

Iriobe, O., Akinyede, O. M., & Iriobe, G. (2017). Financial literacy and financial inclusion for entrepreneurship development in Nigeria. *West African Journal of Business and Management Sciences*, 7(1).

FINANCIAL LITERACY AND FINANCIAL INCLUSION FOR ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA

By

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ABSTRACT

The study was conducted to determine the importance of financial literacy and financial inclusion on entrepreneurship development with the aim of accessing the knowledge of Nigerian entrepreneurs in respect to financial literacy and the availability of financial services available. Primary data was generated from the use of questionnaire. The survey covered educated entrepreneurs with the minimum of O'levels. A total sample size of 385 respondents were randomly selected from an infinite population. The study employed an ordered probit regression model for the analysis with the help of STATA (14) because both dependent and independent variables in the study are ordered in the context of multivariate latent structural model. The result with $Prob > chi2 = 0.0000$ showed that both financial literacy and financial inclusion influences the growth and development of entrepreneurship in Nigeria. Also, the size of Nigerian businesses and their locations have significant positive impact on the entrepreneurship growth and development in Nigeria. Hence, we conclude that increase in the financial activities in order to ensure financial literacy and financial inclusion of the Nigerian populace will have direct effect on entrepreneurship development in the country. The study identified areas of inadequacies and proposed recommendations to improve the financial literacy level and availability of financial services for entrepreneurs.

Key Words: Financial Literacy, Financial Inclusion, Entrepreneurship Development

Word Count: 195

INTRODUCTION

To tackle the challenges of financial exclusion, the Central Bank of Nigeria licensed 15 non-bank operators and 6 bank operators to provide mobile financial services within the economy (CBN 2011)¹. This was part of a strategy to boost financial inclusion in Nigeria. It became necessary considering that other African countries are ahead of Nigeria in terms of number of adults using mobile financial services as against traditional services. For instance, a report released by Enhancing Financial Innovation & Access (EFInA, 2016)² showed that in Nigeria about 40 million people representing 41.6% of adults in Nigeria are financially excluded whereas, Kenya, 17.4%; Ghana, 25%; Rwanda, 11%; Togo, 40% and South Africa in 2015 had 13% of adults financially excluded. Financial exclusion has implications for both the individual and the economy at large, and it is important that financial inclusion initiatives are reinforced to contribute to job creation, poverty reduction, and economic growth (CBN, 2015)³

Many countries consider financial inclusion as the bedrock for economic development and financial system stability. The National Economic Council identified creating conducive environment for Micro, Small and Medium scale enterprises (MSMEs) to operate as a means to boost financial inclusion (CBN 2011)¹. However, creating conducive environment for MSMEs is not enough, there is need to train entrepreneurs on financial products and services (ACCA 2014).

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All Businesses face challenges in taking certain financial decisions and making informed judgments regarding financial services that impact on their financial activities. Making such decisions requires financial literacy. Financial literacy is the set of skills and knowledge that allows an individual to take appropriate financial decisions (Norman, 2010)⁵. Financial inclusion is of great significance in a developing country like Nigeria where infrastructural facilities are not available and economic activities are unpredictable. Financial and societal uncertainties indicate volatility in income that can have an unfavourable reaction on the financial stability of any economy. Without financial literacy, financial inclusion is baseless because stakeholders

cannot understand the benefits/ risks associated with the service (Grohmann, Klühs, & Menkhoff, 2017)⁶.

The problem of entrepreneurial development in Nigeria is diverse ranging from issues that are purely structural in nature to ability to execute your technical competence (human issues) all which revolve around finance. Financial literacy and poor financial management skills was identified as a limiting factor entrepreneurship growth among youths in South Africa (Fatoki 2014)⁷. Financial Literacy is viewed as a critical element for encouraging financial inclusion, consumer protection and ultimately, financial solidness and capability especially among young people(CBN 2015⁸; Cohen and Nelson, 2011⁹; Johnson & Sherraden 2009¹⁰). Since the recent mandatory introduction of monetary policies in Nigeria aimed at boosting financial inclusion (CBN 2011), it has become imperative to study how financial literacy and inclusion boost entrepreneurial growth considering firm size and location in Nigeria. Financial Inclusion and Literacy is inseparable unit that helps to comprehend the requirements and advantages of the items and administrations offered by the formal financial institutions. However, more emphasis seems to be on financial inclusion, while financial literacy receives little attention (EFInA, 2016²; CBN 2011).

Several countries in the world especially African countries (Egypt, Uganda, Ghana, South Africa, Tanzania, Kenya, Nigeria etc.) are promoting financial education as an important tool for promoting entrepreneurship, which in turn helps in the fight against poverty (Libombo, Dinis, & Franco, 2015¹¹; Triki, & Faye ,2013¹²). However, financial literacy and financial inclusion as proxies of financial education have shown mixed or no effects on developing countries (Fatoki 2014; Fadun 2014; Hastings etal 2013). Evidence shows that many of the financially excluded lack knowledge about basic financial math/terms and features of available financial products in developing countries (Berg & Zia, 2017)¹³. Despite the efforts towards ensuring the Nigerian economy is deepened by way of financial education, small businesses in the country are still faced with several financial problems (Njoroge, 2013)¹⁴. As a result, this study examined the influence of financial literacy and financial inclusion on entrepreneurship development in South-West Nigeria. The study hopes to provide answer to the question, ‘what effect does financial literacy and financial inclusion have on entrepreneurship development in South-western Nigeria?

Previous studies have considered various issues regarding financial literacy and financial inclusion for instance, OECD (2006)¹⁵ and Fox, Bartholomae & Lee (2005)¹⁶ discussed their importance in economic development; Kerr & Nanda (2009)¹⁷ reviewed literature on the financial constraints and entrepreneurship; while Johnson & Sherraden (2009)¹⁸ highlights the need to move from financial literacy to access to finance. Few have considered the effect of financial literacy and financial inclusion on entrepreneurship growth in an economy where access to finance is still a major challenge. Financial literacy and inclusion is the key ingredient to personal finance success and the growth of entrepreneurship, and it has attracted increasing attention in both the developed and developing world due to its role in financial decision (Njoroge, 2013)

LITERATURE REVIEW

Financial literacy is a set of skills and knowledge that allows an individual/business owner take appropriate financial decisions. Singh & Kumar (2017)¹⁹ defines Financial Literacy as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. It refers to the capacity to make educated judgments and to take effective decisions in regards to the utilization and administration of cash. Lack of financial facilities is a major limitation of business activities in developing economies, however, financial providers believe that entrepreneurs in developing economies lack sufficient knowledge about financial services (ACCA 2014; OECD 2006²⁰). Researchers have advocated for financial literacy as a pre-requisite for financial inclusion. Agarwal (2016)²¹ opined that financial literacy is a major aspect of financial inclusion because no matter the access to financial facilities, lack of financial knowledge would prevent access to financial facilities.

In its 2016 report on financial inclusion, the World Bank believes that the institutionalization national financial inclusion strategy, affects the economy. Over the years, the World Bank's Universal Financial Access 2020 initiative focused on ensuring that people have access to a transaction account (World Bank 2016)²². This will ensure that more people are included financially, and it will increase the number of banked people within an economy. According to Atkinson and Messy (2013)²³, "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by small business owners (entrepreneurs) in a fair and transparent manner by all Institutional players and government." Their research also

proved that financial inclusion plays a key role in granting people access to financial products, and it has a relationship with financial literacy.

Furthermore, Fan and Zhang (2017)²⁴ studied both theoretically and empirically the relationship between financial inclusion and the formation of entrepreneurs. The model used proposes that the advancement of financial inclusion can mitigate credit constraints on entrepreneurial activities by diminishing data asymmetry in financial transactions, and in addition this impact is more prominent in industries with lower barriers to entry. Utilizing information from 31 regions and 19 enterprises in China amid the period 2005–2014, the effect of financial inclusion on the formation of entrepreneurs was measured. The results affirm the constructive outcome of financial inclusion development on the formation of entrepreneurs and show that this impact is heterogeneous across industries. The advancement in financial inclusion is regularly advantageous to the formations of entrepreneurs in sectors with lower entry barriers.

However, the lack of formal training on financial issues is responsible for the lack of financial literacy of entrepreneurs, and this invariably leads to financial inclusion. Fatoki (2014)²⁵ investigated financial literacy of proprietors of new micro enterprises in South Africa using financial planning, business terminology, analysis and control, understanding of funding sources, bookkeeping, finance and information skills, access to technology and risk-management to gauge the monetary proficiency of business visionaries (entrepreneurs). Results from the study showed low level of financial literacy by the owners of new micro enterprises because most of the micro enterprises' owners do not engage in formal financial planning, budgeting and control and only keep some books of account. This is an indication that financial literacy affects the capacity to make good financial decisions in the family unit prosperity and business survival. Eniola & Entebang (2017)²⁶ on the other hand believes that financial knowledge is not enough for SME performance, it is an entrepreneurs attribute in decision-making and their relationship to financial attitude together with financial literacy that affects firm's performance.

Abubakar, (2015)²⁷ studied financial literacy's effects on household behaviour in respect to financial decision making, as well as the gender gap in financial literacy. The outcomes show that the challenges in access to finance, access to market, policy support and business culture are the fundamental issues and are imperative for business enterprise advancement in Africa which has an effect for budgetary proficiency on the mainland especially on miniaturized scale, little and medium ventures. Other imperative issues include hostile investment climate,

nonappearance of enterprise preparing programs, improper investment business environment, gender gap and lack of value chain in the entrepreneurship ecosystem.

Financial education holds some benefits, and it is important for both consumers and businesses (Miller et al. 2009²⁸; Glaser and Walther 2013²⁹). Entrepreneurs can benefit from financial literacy and inclusion as it helps to mitigate risk, and prepare business owners against avoidable financial crisis. Financial literacy affects entrepreneurs business decision making, and in turn affects business performance (Bruhn and Zia 2011)³⁰. Entrepreneurs can also tackle their lack of access to funds with financial literacy. Financially literate business owners are likely to have proper records of their business transactions and this can help them attract loan facilities (Association of Chartered Certified Accountants (ACCA) 2014; Wise 2013³¹)

Entrepreneurship can further be developed when entrepreneurs improves on their financial management skills (Sucuahi 2013)³². Unfortunately, most financial education programs have targeted employees on matters of pension and retirement (Duflo and Saez 2003³³), and where the government is involved, these programs are introduced in schools (Bruhn, Legovini, and Zia 2012³⁴; Romagnoli and Trifilidis 2012³⁵). For entrepreneurs especially those in the informal sector, they may not have the luxury of attending a financial education program, and these may have a toll on their business performance.

MATERIALS AND METHODS

Population and Sample Size

The population size for this study is infinite because it includes entrepreneurs with registered and unregistered businesses in South-West Nigeria. Out of this infinite population is our sample size of 385 respondents (entrepreneurs) using the standard sample size determination of $SS = (Z\text{-score})^2 * \text{standard deviation} * (1\text{-standard deviation}) / (\text{margin of error})^2$. This sample size was stratified into different states in South-west Nigeria (Lagos, Oyo, Ogun, Osun, Ekiti and Ondo) and questionnaires were randomly administered to respondents in the various states.

The Data

The study examined the effect of financial literacy and financial inclusion on entrepreneurship development in Nigeria using a field survey of entrepreneurs in South-West Nigeria. The researchers developed a structured questionnaire to collect data from the respondents.

Estimation Technique and Model Specification

This study employed the multivariate estimation technique to test the implication of literacy and financial inclusion on entrepreneurship development in Nigeria. The ordered probit regression model was used for the analysis with the help of STATA (14) because both dependent and independent variables in the study are ordered in the context of multivariate latent structural model. The model is specified as:

$$\text{ENTD} = f(\text{FILT}, \text{FINC}, \text{SOBS}, \text{LCOB})$$

Where,

ENTD= Entrepreneurship development

FILT= Financial literacy

FINC= Financial inclusion

SOBS= Size of business

LCOB= Location of business

Measuring the Variables

Dependent Variable

Entrepreneurship development (END) as a dependent variable was measured using employment generation in the community, business worth, corporate social responsibility, use of professional services, business registration, business outlets/branches and constraints to business. The responses to the points highlighted were coded as 1- yes, 0-No.

Independent Variables

The independent variables mainly consisted of ratings of financial literacy (FIL) measured in terms of awareness of financial services available to small business, financial records/book keeping, financial education, financial decisions, taxation, and financial goals/objectives; and financial inclusion (FIN) attainment measured as type of bank account, availability of finance/credit facilities, e-payment facilities, proximity of business to banks, and insurance facilities. Responses to these measures of financial literacy and financial inclusion were coded using the 5-likert scale measurement.

Two control variables were introduced into the model as: size of business (SOBS) and location of business (LOCB). These variables were also measured using the 5-likert scale.

4.0 RESULTS AND DISCUSSION

Table 1: Result of the probit model

Ordered probit regression	Number of obs	=	362
LR chi2(4)	=	223.79	
Prob > chi2	=	0.0000	
Log likelihood = -479.24422	Pseudo R2	=	0.1893

ENTD	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]
FILT	.044	.025	1.780	0.045	-.093 .005
FINC	.030	.017	1.750	0.079	-.003 .063
SOBS	1.383	.123	11.280	0.000	1.142 1.623
LOCB	.965	.130	7.390	0.000	-1.221 -.709

Source: Researchers' STATA (14) Output

From Table 1, the coefficient of financial literacy (FILT) is 0.044, revealing a positive relationship with entrepreneurship development. Thus, an increase in financial education (financial literacy) for business owners will result in business (entrepreneurship) development and vice versa. Also, the relationship between these variables is statistically significant with a p-value= 0.045<0.05. The implication of this is that inadequate financial knowledge of entrepreneurs slows down the development of entrepreneurship development, and this could be a barrier to access to funds and credit facilities. This could explain why finance is still a major bane of Small and Medium Enterprises in Nigeria in spite of various government policies aimed at facilitating financial and technical support for the growth and development of SMEs (Abdullahi, Jakada, & Kabir, 2016)³⁶.

The result shows that financial inclusion (FINC) is positively related with entrepreneurship development with a coefficient of 0.030. This shows that financial inclusion of business owners in Nigeria increases the development of entrepreneurship, Njoroge, (2013) also reached this conclusion. We expected this outcome because one of the objectives of formulating a financial inclusion policy framework by the government is for the growth and development of the business sector. This relationship is however insignificant with a p-value= 0.079>0.05

The coefficient of size of business is 1.383. The significant positive relationship between the size of business and the entrepreneurship development shows that increase in the size and activities of businesses in Nigeria improve the growth and development of entrepreneurship in Nigeria.

Apart from the size of the business, the location of a business in Nigeria (LOCB) is positively related with entrepreneurship development with a coefficient of 0.965, implying that the location of a business in Nigeria has a significant positive relationship with entrepreneurship development.

The Prob > chi2 = 0.0000 shows that both financial literacy and financial inclusion together influences the growth and development of entrepreneurship in Nigeria.

CONCLUSION

The study examined the role and influence of financial literacy and financial inclusion on entrepreneurship development in Nigeria. The findings suggest that an increase in the financial activities and financial education has a significant effect on entrepreneurship development in Nigeria. The findings showed a positive relationship between the dependent and independent variables, this signifies that as the financial literacy and inclusion improves among entrepreneurs, it influences the overall development of entrepreneurship, and by extension, the economy. Most of the financial policies formulated by the Nigerian government in terms of financial inclusion and education play an important role in ensuring the growth and development of entrepreneurship (business). This study also examined the effect of firm size and location on the relationship between financial inclusion and literacy, and entrepreneurship development, the study showed a positive relationship. The size and location of a business influences their level of financial literacy and inclusion as well as entrepreneurship development.

From the findings, we recommend that the government and business associations in Nigeria should come up with policies/programmes to improve finance education for entrepreneurs. Furthermore, the policy framework on financial inclusion should be strengthened to encourage more business owners in Nigeria to develop their financial knowledge and skills. Further studies on how financial literacy of entrepreneurs affect access to credit facilities is required to deepen our understanding of the impact of financial literacy in entrepreneurship development.

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