

# Improving financial literacy amongst Nigerian MSMEs

Nigeria has an opportunity to be the most dynamic economy in Africa. But, currently, this opportunity is significantly restricted by limited financial literacy. This report details convincing evidence of the importance of financial literacy for MSMEs (micro, small and medium-sized enterprises).



## Financial literacy

The limited financial literacy of Nigeria's wider population represents an economic challenge and restricts the development of its MSME sector. Nigerian Government's efforts unlocking access to external finance for MSMEs has not achieved the desired impact largely because businesses have often been unable to provide the necessary information for investors and lenders who need to be able to assess companies' credit worthiness before providing them with funding.

The OECD suggests that national strategies for financial education, where MSMEs are targeted as a specific group, would contribute to addressing some of the challenges they face.

Financial literacy for entrepreneurs involves having the knowledge required to plan and manage business finances; identify funding requirements and prepare the documentation required; manage financial risk; understand the financial and economic landscape in relation to the business; and comply with financial regulation.

## Survey results

A survey of Nigeria's MSME entrepreneurs – conducted by the FATE Foundation, in association with ACCA Nigeria – shows that the vast majority of MSMEs in Nigeria have limited financial literacy. This is despite most entrepreneurs recognising that greater financial literacy would assist them in running their businesses more efficiently. The limited levels of financial literacy among entrepreneurs in Nigeria are a significant factor in the equally low levels of successful access to external finance. However, those entrepreneurs who have undertaken financial literacy training reported significant benefits from having done so.



## Report recommendations

The following recommendations for further action are based on the findings that emerged through both direct engagement with Nigerian entrepreneurs and the survey that was undertaken as part of this project.

- 1. Expand the provision of financial literacy training.** There is clear and strong evidence that financial literacy underpins business success. It is essential for the health of Nigeria's economy that there is a significant increase in financial literacy for the population as a whole, but especially for entrepreneurs, including those in charge of MSMEs.
- 2. Demonstrate the importance of financial literacy.** The need for financial literacy training will not gain acceptance until more entrepreneurs recognise their own knowledge gaps – and consequently their need for financial literacy training. Unfortunately, the research reveals a culture of denial among many MSME entrepreneurs. Action is needed to persuade a greater number of entrepreneurs that financial literacy is a key that opens the door to wider investment opportunities. This means that investors themselves also need to be clearer with MSME entrepreneurs about where their skill gaps and training needs lie.
- 3. Standardise Business Development Service Providers (BDSPs) and a national financial literacy curriculum.** There is a need to standardise both BDSPs and approaches towards financial literacy training programmes so that entrepreneurs are given the same level of education regardless of where they acquire it. There should be clear distinctions made in the provision of basic, intermediate and advanced financial literacy learning. At the basic level, entrepreneurs should be able to understand basic bookkeeping activities.
- 4. Focus on key areas in financial literacy.** Key areas in the provision of financial literacy training should include the preparation of business plans and understanding the different types of external funding available, as well as their suitability for businesses.
- 5. Provide practical learning opportunities.** The availability of practical learning opportunities is a crucial factor in enhancing the quality of financial literacy training. Entrepreneurs should be able to take a financial literacy class to develop applications for obtaining external finance.
- 6. Establish feedback mechanisms to provide continuous support.** Continuous support should be available for entrepreneurs after they have accessed financial literacy training in order to ensure effective and continuous development.
- 7. Greater diversity in programme options and policy responses.** There should be a wider range of options for teaching financial literacy. These should include:
  - ✓ intermittent sessions (such as professional in-house training programmes); and
  - ✓ a practical foundational curriculum in bookkeeping.Availability of learning opportunities must be backed up by policies such as:
  - ✓ creating awareness around the importance of financial literacy;
  - ✓ provision for training practitioners of financial literacy programmes; and
  - ✓ public sector investment in relevant courses.