FINANCIAL LITERACY AND ECONOMIC ACTIVITIES IN NIGERIA: SOME POLICY OPTIONS FOR DEVELOPMENT

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Abstract

This paper seeks to explain the concept of financial literacy as a vehicle for economic development in Nigeria. Adequate knowledge of finance is needed for individuals to function properly in the area of economic decision making. Financial knowledge is neither a luxury nor a matter of convenience. Rather it has become an integral tool for survival in today's economy. This is due to the fact that the lack or low levels of financial knowledge could lead to the choice and implementation of poor financial decisions which could be injurious to individuals and the entire society. It is against this background that this paper argues that the promotion of financial literacy by financial institutions affects users of financial products and services in a positive manner. The paper concludes that financial literacy encourages financial access and savings which invariably increases economic growth, reduces poverty levels, enhance livelihoods and leads to overall economic development.

Keywords: Finance; Financial literacy; Financial products; Economic growth; Economic development.

JEL Classification: D14; D53; E44; G21.

1. INTRODUCTION

Finance is one of the key components of the life of every individual or community. Adequate financial knowledge is necessary to aid an individual or group to make appropriate financial decisions by selecting and using the right financial products and services (Mitchell and Lusardi, 2015; Anthony-Orji, Orji, Ogbuabor, and Nwosu 2019). Poor financial knowledge and misconceptions about financial products may result in financial losses and a decline in economic conditions. This could also result to poor investment decisions and excessive or wasteful spending (Damayanti, Murtaqi and Pradana, 2018).

One of the key functions of the Central Bank of Nigeria is to ensure a stable and strong financial system in the economy. This can be done through boosting and promotion of public confidence in the financial sector. It has been observed that when adequate attention is given to the interest of consumers, it restores public confidence in the financial system, thereby leading to a more stable economy (CBN, 2016). Financial literacy is one of the ways to ensure the protection of consumers' interests. This is done by equipping individuals with the requisite knowledge needed to take advantage of the various available financial products and services and make adequate financial decisions in order to better their wellbeing (Anthony-Orji, Orji, Ogbuabor, and James, 2019).

Following the recent global financial occurrences, it is pertinent to inquire and determine how financial illiteracy contributes and aids poor economic decisions, which translates to costly financial mistakes. Research has shown evidence that financially literate people are more likely to make better economic plans, invest and earn more on their investment, repay loans and facilities as at when due (Lusardi and Tufano, 2009; Orji, Ogbuabor, Okon, and Anthony-Orji, 2018).

A large percentage of the developing countries are not equipped with rudimentary levels of financial education, which reduces their ability to make adequate decisions pertaining their future financial wellbeing resulting to an exposure to all forms of financial risk. Although the number of educated and literate Nigerians can be said to be on a high level, an equally high percentage of this population lack the required skill to manage their finances adequately and make use of opportunities provided by financial products to increase their financial wellbeing. According to a study by NDIC (2012) on the level of financial literacy in Nigeria, with a sample size of 10,500 adult population aged 18 and above and drawn from the different geopolitical zones of the country, the result of the study showed substantial gaps in the level of financial literacy in the country. It found out that (i) financial literacy was lowest among single respondents. (ii) the literacy gap was more prominent in the areas of money management and financial exposure/ experience. (iii) the possession of education greatly influenced financial literacy in all areas. (iv) there is a high level of willingness of the majority of Nigerians to participate in literacy programmes if the opportunity is provided.

In addition, some consumers of financial services have borne the brunt of certain unethical practices by financial institutions, while others have been short-changed of what is duly theirs as a result of low levels of financial literacy in their relationship with financial institutions. Again, in developing countries such as Nigeria, more and more individuals are becoming more and more involved in newly developing financial markets. Hence, there is a need for an increased level of financial literacy to ensure efficient operation of these markets (Kefela, 2010).