**ASSESSMENT OF FINANCIAL LITERACY IN SMALL SCALE BUSINESS SECTOR IN WOLKITE TOWN**

***A Research Paper Submitted To Department Of Accounting and Finance for Partial Fulfillment of (BA) Degree in Accounting and Finance.***

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## *ABSTRACT*

*The objective of this research paper is to examine factors affecting financial literacy of small scale enterprise in Wolkite town. The study was conducted by using descriptive type of research design because this type of research design is used to describe the situations. The researcher used stratified sampling technique to categorize the target population in to different group and selected respondents by using simple random sampling technique from each stratum. Questionnaires were distributed for selected respondents.. Data was collected both from primary and secondary sources; primary data was to collect by using both interview and questionnaires. Interview was conduct from department head and employee. Questionnaire was distributed to the selecting employee's related leader of the department, secondary data was from published and an published documents. The collected data was use analyzed by using descriptive analysis method according, percentage and frequency count was to analyzed and interpret the data collect form respondents descriptive were table and, with percentage. Majority of business owners have low level of financial level. The performance o f the small business owners would be very low because of their low level of financial level. This majority of the respondents were not understanding business plan update. As concerned on the findings 71% of the small business owners don't know how to make a cash flow forecast. The researcher recommended Owners of small business in Wolkite town should have learn more about how to make a cash flow forecast. Small business owners should to the ability to read and understand fundamental financial statements, as well as, the ability with numbers. The government should advice for the small business of Wolkite town to they have more experience on the financial literacy.*

**Keywords;** *factors affecting financial literacy, in small scale business sector in Wolkite town*

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# Acronyms

AEMFI:=Association and Ethiopian Micro Finance Institution

CM:=Credit management

MF:=Micro finance institution

MNGT:=Management

SBE = Small business enterprise

# CHAPTER ONE

# INTRODUTION

## 1.1 Background of the Study

Since the mortgage crisis, governments around the world start to express concerns about the financial illiteracy among their citizens, mainly due to the daily confirmation of the increasing of consumer over indebtedness and, also, of household bankruptcy rates. Moreover, the financial illiteracy has been widely referred as an aggravating factor of this financial crisis (Atkinson and Messy, 2011). As a consequence, it is also defended that financial literacy should be seen as a public policy objective in order to improve welfare through better decisions making and mitigate the asymmetry between the final consumer and, mainly, the financial institutions (Huston, 2010). These concerns were rapidly expanded to the scientific community and, nowadays, it is noticed a huge growth of research based on financial literacy matter, mostly in relation with the accurate financial literacy levels, which are seen as indicators to sustain the need for financial education (Huston, 2010).

Financial literacy, for many years, does not have a unanimous definition at literature, although, recently, Atkinson and Messy (2012) provide an embracing and widely accepted definition of financial literacy gathering three main pillars: financial knowledge, attitudes and behaviors. Around the world, popular media and public in general used to use various terms as synonymous to describe the concept of financial literacy, for example financial capability, financial culture, financial knowledge and financial education (Huston, 2010). Also, past studies reveal that in some countries there was a certain trend to consider the studies related with financial knowledge as a good approach of financial literacy (Atkinson and Messy, 2011).

Despite, at that time, the literature could not present a consensus related with a universal definition of financial literacy, the definitions found were designed around same basis and also around the same goal, the individual financial wellbeing. An example of the financial literacy basis is possible to see through the definition presented by the authors Schagen and Lines (1996), where they define financial literacy, as the ability to make informed judgments and to take effective decisions regarding the use and management of money.

And, an example of financial literacy goal is possible to notice at definition presented by another author Remund (2010), which state that financial literacy is: “A measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions. “Financial literacy is a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing” (Atkinson and Messy, 2012).

This definition is on the basis of the most relevant works done so far concerned with gauging the financial literacy levels of general public, such as the Organizations for Economic Cooperation and Development( OECD)Pilot Exercise in 14 countries (2012) from Latin America, Africa, West and East Europe and Asia. And, at a national level, Banco de Portugal (2010) supported the assessment of financial literacy level of Portuguese population under this definition.

The main progresses in Financial Literacy found at literature began after the subprime crisis in 2007, since it was concluded that the lack of financial culture worked as an aggravating factor of this crisis (Huston, 2010).

Financial literacy has been a hot issue in recent years around the world. Many countries like United States of America (USA), England, Australia, Canada, Japan, Indonesia, India, and international nongovernmental organizations (NGOs) like OECD, Global Financial Literacy Excellence Center (GFLEC) and World Bank recognized the importance of financial literacy in modern times and are putting an effort towards improving the financial literacy level of their citizens. Those countries established a national financial literacy and education agency/commission targeting to undertake national financial literacy surveys; devise different financial education programs and trainings so as to enhance the financial literacy of their people. The international NGOs too conduct international financial literacy surveys; provide guidance and manuals for measuring financial literacy and how to conduct the survey (Kempson, Perotti, & Scott, 2013), (OECD, 2017).

This study was adopts the definition of OECD that financial literacy is the "combination of knowledge, behavior, and attitude necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (OECD, 2011). Plenty of financial literacy surveys and researches conducted around the world show that financial literacy is at low level in developed and developing countries Buche, etal., (2016), but sever in developing ones (Xu and Zia, 2012) and (Zvaríkováa and Majerová, 2014) .

## 1.2 Statement of Problem

In this very dynamic modern time, the financial system is getting fast paced; digitalized, globalized and creating complexity among its ultimate consumers i.e. the people in making finance related decisions (Lusardi, Mitchell, 2014). The financial products and services are plenty and changing through time. The consumers face challenges in choosing the products and services suitable and worthwhile to them unless they accumulate adequate level of financial knowledge and capability (Cunliffe, 2017). As the people are financially illiterate, they become unable to make the right choice and use of the variety of services and products offered by the financial system**.**

Moreover, the prevalence of financial illiteracy could be bottleneck for inclusive financial and economic growth (Lusardi, Mitchell, 2014). Financially illiterate consumers are high likely to be financially excluded as they are not aware of which, when and how to use of the various financial products and services. In addition, though consumers having access to various financial products and services, they are usually disadvantaged from poor decisions they can make like high debt loads, inadequate insurance, lack of investment diversification, insufficient use of tax-favored investments, inadequate of emergency funds, lack of clearly defined personal and financial goals (Abel, 2015). According to Abel,(2015) "Financial illiteracy prohibits individuals from becoming productive members of the economy and society much like the inability to read or write disadvantages generations". Therefore, any financial system and economy can't achieve the level of growth what it purports to while there are excluded societies and can't grow with it.
Financial illiteracy can cause lack of/poor retirement plan, poor decision making and poor financial wellbeing (Lusardi, Mitchell, 2011, 2014). As perLusardi, Mitchell (2011), retirement planning is strongly correlated with level of financial literacy among consumers. Financially

illiterate people are less likely to plan for their retirement and poor position themselves during retirement.

Studies have been conducted on the importance of financial literacy on performance in terms of profitability and growth of micro and small scale enterprises and, the results showed that lack of financial literacy level among people around the world has cause business failures and even considered as one of the factors that contributed to the worldwide economic crisis of 2008/9 (Niwaha, Schmidt, &Tumuramye, 2016). In addition, Ahmed (2017) conducted the study on the impact of financial literacy on the profitability of micro and small enterprises in Kenya by using like financial knowledge, financial behavior and financial attitude. Study also conducted by Fernandes (2015) on Financial Literacy Levels of Small Businesses Owners and it Correlation with Firms' Operating Performance.

The growth entrepreneurship in Wolkite town leads to increase in the number of micros and small-scale enterprise in the town. Micro and small-scale enterprises play a key role in economic development and contribute to the large extent to employment and poverty reduction in the town. Moreover, lack of financial literacy is a barrier more than just for financial inclusion. Not only it makes individuals to be financially excluded but also it can have negative impact on financial wellbeing of individual consumers, financial system and the economy (Lusardi& Mitchell, 2014). So, financial literacy should be recognized as a life skill for every individual and efforts should be made to enhance it. However, to best of the researcher's knowledge no effort has been made to enhance financial literacy level among Ethiopians except the effort currently underway by National Bank of Ethiopia.

Before designing programs to enhance financial literacy, current financial literacy level of consumers should be measured. In addition, enhancing financial literacy level among consumers should precede the implementation of the national financial inclusion strategy. Studying the current financial literacy level of small business is essential to determine the financial literacy gaps and needs so that appropriate remedial measures and programs can then be designed. By measuring the financial literacy level of Micro and Small Enterprise (MSE‟s) owners located in Wolkite town along with its socio-economic and demographic factors, this study can be useful to achieve such objective.

## 1.3 Objectives of the study

### 1.3.1 General Objective

The general objective of the study was to assess financial literacy in Small scale business sector in Wolkite town.

### 1.3.2 Specific Objectives

The specific objectives of the study were to:

- To identify the performance of small scale business in Wolkite town.
- To identify the role of small scale business in economic development of the town.
- To investigate the financial knowledge on the profitability of Small scale business sector in Wolkite town.
- To measure the financial literacy level of small business in wolkite town.

## 1.5 significance of the study

The studies have the following significant:

The student researcher; the student researcher is beneficiary on getting knowledge about the study and experience on conducting such assessment and get satisfaction when the study wills the solution to the problem.

The organization; the organization is beneficial in that the manager of the organization see the identified problem and recommend solutions and take corrective actions accordingly this study.

Other researcher: other researcher can take this study as reference for conducting other similar assessments.

## 1.6 Scope of the Study

To begin with, the study would be conducted mainly in Wolkite town on assessing the financial literacy of Small scale business sector. This study was target on assessing the financial literacy of small scale business sector in Wolkite town. Even though financial literacy survey/study better embody the whole population in a country or a specific place, due to economic and time constraints this study targets the small scale business sector operating in wolkite town. In addition, this study focuses on assessing the small scale business sector literacy of finance aspect rather than reporting.

## 1.7 limitation of study

Shortage finance, Shortage of time because cov 19, 2012 year it more dangers time, Shortage money are limit to study more.

## 1.8 Organization of the paper

The paper would be consisted of five chapters. The first chapter was deals with introductory part which consists of background of the study, statement of the problem, objective(s) of the study, significance of the study, and scope and organization of the paper. The second chapter was deals with review of theoretical and empirical literature. The third chapter was deals with methodology of the study. The fourth chapter was data presentation, analyzing  and the last chapter five was conclusion and recommendation of the paper

# CHAPTER TWO

## REVIEW OF LITERATURES

## 2.1 Introduction

This chapter presents a literature review about financial literacy and small businesses, as well as, the findings made so far about business owners' financial literacy."Financial Literacy", highlighting the importance and attention given to financial literacy after the 2007 worldwide financial crisis; "Financial Literacy and Small Business Performance. The concept of personal financial literacy is rapidly being recognized and emerged as a key priority for many countries around the world, as countries ascertain its importance in modern times with the increasingly complex financial landscape (Atkinson & Messy, 2012, Lusardi, 2015, 2017a, 2017b). Countries mostly the developed ones like USA**,** Canada, UK, Australia, Germany etc. have been establishing national financial literacy agencies with the mission of enhancing the financial literacy level of their people. In addition international organizations like OECD, GFLEC, and World Bank, have also put their attention for financial literacy and doing a lot to enhance the financial literacy level among the society of their member and non-member countries.

Even though financial literacy is relatively new concept, it has been researched by different scholars and many international and national surveys have been made around the world. But the definition and proxies used across different financial literacy studies and surveys is not consistent. However, regardless of these inconsistencies, most of the studies revealed that the financial literacy level of the consumers is low.

## 2.2 Theoretical literature review

### 2.2.1 Financial Literacy

Financial literacy, for many years, does not have a unanimous definition at literature, although, recently, Atkinson and Messy (2012) provide an embracing and widely accepted definition of financial literacy gathering three main pillars: financial knowledge, attitudes and behaviors. Around the world, popular media and public in general used to use various terms as synonymousto describe the concept of financial literacy, for example financial capability, financial culture, financial knowledge and financial education (Huston,2010).

Despite, at that time, the literature could not present a consensus related with a universal definition of financial literacy, the definitions found were designed around same basis and also around the same goal, the individual financial wellbeing. An example of the financial literacy basis is possible to see through the definition presented by the authors Schagen and Lines (1996), where they define financial literacy, as the ability to make informed judgments and to take effective decisions regarding the use and management of money. And, an example of financial literacy goal is possible to notice at definition presented by another author Remund (2010), which state that financial literacy is: “A measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions”.

OEDC, (2010) through the work developed by Atkinson and Messy (2012), provide, not only an embracing term that could include financial knowledge, financial ability, financial culture, etc, as Financial Literacy, but also a complete and widely accepted definition of financial literacy. This definition gather three important concepts: knowledge, attitudes and behaviors, which are, nowadays, the three pillars that completely describe financial literacy, and results at the following definition: “financial literacy is a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing” (Atkinson and Messy, 2012).

This definition is on the basis of the most relevant works done so far concerned with gauging the financial literacy levels of general public, such as the OECD Pilot Exercise in 14 countries (2012) from Latin America, Africa, West and East Europe and Asia. And, at a national level, Banco de Portugal (2010) supported the assessment of financial literacy level of Portuguese population under this definition. The main progresses in Financial Literacy found at literature began after the subprime crisis in 2007, since it was concluded that the lack of financial culture worked as an aggravating factor of this crisis (Huston, 2010).

In one hand, it was found as a common practice the application of investor’s savings in complex financial products without fully understand its risks. And, in the other hand, financial institutions were selling financial products without being able to fully understand its financial complexity.

A major worry at that time was the final consumer protection from the lack of information, mainly, from financial institutions, being the goal of financial education to increase the number of informed costumers in order to them make better decisions and to minimize their chances of being misled on financial matters. The competition between financial institutions in order to gain market share increase this phenomenon of asymmetric information. Another, and not less important, social-economic happening that largely supports the need for financial education is noticed with Government's encouragement for its citizens to take more self-responsibility for their retirement incomes messy (2012).

Governments around the world, concerned with this problem, are changing their course by encouraging citizens to take more responsibility for their retirement incomes and do not be totally dependent of public pensions (Beal and Delpachitra, 2003).

In the years that followed the financial crisis, it was possible to witness to an increasing research related with financial literacy, due to the fact of being the financial illiteracy widely pointed as an aggravating factor of that crisis. And one of the major aims of this recent research is to sustain the need for financial education in order to protect final consumer from even more complex financial product available at market (Atkinson and Messy, 2011). Huston (2010) carried out a similar work, by exploring 71 past studies related with financial literacy and mainly found out inconsistencies at the definition of the subject and also in the measurement techniques.

In the last couple years OECD has done major advances concerning with research on financial literacy, since it could provide a wide world accepted definition of financial literacy and also for the very first time a benchmark of financial literacy levels for 14 countries around the world (Atkinson and Messy, 2012). As a result of this globalization of financial literacy measures standards, it was stated that "financial illiteracy is widespread even when financial markets are well developed or changing rapidly." – (Lusardi and Mitchell, 2011b)

### 2.2.2. Financial Literacy and Small Business Performance

The rare literature about small business owner's financial literacy provides a slightly different definition of financial literacy, being the main distinction related with the understanding of information provided by financial statements. Instead of financial knowledge being only focus on the comprehension of borrowing and saving matters, interest compounding, concept of inflation and risk diversification. A small business owner must be able to evaluate the information needed to make decisions that have financial ramifications or consequences on the business.

According to Brown *et al*. (2006), financial literacy for small business owners must contemplate the ability to read and understand fundamental financial statements, as well as, the ability with numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money. A recent work from two authors describes financial literacy as "the ability to understand and use business financial statements to generate key financial ratios to evaluate and manage a business." (Pearl and Eileen, 2014)

Despite the definition of financial literacy regarding personal finance issue be more developed and widely accepted, the definition of financial literacy regarding small business is much more demanding, not only, for financial knowledge, which must contemplate the capability of read and understand financial statements information, but also in financial behavior, with the habits concerned with the analysis of financial information, and financial preferences or attitudes, which must be positively correlated with financial knowledge and behavior, in the moment of taking the daily management decisions.

However, as it has not been given much attention to financial literacy of small businesses owners, the literature does not provide an embracing definition of financial literacy in business context. Differing to what happens with financial literacy for personal finance issues. Since many economies around the world are dependent of the success of small businesses, which is also the case of Portugal, it is important not only provide the levels of financial literacy of general public, but also gauge the levels of financial literacy of small businesses owners.

In most of small businesses is common to find its owner as an employee, which is mainly focus on the operational area of the business, forgetting the strategy and planning of the business activity, and where financial education could make the difference, by improving business owners' financial skills. In fact, Brown *et al.* (2006), with an educational program, evidence the rise of financial literacy among entrepreneurs, and Pearl and Eileen (2014) could evidence the relation between financial literacy and the success of small businesses, by clearing the connection between the inadequate financial literacy and financial difficulties experienced by entrepreneurs.

According to Banco de Portugal, between 2010 and 2013, on average, the number of small business, micro enterprises and small enterprises (according to the division set by Portuguese law, under the 2nd article of the decree-law nr. 372/2007), increased 1% per year, despite the number of Portuguese employed by those companies decreased 2% per year. Mainly due to small enterprises since micro enterprises registered a different path by growing 1.7% per year. The total revenue of small business at that timeline has an unfavorable performance by falling around 4% per year, but still representing 35% of total revenue, in 2013. Despite this evolution, and according to the same source, in 2013, the micro and small enterprises together employed 53% of Portuguese workers, against 27% of big enterprises and 20% of medium enterprises.

The studies at literature about small business owner's financial literacy are very scarce and it was not found anyone similar to the present research in order to establish a benchmark.

Despite the interesting finding of Sage Canadian Survey, their results are based on respondents' perceptions and not so much on specific understanding of financial statements, correspondent to the financial knowledge, which is a fundamental pillar to provide accurate levels of financial literacy. Additionally, some of the question of this survey where asked in order to understand the frequency of usage of technology and accounting software, which is reasonable considering the institution which carry out the study.

This is quite normal due the scare literature about financial literacy among small business owners. Since it is especially the owner or the structure and functioning of the board that can directly affect the operating efficiency and operating performance of the company, the argument behind the study of the relation between these two variables, operating performance and business owners' financial literacy levels, is on the belief that a high level of financial literacy of a business owner should positively influence firm's operating performance, through their financial knowledge, attitudes and behaviors.

The expected results of this relation or, in other words, facing an expected positive correlation between the mentioned variables, will not only strengthen the results obtained through the built questionnaire, but also, it will works as an evidence for the need for education towards financial matters. The search for the operating performance model at literature was mainly concerned with the characteristics of those variables, the operating performance as dependent variable and the financial literacy levels as an independent variable and also measured as a rating on a scale of 5 to 1, where, in our study, 5 represents a very high financial literacy level and 1 a very low financial literacy level.

For this study an adaptation of Bauwhede (2009) model is used. Bauwhede analyses the relation between corporate governance compliance and operating performance for a set of large listed European companies.

The model explains firm's operating performance, measured by Return on Assets (as a proxy), through the following variables: CG Comp, which is a rating for the extend of compliance with international best practices regarding board structure and functioning of firms; LEV, measured by leverage ratio; LNTA, for firm dimension, measured by the natural logarithm of total assets; and an industry dummy variable.

The main variables of this model, operating performance and rating as a proxy to the extent of compliance with international best practices regarding, have similar characteristics to the variables that the study of the relation between operating performance and financial literacy levels of small business owners have. The operating performance as dependent variable is the same and it measure is the return on assets (ROA) which is designed by the division of operating income by the average of beginning-and-ending-period book value of total assets.

Where operating income, according to Loughran and Ritter (1997), is defined as OIBD and measured as operating income before depreciation, amortization, and taxes, plus interest income.

This is the measure of operating performance most commonly used, among others, by the studies performed by Loughran and Ritter (1997), Deshmukh*et al*. (2015), and Pearl and Eileen (2014). Although other authors go further by saying: "The ROA is clearly the preferred measure of operating performance because it is less affected by discretionary items than the ROE and the NPM." Bauwhede (2009). Where ROE is the return on equity measure, and NPM is net profit margin measure. The most relevant independent variable, a rating for the extent of compliance with international best practices regarding board structure and functioning for firm i in year t, similar to the present study, the rating is measured on a scale of 5 to1.

### 2.2.3. Assessment of business owners' financial literacy levels

Around the world, the measurement of financial literacy is mainly concerned with personal finance issue of the general public (Brown et al., 2006). Lusardi and Mitchell (2011), in their work refer the difficulty of measure the financial attitudes and financial behaviors in order to achieve financial literacy levels. Based on that, and keeping in mind four key principles: simplicity, relevance, brevity and capacity to differentiate, they design three questions which provide answers to three important economic concepts that individuals should have in order to make financial decisions, which are: (1) understanding of interest compounding; (2) understanding of inflation; and (3) understanding of risk diversification. These questions have been used in several studies as a benchmark to allow for international comparisons of financial literacy levels, such as, Lusardi and Mitchel (2009); Financial Capability Study (2010); Lusardi*et al*.(2010); Banco de Portugal (2010); Lusardi and Mitchell (2011a); Atkinson and Messy (2012).

### 2.2.4 Driving forces for increased the Importance of financial literacy

Financial literacy is increasingly becoming the key strategic priority among many countries (Lusardi A., 2017). There are number of forces that contributed for the rising importance of financial literacy throughout the world. According to OECD PISA (2012), Lusardi, (2017) and Zucchi, (2017) changes in the financial landscape including changes in labor markets, the changes in demographics, changes in financial markets, increase in number of financial service providers and changes and increase in number of financial products and services.

**Changes in labor market and Individuals are shouldering more responsibility**

Employees are mobile as wages are divergence so that they have to carry their pensions with them (Lusardi A., 2017). As per Lusardy (2017), individuals need to be skillful to win in the labor market and they have to invest in education to acquire the required skills. Thus individuals are shouldering more responsibility not only take care of their retirement but they have to made critical decisions about investing on their education.

**Changes in the Financial Landscape**

The fast changing financial system, the increase in diverse financial products and services, the increase in number of different financial service providers is offering a numbers of opportunities and choices and creating confusion among its ultimate consumers in making financial decisions (OECD PISA, 2012, Lusardi, 2017, Zucchi, 2017).

**Changes in Demographics**

Now a day‟s life expectancy is higher meaning people are living longer (Zucchi, 2017). This means people need more retirement savings in their working ages and they need to be financially literate enough to do so.

**Changes in the Environment and Technologies**

Financial markets are global; there are many more participants in the market and many more factors that can influence it (Zucchi, 2017). Moreover, to Zucchi, (2017), the constantly change in technology such as electronic trading make the financial markets even swifter and more volatile. According to the literature for instance Xu& Zia, (2012), LaBorde, Mottner, &Whalley, (2013), Plakalović, (2015), Lusardi, (2017) besides the many changes in the financial matters we are experiencing, the financial literacy level of consumers is very low and not enough or inappropriate to cope up with the changed circumstances.

This issue forced financial literacy to be recognized as life skill (Lusardi, 2015, 2016, 2017) and a lot is being done to enhance it among many countries (Lusardi& Mitchel, 2014, Lusardi, 2017).

### 2.2.5. Variables affecting the Financial Literacy

There are a number of variables that could affect the individual's level of financial literacy. In most of the empirical literatures reviewed, financial literacy can be affected by demographic and socio-economic factors for example, Potrich, Vieira, &Kirch, (2015), Firli, (2017). Demographic variables such as gender and age can affect the financial level of individuals as most empirical evidences showing females have lower financial literacy level than males (Lusardi, 2011), (Firli, 2017) and (Lusardi A. , 2017). On the other hand, there are few exceptions that found there is not significant gender difference on individual's financial literacy level (Ramasawmy et al, 2013).

According to the literature, the financial literacy level with respect to age follows an inverted U-shape for instance (Lusardi, 2011), (Xu& Zia, 2012), and (Atkinson & Messy, 2012). This indicates financial literacy is lower among young and older population and relatively higher among adults. Most empirical literatures like Lusardi, (2011), Bhushan&Medury , (2013), Bhushan&Medury, (2013) and Das, (2016) confirmed that individuals with higher level of education, higher employment experience, higher income tends to have relatively higher financial literacy level.

## 2.3 Empirical literature reviews

Atkinson and Messy,( 2011) revealed that in some countries there was a certain trend to consider the studies related with financial knowledge as a good approach of financial literacy. The study found, in Australia, United States and United Kingdom related with this matter during that period. One of the main findings of these authors was concerned with the huge difference among financial literacy measurement of past studies, which result in a great difficulty in creating a true benchmark for the results obtained in those different countries, identifying a gap for future research. They also emphasize the financial literacy as a pillar to support the need for financial education, since, already at that time, financial illiteracy was been pointed as one of the reasons for financial instability. This phenomenon is a consequence of the easy access to credit and the ready issue of credit cards, alongside with the fast growth of marketing of financial product In relation to financial literacy levels,

Shim (2009) assessed financial literacy in the context of multiple socialization factors. The result suggests that the self-actualizing personal values, financial education, play an important role in the ways that young adults acquire knowledge about financial matter.

Pearl and Eileen (2014) surveyed 14 small businesses owners in Florida in order to determine their level of financial understanding and their usage habits of financial statements in making management decisions, which is almost the same to say, that they were gauging the levels of financial literacy. Since, according to their study Small-Business Financial Literacy is defined "as the ability to understand and use business financial statements to generate key financial ratios to evaluate and manage a business". The questions used in their survey focused mainly in two of the three pillars that sustain the definition of financial literacy widely accepted according to the literature: Financial Knowledge and Financial Behaviours, excluding, Financial Attitudes. The authors mainly conclude with this case study that was a clear connection between lack of financial literacy and financial difficulties experienced by entrepreneurs, and adequate financial education can partially decrease the financial difficulties.

Couto (2013) studied the Portuguese entrepreneurs financial literacy levels of incubators' companies for North and Center of Portugal, although the questionnaire used in order to carry out her work was essentially based in questions about entrepreneurs confidence levels and financial behavior, without include any question about financial knowledge, which is a pillar, not only, for financial literacy in personal finance issues, but also a main matter in gauging the financial literacy levels of small business owners according to the literature. Despite this gap, the major findings of her work shown that 66% of studied sample present a good levels of financial literacy.

Brown *et al.* (2006) carried out a study based on financial literacy of small businesses owner-entrepreneurs in their first year of activity. The basis of this study is settled on a program called "Training in Business Basics", specially created for this population target of new small businesses with less than ten employees.

The authors, in order to carry out their study, provide 147 small businesses of United Kingdom in their first three years of life with educational modules based on basic finance. The argument behind this study is on the belief that small business owners with the adequate financial education will be less needed of accountants and financial advisors on trust, in order to understand the financial position of their companies and make informed financial decisions by their own. Although, and similarly to Sage (2012), the major findings of these authors are mainly related to perceptions of financial awareness and literacy, they concluded that, even though the participants appeared to be aware of their own lack of financial literacy, still they did not perceive the importance of this matter in relation to other aspects of running a small business.

## 2.4. Conclusion and gap

The main objective of this study was to assess financial literacy in Small scale business sector in Wolkite town. To achieve the objective of the study, the researcher include important literature such as theoretical literatures concerning the concept of financial literacy, financial literacy and small business performance, financial level of business owners, driving forces for increased the Importance of financial literacy and variables affecting financial literacy. In addition, this section also discussed some empirical studies related with subject matter. As shown on the empirical review of literatures, most of the studies were conducted in abroad about financial literacy and family communication, financial literacy and university student. However, to the knowledge of the researcher no studies were conducted on the assessment of financial literacy and performance of small business enterprise in the wolkite town.

# CHAPTER THREE

## 3 RESEARCH METHODOLOGY

In this chapter, how the study to be designed, how samples to be drawn, how data be collected and analyzed is dealt with.

## 3.1 Research Design

The study was conducted on the assessment of financial literacy in small business in Wolkite town. The study was conducted by using descriptive type of research design because this type of research design is used to describe the situations, behaviors as it exist. Hence, in order to assess financial literacy in Small scale business sector in Wolkite town the researcher adopted a descriptive method of research design

## 3.2. Source and Method of Data Collection

### 3.2.1 Primary data collection

In order to realize the target, the study was used well-designed questionnaire as best instrument. This was completed by the owner managers/or operators of the enterprises. Besides, face-to-face interviews with the small business sector office of the town. The interview method of data collection is preferred due to its high response rate. Those are it gives the two people concerned an opportunity to interacted and get details on the questions and answers. Through interviews, clarification of issues is easily achievable leading to accuracy of data from the respondents

### 3.2.2 Secondary data collection

Secondary data collection was taken from micro and small enterprises' office and Trade and Industry Development. Bureau different registration files, pamphlets, office manuals, circulars and policy paper and entrepreneur's data would be used to provide additional information. Besides, small scale business sector variety of books, published and/or unpublished government documents, websites, reports and newsletters would be reviewed to make the study fruitful.

## 3.3. Population, sample and sampling technique

### 3.3.1 Target population

The study was focuses on measuring financial literacy level of small business currently operating in wolkite town. Every individual in modern time need to be financially literate enough to cope with the very dynamic modern financial landscape, so financial literacy survey/study shall better embody the whole population in a country or a specific place. However, this study was targets the small business sector operating in wolkite town. There are three business sectors in Wolkite town micro and small-scale enterprise. These are service, manufacturing, and trade with a total population of 139, 33, and 106 respectively. The total population is 278. Therefore, the researcher was used 278 as target population together and assessed information regards to financial literacy.

### 3.3.2. Sample size

To determine the sample size Ronald Miweiers states "because of the tremendous of time and money required for a complete census of large population, a sample can actually be more accurate than a census in conducting real world study". When sample used there is also sampling error, which occurs because of using sample. This sampling error can decrease by taking large number of sample size depending on this assumption the researcher was estimated 10% of sampling error at the time of sampling and used the following formulas to calculate sample size. The total population of the study is 278

Sample size $(\mathrm{n}) = \frac{\mathrm{N}}{1+\mathrm{N}(\mathrm{e})2}$ (Taro Yamane formula 1967)

Where N = Population size e =Sampling error

Sample size $(\mathrm{n}) = \frac{278}{1+278(0.1)2}$ n = 74

The populations were divided in to three strata depending on their activities. The sample size from all strata is 74. The populations were be139 from service, 33 of manufacturing, and 106 of trade. To take the sample (74) from the stratum population, the researcher would be used proportionate stratified sampling technique as follows:

Service (n) $= \frac{139 \text{ people}}{278\text{people}}$ x 74 = 37 Sample

Trade (n) $= \frac{106 \text{ people}}{278 \text{ people}}$ x 74 = 28 Sample

Manufacturing (n) $= \frac{33 \text{ people}}{278\text{people}}$ x 74= 9 Sample

Total =37 + 28 + 9= 74 Sample size will be selected from the total population.

## 3.3. Sampling Technique

In this study, the researcher used stratified sampling technique to categorize the target population in to different group and selected respondents by using simple random sampling technique from each stratum. Questionnaires were distributed for selected respondents. The reason for selecting stratified sampling technique is that population, it is simple to categorize in to different groups, and it is systematic error free and reduce bias.

## 3.4. Method of Data Analysis

The data wasanalyzed by using quantitative and qualitative method of data analysis; quantitatively the data was analyzed by using numerical tools such as percentages. The interview questions would be analyzed using descriptive narrations or statement form through concurrent triangulation strategy.

# CHAPTER FOUR

# 4. DATA PRESENTATION, ANALYSES AND INTERPRETATION

In this chapter the collected data is presented, analyzed and interpreted based on data collected from respondents. Out of the 74 questionnaires distributed respondents of Wolkite town small scale business owners, only 64 questionnaires were collected back and 10 questionnaires was not returned because of the over loading of work to respondents and respondent unwillingness to fill the questionnaire on time. The data presentation and analysis were based on the collected 64 questionnaires.

## 4.1. Demographic characteristic of the respondents

**Table 4.1 background of the respondents**

| Categories | Frequency | Percent |
|---|---|---|
| **Sex** | | |
| Male | 39 | 61 |
| Female | 25 | 39 |
| Total | 64 | 100% |
| **Age category** | | |
| A.18 - 24 | - | |
| B. 25 – 35 | 25 | 39 |
| C.36 - 45 | 34 | 53 |
| above 45 | 5 | 8 |
| Total | 64 | 100% |
| **Educational level** | | |
| A. Primary School | 28 | 44 |
| B. Compulsory Education - $9^{th}$year | 2 | 3 |
| C. Diploma | 10 | 16 |
| D. First Degree | 14 | 21 |
| E Masters and above | 10 | 16 |

| | | |
|---|---|---|
| Total | 64 | 100% |

Source: own survey 2020

As the above table shows, In relation to gender, the majority of the respondents are male, 61% of the sample, against 39% that represent the female gender.

Further, the above table also shows that the majority of the respondents have more than 35 years old (53%), although with a higher concentration in the group age between 25 and 35 years (39%), as can be observed in the above table 4.1

As the above table indicates, the majority of the respondent's presents an education level lower than the higher education (44%), and only 37% presents an education level with First Degree and Master Degree or higher (Chart 2).

**Table 4.2specific formation at financial area**

| 4 Do you have specific formation at financial area? | Frequency | Percentage |
|---|---|---|
| **Yes** | 30 | 47 |
| **No** | 34 | 53 |
| **Total** | 64 | 100 |

Source: own survey 2020

From sample table 4.2 indicated the majority 53% small business owners have no specific formation at financial area but only 47% have specific formation at financial area. Therefore the majority of them should have to announce specific formation at financial area.

**Table 4.3 main responsible for the financial area**

| 6 Are you the main responsible for the financial area of your business? | Frequency | Percentage |
|---|---|---|
| **Yes** | 40 | 63 |
| **No** | 24 | 37 |
| **Total** | 64 | 100 |

Source: own survey 2020

As shown on the table 4.3 above 63% of the respondents replied that owners of the small business were the main responsible for the financial area of their business and 37% replied they were not take responsibility.

**Table 4.4 to who trusted financial area**

| If not, to whom or to what is trusted the financial responsibility? | Frequency | |
|---|---|---|
| Accountant | 14 | 58 |
| Financial Department | 5 | 21 |
| Outsourcing | 5 | 21 |
| Other | 0 | - |
| Total | 24 | 100 |

Source: own survey 2020

As indicated on the above table 4.4, 58% of the respondents said accountants trusted the financial area of the business. And financial department and outsourcing cover the list percentage equal 21% as respondents replied.

**Table 4.5 level of financial literacy**

| 8 What do you consider to be your level of financial literacy? (Financial literacy is a combination of awareness, knowledge, skills, attitudes and behavior needed to make sound financial decisions, in order to achieve individual financial well-being.) | Frequency | Percentage |
|---|---|---|
| 1 Bad | 5 | 8 |
| 2 Very bad | 34 | 53 |
| 3 Neutral | - | |
| 4 Good | 20 | 31 |
| 5 very good | 5 | 8 |
| **Total** | 64 | 100 |

Source: own survey 2020

As the above table 4.5 shows the majority of Wolkite town small business owners present the low financial literacy level. Table 4.5 presents the distribution of respondents across financial literacy rating levels showing that 53% of the respondents have extremely low financial literacy levels, 31% good, bad and very good 8% equal. Therefore majority of business owners have low level of financial level. This show that the performance o f the small business owners would be very low because of their low level of financial level

**Table 4.6** the performance o f the small business owners would be;-

| 9 Imagine that you have to wait a year to receive a VAT refund of 5,000birr. In one year's time will you be able to buy/spend**:** | Frequency | Percentage |
|---|---|---|
| More | 4 | 6 |
| The same amount | 30 | 47 |
| Less than I could buy today | 24 | 38 |
| Don't know | 6 | 9 |
| **Total** | 64 | 100 |

Source: own survey 2020

Table 4.6 shows that 47% of the respondents replied, they will buy or spend the same amount, 38% less than I could buy today, 9% don't know and 6% more than they buy or spent today. Therefore majority of the respondents replied they buy or spent the same amount

10 Suppose you bir. 100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?
[Open answer]
As shown from responses of the respondents, majority of the respondents didn't answer for this question. According to Brown et al. (2006), financial literacy for small business owners must contemplate the ability to read and understand fundamental financial statements, as well as, the

ability with numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money.

**Table 4.7 to measure knowledge**

| **11. And how much would be in the account at the end of five years? Would it be:** | Frequency | Percentage |
|---|---|---|
| More than 110 | 5 | 8 |
| Less than 110 | 5 | 8 |
| Exactly 110 | 0 | - |
| It is impossible to tell from the information give | 10 | 16 |
| Don’t know | 44 | 68 |
| **Total** | 64 | 100 |

Source: own survey 2020

From the table 4.7 68% replied don’t know, 16% replied it is impossible to tell from the information give, respondents replied More than 110 and Less than 110 cover equal 8% and no respondents said exactly 110. This is also another indication of low level of financial literacy of small business owners in the town

**Table 4.8 to measure knowledge**

| 12 High inflation means that the cost of living is increasing rapidly? | Frequency | Percentage |
|---|---|---|
| True | 26 | 41 |
| False | 28 | 44 |
| Don’t know | 10 | 15 |
| **Total** | 64 | 100 |

Source: Source: own survey 2020

Table 4.8 shows that 44% of the respondents replied false, 41% replied true and 15% replied don’t know. The majority of the respondents replied High inflation does not mean thatthe cost of living is increasing rapidly. In economics, inflation is general rise in price level of goods and thus results in increase the cost of living.

**Table 4.9 to measure knowledge**

| 13. It is usually possible to reduce the risk of investing in the stock market by buying awide range of stocks and shares**.** | Frequency | Percentage |
|---|---|---|
| True | 20 | 31 |
| False | 24 | 38 |
| Don't know | 20 | 31 |
| **Total** | 64 | 100 |

Source: own survey 2020

Table 4.9 shows that 38% of the respondents replied that it is impossible to reduce the risk of investing in the stock market by buying awide range of stocks and shares**,** respondents replied true and don't know cover equal 31% of them. Therefore the majority of the respondents replied false that it is not usually possible to reduce the risk of investing in the stock market by buying awide range of stocks and shares

**Table 4.10 to measure knowledge**

| **14. A business has more cash today when:** **.** | Frequency | Percentage |
|---|---|---|
| Costumers pay their bills sooner | 5 | 8 |
| Profit increases | 10 | 16 |
| Accounts receivable increases | 34 | 53 |
| Retained earnings increases | 7 | 11 |
| Don't know | 8 | 12 |
| **Total** | 64 | 100 |

Source: Own survey 2020

As the table 4.10 indicated that 53% of the respondents said account receivable increase the cash for the business of today, followed by 16% replied profit increase business cash, 12% not know, 11% said Retained earnings increases business cash of today and the list 8% replied Costumers pay their bills sooner will increase business cash of today. The majority of the respondents 53% agree that account receivable contribute a business to have more cash today. This show the business owners had no experience on when the cash of the business will be increased because Accounts receivable increases cannot increase cash of their business.

**Table 4.11 about EBITDA**

| **15. EBITDA is an important measure in companies because:** | Frequency | Percentage |
|---|---|---|
| It is free cash flow | - | - |
| It subtracts taxes and depreciations from earnings to get a truer picture of the business | 5 | 8 |
| It is an indicator of future operating cash flow | 6 | 9 |
| It is the key measure of earnings before interest, transfers and debt reduction | 16 | 25 |
| Don't know | 37 | 58 |
| **Total** | 64 | 100 |

Source: own survey 2020

Table 4.11 shows that 58 % of the respondents had no awareness about the important of EBITDA, 25% replied EBITDA is the key measure of earnings before interest, transfers and debt reduction. Therefore the majority of the respondents were not know about the importance of EBITDA. This indicate us the majority of small business owners in the town had no awareness about applying EBITDA.

**Table 4.12 about balance sheet**

| **16. The best description of information provided on a Balance Sheet is:** | Frequency | Percentage |
|---|---|---|
| A list of what you own and what you owe | 8 | 13 |
| Fluctuations of assets over a certain period of time | 20 | 31 |

| | | |
|---|---|---|
| Number of employees the business has | - | - |
| All of the above | 6 | 9 |
| Don’t know | 30 | 47 |
| **Total** | 64 | 100 |

Source: own survey 2020

The majority percentage 47% from the above table indicated respondents are not know about information provided on balance sheet, 31% replied balance sheet is fluctuations of assets over a certain period of time,13% replied balance sheet is a list of what you own and what you owe and 9% of them said all of the above. Therefore greater number of the respondent has no awareness about the balance sheet or information’s on balance sheet.

**Table 4.13 about financial statement**

| **17. What financial statement most accurately shows whether a business was profitable ina given period?** | Frequency | Percentage |
|---|---|---|
| Statement of Cash Flows | 25 | 39 |
| Balance Sheet | 11 | 17 |
| Income Statement | 14 | 22 |
| Statement of Financial Position | 4 | 6 |
| Don’t know | 10 | 16 |
| **Total** | 64 | 100 |

Source: own survey 2020

As indicated from the above table 4.13, 39% of respondents replied Statement of Cash Flowsaccurately shows whether a business was profitable in a given period, 22% replied income statement, 17% were balance sheet, 16% were don’t know, and 6% were statement of financial position accurately shows whether a business was profitable in a given period. From this the researcher can understand that the majority of the respondents 39% replied statement of cash flows is accurately show the profitability of the business. This shows that small business owners hadn’t concept about the importance of balance sheet, income statement and Statement of

Financial Position because all presented on the above play role for their profitability of the business

**Table 4.14 about business plan**

| **18. Thepreparation of a business plan at the beginning of the activity is?** | Frequency | Percentage |
|---|---|---|
| 1 Nothing important | - | - |
| 2 Neutral | 10 | 16 |
| 3 Important | 14 | 22 |
| 4 Very important | 40 | 63 |
| **Total** | 64 | 100 |

Source own survey 2020

Table 4.14 shows no respondents replied nothing important that preparation of a business plan the beginning of the activity, 16% said neutral and above 80% replied preparation of a business plan at the beginning of the activity is very important or important**.**

Couto (2013) related with the elaboration of the business plan at the beginning of the activity, many respondents considered it very important, but in practice, before the opening of their companies they did not elaborate a business plan.

**Table 4.15 about business plan**

| **19. Was the business plan made at beginning of your activity?** | Frequency | Percentage |
|---|---|---|
| **Yes** | 40 | 63 |
| **No** | 24 | 37 |
| **Total** | 64 | 100 |

Source own survey 2020

Most of the business owners 63%made their business plan at the beginning of the activity and the rest 37% of them didn't. This is also related with the above table 4.14 analysis .Couto (2013) related with the elaboration of the business plan at the beginning of the activity, many respondents considered it very important, but in practice, before the opening of their companies they did not elaborate a business plan.

**Table 4.16 about business plan elaboration**

| **20. Facing the need for an investment, do you consider important business plan update(or elaboration)?** | Frequency | Percentage |
|---|---|---|
| 1 Nothing important | 4 | 6 |
| 2 Neutral | 32 | 50 |
| 3 Important | 23 | 36 |
| 4Very important | 5 | 8 |
| **Total** | 64 | 100 |

Source own survey 2020

According to the table 4.16 indicated 50 % were neutral, 36% important, 8%very important and 6% nothing. Therefore the majority of the respondents are neutral. This indicates that the respondents were not understanding business plan update.

**Table 4.17 cash flow forecast**

| **21. Do you know how to make a cash flow forecast?** | Frequency | Percentage |
|---|---|---|
| **Yes** | 21 | 29 |
| **No** | 43 | 71 |
| **Total** | 64 | 100 |

Source own survey 2020

According to table 4.17 71% of the small business owners don't know how to make a cash flow forecast but only 29% of them could make and know cash follow forecast see more table 4.18 below.

**Table 4.18 cash flow forecast**

| **22. if your answer is yes for question number** | Frequency | Percentage |
|---|---|---|

| **21, how often it is prepared a cash flow forecast?** | | |
|---|---|---|
| Never | - | - |
| Once a year | 6 | 29 |
| At least every single months | 7 | 33 |
| At least every six month | 6 | 29 |
| Don't know | 2 | 9 |
| **Total** | 21 | 100 |

Source own survey 2020

As indicated on the above table 9% of them not know how often they prepare a cash flow forecast, at least every six months and once a year were equal 29%, and at least every single month were 33%. The questionnaire included questions about whether or knows cash flow, forecast and the results exhibited that the majority of the small business owners of the sample (71%) admitted to not know how to do a cash flow forecast. However, the remaining 29%, know how to prepare the cash flow forecast at least every single month

**Table 4.19 analysis of business profitability**

| **23. Do you consider important the periodic analysis of business's profitability, in order tominimize costs and maximize profits?** | Frequency | Percentage |
|---|---|---|
| 1 Nothing important | 5 | 8 |
| 2 Neutral | 9 | 14 |
| 3 Important | 10 | 16 |
| 4 Very important | 40 | 62 |
| **Total** | 64 | 100 |

Source own survey 2020

**Table 4.20 analysis of business profitability**

| **24. How often do you it?** | Frequency | Percentage |
|---|---|---|
| Never | 10 | 16 |

| | | |
|---|---|---|
| Once a year | 40 | 62 |
| At least every six months | 5 | 8 |
| At least every single month | 9 | 14 |
| **Total** | 64 | 100 |

Source own survey 2020

A similar analysis can be made for the questions 23 and 24which are respectively: “Do you consider important the periodic analysis of business's profitability, in order to minimize costs and maximize profits?” and “How often do you it?”, and are related with a crucial periodic business procedure which results in an important warning concerned with business financial health (Pearl and Eileen, 2014).

Almost the totally of the respondents (78%) considered important or very important the periodic analysis of business’s profitability, but more than half of the respondents (78%) have the wrong behavior towards this business procedure since they never or only once a year do the business’s profitability analysis, as it is possible notice from the table 4.20. This implies that the small business owners less practice of business profitability analysis even though they considered the important of the periodic analysis of business's profitability

**Table 4.21 bank loan monitor and credit conditions**

| **25. If you have a bank loan, do you monitor its credit conditions and compare them with existing alternatives?** | Frequency | Percentage |
|---|---|---|
| No | 20 | 31 |
| Yes, whenever I have difficulty in paying some responsibility | 39 | 61 |
| Yes, once a year | 5 | 8 |
| **Total** | 64 | 100 |

**Table 4.22bank loan renegotiate and its credit conditions**

| **26. If you have a bank loan, do you renegotiate its credit conditions?** | Frequency | Percentage |
|---|---|---|
| No | 20 | 31 |
| Yes, whenever I have difficulty in paying some responsibility | 39 | 61 |
| Yes, once a year | 5 | 8 |
| **Total** | 64 | 100 |

Source own survey 2020

In order to found their business, some of the respondents currently have bank loans, and, due to this reality, there were selected two questions to better understand if they followed the baking conditions and renegotiated.

In the sample, 31% of small business owners do not have any contracted bank loan and the remaining respondents which have bank loans, totally 69% admitted to monitor and renegotiates the credit conditions at least once a year and whenever difficulty.

The majority of the small business owners show a positive attitude towards the conditions of a bank loan although some of the owners of the small business don’t have any contracted bank loan and renegotiate

**Interview results**

The researcher also conducted an interview with the small business sector office of the town and the result will be presented below.

**Performance of small scale business in Wolkite town**

A question was raised to the town of small business sector office in order to comment on the performance of small business sector the town. As the interview results shows performance of small business sector in the town is not enough. According to the office, the main reasons raised for their poor performance are lack of management skills, level of education, low level of technical skills and weak accounting and recording problems are the main problems in small business owners of the town. Therefore this shows that a higher financial literacy level of small business owners contribute for a better performance of their business.

**Roles of small scale business in economic development of the town**

The second question is about the role of micro and small enterprise. According to the office of the sector in the town, there were a lot of amounts or huge amount of contributions which obtained from MSE in the town :small business acts as supplier and subcontractor for large firm recognize the growing importance of their supplier by using term like partnership and strategic alliance to describe the idea working relationship, common sense tells us the efficient size of business varies with we can easily recognize for example that big business is better than manufacturing automobile but that small business is better in repairing them. The continued existence of small business in competitive economic system in itself evidence of efficient small business operation

**Financial knowledge on the profitability of Small scale business sector in town**

There are many problems associated with small business sectors in the town as information given by the town small business sector officer. One of the problems is lack of financial literacy which is evident in their inability to keep complete accounting records. This invariably has resulted into a situation where small business operators cannot capture their business profits. This is because in the process of calculating profit, financial data are assembled in without adequate financial literacy. This problem has ultimately affected the profitability of small business

Therefore the profitability of the small business is determined by the way that management of financial related and others by applying financial knowledge.

In addition to the above given by the office, perception of the owners or operators about the areas need to learn more about (financial planning, tax payment and cash-flow), the areas dealing with suppliers and managing the finances of their businesses) and the areas where they fail most of the time (dealing with taxes, managing sales and marketing and managing the finances of their businesses).

**The financial literacy level of small business in town**

According to the small business sector office of the town, financial literacy for small business owners had no ability to read and understand fundamental financial statements, as well as, they have no ability to reading and understanding numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money. This is because of their level of education and low level of financial literacy on the owners of small business.

# CHAPTER FIVE

# CONCLUSION AND RECOMMENDATION

## 5.1 Summery

Majority of business owners have low level of financial level. The performance o f the small business owners would be very low because of their low level of financial level. This majority of the respondents were not understanding business plan update. As concerned on the findings 71% of the small business owners don’t know how to make a cash flow forecast. The findings shows Small business owners had no the ability to read and understand fundamental financial statements, as well as, the ability with numbers. As shown in the findings small business owners hadn’t concept about the importance of balance sheet, income statement and Statement of Financial Position. The result implies that the small business owners less practice of business profitability analysis even though they considered the important of the periodic analysis of business's profitability.

## 5.2 Conclusion

As the results evidence a level of financial literacy among small business owners of the micro and small business in the Wolkite town is very low. The relevance around the chosen target is justified by the fact that small businesses, defined by micro enterprises and small enterprises, are an important driver for the economy since they represent huge amount of the total revenues, and employ a meaningful part of national workforce**.** Financial literacy among entrepreneurs could evidence the relation between financial literacy and the success of small businesses inadequate financial literacy and financial difficulties experienced by entrepreneurs.

Even though the participants appeared to be aware of their own lack of financial literacy, still they did not perceive the importance of this matter in relation to other aspects of running a small business. The researcher mainly conclude with this case study that was a clear connection between lack of financial literacy and financial difficulties experienced by entrepreneurs, and adequate financial education can partially decrease the financial difficulties.

## 5.3 Recommendations

The following recommendations were forwarded to the owners of small business and concerning body.

- ✓ Owners of small business in Wolkite town should have learn more about how to make a cash flow forecast.
- ✓ Small business owners should to the ability to read and understand fundamental financial statements, as well as, the ability with numbers.
- ✓ Owners small business in Wolkite town should have to practice business profitability analysis
- ✓ The government should advice for the small business of Wolkite town to they have more experience on the financial literacy.
- ✓ In general financial literacy level of small business owners in Wolkite should have high financial knowledge and literacy for their effective and profitability of the business

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## Appendix

# Questionnaire and Interview

**Respondents Characteristics**

**1. Respondent's Gender…………………..**

Male

Female

**2. Age…………………….**

**3. Education Level**

Primary School

Compulsory Education - 9th year

12th year

First Degree

Master Degree or higher

**4. Do you have specific formation at financial area?**

Yes

No

**5. If you respond yes to the question 4, please describe de type of formation.**

**6. Are you the main responsible for the financial area of your company?**

Yes

No

**7. If not, to whom or to what is trusted the financial responsibility?**

Accountant

Financial Department

Outsourcing

Other

**8. On a scale of 1 to 5, where 1 is bad and 5 is very good, what do you consider to be your level of financial literacy? (Financial literacy is a combination of awareness, knowledge, skills, attitudes and behavior needed to make sound financial decisions, in order to achieve individual financial well-being.)**

1 Bad

2

3

4

5 Very good

**Financial Knowledge**

**9. Imagine that you have to wait a year to receive a VAT refund of 5.000birr. In one year's time will you be able to buy/spend:**

More

The same amount

Less than I could buy today

Don't know

**10. Suppose you put €100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?**

[Open answer]

**11. And how much would be in the account at the end of five years? Would it be:**

More than 110

Exactly 110

Less than 110

It is impossible to tell from the information give

Don't know

**12. High inflation means that the cost of living is increasing rapidly?**

True

False

Don't know

**13. It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares.**

True

False

Don’t know

**14. A company has more cash today when:**

Costumers pay their bills sooner

Profit increases

Accounts receivable increases

Retained earnings increases

Don’t know

**15. EBITDA is an important measure in companies because:**

It is free cash flow

It subtracts taxes and depreciations from earnings to get a truer picture of the business

It is an indicator of future operating cash flow

It is the key measure of earnings before interest, transfers and debt reduction

Don’t know

**16. The best description of information provided on a Balance Sheet is:**

A list of what you own and what you owe

Fluctuations of assets over a certain period of time

Number of employees the company has

All of the above

Don’t know

**17. What financial statement most accurately shows whether a company was profitable in a given period?**

Statement of Cash Flows

Balance Sheet

Income Statement

Statement of Financial Position

Don’t know

**Financial Behavior & Financial Attitudes**

**18. On a scale of 1 to 5, where 1 is nothing important and 5 very important, the**

**preparation of a business plan at the beginning of the activity is?**

1 Nothing important

2

3

4

5 Very important

**19. Was the business plan made at beginning of your activity?**

Yes

No

**20. Facing the need for an investment, do you consider important the business plan update (or elaboration)?**

1 Nothing important

2

3

4

5 Very important

**21. Do you know how to make a cash flow forecast?**

Yes

No

**22. In your company, how often it is prepared a cash flow forecast?**

Never

Once a year

At least every six months

At least every single month

**23. Do you consider important the periodic analysis of company's profitability, in order to minimize costs and maximize profits?**

Nothing important

2

3

4

5 Very important

**24. How often do you it?**

Never

Once a year

At least every six months

At least every single month

**25. If you have a bank loan, do you monitor its credit conditions and compare them with existing alternatives?**

No

Yes, whenever I have difficulty in paying some responsibility

Yes, once a year

Yes, at least every six months

**26. If you have a bank loan, do you renegotiate its credit conditions?**

No

Yes, whenever I have difficulty in paying some responsibility

Yes, once a year

Yes, at least every six months