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Niyongabire, B., [1] **& Mulyungi, P.** [2]

[1] Student, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Rwanda

[2] Ph.D, Lecturer, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Rwanda

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ABSTRACT

This study sought to determine the influence of financial literacy training on repayment of business development funds loans in Rwanda. The research covered the business people with loans at BDF within Nyarugenge District. The study adopted a cross-sectional survey research design and in-depth interviews which allowed the collection of primary quantitative data through structured questionnaires. Target populations of 300 finance managers/ accountants of SMEs comprising 164 trading 26 manufacturing, 10 hairstyling, 62 dressmaking, and 38 carpentry enterprises. Stratified random sampling technique was used to obtain a sample of 172 SMEs. Both primary and secondary data was used for the study. Primary data was collected using a well-structured questionnaire. The study utilized questionnaires as an instrument for data collection. Data was analyzed for descriptive and inferential statistics using SPSS version 21. Descriptive statistics such as tables, graphs, charts and percentages analysis were used for presentation of data. Also, a linear regression model was used to analyze quantitative data and was developed and tested to explain the relationship between various proxies of determinants of loan repayment in Rwanda. There was Strong positive and significant effects of financial literacy training on loan repayment ($\beta = .444$; $t = 1.815$; $p < 0.05$). The study concluded that BDF loan was faced with a number of challenges in its attempt to empower the SMEs in Rwanda, specifically in Nyarugenge District. Some of the challenges included inadequate training to the SMEs in Nyarugenge District in Rwanda. BDF employees were trained effectively and therefore had relevant skills as far as microcredit was concerned. Clear legal recovery procedure and legislation that punished defaulters was lacking. These structures needed to be put in place by the fund management if successful loan recovery was to be achieved. Majority of the youths felt that the amount of loan given was very little leading to poor capital formation. In addition, most groups experienced problems in borrowing money including long duration taken between application and receiving of funds, small amount of loans awarded, group formation problems, a lot of documentation required, lack of training on loan usage, processing speed of the loan was too low as well as long access procedures.

Keywords: *Financial Training Literacy, Repayment, Business Development Funds Loans, Rwanda*

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INTRODUCTION

Small and Medium Enterprises (SMEs) are key parts of thriving, globally competitive industries, creating the large numbers of jobs needed to reduce poverty (International Finance Corporation, 2011). SMEs are becoming increasingly important for the creation and development of a modern, dynamic and knowledge-based economy. This is because of their capacity to promote entrepreneurship and entrepreneurial skills, and because of their ability to be flexible and adapt quickly to a changing market, and to generate new jobs (Govori, 2013). SMEs allow the marginalized and vulnerable groups to diversify their incomes, create new sources of economic growth and generate additional employment, especially in rural areas (Nyamboga et al., 2014). SMEs have been increasingly seen as playing an important role in the economies of many countries (Olawale and Garwe, 2010).

Various scholars have examined loan repayment and non-repayment (default) and their determinants in the past. Several factors have been identified in different studies as having an impact on loan repayment. Numerous factors such as interest rates, age, marital status, location, high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection are said to impact on the likelihood of default. However, according to Atsmegiorgis (2013) the factors affecting repayment performance can be grouped into four factors namely individual/borrowers factors, firm factors, loan factors and institutional/lender factors. Nawai and Shariff (2010) also posited that the underlying repayment factors can be basically classified under four headings, namely, individual/borrower, firm, institutional/lender, and loan characteristics affecting repayment performance. Conversely, an alternative classification by Roslan and Karim (2009) identified three broad categories as characteristics of the borrower, characteristics of the firm, and attributes of the loan.

In Rwanda majority of the SMEs are micro enterprises with fewer than 10 employees, while 70 per cent of them are one-person, own account workers. This means that majority of SME entrepreneurs are operating at the bottom of the economy, with a significant percentage falling among the 53 percent of Rwandans living below the poverty line of USD 1 per day. The latter are largely for subsistence and engage in economically uncompetitive activities both in urban and rural areas (Kamunge, 2014).

Indeed, the failure rate of SMEs in Rwanda is reported to be one of the highest in the world as about 70% to 80% of these entities fail during their first three years of existence (Ngary, Smith, Bruwer & Ukpere, 2014). Although prior research in other countries has partly attributed a high failure rate of SMEs to ineffective cash management practices (Abanis *et al.* 2013), limited research has been conducted in Rwanda to investigate the cash management practices of SMEs in the country. Therefore, there is a gap in research on cash management practices of Rwanda SMEs. Given the importance of SMEs in creating employment opportunities that are desperately needed in Rwanda and bearing in mind the high failure rate of these entities in the country, it is imperative that their cash management practices be investigated.

Statement of the Problem

Potential sources of finance for the small-scale enterprises include commercial banks, nonbank financial institutions, non-governmental organizations (NGOs), multilateral organizations, business associations, and rotating savings and credit associations (Kiliswa and Bayat, 2014). However, even though the role of banks and other financial institutions is clear in the small business arena, lending to SMEs remains a laborious and daunting activity as many factors influence the sustainability of these ventures and their loan repayment behavior (Hwarire, 2012). The critical problem most public credit-lending agencies face is poor loan repayment from small and medium enterprises. Statistics show that loan default by SMEs has been a tragedy and loan repayment problem is an unsolved issue faced by the majority of financial institutions that offer credit to the micro enterprises and SMEs (Nawai and Shariff, 2013).

Loans are expected to be paid back on time to ensure the recycling of money for the benefits of other individuals. However, credit to the different people may not work smoothly owing to loan delinquency which is a serious problem and challenge to most microfinance institutions. It is in this regard that this study was designed to determine the determinants of loan repayment by SMEs in Nyarugenge District which helped to fill the gap.

LITERATURE REVIEW

Financial Literacy Theory

The theory argues that the behavior of people with a high level of financial literacy might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories (Evans, 2008) embrace the idea that decisions can be driven by both intuitive and cognitive process. Intuition is the ability to acquire knowledge without inference or the use of reason. Intuition provides views, understandings, judgments, or beliefs that we cannot in every case empirically verify or rationally justify. Cognition on the other hand is the process by which the sensory input is transformed, reduced, elaborated, stored, recovered, and used (Baron, 2004).

Financial literacy remains an interesting issue in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the finance landscape. Brehanu and Fufa, (2008) define financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and take other effective actions to improve their financial status.

Financial literacy helps in empowering and educating investors so that they are knowledgeable about finance in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions (Wilson et. al., 2007). It is widely expected that greater financial knowledge would help overcome recent difficulties in advanced credit markets. Financial literacy prepares investors for tough financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance (Baron, 2004).

Financial literacy facilitates the decision-making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one's financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes (Karlan & Morduch, 2009). Individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions (Armendariz & Morduch, 2005). Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility (Miller et. al, 2009).

Financial counseling through face-to-face interaction with interested individuals would be offered at these centres. Financial education imparted includes importance of responsible borrowing, financial planning and information about various financial products and services (World Bank, 2008). Financial knowledge is important to the youth groups in order to enable them to efficiently manage their businesses, thus enhancing their revenues. This helped in improving their loan repayment in the long run.

Financial literacy

Entrepreneurship training and provisions of appropriate Business Development Services are key to the Fund’s achievement of its mandate. Besides ensuring that the youth have adequate skills, it also

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assists them in identifying and tapping into business opportunities, while embracing modern business techniques (YEDF, 2012). Kanyari & Namusonge (2013) in a study in Gatundu South District, Kenya, aimed to determine the various interventions that influence youth entrepreneurs towards YEDF and their role towards attracting the youth toward YEDF. The study concluded that provision of entrepreneurship training to sensitize and inculcate the youth is crucial in identifying emerging business talents. The study also concluded that provision of continuous and relevant Business Development Services to youth entrepreneurs is key to the success of enterprise development initiatives in creating long term employment. They recommended that the Fund should invest in more public sensitization and education on its operations and progress since its inception.

Inadequate financial analysis according to Sheila (2011) is a cause of loan default. This is when in the loans department the officers do not take a careful study of the applicants to ensure that he/she has a sound financial base such that the risk of loss is mitigated in case of default. Sheila (2011) also points out that in Uganda; the issue of inadequate loan support is another cause of loan default. He says that it is very important that the loan personnel collectively ascertain the position in which the loanee finds himself/herself so that in case he needs support, it's availed to him or her. Unfortunately, that is not the case even when the support is given it is not adequate which leaves the business crumbling and hence leading to default. The research also pointed out that illiteracy and inadequate skills was another cause of default. Majority of the clients are engaged in traditional, low paying businesses and rarely diversify their businesses and skills. This implies that they do not have enough knowledge about alternative marketable skills that can benefit them when their businesses do not function properly. Secondly, most of them do not know how to read, write and make simple calculations. As a result, they do not know how to account for their businesses even when the lender makes an error, the borrowers are held liable to the loan. Again, disappearance of loan clients was seen as another cause.

A study conducted by Million, et al (2012) on the factors affecting loan repayment performance. They found that education is an important determinant of loan repayment. An educated client is able to use modern technologies, perform farming activities based on cropping calendar, and manage resources properly. All these factors boost production, which improves loan repayment. According to a study conducted by Karlan (2009), on impact of Business training on Microfinance Clients and Institutions, using a randomized control trial, they measured the marginal impact of adding business training to a Peruvian group lending program for female micro entrepreneurs. Treatment groups received thirty to sixty minute entrepreneurship training sessions during their normal weekly or monthly banking meeting over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. They found that the treatment group led to improved business knowledge, practices and revenues. The program also improved repayment and client retention rates for the microfinance institution

The provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance (Godquin, 2004). Roslan & Mohd Zaini (2009) found that borrowers that did not have any training in relation to their business have a higher probability to default. Education is one of the factors that impact positively on growth of businesses where these entrepreneurship courses are thought in colleges and universities and also in tertiary colleges. According to (Kashuliza, 1993), he used a linear regression model to analyze determinants of loan repayment in smallholder agriculture in the southern highlands of Tanzania. His study showed that education, attitude towards repayment, farm income and offfarm income positively affect loan repayment with farm income being significant,

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while age, household expenditure and household size have negative influence on loan repayment performance with household expenditure being significant.

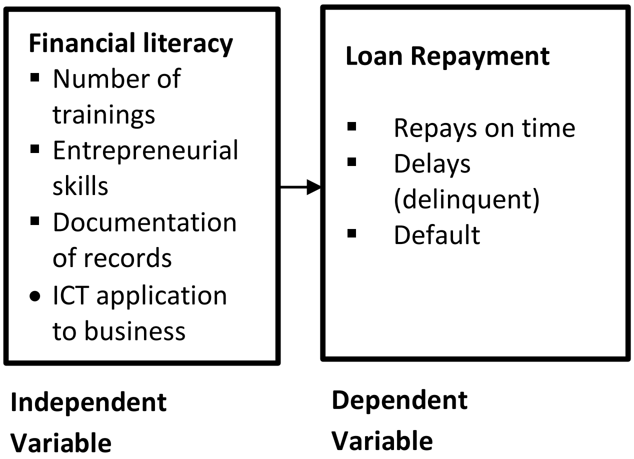

Figure 1: Conceptual framework

METHODOLOGY

This study applied both descriptive and quantitative research designs. The population of the study was 300 borrowers of BDF fund in Nyarugenge District. It was subdivided into five mutually exclusive subpopulations or strata herein referred to as business classes. These included comprising 164 trading, 26 manufacturing, 10 hairstyling, 62 dressmaking, and 38 carpentry enterprises. A total of 172 respondents constituted the sample size for this study. A pilot test was conducted in order to test for reliability and validity of the data collection instrument (questionnaire).

FINDINGS

Financial literacy training on repayment of business development funds loans in Rwanda.

To address this objective, the study respondents were presented with various statements measuring the influence of financial literacy training on repayment of business development funds loans in Rwanda. They were asked to indicate their level of agreement or disagreement on a five-point Likert scale ranging from 1(Strongly agree) to 5 (Strongly disagree). The findings of the analysis were presented below.

From the findings indicated in Table 1, respondents agreed that innovative financial products such as credit/debit cards and mobile money had increased the volume of transactions by a mean of 1.48, the respondents agreed that innovative financial products such as credit/debit cards and mobile money had increased the volume of transactions. Due by a mean of 1.06 was obtained when the respondents indicated that Budgeting is an indicator of thrift and financial discipline. Same as mean of 1.52 the respondents indicated that they prepared written financial objectives of what you want to achieve in a year for your business whereas a mean of 1.56 was obtained on the have a financial plan for my business.

Table 1: Respondents views on financial literacy training on repayment of business development funds loans

Statements	N	Mean	Std. Dev
Innovative financial products such as credit/debit cards and mobile money have increased the volume of transactions	108	1.48	.504
Budgeting is an indicator of thrift and financial discipline	108	2.10	.410
Training on debt management influences the rate of loan defaults	108	1.06	.196
Do you prepare written financial objectives of what you want to achieve in a year for your business?	108	1.52	.505
I use budget plans to set performance targets for my employees.	108	1.56	.000
I am able to make financial decision	108	2.10	.410
I have a financial plan for my business	108	1.06	.196

Ross et al., (2008) noted that correlation analysis results give a correlation coefficient which measures the linear association between two variables. Mugenda and Mugenda (2009) explain that correlation analysis tests the strength of association/relationship between the research variables. Table 2 showed the correlation between financial literacy training and repayment of business development funds loans

Table 2: Correlation between financial literacy training and repayment of business development funds loans

		Financial literacy training	Loan repayment
Financial literacy training	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	108	
Loan repayment	Pearson Correlation	.557**	1
	Sig. (2-tailed)	.000	
	N	108	108

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

According to above table, the study found that there was significant relationship between financial literacy training and repayment of business development funds loans which have correlation index of (r= 0.557). Therefore, the study found that financial literacy training has significant relationship to the loan repayment of SMEs in Rwanda.

Discussion of Results

The study findings agreed with Atkinson and Messy (2005) define financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help and take other effective actions to improve their financial well-being (Siekei, Wagoki & Kalio, 2013). Fatoki (2014) citing United States Agency for International Development (USAID, 2009) defines a financially literate MSE owner/manager as "someone who knows the most suitable financing and financial management options for his/her business at the various growth stages, knows where to obtain the most suitable products and services and interacts with confidence with the suppliers of these products and services. He/she is familiar with the legal and regulatory framework and his/her rights and recourse options." Therefore, financial literacy is simply the ability of an individual to use knowledge and skills to manage financial resources effectively.

This view is corroborated by the Pisa (2013) report which asserts that financial literacy is a key life skill. It posits that financially literate consumers make more informed decisions and demand higher quality services, which will encourage competition and innovation in the market. They are also less likely to react to market conditions in unpredictable ways, unlikely to make unfounded complaints and more likely to manage the risks transferred to them effectively which results to a more efficient financial services sector and potentially less costly financial regulatory and supervisory requirements. This helps in reducing government aid and taxation aimed at assisting those who have taken unwise financial decisions or no decision at all.

CONCLUSION AND RECOMMENDATIONS

In view of the findings as summarized above, this study concluded that a positive relationship exists between enterprise growth and financial literacy. MSEs that are more successful are run by entrepreneurs who have financial literacy and understand key financial concepts that include, debt management, interest rates, budgeting and control, knowledge on efficient use of banking services and book keeping. Whereas efforts have been made to expose the public to financial education, financial literacy among majority of MSE managers in BDF remains low implying that financial literacy education is yet to achieve its objectives.

Financial literacy training should be done to any individual or groups before any funding is given out. SMEs owners need to be sensitized on entrepreneurship skills, business plan writing, financial management skills and record keeping for the groups to able to track the process. They should also be made aware of the need to repay the loan on time and failure to repay the loan impacts heavily on self-reliance and sustainability of the fund. Table banking can be used by the fund to promote repayment of the fund.

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