FINANCIAL LITERACY AND ACCESSIBILITY TO ENTREPRENEURIAL LOANS BY MICRO-ENTREPRENEURS IN RWANDA: SOCIAL COHESION AS MODERATOR

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Abstract
Most economic activities thrive within strong and amicable social connections to give impetus to targeted successes of micro-entrepreneurs. This study establishes the moderating effect of social cohesion in the relationship between financial literacy and accessibility to entrepreneurial loans by micro entrepreneurs in Rwanda between 2019-2024. On a population of 416 businesses and sample of 200, the study adopted cross sectional design combined with analytical and descriptive approach, using survey (5point likert scale) to collect data and AMOS to establish the moderating effect of social cohesion. The results revealed a positive significant moderating effect of social cohesion between financial literacy and accessibility to entrepreneurial loans by micro entrepreneurs ($\beta = 0.351$, $t = 1.652$, $p<0.0001$). According to the SEM results, financial literacy and the availability of financing for entrepreneurship are significantly and favourably correlated ($\beta = 0.463$, $t = 2.356$, $p<0.0001$). Social cohesion and access to entrepreneurial loans showed that there is a significant and positive association between social cohesion and access to entrepreneurial loans ($r = 0.407$, $p \leqslant 0.01$) and social cohesiveness had a significant interaction impact in the relationship between financial literacy and the ability to obtain loans for entrepreneurship ($\beta = 0.236$, $t = 1.777$, $p<0.0001$). Subsequently, social cohesion partially boosts financial literacy to promote accessibility to entrepreneurial loans. Additionally, both financial literacy and social cohesion exhibit significant impacts on accessibility to entrepreneurial loans by micro businesses in Rwanda. The study concludes that financial literacy and access to entrepreneurial financing are significantly and positively correlated, confirming that higher financial literacy enhances Rwandan micro business owners' ability to secure loans. It also finds that social cohesion positively influences access to entrepreneurial loans and significantly moderates the relationship between financial literacy and loan accessibility, indicating that strong social ties further strengthen the positive impact of financial literacy on entrepreneurs' borrowing capacity.The study recommends that governments, especially in Rwanda, establish national financial literacy centers and integrate financial education into school curricula to build lifelong money management skills and help micro-entrepreneurs make informed financial decisions, avoid costly loans, and improve financial discipline.

Keywords: Entrepreneur loans, financial literacy, interaction effect, microfinance banks, Rwanda, social cohesion.

1.0 Introduction

Financial literacy and accessibility to entrepreneurial loans are pivotal factors influencing the success and sustainability of micro-entrepreneurs, particularly in developing economies like Rwanda. Micro-entrepreneurs, who constitute a significant portion of Rwanda's economy, often face challenges in securing financial resources necessary for business growth and sustainability. Despite the government and various non-governmental organizations' efforts to improve financial inclusion, barriers such as inadequate financial literacy and limited access to entrepreneurial loans persist. These challenges can hinder the entrepreneurial potential of individuals and constrain economic development.

Financial literacy encompasses the knowledge and skills required to make informed and effective financial decisions. For micro-entrepreneurs, this entails understanding various

financial products, managing business finances, and planning for long-term financial goals. In Rwanda, the level of financial literacy among micro-entrepreneurs is often low, which can result in poor financial management and reduced eligibility for loans. This is a similar view to the Organization for Economic co-operation and development (2020) which indicated that the level of financial literacy is generally low among adults worldwide.

Access to entrepreneurial loans is equally crucial, as it provides the capital needed for starting, expanding, or sustaining businesses. However, micro-entrepreneurs frequently encounter obstacles such as stringent loan requirements, high interest rates, and lack of collateral. These barriers can severely limit their ability to secure the necessary funds for business activities. Social cohesion, which is the strength of relationships and the sense of solidarity among members of a community, may play a moderating role in addressing these challenges. In Rwanda, where community bonds and cooperative movements are traditionally strong, social cohesion can foster trust and mutual support among micro-entrepreneurs. This communal support can enhance financial literacy through shared knowledge and experiences, as well as improve access to loans by leveraging collective resources and social networks. This is strongly supported by the works of Okello, et al., (2020) which suggested that social cohesion among individuals can promote financial literacy, especially among the poor. Social networks among the poor can help them to gain access to financial knowledge and information from friends. The individuals can gain access to scarce resources like information and knowledge about availability of finance through social interaction and support.

Understanding the interplay between financial literacy, access to entrepreneurial loans, and social cohesion is crucial for developing effective interventions to support micro-entrepreneurs in Rwanda. Therefore, there is need to conduct financial literacy, especially among the adults to enable them to participate in the financial market (Lusardi and Mitchell, 2017). Indeed, financially literate customers who can make informed decisions are as much important as having a good financial infrastructure in place (Lusardi & Messy, 2023). Thus, financial knowledge and skills play a significant role in helping individuals to plan, save and react to financial shocks (Atkinson & Messy, 2011; Klapper et al., 2013), and attempting to achieve poverty eradication and economic stability (Furtado, 2018; Kar et al., 2011). Delavande et al. (2008);Jappelli and Padula (2013), and Lusardi et al. (2017) argue that financial knowledge is a type of human capital and that it is one of the indicators of an individual’s ability.

Through wealth distribution, employment creation, technological advancement, poverty reduction, and innovation, SMEs greatly contribute to economic development (Agyei,2018). A strong SME sector is essential to the nation's economy and industrial sector. Long-term, steady economic growth is contingent upon the smooth operation of SMEs. The quick economic expansion and high profitability of emerging markets have made small and medium-sized firms more competitive in both domestic and international markets (Hosseini et al., 2019). For developing countries with exceptional potential for sector development, a strong SME sector is vital. Many regions have yet to completely benefit from a healthy SME sector. The SME sector in developing countries has stagnated. The need for knowledge-based views, or KBVs, is rising, which speeds up the creation of knowledge-based policy conclusions. KBV provides strategies that help companies increase productivity and gain a competitive edge (Grant, 1996). The tacit and collective knowledge of an organization are important resources for improving its performance. KBV also emphasizes the company's ability to blend corporate and individual knowledge in its goods and services. Organization with a wealth of knowledge and resources are more likely to surpass competitors in terms of. Knowledge can be seen as an important resource that is difficult to duplicate or transmit and is socially complex (Nonaka et al., 2006). In the growing body of research on the performance of SMEs, less focus has been placed on

the importance of knowledge-based resources and their part in the sustainable performance of SMEs.

Frantic attempts have been made by some prior authors in this sphere of study but with unrelated variables. This is demonstrated by Lusardi & Messy (2023), who employed sophisticated instruments including cryptocurrency assets, reverse mortgages, and mortgages and realised that financial literacy is low amongst the vulnerable. Peters (2022) examined the impact of financial literacy on entrepreneurial growth in Southern Nigeria and discovered that entrepreneur's knowledge of banking services enhances the growth of the business. Similarly, Tang(2024) developed a novel search-based financial awareness index based on the Search Volume Index (SVIs) from Google Trends. Walle (2022) researched on social cohesion and firms' access to finance in Africa.

Consequently, the low degree of financial literacy in the world is what inspired this study. Contextually, the Ministry of Finance and Economic Planning in Rwanda has made strides in implementing financial literacy; however, according to the New Times (2018), financial literacy levels in Rwanda are low, with less than 50% of the population unable to correctly answer addition, subtraction, multiplication, and division problems. Evidence also reveals that most Rwandan microentrepreneurs have a poor comprehension of financial operations and a gap between their knowledge and awareness of money management techniques and applications, particularly among young women, PWDs and youth in post-genocide. This corroborates with the fact that only 35 percent of women have bank accounts with majority without access to formal banking services (New Times, 2018).

The private sector in Rwanda is largely based on microentrepreneurs who contribute to most of the businesses in the country and who are central to creating employment, reducing poverty, and engaging all in economic development. Although the government has continued with policies aimed at ensuring financial inclusion and entrepreneurship, formal loans to entrepreneurship among micro-entrepreneurs in Rwanda have continued to be at a very low level. This financing gap limits the start-up, survival, and growth of any business, so it reduces the overall developmental impact of the microenterprise activity (World Bank, 2020; Beck and Cull, 2014).

An emerging literature has found financial literacy as an important determinant of access to finance. Those entrepreneurs who have financial literacy skills are usually in a better position to comprehend financial products, create any believable loan application, and manage cash flows as well as interact well with financial institutions (Lusardi and Mitchell, 2014; Xu and Zia, 2012). Nevertheless, growing economies have provided indications that the low financial literacy rates among micro-entrepreneurs have persistently weakened their rate of accessing and leveraging formal credit despite the availability of financial services (OECD, 2018). Financial illiteracy is a potential barrier to the accessibility of loans to micro-entrepreneurs that could be critically but minimally studied due to limited levels of formal education and low exposure to formal financial training in Rwanda.

evidently, literature has shown that financial literacy is not the sole determinant of access to finance. The social cohesion as observed in most African situations in the form of trust, social networks, group solidarity and collective norms which is a decisive factor in influencing economic behavior and financial results (Putnam, 2000; Karlan et al., 2009). Social cohesion in Rwanda, where community institutions like cooperatives, savings groups, and informal networks are so integrated in the socioeconomic system, can play a big role in the way financial literacy is converted into financial access to entrepreneurial loans. Close social relationships would improve the information exchange, perceived lending risk, and social guarantees in

place of collateral, whereas weak social cohesion would inhibit financial knowledge success in addressing credit constraints.

In spite of the theoretical applicability of this interaction, the literature that is available indicates a significant gap. Other related studies are inclined to study financial literacy and access to finance separately or to consider social capital as a direct predictor of credit access without sufficiently investigating its moderating role (Klapper, Lusardi, and van Oudheusden, 2015; Beck, Demirguc-Kunt and Singer, 2013). There is a specific dearth of empirical evidence regarding the mechanisms through which social cohesion preconditions the connection between financial literacy and access to entrepreneurial loans in the case of Rwanda. This is a major push, because the policy interventions which focuses on financial education may have little changes without addressing the social structures which mediate financial behavior.

Hence, the central issue that motivated this research is the inadequate knowledge of the role of financial literacy in credit access to entrepreneurial loans by the micro-entrepreneurs in Rwanda, and more importantly the moderating effect of social cohesion. This study addresses the concerns in order to both contribute to scholarly discussion of financial inclusion and entrepreneurship as well as enlighten more, place-sensitive policies that incorporate financial capability development and within the community based processes. Otherwise the initiative to increase access of micro-entrepreneurs to finance might continue to be piece meal and not sufficient to be able to unlock the full potential of the very essential sector in Rwanda socio-economic change.

2.0 Literature Review

Financial Literacy

Financial literacy is defined by the OECD PISA (2019) as having the knowledge and comprehension of financial concepts and risks, along with the abilities and attitudes to apply this knowledge and understanding to make wise decisions in a variety of financial contexts, enhance societal and individual financial wellbeing, and facilitate participation in the economy (Cambridge). In order to enhance general wellness, this definition places equal emphasis on knowledge and the real-world application of financial abilities.

Financial literacy is defined as "the skills, knowledge, and tools that enable people to make individual financial decisions in order to achieve their own goals" by the National Endowment for Financial Education (NEFE) (2024). This demonstrates a customised approach to financial literacy that emphasises personal objectives and decision-making. Furthermore, financial literacy was described by Arnaut-Berilo et al. (2023) as the awareness, knowledge, skills, attitude, and behaviour required to make sound financial decisions and eventually achieve personal financial well-being (MDPI). This definition integrates behavioral aspects with knowledge and skills, underlining the importance of rational decision-making.

This study posits financial literacy as personalised financial education, training, courses, and coaching by financial advisors of entrepreneurs to enhance financial understanding, knowledge and skills using the "just-in-time" approach, tailored to specific needs and educating by combining in-person and digital methods. It focuses on integrating narrative-driven approaches, such as storytelling, onsite education and digital methods such as webinars to enhance decision making. These definitions reflect a shift towards viewing financial literacy as an essential life skill that includes knowledge, practical application, and behavioral aspects, aimed at enhancing personal and societal financial wellbeing.

Social Cohesion

Recent definitions of social cohesion emphasize the role of positive social relations, a sense of belonging, and an orientation towards the common good. When related to financial literacy, social cohesion underscores the collective benefit of widespread financial understanding and capability.OECD/INFE(2023) sees social cohesion as the "glue that binds societies," characterized by collective attributes and behaviors that promote positive social relations and a sense of community belonging. This definition highlights the importance of common goals and mutual support in enhancing societal stability in relation to financial literacy.

Similarly, Moustakas (2023) opines that social cohesion involves collective attributes and behaviors like trust, a sense of belonging, and willingness to participate and help within a community of financial education seekers. This framework suggests that improving financial literacy can foster these aspects by equipping individuals with the knowledge and skills to manage their finances effectively, thus contributing to overall social stability and cooperation.

Financial Literacy and Social Cohesion (2023) Linked financial literacy with social cohesion, research indicates that higher financial literacy levels can contribute to economic stability and equitable growth. This connection implies that financial education not only benefits individuals but also enhances collective economic well-being, reducing inequalities and fostering a more cohesive society (OECD). Sundry definitions of social cohesion in relation to financial literacy highlight the interdependence between individual financial competence and broader societal stability. By promoting financial literacy, communities can strengthen their social cohesion, fostering a sense of mutual support and shared economic prosperity.

Accessibility To Entrepreneurial Loans

The accessibility of entrepreneurial loans can be viewed from the spectrum of affordability, ease of access, and convenience of obtaining it.On affordability, studies emphasize the importance of low-interest rates and flexible repayment schedules to make loans more affordable for small businesses and entrepreneurs. High-interest rates and rigid repayment terms are significant barriers, especially for women and disadvantaged groups. For example, research indicates that high interest rates prevent many women from obtaining credit, even though microfinance institutions (MFIs) have made strides in providing financial access to marginalized groups (World Bank,2018).

Ease of Access: The ease of accessing loans is significantly influenced by factors such as the availability of information, the simplicity of application procedures, and the presence of supportive infrastructure. Technological advancements, particularly in fintech, have improved access by providing digital platforms for loan applications and disbursements. This has been particularly beneficial in regions where traditional banking infrastructure is lacking (Agyapong& Atta-Boateng, 2023).

The convenience of obtaining entrepreneurial loans is enhanced by the integration of digital technologies that streamline the loan application and approval processes. Digital lending platforms and mobile banking solutions offer entrepreneurs a more user-friendly and time-efficient way to access credit. Additionally, the use of big data and other technological innovations has improved the efficiency and reach of microfinance services, making it easier for entrepreneurs to secure necessary funds without extensive paperwork and long waiting periods (Amoah, Korle & Asiama, 2023).

Recent definitions of entrepreneurial loans highlight their role in providing funding to individuals or businesses aiming to start or expand a venture. These loans are often characterized by specific features tailored to the needs of entrepreneurs, including flexible repayment terms, lower interest rates, and support services.U.S. Small Business Administration

(SBA,2023) defines entrepreneurial loans as financial products designed to help small businesses start and grow. They offer various types of loans, such as the 7(a) loan program for long-term financing, 504 loans for fixed-rate financing through community-based development companies, and microloans for smaller amounts up to $50,000.

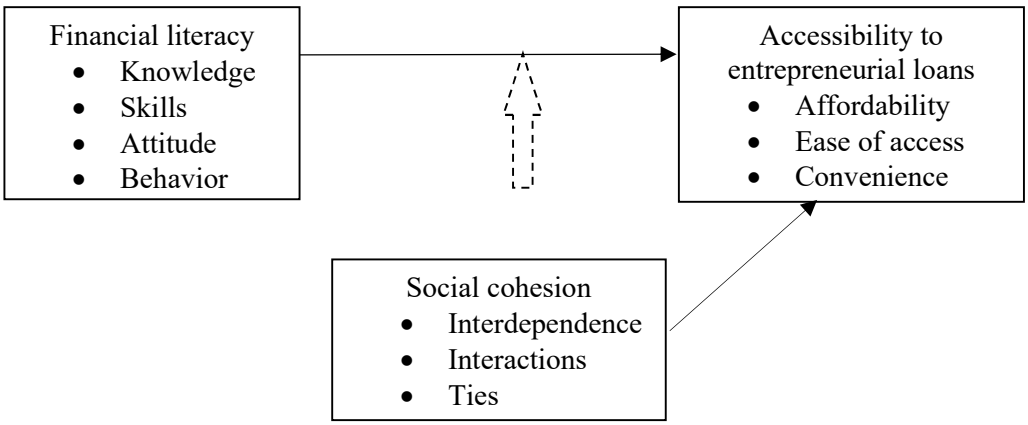
Investopedia (2024) describes entrepreneurial loans as critical financial tools that enable entrepreneurs to overcome challenges such as bureaucracy, hiring talent, and obtaining financing. They are seen as a means to bear uncertainty and seize opportunities for innovation and business growth. The academic perspective emphasizes the importance of entrepreneurial loans in fostering entrepreneurial intention and motivation. These loans are seen as essential in bridging the gap between opportunity recognition and business establishment, particularly for opportunity-driven entrepreneurs who seek to innovate and expand. It should be noted that entrepreneurial loans are defined not only by their financial terms but also by their capacity to support the unique needs and challenges of entrepreneurs, enabling innovation and business growth.

Micro-Entrepreneurs

Micro-entrepreneurs play a significant role in Rwanda's economy, contributing notably to the country's GDP. In 2023, Rwanda's GDP was estimated at 16,355 billion Rwandan Francs (Frw), with the services sector accounting for 44%, agriculture for 27%, and industry for 22% of the GDP (Statistics.gov.rw) (Statistics.gov.rw). Micro, small, and medium enterprises (MSMEs) are vital in this context, particularly micro-enterprises which dominate the entrepreneurial landscape.Micro-enterprises are typically defined as businesses employing fewer than 10 people. This classification aligns with the broader definition used by many international organizations and local regulations.

MSMEs in Rwanda, especially micro-enterprises, are crucial for employment and economic activities, often acting as the backbone of the informal sector. These enterprises are instrumental in job creation, poverty reduction, and economic development. Despite the challenges they face, such as limited access to finance and markets, their contribution remains substantial (World Bank,2022). The focus on micro-entrepreneurs aligns with broader economic goals, including sustainable and inclusive growth, as highlighted by international development goals and national economic strategies. Overall, micro-entrepreneurs in Rwanda significantly contribute to GDP by driving economic activities in various sectors and creating employment opportunities, thus playing a critical role in the country's economic development and growth.

Figure 1: Conceptual framework



Source: Author's Computation, 2025.

Theoretical Underpinning

The current research would draw on the Human Capital Theory, Resource-Based View (RBV), and Information Asymmetry Theory to have a solid explanatory framework based on the association between financial literacy and access to entrepreneurial loans by the micro-entrepreneurs, and also why this association might depend on contextual and relational variables like social cohesion.

Human Capital Theory

According to the Human Capital Theory, the productive abilities of individuals can be enhanced with the help of investing in their education, training, and developing their skills, which, in turn, can increase the economic performance (Schultz, 1961; Becker, 1964). In this context, financial literacy is a dimension of human capital that can be considered critical because it can provide an entrepreneur with cognitive and analytical capabilities to make realistic financial choices, understand financial data, and interact with a formal financial institution efficiently.

Empirical studies in recent times augment this theoretical suggestion and show that financial literacy increases the capability of the entrepreneur to prepare the loan application, cash flows, and creditworthiness requirements of lenders (Lusardi and Mitchell, 2014; Klapper et al., 2015). Recent research also indicates that financially literate entrepreneurs have a higher chance of having access to formal credit and that they demonstrate a lower risk of default, which further supports the idea that financial literacy is economically productive human capital rather than financial awareness (Grohmann et al., 2018; Bongomin et al., 2020).

In the Rwandan case where numerous micro-entrepreneurs are informally or semi-formally based and most have very low levels of formal education, the lack of financial human capital may limit their capability to monetize entrepreneurial effort into bankable investment. The Human Capital Theory thus inspires the hypothesis that increased financial literacy has a great impact on providing entrepreneurial loans to the micro-entrepreneurs.

Resource-Based View (RBV)

Resource-Based View (RBV) developed by Penrose (1959), Wernerfelt (1984) and Barney (1991) views the firm performance and competitive advantage as the results of valuable, inimitable, rare and non-substitutable (VRIN) resources. Although RBV has traditionally focused on tangible assets, further literature acknowledges intangible sources, including knowledge, managerial ability and financial prowess, as both of equal strategic importance (Barney et al., 2011).

Under this theoretical perspective, financial literacy is an abstract strategic asset through which micro-entrepreneurs can access external financial resources. More financially endowed entrepreneurs can be in a better position to analyze loan products, bargain terms and match financing structures to the needs of the business. It is empirically justified as financially viable SMEs have been found to exhibit better financial performance and external finance success (Adomako et al., 2016; Wise, 2013).

Nevertheless, the interpretation of RBV also suggests that the value of internal resources is also dependent on the environmental conditions. Social cohesion may either enhance or limit the success of financial literacy as a strategic resource in socially embedded economies like Rwanda. The entrepreneurial individuals who are deeply integrated into solid social networks can use the reputation of the group, group guarantee, and shared rules to supplement their financial competencies. It is this understanding that guides the conjecture that social cohesion increases the value of resources of the financial literacy in facilitating access to loans.

Information Asymmetry Theory

The Information Asymmetry Theory is a theory developed by Akerlof (1970), Spence (1973) and Stiglitz (1985). It describes how asymmetry in information between economic agents causes negative selection and credit rationing in financial markets. Borrowers in lending relationships are usually in a better place to provide higher information on their repayment ability as well as their business risk by which lenders may impose very strict terms or even refuse to lend.

Financial literacy helps in curbing the information asymmetry because it helps entrepreneurs to generate plausible financial statements, present business plans, and imply competence and reliability to the lenders (Berger and Udell, 2006). The empirical research demonstrates that better financial disclosure and understanding of the borrowers leads to the perceived risk of the lenders reducing and loan granting increasing especially to small and micro enterprises (Cole et al., 2011; Beck et al., 2014).

However, in the setting of relational lending that is typical of Rwanda, information asymmetry is not addressed exclusively by formal financial disclosures. The informal signalling mechanism of social cohesion is trust, reputation and network monitoring, which reflects financial literacy. Collateral can be replaced by strong social connections, moral hazard can be minimized, and borrower discipline can be reinforced (Karlan et al., 2009; Walle, 2022). This implies that social cohesion modulates information asymmetry ameliorating the effects of financial literacy as a policymaking tool regarding access to entrepreneurial loans.

Integration of Theory and Hypothesis Motivation

Collectively, these theories allow explaining the accessibility of loans to entrepreneurs in a complementary and integrative manner. The Human Capital Theory provides an explanation as to why financial literacy increases the individual capability; the RBV provides an answer as to how financial literacy operates as a strategic resource; and the Information Asymmetry Theory provides an answer as to how financial literacy influences the decisions made by the lender. Notably to note, all the three views implicitly admit that the power of financial literacy is relative. The hypotheses of this research are thus inspired by the previous empirical evidence that; Financial literacy has a positive effect on the access of micro-entrepreneurs to entrepreneurial loans; and this relationship is mediated positively by social cohesion which enhances the value, signifies power and practical usefulness of financial literacy in socially contextualized financial structures like the one in Rwanda.

Empirical Review

The literature available proves financial literacy an important factor of access to finance but seems to be highly relative and socially conditional, which is most relevant in the situation of micro-entrepreneurship in Rwanda. The financial system in Rwanda has grown at a high rate due to microfinance institutions, SACCOs, and digital financial services but access to entrepreneurial loans by micro-entrepreneurs is still not well evenly distributed indicating that access to financial inclusion in form did not translate into financial inclusion in substance. This phenomena is in line with the larger evidence that financial literacy is required but also inadequate with respect to overcoming credit limits in developing economies. Empirical evidence has repeatedly shown that there is a positive correlation between financial literacy and access to finance on a firm-level (Wijayangka et al., 2021; Peters, 2022; Addo and Asante, 2022). The results have a direct connection to Rwanda, where several micro-entrepreneurs act in the informal sector and do not have the financial potential to satisfy the documentation, repayment planning, and risk evaluation demands of lenders. The literature however also demonstrates that this relationship is meditated by behavioural and institutional factors. Moderating effects, such as risk attitudes, can be used to intervene with respect to the

translation of financial knowledge into financing decisions, that is, would-be entrepreneurs who are the owners of financial knowledge but locked out of credit markets by risk aversion or distrust of formal institutions. This subtext is especially pertinent in Rwanda with the historical dependence on informal finance and village-based savings existing even with existing banks.

The methodology In the recent developments, including the high-frequency data used by Tang (2024) illustrate that financial awareness can actually affect financial behaviour in real-time, but this methodology may fail to capture systematic barriers to micro-entrepreneurs in low-income environments. The study, which is predominantly survey based, as it is in African settings can get more of the capability constraint, but fails to capture the social interactions that determine financial interactions. Such divergence in methodology justifies the fact that integrative models are necessary to be able to grasp individual capability and a relational context.

Most importantly, there is some indication, emerging, that social cohesion is a definitive contextual moderator. Walle (2022) demonstrates that social cohesion also increases access to finance among firms in Africa by increasing trust, information flows, and perceived risk by the lenders. Social cohesion is likely to pre-condition efficacy of financial literacy in Rwanda where cooperatives, savings groups (ibimina), and Umurenge SACCOs are established with the help of powerful communal norms. Micro-entrepreneurs that are financially literate and embedded in strong social networks can use social guarantees, peer approval, and common norms to take loans, and entrepreneurs who are financially literate and socially isolated, equally literate but socially isolated may not be able to obtain loans.

Although its relevance is found, current studies in financial literacy are highly individualistic and implicitly believe that the financial ability can be directly translated as better loan access. The relational financial environment in Rwanda is weak in this assumption in that, in most cases, lending decisions, particularly at the micro-level, are determined by social reputation, group membership, and trust. Lack of the empirical research where social cohesion is explicitly modelled as an intermediate is a serious gap in both of African and Rwandan literature.

This study, therefore, has based itself on a conceptual framework according to which financial literacy is a crucial predictor of the availability of entrepreneurial loans, with social cohesion being of particular importance as a moderation mechanism that reinforces the relationship or does not. By combining personal financial potential and financial behaviour rooted in society, the research addresses the demand to conduct more specific financial implementation research and provides a conceptually valid explanation of incessant credit marginalization among micro-entrepreneurs in Rwanda.

3.0 Methodology

This study used cross sectional design combined with analytical and descriptive approach. This particular design was selected because it collects a large amount data in a short amount of time. Furthermore, this design also does not suffer from lack of samples common with longitudinal research design. Similarly, this design does not suffer from recurrent mistakes in the study instrument rampant under a longitudinal study. The population for this study was selected from businesses located in Kigali city- Rwanda. A total population of 416 businesses was selected for this study according to statistic by National Institute of Statistic of Rwanda (NISR 2019) census of business establishment in Rwanda.

The sample size for this study was selected using table for sample size determination by Kjrecie and Morgan (1970). A total sample of 200 was selected from a population of 416 businesses

located in Kigali city Rwanda. Simple random sampling was used to select the businesses to participate in this study. This method of sample selection was used to give all the businesses in the population equal opportunity to participate in this study. The samples selected for this study were allocated unique identification number to avoid double participation by businesses.

The data for this study were collected from the businesses using a semi- structured questionnaire. The questions in the questionnaire were put on a 5 points likertscale to solicite responses from the respondent. The Likert scale used included 1- strongly disagree, 2-disagree, 3-not sure, 4-agree, 5- strongly agree. The scale was used in this study because of its simplicity as recommended by Likert (1932). The questionnaire designed for this study was pre- tested through a pilot study before the final study. The items that were not relevant were removed to get a refined questionnaire for the final study.

Reliability is when an instrument gives the same answer when it reused in a study. According to Cronbach (1951), reliability is measured by Cronbatch Alpha. The rule of thumb recommends that Cronbatch coefficient should be above 0.7. The test for reliability and validity were performed on the study instrument. Validity means the instrument giving what it claims to measure. Content and construct validity were considered in this study. Content was measured by giving the instrument to number of experts to rank the questions in the questionnaire on the basis of their relevancy. Construct was measured by running exploratory factor analysis to determine convergent and discriminate validity between the measures of the construct. The rule of thumb is that validity should be above 0.7 according to Amin (2005). Confirmatory factor analysis was also performed as a diagnostics.

Measures of Research Variables

This study's primary goal is to determine how social cohesion influences the relationship between financial literacy and microentrepreneurs' ability to obtain loans for their businesses in Rwanda. Therefore, three variables were considered in this study. The measures for the all variables were derive and adapted from previous journal articles. Financial literacy was measured using the construct of knowledge, skills, behavior and attitude. While access to entrepreneurial loans was measured using availability, cost, convenience and terms and condition of the loan. Social cohesion was measured by interaction, ties and interdependency. The items generated to measure each of the variables were put on a 5 point Likert scale.

Common Method Bias

Common method bias arises when the researcher uses instruments that bias the results from the study. This causes type 1 and type 2 errors which affects the standard deviation and the mean. Common method bias in this study was tested using two methods. Statistically, exploratory factory analysis was used to test for explanatory power of the different construct of each of the variables under the study. The results show none of the constructs under each of the variables emerged dominant explaining the global variable. Procedurally, the items in the instruments used in the study were refined and double barrel and difficult questions where revised and made simple, short, precise and easy to understand.

Testing For Interaction Effect

Measurement Model

Measurement model are constructed as a first step while testing for interacting effect. AMOS was adapted to construct measurement models in this study. The goodness of fit indexes of absolute values with chi-square were used to determine whether the manifest constructs are associated with the underlying variables. The measurement model determines discriminate and convergent validity between the manifest constructs and their underlying latent variables. The

measurement were constructed to test whether the manifest construct are related to underlying latent variables.The findings showed that all the variables had their entire manifest construct (Hair et al., 2018).

Structural Model

According to Hair et al., (2018), a structural model is constructed to test for the relationship between exogenous variable, endogenous variable, and the moderator variable through a single complex model. AMOS was used to construct a structural model through bootstrapping. The results showed that all hypothesis derived in our study are significant. This is indicated in the next chapter.

Model Specification

The interactions of the dependent and independent variables are expressed thus:
Y=Xs

Y=Financial literacy(Fil)

X=accessibility to entrepreneurial loans(AeL)

Moderating Variable=Social cohesion(SoC)

Therefore; FiL=Ael + Soc+ Ɛ

4.0 Result and Data Analysis

This section presents the findings of demographics, descriptive statistics, correlation, structural equation model of this study.

In the demographics, it is seen that the typical borrower is a young, well-educated male entrepreneur operating a nascent micro-business in the urban trade sector. A significant gender disparity exists, as men constitute 54% of borrowers, highlighting women's continued exclusion from financial services. These entrepreneurs are predominantly between 26 and 33 years old and hold diplomas or university degrees. Their businesses are primarily small-scale operations in trade, often earning a moderate income rather than a high one, and most have been operating for five years or less, indicating a strong need for startup and operational capital. Furthermore, the vast majority are located in urban areas, and over half are registered members of business associations, a factor that facilitates access to loans through group-guaranteed lending models.

Table 1:
Descriptive Statistics

	N	Min	Max	Mean	Std. Dev	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
SOCIALCOHESION	200	1.00	5.00	3.5069	.69018	-.825	.172	1.814	.342
FINANCIALLITERACY	200	1.00	5.00	3.8025	.63563	-1.084	.172	4.069	.342
ACCESSIBILITY ENTREPRENUERIAL LOANS	200	1.00	5.00	3.1987	.58621	-.225	.172	2.546	.342
Valid N (listwise)	200								

Source: Author's Computation, 2025.

The descriptive statistics show that micro-entrepreneurs in Rwanda demonstrate relatively high levels of financial literacy (M = 3.80, SD = 0.64), with responses skewed toward higher values, indicating that most respondents possess above-average financial knowledge and skills. Social cohesion also recorded a moderately high mean (M = 3.51, SD = 0.69), suggesting that entrepreneurs perceive strong community trust and support networks, which may play a role in enhancing collective access to resources. In contrast, the mean score for accessibility to entrepreneurial loans was lower (M = 3.20, SD = 0.59), reflecting moderate but less favorable perceptions of loan access compared to the other constructs. These results imply that while entrepreneurs are relatively literate financially and embedded within cohesive social structures, challenges remain in translating these strengths into improved accessibility to entrepreneurial financing.

Correlations

This presents the direction and strength of relationship between the variables.

Table 2:
Correlation Matrix

Variables	1	2	3
Social cohesion (1)	1		
Financial literacy (2)	.555**	1	
Accessibility to entrepreneurial loans (3)	.407**	.534**	1

Source: Author's Computation.

Financial literacy and access to entrepreneurial loans results showed that access to entrepreneurial loans and financial literacy are significantly and favorably correlated (r = 0.534, p ⩽0.01).Thus, access to financing for entrepreneurship is influenced by financial literacy. Financially literate individuals can easily comprehend loan terms and computer interest rate on loans to make better borrowing decisions. Social cohesion and access to entrepreneurial loans showed that there is a significant and positive association between social cohesion and access to entrepreneurial loans (r = 0.407, p ⩽0.01). This implies that social cohesion influences access to entrepreneurial loans. The existence of social cohesion among borrowers can help them to gain access to entrepreneurial loans.

Structural Equation Model

This study's primary goal is to determine how social cohesion influences the relationship between financial literacy and microentrepreneurs' ability to obtain loans for their businesses in Rwanda. It adopted SEM since it allows for the testing of both measurement and structural models within a single framework. According to the SEM results, financial literacy and the availability of financing for entrepreneurship are significantly and favourably correlated (β = 0.463, t = 2.356, p<0.0001). This result supports H_1 of the study, which states that financial literacy significantly promotes accessibility to entrepreneurial loans by micro entrepreneurs in Rwanda.

The results further revealed that social cohesion and access to entrepreneurial loans are significantlyand positively related (β = 0.351, t = 1.652, p<0.0001).This lends support to H_2 of the study, which states that Social cohesion significantly promotes accessibility to entrepreneurial loans by micro entrepreneurs in Rwanda. Lastly, the SEM findings showed that social cohesiveness had a significant interaction impact in the relationship between financial literacy and the ability to obtain loans for entrepreneurship (β = 0.236, t = 1.777,

p<0.0001).This validates the study's third hypothesis, according to which social cohesiveness has a major interaction effect on the relationship between financial literacy and micro entrepreneurs' ability to obtain loans for their businesses in Rwanda.

Table 3:
SEM Moderated Model

Hypotheses	Path coefficients	S.E	t-value	P-value
Financial literacy → access to loans	0.463***	0.096	2.356	***
Social cohesion → access to loans	0.351**	0.187	1.652	***
Financial literacy → access to loans X social cohesion	0.236**	0.581	1.777	***

	Non-moderated Model	Moderated Model
Degrees of freedom (df)	41	70
Probability (P)	0.223	0.287
Goodness of fit index (GFI)	0.950	0.994
Incremental fit index (IFI)	0.966	0.985
Tucker-Lewis index (TLI)	0.950	0.960
Comparative fit index (CFI)	0.977	0.994
Root mean square error of approximation (RMSEA)	0.060	0.025

Source: Author's Computation, 2025.

Discussion of Findings

The SEM findings demonstrated a strong and favourable correlation between financial literacy and the ability to obtain financing for entrepreneurship.According to Lusardi and Mitchell (2011), people who are financially literate are able to compare and assess the different options, bargain for a better deal, and ask knowledgeable questions about loan products, financial services, investments, insurance, and savings products. As a result, they are able to make decisions that are both effective and efficient.Financial literacy provides the impoverished with the financial information and skills necessary to assess complicated financial products and services and make well-informed decisions that maximise their utility (Greenspan, 2002).

Furthermore, the findings demonstrated a strong and favourable correlation between social cohesiveness and the availability of financing for entrepreneurship.According to Okten and Osili (2004), social networks facilitate the sharing of information regarding loan opportunities. Additionally, Aryeetey (2005) contends that social media platforms serve as a means of screening people to ascertain their creditworthiness and eligibility for loans. This study is consistent with the findings of Karlan (2007) and Ahlin and Townsend (2007), who found that social networks among the impoverished were a crucial instrument for member referrals and guaranteeing the enforcement of repayment agreements. When lending to individuals, banks are worried about moral hazard (Stiglitz and Weiss, 1981). Therefore, moral hazard and adverse selection among the impoverished are lessened by social cohesiveness in social networks and the penalty that follows (Floro and Yotopolous, 1991).

The result also revealed that a significant and positive interaction effect of social cohesion exist in the relationship between financial literacy and access to entrepreneurial loans. According to Okello Candiya Bongomin et al., (2020), knowledge and information about availability of loans can be shared among individuals through social cohesion. In addition, financial knowledge and skills can be brought into networks by individuals through social cohesion and interaction. This can improve the ability of individuals within the network to comprehend and analyze financial products and associated terms such as loans. Financial knowledge and information can flow

from weak networks and structural holes of individuals, which gives them opportunities to access scarce resources like loans (Granovetter, 1973; Burt, 1995).

5.0 Conclusion

Based on the findings of the study, it is concluded that financial literacy and the availability of financing for entrepreneurship are significantly and favorably correlated. This finding validates the study's hypothesis, according to which financial literacy greatly increases micro business owners in Rwanda's ability to obtain loans for their ventures.

The results further revealed that social cohesion and access to entrepreneurial loans are significantly and positively related. This lends support to H_2 of the study, which states that Social cohesion significantly promotes accessibility to entrepreneurial loans by micro entrepreneurs in Rwanda. Also, the SEM results showed that social cohesion had a substantial interaction effect in the relationship between financial literacy and the ability to obtain loans for entrepreneurship. This validates the study's third hypothesis, according to which social cohesiveness has a major interaction effect on the relationship between financial literacy and micro entrepreneurs' ability to obtain loans for their businesses in Rwanda.

This study contributes a novel knowledge in Rwanda, wherein it is established that social cohesiveness moderates the relationship between financial literacy and accessibility to entrepreneurial loans by micro-entrepreneurs.

Policy Implications

The findings from this study can be used by government to roll out financial literacy training to micro business owners. The government in developing countries, especially in Rwanda can set up National Financial literacy centers to conduct routine financial literacy training and business clinics in the different provinces. This can help micro entrepreneurs to make wise and better financial decisions and investment choices.

More so, can be used to develop financial literacy modules, which can be integrated into the curriculum at primary and secondary schools to teach young adults financial and money management skills. Financial and money management skills acquired at early stage in life can become part of financial lives of young adults as they grow into old adults. Consequently, this will help them to become financially discipline as they grow into older adults.

Besides, the findings from this study can help micro entrepreneurs to make wise financial decisions and choices before consuming complex financial products. Financially literate micro entrepreneurs can compute interest rates on loans before they borrow from the microfinance banks. This can help them to avoid borrowing over-priced loans from expensive sources, which reduces the default in repayment.

Study Limitations And Future Studies

This paper presents the results on the correlation between financial literacy and access to entrepreneurial loans on micro-entrepreneurs in Rwanda with social cohesion as a moderator. Nevertheless, a number of limitations must be taken into consideration when explaining the results and defining their theoretical and empirical extent of application.

To begin with, the study will only be conducted on micro-entrepreneurs who have utilized credit facilities in SACCOs and microfinance institutions. Though these lenders play a key role in the financial inclusion strategy in Rwanda, they mostly work in the context of relationship based lending. As a result, the observed effect of financial literacy on access to loans (H1), the moderating effect of social cohesion (H2) could vary in transaction-based institutions like

commercial banks. This institutional specialisation can thus limit the extrapolation of the results to the entire financial industry.

Second, the research is based on the semi-structured contents of questionnaires, which whereas adequate to test the hypothesis, might not exhaust the relational and contextual processes that mediate the relationship between social cohesion and the impact that financial literacy has on access to loans. Consequently, the mitigating influence that was found in H2 can be a underestimation of the depth and complexity of trust-based and network-driven financial interactions.

Third, the data were drawn only on micro-enterprises in the Kigali City. Due to the regional differences in the level of financial infrastructure and social structure, the relations as postulated in H1 and H2 can be different in rural and semi-urban areas where the role of informal finance and social solidarity is often more significant. Such concentration up to space can thereby restrict the extraneous validity of findings.

Two crucial directions of the next inquiry should be carried out in the future. To start with, comparative research between the lender types, such as commercial banks and digital lenders that would help understand whether financial literacy has consistent impacts on loan accessibility or whether its impact depends on institutional lending models and information requirements. Second, multi-regional and mixed-methods studies are suggested to unravel the social processes of the moderating effect of social cohesion, as well as to examine the strengths of the suggested hypotheses in a variety of socio-economic situations in Rwanda.

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