Financial education for entrepreneurs: what next?

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

This report considers how the global agenda on financial literacy, capability and education relates to entrepreneurs, and reviews the latest global evidence on the effectiveness of such interventions. It advocates a 'plan first' approach to financial education that puts business planning and professional advisers at the heart of support programmes.

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Introduction

Financial inclusion was the main theme of the World Bank's 2014 Global Financial Development Report (World Bank 2013). To no one's surprise, the report noted that small and medium-sized enterprises (SMEs), and particularly informal businesses or SMEs in emerging markets, face significant financing constraints that undermine their contribution to employment, productivity growth and innovation. It also noted, however, that financial sector practitioners saw financial education as the most effective means of addressing financial exclusion for households and businesses.

The call for more widespread financial education is not a new agenda. It is old enough to have developed a substantial policy following, and has withstood (with some concessions) a great deal of well-documented criticism over the years. Yet the financial crisis and its aftermath have renewed interest, from the G20 leaders downwards, for greater financial inclusion, and with it an emphasis on improving the financial capability of consumers and entrepreneurs.

As the most trusted financial advisers of SMEs around the world (Schizas et al. 2012), professional accountants in practice and in business actively support and mentor many millions of entrepreneurs seeking finance every year. ACCA believes that, while global leaders remain engaged with the matter of entrepreneurs' financial education, it is important to set out the views of the people who actually provide most of it – the global accountancy profession.

This report brings together evidence from ACCA research as well as the most recent reviews of the literature on the effectiveness of financial education. Its aim is to stimulate debate on alternative approaches that build on the experience of the past decades while also fully engaging the business world's real financial educators – professional accountants.

1. Defining financial literacy, capability and education

As concepts, financial literacy and capability typically refer to consumers. In developed countries, the rising indebtedness of households, low levels of retirement savings and increasing complexity of financial products prompted calls to improve levels of financial literacy and capability even before the financial crisis of 2008–9. Meanwhile, changes in policy have increasingly meant that the risk associated with retirement saving and insurance has shifted from the state and employers to consumers and employees, further emphasising the need for financial literacy (OECD 2013a). Meanwhile, in the developing world, persistent evidence of financial exclusion and precarious self-employment, particularly among under-represented groups such as women or young people, has prompted a similar response (Xu and Zia 2012; IBRD 2013). In both cases, greater financial literacy and capability were expected to reduce the social cost of financial innovation by making lighter regulation possible while also reducing the potential for mis-selling and the cost of marketing to and servicing consumers.

The terms financial literacy and financial capability are often used interchangeably by policymakers and stakeholders. For the purposes of this review, and following the distinctions drawn by Lusardi (2012), among others, financial literacy will be assumed to encompass knowledge and cognitive skills, while financial capability will be treated as a broader term that combines financial literacy with a set of desirable attitudes, behaviours and external enabling factors.

Having made this distinction, it is possible to draw on recent reviews such as de Meza et al. (2008), Remund (2010), PACFC (2010), Bank of Zambia (2012) and OECD (2012) for a list of the core elements that define these concepts (Table 1.1).

It is important to note that almost all widely used definitions treat financial education as a process that develops financial capability, not merely literacy (OECD 2005), even though in practice curricula can be more or less ambitious in scope. In any case, the assumption is that financial education can achieve significant and persistent change in the learners' financial behaviours by raising their levels of financial capability.

Table 1.1: Elements of consumer financial literacy and capability

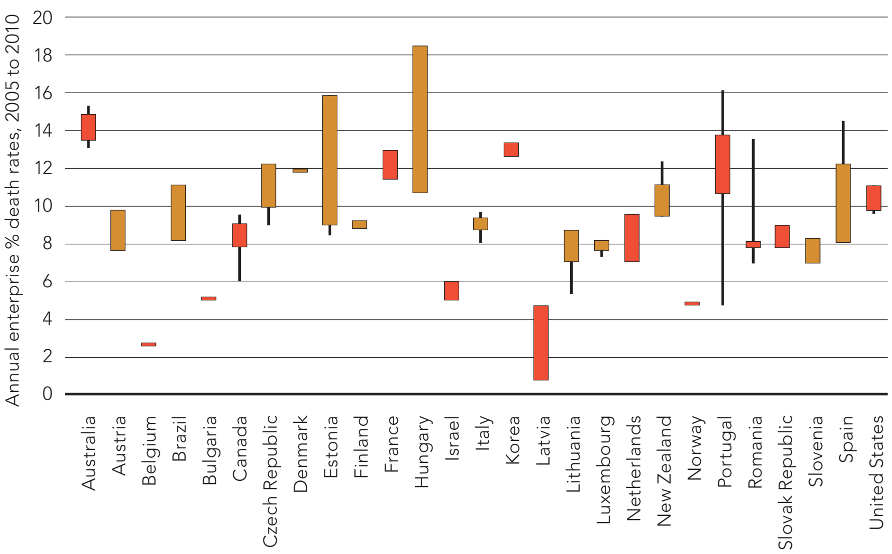
Financial literacy	Financial capability (elements in addition to financial literacy)
Knowledge of financial concepts	Ability to access financial services
Ability to communicate about financial concepts	Ability to access advice and support services
Aptitude in managing personal finances	Motivation and confidence to apply financial literacy skills to future financial needs
Skill in making financial decisions appropriate to one's circumstances	Ability to work around cognitive biases when making financial decisions

2. What is different about entrepreneurs?

Following the 2008–9 financial crisis, the continued experience of financial exclusion in developing countries and the severe credit rationing to SMEs in developed countries revived interest in how the concept of financial capability might relate to agents in the business world – entrepreneurs, managers, or company directors. From a theoretical perspective, some complications are bound to arise.

As Bay et al. (in press) explain, the way financial literacy is discussed in the business world can be very different from the way it is discussed in a pure consumer setting. In the latter, the aim is to highlight and remedy illiteracy, setting out an implied curriculum; in the former, the aim is to distinguish between different levels of literacy, setting out criteria for eligibility. The consumer approach to financial literacy seeks inclusion (for example, turning individuals into confident and reliable consumers of financial services) while the business approach seeks exclusion (for example, avoiding majorities of financially 'illiterate' directors on company boards). Perhaps uniquely among the many target groups at which financial education is aimed, entrepreneurs sit astride this distinction.

Figure 2.1: Business mortality rates from 2005 to 2010: a candlestick visualisation



Note: Red fill denotes a country where the death rate fell over this period; yellow denotes a country where the death rate rose. The height of the stalk denotes the range of movement between opening and end values. The height of the thin line denotes the range between maximum and minimum value. Observations are not available for all countries throughout the period. 'Open' figures are based on the earliest available figures, while 'end' figures are based on the latest available.

Source: OECD (2013)

Financial institutions want entrepreneurs as their customers and governments want them to be able and willing to access external finance. Yet, at the same time, entrepreneurs are seen as responsible for the survival of vulnerable entities whose needs they may not fully understand, and with greater use of external finance comes greater risk. At 8–14% per annum, business mortality rates are substantial even in the developed world and were still on the rise until recently (OECD 2013b). Entrepreneurs' lack of financial capability is often portrayed as part of the reason for the substantial churn in the sector (New Vision 2011), even though many business exits are arguably not 'failures.'

Even entrepreneurs with unlimited liability who could, in theory, argue that their businesses are theirs to make or break, may be putting the livelihoods of employees, family members, suppliers and customers at risk through their financial decisions; under many bankruptcy regimes they could do so without internalising most of the social cost (Metzger 2010). Hence the case for financial education is, if anything, stronger when it comes to entrepreneurs.

As a result of the differences between consumers and entrepreneurs, notions of financial capability and literacy as applied to the two groups are also bound to be different. As Table 2.1 demonstrates, internationally applied curricula overlap substantially and there is broad consensus that they should include an understanding of financial and risk management, record keeping and compliance, and of the main finance providers and their requirements.

Table 2.1: Examples of widely used financial education curricula aimed at entrepreneurs

'Money smart for small business' – US FDIC/SBA	SME Toolkit – IFC/IBM	EFS/BDS model – USAID
Organisation types	Legal basics / incorporation	
Financial management	Financial management	Statements and forecasts
Record keeping	Bookkeeping and cash flow	Cash flow and financial systems
Banking services for SMEs	Finding financing	Funding options and providers' expectations
Credit reporting	Credit and collections	
Selling a small business	Buying a business	
Insurance and risk management	Insurance	
Tax planning and reporting	Regulations and policies	
Succession planning		
Time management		

By integrating the consensus areas discussed above with the earlier definition of financial capability, it is possible to derive a new definition that would be appropriate in an enterprise setting. Such a definition would include the ability:

- to distinguish between personal and business finances
- to be a competent buyer of financial services – understanding financial products, their costs and risks, and selecting what is suitable for the business
- to anticipate the business's future financial needs under alternative scenarios
- to assess the risks to which the business is exposed and prepare appropriate responses
- to understand the decision-making process of finance providers, and thus appreciate how the business can become creditworthy or investment-ready
- to relate the business's financial needs to a country's regulatory and fiscal framework – to appreciate the notions of regulatory and tax efficiency
- to exercise financial management, ie to use financial information to analyse business performance and create policies and controls that optimise this.

3. What do entrepreneurs know, and how?

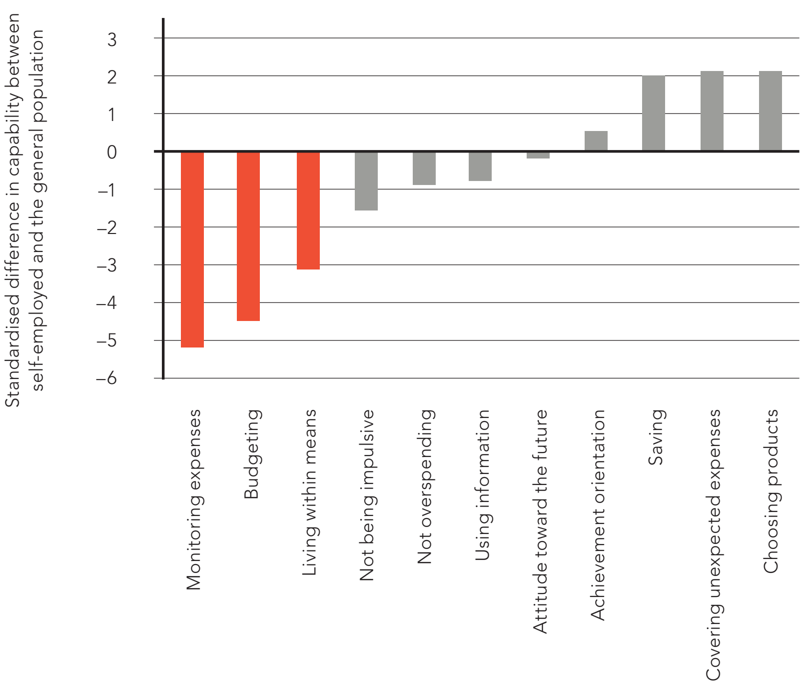
In a very substantial international study, Kempson et al. (2013) found that, after controlling for other relevant variables, self-employed individuals in a sample of developing countries (Armenia, Colombia, Lebanon, Mexico, Nigeria, Turkey and Uruguay) performed worse than the general population on standardised assessments of their ability to monitor expenses, to budget, and to live within their means (Figure 3.1).

Although the study was not designed to assess financial capability in an entrepreneurial setting, the general headings above conceal more detailed components of financial capability that are readily transferable to an enterprise context:

- monitoring expenses includes the ability to keep up to date, in a rigorous manner, on what one has spent and how much one has available to spend
- budgeting includes the ability to plan one's spending frequently and accurately as well as to adhere to one's spending plans
- living within one's means includes the ability to avoid needing credit in the short-term owing to overspending, to borrow only within affordable levels and not to require credit for buying food or repaying debts.

These findings are not surprising. As a rule, self-employed individuals are less educated than employees, typically obtaining only school-level education or less (van der Sluis et al. 2005). This is true even in developed countries. At the global level, however, schools are not currently effective settings for entrepreneurial education, with the Global Entrepreneurship Monitor (GEM) identifying primary and secondary education as one of the weakest links of the enterprise-support infrastructure of all but a handful of countries among the 69 that it reviewed (Xavier et al 2013).

Figure 3.1: Financial capabilities of the self-employed in developing countries – comparisons with the general population



By default, then, most of the financial capability of today's entrepreneurs is likely to originate either from past trial and error or from their experience of entrepreneurship in the family. This is obvious when looking at entrepreneurs who have achieved some threshold of business growth and survival, whether proxied by employment or turnover. ACCA's review of the 2008 European Values Study (EVS 2011) reveals that between one in three and one in five business principals with staff in market economies grew up with parents who also owned their own businesses and employed staff (see Figure 3.2).

Similarly, Delta Economics (2012) revealed that repeat entrepreneurs account for between 30% and 50% of the founders of substantial and established businesses in most countries (Figure 3.3). While understandable, this trend severely limits the potential for enterprise to function as a platform for social mobility, and introduces a host of economic inefficiencies, limiting the flexibility of economies faced with rapid change.

Figure 3.2: 'Second generation' entrepreneurs as a share of self-employed with staff in Europe and the Eastern Neighbours

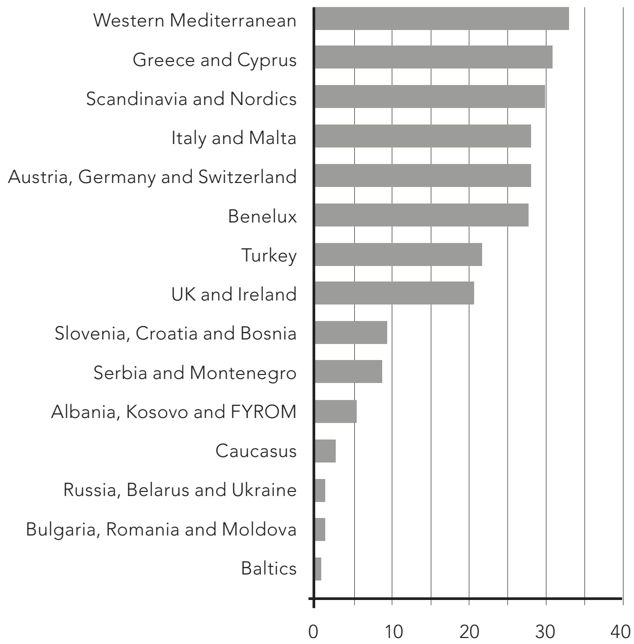
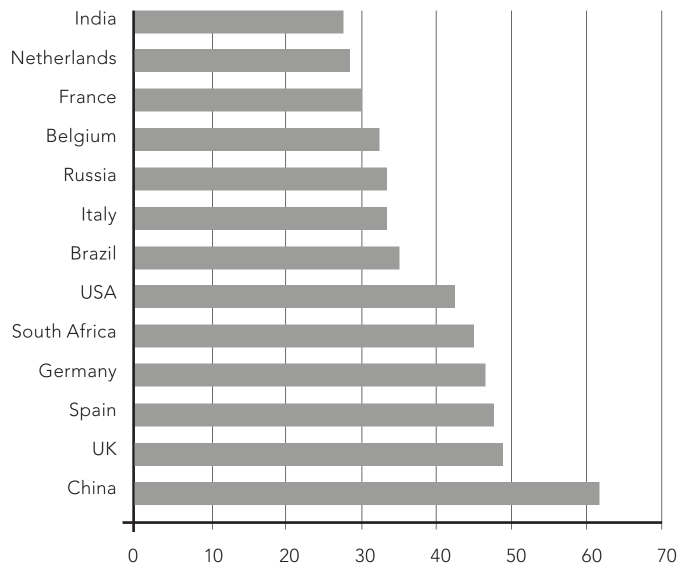


Figure 3.3: Repeat entrepreneurs as % of founders of high-potential SMEs



4. Why the emphasis on financial management?

ACCA-sponsored research among SMEs (Forbes Insights 2010) demonstrates that the most common types of small business financing are not obtained on strictly commercial terms (see Table 4.1). Retained earnings and credit from suppliers, for example, are two extremely significant sources of finance, yet both are generated during the course of business operations, and depend on credit and financial management. The volumes of financing obtained in this way are far from negligible. Trade credit, in particular, typically provides SMEs with twice as much liquidity as do banks (Paul and Boden 2012), while internal budgets are often much more of a constraint on business innovation than the supply of external funding (Forbes Insights 2011).

Even when businesses turn to traditional finance providers, financial management remains paramount. Forbes Insights (2010) demonstrates that the strength of business' cash flow is a significant determinant of the outcomes of finance applications, regardless of whether they pertain to debt or equity. Credit providers are generally unwilling to fund SMEs that need money to finance their customers, while equity investors are unwilling to help refinance SMEs' debt; moreover the ability to draw on retained earnings is correlated with better access to all other types of finance. It therefore falls to the businesses themselves to manage their finances in such a way that they remain 'creditworthy' and 'investable'.

Table 4.1: Top sources of finance for SMEs in six countries (2010)

Types of financing	Actual in 2010	Predicted for 2011–2
Retained earnings	59.9%	49.9%
Secured bank loan	36.6%	35.6%
Equity investment from personal income/savings	32.0%	29.5%
Business credit cards	31.3%	30.5%
Personal credit cards	28.3%	19.7%
Trade credit from suppliers	27.2%	25.4%
Secured bank overdraft	24.2%	24.2%
Unsecured bank loan	20.5%	17.0%
Equity investment from friends/family	20.2%	18.8%
Unsecured bank overdraft	18.9%	18.5%
Revolving line of credit	18.9%	21.6%
Loans from friends/family	17.7%	16.6%
Factoring/invoice discounting	15.6%	16.0%
Government grants	14.9%	18.3%

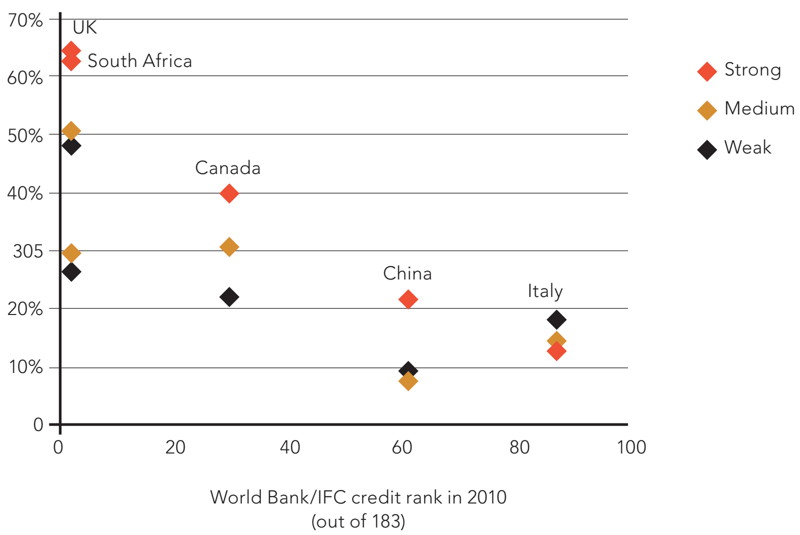
Note: Sample of SMEs in Canada, China, Italy, Singapore, South Africa and the United Kingdom (n=1,777)
Source: Forbes Insights (2010)

The ability to produce high-quality financial information is at the heart of both creditworthiness and 'investability'. As Figures 4.1 and 4.2 demonstrate, lenders to SMEs around the world value financial information, and did so even more during the recent financial crisis. At the macro-level, finance providers in countries with a stronger supply of financial information and better creditor protection are better at directing finance towards SMEs. They are also better at distinguishing between better and worse risks – an advantage that helps to reduce lenders' over-reliance on collateral (ACCA 2013a). In the UK, the independent SME Finance Monitor has demonstrated conclusively that, even after accounting for multiple measures of business capability and risk, credit providers are more likely to lend to SMEs that produce regular management reports. Crucially, the benefit from regular management reporting appears to be even greater for SMEs that have never borrowed money before (BDRC 2013), and that would otherwise have been at a severe disadvantage.

Figure 4.1: Key factors in SME lenders' decisions pre- and post-crisis

Source: IFAC/The Banker SME Lenders Survey, 2009

Figure 4.2: Access to finance of SMEs by country and strength of cash position



5. What works? Learning from recent meta-analytical studies

Whatever the early promise of financial education, today it is well documented that the link between such education and financial capability is much weaker than originally assumed (World Bank 2013). It is possible to deduce this because business support interventions in developing countries benefit from a strong tradition of experimental testing. Financial literacy programmes are often part of international development programmes that need to produce evidence of their impact, while financial institutions, which often act as sponsors, also need evidence of a return on their investment. Meta-analyses combining the results of multiple evaluations can be particularly useful for highlighting what works, by isolating the elements of support that contribute most to success.

Two of the most recent meta-analyses shedding light on the effectiveness of financial education programmes are Cho and Honorati (2013) and Fernandes et al. (forthcoming).[1] The former analyses 37 impact evaluation studies of interventions aimed at assisting entrepreneurs in developing countries, while the latter covers 201 studies of mostly consumer-focused financial literacy interventions.

Many of Cho and Honorati's (2013) findings are in line with the expectations of policymakers: namely that provision of financial education by the private sector is strongly associated with positive outcomes; that the positive outcomes of most programmes take time to manifest themselves; that programmes aimed at young people tend to yield greater benefits; and that enterprise-support interventions are best designed as either short, bite-sized courses or long, comprehensive programmes of study.

Nonetheless, the study also challenged a great deal of policy thinking by demonstrating that financial literacy interventions are actually among the least effective ways of improving business prospects in developing countries, even when accompanied by an actual offer of funding. Meanwhile, vocational training and general business training were shown to be among the most successful, especially if accompanied by an offer of counselling or mentoring. Vocational training programmes coupled with financial assistance also led to strongly positive outcomes (Table 5.1).

Because the lack of effectiveness of financial education is observable across intermediate and final outcomes, these counterintuitive results are borne out in many other studies of entrepreneurs that are not specifically designed to test financial education interventions – Uganda's Benchmark MSME survey of 2010, for instance, found that business owners who had received general business training were more likely to maintain financial records than those with financial training (EY 2010).

Findings among entrepreneurs can be understood further in light of insights from consumer studies. In their international meta-analysis of consumer financial education programmes, Fernandes et al. (2013) show that, after

Table 5.1: Relative effectiveness of enterprise financial literacy interventions in 38 programmes in developing countries

	Coefficient	Standard Error
Business training only	0.025***	0.008
Business training and counselling	0.236***	0.075
Business training and financing	–0.027	0.035
Vocational training only	0.244***	0.059
Vocational training and counselling	0.517***	0.12
Vocational training and financing	0.438***	0.086
Financial training only	-0.053***	0.008
Financial training and counselling	-0.050***	0.017

Source: Cho and Honorati (2013)

Note: Positive coefficients denote a mode of intervention more effective than the reference method: combination of business and financial training. Negative coefficients denote a mode of intervention less effective than the reference method. *** Denotes an effect significant at the 0.01 level or stronger. The regression analysis also controlled for target business outcomes, types of beneficiaries and types of delivery agency.

1. Unpublished results from the ad hoc diversity module of ACCA's Q1 2011 Global Economic Conditions Survey.

controlling for other factors, these interventions explained only a tiny fraction of the subsequent financial behaviour of participants, and that this effect wore off fairly quickly. They note that 'global' financial education, aiming to create competent financial services users by driving home key concepts, might be less effective than 'just-in-time' interventions aimed exclusively at the individual's particular needs at the time.

The longstanding critique of 'global' financial education was further boosted by Drexler et al.'s widely-cited report (2013) of a randomised experiment comparing two financial education courses for entrepreneurs in a developing country – one based on accounting principles, and another based on empirical 'rules of thumb' that covered the same core concepts (see Table 5.1). Although both programmes were taught by qualified professionals and levels of satisfaction among participants were very similar, there was a significant difference in the subsequent performance of businesses exposed to each type of instruction, with the 'rule of thumb' courses significantly outperforming the principles-based courses.

Combining the findings of Cho and Honorati (2013), Fernandes et al. (2013) and Drexler et al. (2013) suggests that entrepreneurs may struggle to absorb financial education that is abstract or not instantly applicable to their businesses, and may subsequently forget this faster unless subject to continuous or repeat education.

Table 5.2: Differences between 'rule of thumb' and 'accounting'-based curricula

	Rule of thumb	Accounting principles
Class 4	**Account separation** • Why separate money for the household from money for the business • Separating house and business money • Setting ourselves a salary • How to keep records of flows between business and household	**Basic accounting 1** • Relevance of accounting • Estimating profits using itemised records or cash accumulation
Class 5	**Estimation methods** • Estimate total monthly flow of money between household and business • Estimate increase/decrease of money in the business between beginning and end of the month • Estimating profits	**Basic accounting 2** • Including personal income and expenses into the business daily records • Using daily records to estimate daily profit • Review estimating profits using itemised records of cash accumulation • How to include fixed costs into the profit calculation
Class 6	None	**Basic accounting 3** • Aggregating daily records into monthly records • Estimating monthly profit • Accounts payable record keeping • Accounts receivable record keeping

Source: Drexler et al (2013)

6. Plan first: just-in-time financial education for entrepreneurs

If just-in-time training and insights are among the keys to successful financial education, then this begs the question of what the right timing is. In a wide-ranging critique of financial education, Willis (2008) warns that the search for what the literature refers to as 'teachable moments', when individuals are most open to and confident about learning, is rarely comprehensive enough, with programme designers settling instead for 'reachable moments,' such as the point when a loan application is made or a bank account is opened, which do not produce the same behavioural benefits. The fact that many interventions are sponsored or otherwise supported by financial institutions compounds this problem.

The central role of financial management in entrepreneurs' financial capability, the informal or non-commercial nature of most business financing, plus ACCA's reading of Cho and Honorati (2013), all suggest that an alternative approach is needed. For entrepreneurs' financial education, the most genuine 'teachable moments' may not be linked to financing at all, but to business planning and the creation of business policies, such as those on credit. This could go some way towards explaining why generic business education outperforms financial education, or even the combination of the two. It also suggests that the target outcome of financial education should not be achieving access to external finance at all.

A 'Plan First' approach to financial education would use business planning, as opposed to financial concepts or financial decisions, as the starting point for financial education. Professional business advisers would talk entrepreneurs through their intentions for their businesses, helping them develop a detailed and comprehensive business plan. A simple system of financial management and controls, based on rules of thumb derived from the business plan, could then be introduced complete with a schedule for regular management reporting. This would mirror the process for setting key performance indicators (KPIs) with which professional business advisers should already be familiar (ACCA 2013b). Entrepreneurs and their advisers would then work together to deduce the business's actual, specific financing needs and agree a tailored curriculum explaining how to identify appropriate sources of financing inside and outside the business. This curriculum would cover not only how the relevant finance providers make their decisions, but also how the entrepreneurs themselves can evaluate their investment options before allocating funds to them.

Crucially, a Plan First approach would not assume that external financing, let alone any individual product, is necessary in the first place. Rather, it would emphasise the fact that some short-term financing needs can be pre-empted by good financial management, or fulfilled informally through trade credit arrangements. Similarly, the entrepreneur may need to turn to friends, family or their own savings for some long-term financing needs. A Plan First approach would, however, treat suppliers and informal financial providers as rational decision makers on a par with banks, venture capitalists and the entrepreneurs themselves – they need to be convinced of the creditworthiness or investment-readiness of the business and the prospects of individual projects.

As SMEs' most trusted financial advisers, professional accountants are obvious partners in the provision of such programmes. Nonetheless, their involvement is often hindered by the mistaken assumption that they as professionals are not sufficiently embedded in poorer communities, where the need for support is likely to be greater. More careful consideration, however, would reveal the opposite. A substantial share of ACCA members, more than one-third in Africa and about one-quarter in the Caribbean, have experienced deprivation first-hand.[2] In Africa in particular, members are more likely to engage and advise small businesses on a social basis than in their professional capacity (ACCA 2009).

With appropriate professional input, just-in-time interventions can be used throughout the lifetime of the business, adapting as the needs of the entrepreneur become more complex. Box 6.1 presents the findings of ACCA (2013a) regarding the business needs driving the evolution of the finance function: the same needs are likely to drive other kinds of development and specialisation as well.

2. Unpublished results from the ad hoc diversity module of ACCA's Q1 2011 Global Economic Conditions Survey.

BoxX 6.1: Four states in the development of an SME finance function

Stage 1: Pre-start-up planning

Entrepreneurs typically draw up business plans for finance providers either before start-up or at least before revenues are earned. Such business plans are often perfunctory and many are never used again after the initial round of funding. Nonetheless, business planning that sets specific objectives and is intended to be revisited in order to assess performance is an early finance function. This is typically carried out with the assistance of a professional accountant, usually an external practitioner. Small and medium-sized practices (SMPs) are key providers of support at this stage, combining technical competence and commercial awareness with a first-hand understanding of the challenges of running a small business and the ability to provide one-to-one support

Stage 2: Compliance and control

As businesses begin to trade in earnest, management reporting, formal business plans and financially trained staff are engaged in order to allow the entrepreneurs to focus on the commercial direction of their business. Rapid growth tends to accelerate this process of formalisation and businesses typically leave this stage once they break even or once they have more than a handful of employees.

At this stage, the finance function is mostly concerned with aligning staff incentives with business objectives, putting internal controls into place and, in the case of newly incorporated businesses, helping the company live up to its statutory obligations. A professional financial manager is hired for the first time along with the adoption of management accounting practices and software as a 'bundled pair'. Good access to information makes it easier for founders to put their human capital to good use and this helps start-ups to reach break-even sooner. This is often the case for repeat entrepreneurs, whose presence in management teams is known to be associated with rapid growth.

Stage 3: Standardisation and monitoring

At this stage, the business has started to develop some diversified internal resources and to use financial information to optimise its internal processes. Moreover, it has become better at producing standardised information and feeding this into formal business plans and management decisions. Financially trained staff are hired to monitor cash flow and manage credit as well as to report on the progress and resource implications of improving business processes. Many businesses at this stage also experience higher needs for financial skills if they are engaged in quality management or doing business online.

More generally, external pressures from venture capitalists and/or supply-chain partners mean additional demand for management information. Businesses typically remain at this stage until they have roughly 20 to 30 members of staff, although in more labour-intensive sectors this threshold can be higher.

Stage 4: Accounting for growth

At this stage, businesses have distinct, specialised and professionally managed functions in place and are trying to balance the need for standardisation with that for responsiveness to market conditions and customer needs. Management reporting, business planning and the use of trained finance staff are now tied to supporting growth.

The finance function's role expands substantially in more commercial and strategic directions. The focus tends to be on enabling businesses to access finance, and to make and assess the case for new products and services, monitor the business's supply chains and manage its headcount.

7. Evaluating financial education

Even with the best-designed interventions, it is important to have realistic expectations of financial education and to measure success appropriately.

Timing is an obvious starting point; Bakhshi et al. (2013) demonstrate how business support interventions can yield significant results in the very short term without creating any lasting change in the medium or long term. Equally important are the fit between methods and objectives and, by implication, the evaluation criteria. Reducing business mortality rates was cited earlier in this paper as a likely motivation for policymakers to support financial education. Yet in an oft-cited study for the World Bank, Bruhn and Zia (2011) show that business survival may be unaffected by such interventions, even when other measures of business performance improve as a result. These findings are not mutually contradictory. Insofar as financial literacy raises the business's propensity to seek and use external finance, it typically also makes the business riskier; when narrowly defined in terms of survival probabilities, much or all of the benefit from superior financial management could be cancelled out by the risks introduced by leverage. Similarly, popular metrics such as jobs created may be misleading if access to finance allows beneficiaries to pursue a more capital-intensive business model.

Finally, it is important to define clearly the expected private and public benefits of financial education. There is significant evidence that, regardless of its other merits, financial education does produce better borrowers (Karlan and Valdivia 2010). Entrepreneurs might become more loyal to financial institutions or more willing to pledge collateral, for instance. This effect does not always translate to higher approval rates, however, and it is possible that the majority of the benefits accrue to the financial institutions themselves.

8. Conclusions and recommendations

As the global economy finally prepares for recovery, the goals of financial inclusion and enterprise development continue to feature prominently among the priorities of policymakers at all levels, from the G-20 downwards. The evidence presented in this report suggests that financial education remains a powerful tool to aid in the pursuit of both of these goals, but governments, NGOs, aid and enterprise development agencies need to reflect seriously on the last few years' worth of evidence on its effectiveness. It is clear that a substantial rethink is in order. This report provides ACCA's contribution to such a rethink.

As researchers have repeatedly stressed in the past, financial capability is not a substitute for appropriate financial regulation, or professionally run and innovative financial institutions. Even so, it can complement all the above to produce better outcomes. As long as interventions are evidence based, well designed and well resourced, the financial education agenda is as valid and as relevant to entrepreneurs as ever.

On the basis of the evidence discussed in this report, stakeholders should consider the following seven recommendations.

1. Clearly define financial literacy, capability and education in an entrepreneurial context, giving equal weight to financial inclusion on the one hand and limiting the social cost of failing businesses on the other

2. Review and support research into the informal and implicit sources of entrepreneurial education; segment the self-employed population according to how they have acquired their financial capability, not simply how capable they are or feel

3. Develop 'just-in-time' interventions that focus on the truly 'teachable' moments when entrepreneurs lay out their plans for their businesses; not the 'reachable' moments when they realise they need a loan

4. Abandon rigid curricula for such interventions; let entrepreneurs and professional advisers work backwards from real business plans to determine what knowledge is needed and what rules of thumb or performance indicators are most appropriate

5. Set aside sufficient human and material resources for just-in-time interventions and develop realistic objectives that do not undermine their mission

6. In particular, overcome the obsession with access to external finance in general and bank loans in particular. Focus instead on access to appropriate finance – formal, informal, internal or external – at the right moments

7. In providing financial education, make the most of small businesses' most trusted financial advisers: professional accountants. Do not underestimate how embedded they are in poorer communities or how well they can relate to informal enterprises.

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