



THE ROLE OF FINANCIAL LITERACY IN ALLEVIATING POVERTY AMONG ENTREPRENEURS IN TANZANIA



**Dr. Norman Adamson
Sigalla King¹**

¹Teofilo Kisanji University,
P.O. Box 1104
Mbeya,
Tanzania

ABSTRACT

Alleviating poverty has been an issue of concern the world over. However, linkages of the causes of poverty are in diverse. Some do link with the opportunities available in terms of resources, some the level of technological advancement of the respective country, some on the geographical setting in relation to the people under assessment, among others. Few literatures have attempted to link the role of financial literacy in improving income of the people hence alleviating poverty. This paper attempts to present the findings of the study on the level of financial literacy among entrepreneurs in six regions of Tanzania. It used a mixed methodology approach where on each response an agreed phenomenon was taken as a supra of the group. It was a case study design as participants were drawn from six regions who participated in the training, which entailed to improve the ability of the entrepreneurs to save and spend. The sample was 56 entrepreneurs. Purposive sampling was a dominant sampling method used. Interviews and questionnaires were the only instrument used for data collection. The findings of the study indicate that only three to six entrepreneurs are knowledgeable on the amount of money allocated for various items that were under study. Hence, 94% of the entrepreneurs are financially illiterate on the amount of funds spent on the common items namely food, fuel for vehicles, mobile phone, transport fees, and incidentals. The study concludes that financial literacy is foundation for improving finance among entrepreneurs and the people at large. It adds that poverty alleviation depends solely on how best people are sensitive to various spending, which include ability to save.

KEYWORDS: *financial literacy, poverty alleviation, entrepreneurs, investment*

1. INTRODUCTION

The cry for poverty is the unsung song of the world. Nations the world over strive for improving the income of the people. In this regards, measures, plans and strategies are put in place for improving the income of the people. In Tanzania for example, the government has come up with strategy for improving income and

reduction of poverty, which is known as National Strategy for Growth and Reduction of Poverty (NSGRP). The strategy “pays greater attention to further stimulating saving and private investment response, infrastructure development, human resource development, increased investment in quality education, science and technology and use of information communication strategies, for enhancing a



competitive based economy and efficient government” (United Republic of Tanzania, 2005:3). Beside this strategy, the government instituted a twin strategy with the aim of registering all business, and accrediting every possible resource such as land for enabling peasants and farmers able to collateralize the land when requiring loan from financial institutions, which is known as Property and Business Formalization Program (United Republic of Tanzania, 2009). The program is an initiative of Tanzania Government seeking to establish a Legal and Institutional framework of property and entrepreneurial rights which is accessible to all the people and is largely affordable by many (United Republic of Tanzania, 2009: 4).

Before we indulge into expounding the rest of the paper, it is worthy to provide some meaningful definitions of the terms in the paper. Financial literacy could mean ability to give reason on every spending. It is the ability of dictating our wishes on why spend on this, and leave that. Financial literacy, equal to wise spending, as it includes the ability to make informed choices on what one spends.

The importance of wise spending includes ability to save, and hence invest. Investors suggest that the main step towards richness is saving (Norman, 2005). The drive towards saving depends on how much is left after spending. Henceforth, the key aspect that determines the amount we save is spending. In this vein, understanding the behaviour of entrepreneurs on spending, which include what drives them to spend is crucial for setting the goals on various policies geared to improving income and or alleviating poverty. The importance of wise spending does not end to individuals, but it includes local government and central governments (Swann, 2000).

Marr (2012), Mannur (1991), and URT (2005; 2009) reveal that development depends on how much is invested after saving. Hence, income plus saving equals investment. In this view, it can be noticed that the key to development of business ventures is the ability to save. Ability to save depends on complying with the budget set.

In our daily life, challenges that we face in terms of needs, may suggest that we should attempt to offset any bill irrespective of whether it stems on the business or other non-business ventures. In addition, investment depends on economic principal of saving of funds. In other words, lack of investment depends on lack of saving, which is energised through poor spending. The International Institute of Training Research and Consultancy (2010) in the study of how households are financially literate, she noted that only a few people new what was pegged for mobile phone, food, goodwill, transport fare, and fuel for

vehicles. This study therefore is a replicate of the previously mentioned study under different setting, different components, and different culture of respondents.

The main objective of the study is to find out the extent of knowledge on various common items that entrepreneurs incur as purchases. The items as noted earlier are food, fuel for vehicles, mobile phones, transport fare, and incidentals.

2. LITERATURE REVIEW

The intent of any entrepreneur is to grow higher and higher. It is anticipated that a small entrepreneur today would be big tomorrow. Hence, Warner (2010:16) notes that the first thing a business does is to raise finance, the next thing it does is to spend it, usually on assets. Norman (2011) adds that the amount of money raised would perish if not spent wisely. Hence understanding the areas to spend through giving reasons as why not to spend is critical. It is noted that saving is foundation for growth of any income. In this vein, White (2011) assert that the private investor in shares must decide whether he is aiming for capital growth, income growth, or a combination of the two. Several authors and studies have indicated the relationship between saving and business prosperity. Studies by Owuor et al. (2009), Lahiri (1989), Edwards (1996), Dayal-Gulati and Thimann (1997), Loayza, Schmidt-Hebbel and Serven (1998) and Norman(2010) have proven that the share of working population relative to that of retired persons is positively related to saving. Uniquely, some studies have related saving with income. For example, Lahiri (1989) indicated that the rate of growth of personal disposable income determines private saving, while, Schrooten and Stephan (2005) showed that per capita income to a good extent influences saving.

The two dimensions seem to take for granted the willingness to save. It can be argued that in some setting, income is not a determinant of the amount to save. Ability to save can be influenced by some other factors such as ambition, which include what one wants to accomplish through the present income; cultural setting, which include background or orientation of the person in spending among others. Hence, eluding entrepreneurs on the importance of saving remain critical. More importantly, studying on the behaviour of entrepreneurs on tendencies of spending and saving is worthy for creating knowledge base on how to improve economic ventures of the enterprise. That is the reason in Kenya it was noted that despite the financial liberalization in savings rates have generally remained very low (Owour et al. 2009). The paramount questions remain. 1) Do people

know and thus budget for food in African setting? 2. Do people know and thus budget for fuel in African setting? 3. Do people know and thus budget for talk time/air time in African setting? 4. Do people know and thus budget for transport fare in African setting? 5. Do people budget for other charges/auxiliaries in African setting?

3.MATERIALS AND METHODS

This study employed a mixed methodology approach. In addition, it employed a case study design, where only entrepreneurs who attended the training which was organised through the Tanzania Private Sector Foundation (TPSF) and coordinated through Tanzania Chamber of Commerce Industry and Agriculture (TCCIA). The participants were drawn from six regions of Tanzania that form the Southern Highland zone. The regions are Iringa, Njombe, Mbeya, Ruvuma, Rukwa and Katavi. The total number of participants was 56. The entire group was considered as a focus group. Five questions were subjected before this group. The questions were on five items. The study entails to find out whether entrepreneurs were

informed on the amount of funds they use for food per month, mobile phone(s), transport fare, fuel for their vehicles, and the amount set a side as incidental. Two set of questions were made available. The first session was on responding to questions on agreement of the entire group. The second was to respond on the questions through filling the open questionnaires. In second exercise, each participant was required to fill the questionnaire in relation to knowledge on the itemised components. The analysis and presentation of the data have employed excel to come up with figures and charts.

4. FINDINGS AND DISCUSSION

The findings of the study have indicated similarity among the business people in Tanzania. The uniqueness in this study was that all respondents tackled all questions except one, which required participants to indicate whether they new the amount of funds set for fuel in their vehicles. Of the 56 only 40 participants indicated to own their own vehicles. Hence, on this question respondents were 40. The summaries on the responses on the five items are summarised in table 1.

Table 1: The level of knowledge on the funds used in the itemised components

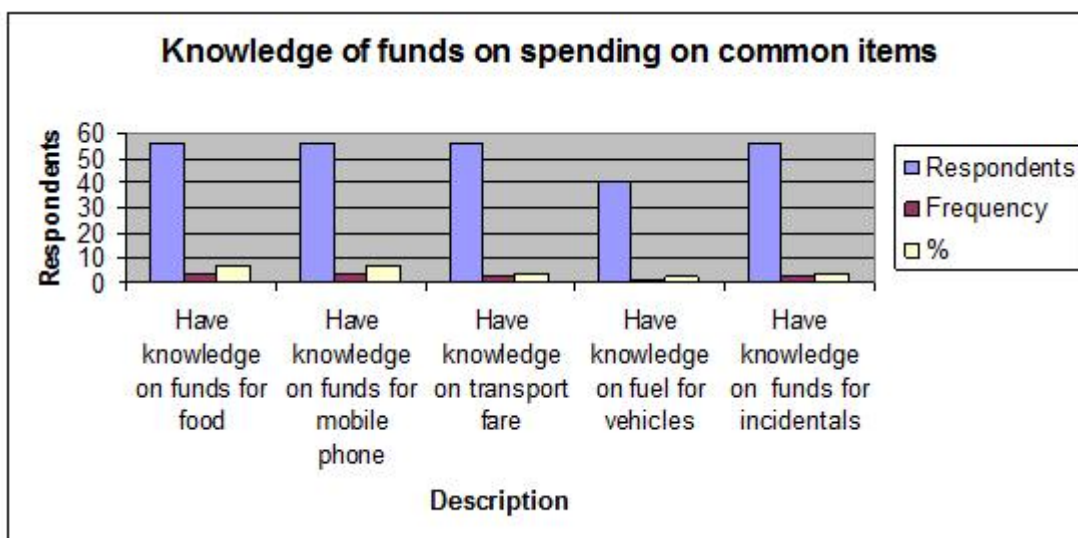
| No. | Description of items | Respondents | Frequency | % |
|-----|--|-------------|-----------|------|
| 1. | Have knowledge on funds for food | 56 | 4 | 7.14 |
| 2. | Have knowledge on funds for mobile phone | 56 | 4 | 7.14 |
| 3. | Have knowledge on transport fare | 56 | 2 | 3.57 |
| 4. | Have knowledge on fuel for vehicles | 40 | 1 | 2.50 |
| 5. | Have knowledge on funds for incidentals | 56 | 2 | 3.57 |

Source: Research data, 2013.

The table indicate that the highest score of knowledge is 7.14% of the business people running various businesses in the six regions in Tanzania have knowledge on varied items. In addition, the highest knowledge is

experienced on food and airtime, and the minimum knowledge is experienced on fuel for vehicles, which attained a score of 2.5%.

Figure 1.



Source: Field work 2013.

The figure indicate that entrepreneurs in Tanzania in the named regions are insensitive to spending. Knowledge to spending stands between 2.5% to 7.2%.

The findings provide a huge knowledge on the level of sensitivity of our entrepreneurs in relation to spending. In our daily settings, meals are perceived to accumulate the highest amount of funds. Nevertheless, in Tanzania it is noticed that only seven percent of the entrepreneurs have knowledge on the amount of funds set for the meals at home. This suggest that entrepreneurs would use funds in accordance with what they attain-the less the amount the likely the less the usage. The higher the gain, the likely the high the usage. Such tendency, contravene with basic economic principal which advocate for saving as the basis for investment. An entrepreneur, which is insensitive to spending, would likely to go poor in short period. It can be added that even recouping the bank loan would be difficult for business people who do not account for their daily use.

The rating for mobile phone/ air time indicates that it is the second after food in terms of consuming money. Yet most business people do not know the amount of money they use for the same. Equally, it suggests that business people would use mobile phones in accordance to the available funds. Generally, when business people fail to account for the money they use, it could mean the higher the earning the higher the spending and the vice versa. Mobile phone attained 7% frequency in terms of level of knowledge.

Transport fare attained 3.5% knowledge of funds spent for the same. Transport fare is one the seemingly obvious for knowing it. However, only two respondents have knowledge on how much they spend for transport. The danger, business people would face is responding to travels, which are not linked to the business ventures. In this world, almost every thing requires money. Hence, lack of sensitivity to spending may suggest poor performance of the entrepreneurs.

The corresponding item with transport fare is fuel for vehicles. Only one out of 40 participants/ interviewee who indicated ownership of vehicles, have knowledge on the amount of fuel used in the car per month. The proposition on this matter, could be that business people fill in fuel pending the need for travelling even if such movements adds nothing to business. One participants confessed, "we sometime travel to places that we could not, had there been observance of budgets allocated for the same."

Incidentals refer to amount of funds set a side to carter for unexpected events. The participants

indicated clearly that they use some funds for incidentals. However, they confessed for not budgeting for the incidentals. Of the 56 participants, only two have knowledge on the amount set aside for the incidentals. Most of them do deal with such expenses in accordance to the amount of money needed. One participant responded, "There seem to have a room for loosing our funds because of not budgeting for incidentals. At times, we may find ourselves crying for budget deficits since we do not have funds for the same. We must change" she insisted.

Poverty is culminated through poor spending. Generally, when people discuss on poverty issues, the seemingly easy thing to put on the table is resource availability and to large extent is the distribution of such resources. Little emphasis is put on managing spending. Yet we know, it is appropriate use of what we have that can dictate the span of control of the entire income. If our societies do not know how much is used for food in their households, how could the same be sensitive to the use of funds which belong to the government?

5. CONCLUSION

The study is now in the position to conclude that the development of entrepreneurs in Tanzania need sensitivity on what they spend. This include ability to weigh various needs of business, assessing the most pressing needs versus less pressing, differentiating business needs versus non-business needs, budgeting and spending within the budget, and acquaintance of customer care knowledge. The behavioural attributes of the entrepreneurs in the named six regions, indicate that they are poor on understanding the amount of funds set for food, mobile phones/ airtime, transport fare, fuel for their vehicles, and incidentals. The leading component that suffers lack of knowledge is awareness of funds set for fuel, which attained 2.5%. In addition, the awareness level ranges between 2.5% and 7.2%, which indicate that the majority of entrepreneurs are spending insensitive. It is imperative that entrepreneurs realise that the growth of their capitals for investment starts with ability to save, and that intelligent saving is promoted by complacency to the set budgets.

6.Acknowledgement:-

I would like to appreciate the cooperation rendered by the Tanzania Private Sector Foundation (TPSF) and the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA) who organised the event, and rendered an invitation to me to officiate the opening speech.

REFERENCES

1. Dayal-Gulati A, Thimann, C. (1997). *Saving in Southeast Asia and Latin America Compared: Searching for Policy Lessons*. IMF Working Paper. WP/97/110.
2. Edwards S. (1996). *Why are Latin America's Savings Rates So Low? An International Comparative Analysis*. J. Develop. Econs. 51, 5-44
3. IITRC (2010). *The report on assessment of how households are financially literate*. Dar es Salaam: International Institute of Training Research and Consultancy
4. Lahiri A (1989). *Dynamics of Asian Savings: The Role of Growth and Age Structure*. IMF Staff Papers. 36. pp, 228-61
5. Loayza N., Hebbel, K.S and Serven, L (2000). *Saving in Developing Countries: An Overview*. The World Bank Economic Review. Vol.14 No.3. 393-414 Washington D.C: The World Bank.
6. Mannur, HG(2001). *International economics (2nd edn.)*. New Delhi: UBS Publishers' Distributors LTD.
7. Marr, B(2012). *Key performance indicators*. London: Pearson
8. Norman, A.S.K (2012). *The usefulness of financial information in Capital markets investment decision making in Tanzania: A case of Iringa region*. International Journal of marketing and technology. Vol.2 (8), pp. 50-65
9. Norman, A.S (2005). *Development is a war: What do we do?* Dar es Salaam: Tanzania Research Education and Environment Care Association.
10. Norman, A.S. (2010). *Importance of financial education in making informed decision on spending*. Journal of economics and international finance, Vol.2 (10), pp. 199-207
11. Owuor, G. Ouma, S.A, Ouma, DE, Mutai, B.K, Kibet, L.K (2009). *Determinants of household saving: Case study of smallholder farmers, entrepreneurs and teachers in rural areas of Kenya*. Journal of development and agricultural economics, Vol. 1(7) pp, 137-143
13. Swann, D. (2000). *The economics of Europe: From Common market to European Union*. London: Penguin group.
14. United Republic of Tanzania (2005). *The strategy of growth and reduction of poverty in Tanzania*. Dar es salaam: Vice Presidents Office.
15. United Republic of Tanzania (2009). *Property and business formalisation program in Tanzania*. Dar es Salaam: Government Printer
16. Warner, S. (2010). *Finance basics secrets*. London: Helper Collins Publishers.
17. White, J. (2011). *Investing in stocks and shares: A step-by-step guide to making money on the stock market*. London: Books Ltd.
