financial literacy was determined with the help of a five point likert scale that captured the level of the respondents understanding of various elements of financial literacy. In the scale, 1 stood for "I don't know; 2 for "I know a little"; 3 for "I know well"; 4 for "I know Very Well", and 5 for "I Know Excellently". Descriptive statistics on the captured responses is presented in Table 4.

Table 4. Descriptive statistics for the study variables

		KM	SFI	CB	BBH
N	Valid	204	204	204	204
	Missing	12	12	12	12
Mean		2.462	2.141	2.010	1.981
Median		2.301	1.901	2.508	1.604
Std. Deviation		.9826	1.041	1.871	1.006
Skewness		-.055	-.096	-.012	1.216
Std. Error of Skewness		.314	.314	.314	.314
Kurtosis		-.779	-1.189	-1.791	1.458
Std. Error of Kurtosis		.533	.533	.533	.533
Minimum		1.00	1.00	1.00	1.00
Maximum		3.70	2.70	2.70	3.33

Key:
KM-Knowledge of Key Money Concepts
SFI-Knowledge of Financial Institutions
CB-Knowledge of Cash Budgeting
BBH – Borrowing Behaviour

Table 4 shows that the level of financial literacy among the small-scale business owners is low as shown by the mean score of 2.462 for knowledge of key money concepts, 2.141 for knowledge of financial institutions and 2.010 for knowledge of cash budgets. This suggests that the small-scale business owners know little about financial literacy based on the three measures. The deviation of responses for each measure of financial literacy from their mean responses were 0.9826, 1.041, 1.871 and 1.006 for knowledge of key money concepts, knowledge of financial institutions and knowledge of cash budgets respectively.

According to Creswell (2009), skewness shows the extent to which a distribution differs from a normal distribution. Since a normal distribution normally revolves around zero, a positive skew means that the mean is greater than the mode while a negative skew means that the mean is less than the mode. The results show that responses on knowledge of key money concepts, knowledge of financial institutions and knowledge of cash budgets were negatively skewed while borrowing behaviour was positively skewed. Kurtosis is a measure of the thickness or the thinness of the distribution's tail (Creswell, 2009). It also measures normality of the distribution. As a rule of thumb, kurtosis for a normal distribution is 3. If it is greater than 3, then the distribution has a thick tail but if it is less than 3, the distribution has a thin tail. From Table 4, kurtosis for all the variables is less than three, thus the distributions had a thin tail.

Results in Table 5 indicate that all the measures of financial literacy are significantly and positively correlated with borrowing behaviour. Of the three measures of financial literacy, knowledge of key money concepts had a strong positive significant correlation with borrowing behaviour (r = 0.650; p = .002). This implies that 65% changes in the borrowing behaviour of the small scale business owners can be associated with their knowledge on key money concepts. Similarly Knowledge on financial institutions and knowledge of cash budgeting were found to be significantly and positively correlated with borrowing behaviour at r = 0.498, p = .001and r = 0.302, p = .000 respectively, suggesting that 49.8% and 30.2% changes in the borrowing behaviour of the small scale business operators was associated with Knowledge on financial institutions and knowledge of cash budgeting respectively. These results corroborate the findings of Bruhn and Zia (2011) and Njoroge (2013) who found a positive correlation between financial literacy and borrowing behaviour. The findings however contradict those of Mandel and Klein (2009) and Mwangi and Kihiu (2012) who found insignificant correlation between financial literacy and borrowing behaviour.

Table 5. Correlation matrix for the study variables

		KM	SFI	CB	BBH
KM	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	204			
SFI	Pearson Correlation	.098	1		
	Sig. (2-tailed)	.085			
	N	204	204		
CB	Pearson Correlation	.034	.098	1	
	Sig. (2-tailed)	.116	.052		
	N	204	204	204	
BBH	Pearson Correlation	.650**	.498**	.302**	1
	Sig. (2-tailed)	.002	.001	.000	
	N	204	204	204	204

****. Correlation is significant at the 0.01 level (2-tailed).**

Source: Survey data (2016)

KM-Knowledge of Key Money Concepts
SFI-Knowledge of Financial Institutions
CB-Knowledge of Cash Budgeting
BBH – Borrowing Behaviour

To obtain the magnitude of influence of the exogenous variable on the endogenous variable, a regression model was estimated and the findings presented in Tables 6, 7 and 8

Table 6. Summary of the regression model on the relationship between financial literacy and borrowing behaviour

R	R^2	Adj R^2	SE	Change Statistics					D-Watson
				R^2 Change	F Change	df1	df2	Sig. F Change	
.772	.596	.581	.7312	.596	4.888	3	200	.000	1.871

a. Predictors: KM, SFI, CB

b. Dependent Variable: BBH

Table 6 shows that there is a strong correlation between financial literacy and borrowing behaviour (R= 0.772). The estimated coefficient of determination is 0.596, which means that 59.6% of changes in borrowing behaviour is explained by the three independent variables of knowledge of key money concepts, knowledge of financial institutions and knowledge of cash budgeting. This indicates a good significant influence of financial literacy on borrowing behaviour as observed by Miles (2004), Olima (2013) and Kempson *et al.* (2008). The value of Durbin-Watson is 1.871, which is close to 2, an indication of the absence of auto-correlation (Odondo, Mukras and Momanyi, 2014). The F statistic is also significant, implying that the three elements of financial literacy have a joint significant explanation of changes in the borrowing behaviour.

To establish the effectiveness of the regression model, an analysis of variance was conducted. The results are shown in Table 7.

Table 7. ANOVA Results on the Regression Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.117	3	0.4234	4.888	.001
Residual	1.213	200	.866		
Total	5.240	203			

a. Predictors: (Constant), KM, SFI, CB
b. Dependent Variable: BBH

The ANOVA Table 7 was used to test the significance of the whole model. From the table, it can be confirmed that the model is significant. The p-value of 0.01 ($p<0.05$) indicates that the null hypothesis of no significant relationship between financial literacy and borrowing behaviour is rejected. It therefore implies that there is a significant relationship between financial literacy and borrowing behaviour of small-scale business owners. Table 8 shows how each measure of financial literacy is related to borrowing behaviour.

Table 8. Relationship between Financial Literacy and Borrowing Behavior

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	.449	.201		2.2338	.000		
KM	.581	.281	.572	2.0676	.000	.828	1.2077
SFI	.338	.131	.329	2.5801	.003	.391	2.5575
CB	.299	.153	.192	1.9542	.052	.608	1.6447

a. Dependent Variable: BBH

Key

KM-Knowledge of Key Money Concepts

SFI-Knowledge of Financial Institutions

CB-Knowledge of Cash Budgeting

Table 8 shows that knowledge of key money concepts has the greatest significant influence on borrowing behaviour as shown by a beta coefficient of 0.581 (p= 0.00). This implies that knowledge of key money concepts such as time value of money significantly influence the way small business owners borrow commercial loans. Since the null hypothesis that there is no relationship between knowledge of key money concepts and borrowing behaviour, we reject the null hypothesis and conclude that there is a significant relationship between knowledge of key money concepts and borrowing behaviour. Bruhn and Zia (2011) and Njoroge (2013) also found a significant positive relationship between knowledge of key money concepts and various measures of financial success. These findings are in contradiction with those of Mandel and Klein (2009) and Mwangi and Kihiu (2012) who found no significant relationship between knowledge of key money concepts and various financial performance measures.

The regression coefficient for knowledge of financial institutions was shown to be positive and significant with a β value of 0.338 (p = 0.000). This indicates that small-scale business owners' knowledge of matters such as how different banks lend have a positive significant influence on how they borrow. The null hypothesis is rejected as thus and therefore it is concluded that there is a positive significant relationship between knowledge of financial institutions and borrowing behaviour of the small business owners. These findings are in line with those of Miles (2004), Olima (2013) and Kempson *et al.* (2008) who found a significant positive relationship between knowledge of financial institutions and borrowing behaviour and in contradiction with studies by Moore (2003) and Onyango which revealed that knowledge of financial institutions does not influence borrowing behaviour. Knowledge of cash budgets was shown to have an insignificant relationship with borrowing behaviour.

CONCLUSION AND RECOMMENDATIONS

The study concludes that borrowing behavior of the small-scale business owner is significantly related to the owner's financial literacy. This is attributed to the fact that at least two out of the three dimensions of financial literacy had significant influence on borrowing behaviour of the small-scale business owners. It is recommended that the small-scale business owners be enlightened more on key money concepts and the existing financial institutions. Findings from the study may benefit both the borrowers and lenders in financial planning. Researchers may also use the findings as a source of literature for further research in the field of study.

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