Financial Inclusion and Entrepreneurial Willingness of Youth in Nigeria

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Paper Presentation

Authors

Oluwaseun B. Adetutu
(Nile University of Nigeria, UN Women)

Dr Chukwuemeka Onyimadu (UN Women)

Abstract

- Nigeria's Industrial Development Plan (NIDP) aims to drive industrial growth through youth entrepreneurship, yet financial exclusion remains a major barrier.
- Despite a strong entrepreneurial spirit among young Nigerians, financial exclusion remains a major obstacle to their participation in industrial development. Limited access to bank accounts, credit, financial literacy, and insurance coverage, hinder youth-led industrial ventures.
- This study employs an Error correction model to examine the relationship between youth entrepreneurial willingness and several financial inclusion factors.
- Financial inclusion significantly impacts entrepreneurship startup rates in both the short and long run, reinforcing the need for sustainable financial policies that are crucial to maintaining positive startup dynamics over time.
- To align with the NIDP's goal of industrial expansion and job creation, the study recommends expanding financial access, strengthening digital banking infrastructure, enhancing financial literacy, introducing targeted credit policies, and improving insurance schemes.

Overview

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Introduction & Background

Financial inclusion is a key enabler to reducing poverty and boosting prosperity (World Bank, 2021).

As of 2023, about 26% of Nigerian adults were still financially excluded, with a significant portion of this demographic being youth and women (EFInA, 2023).

Entrepreneurship among Nigerian youth is a vital area of focus, given its potential to drive economic growth and job creation. Nigeria has a youthful population, with over 60% of its population under 25 (National Bureau of Statistics, 2021).

Introduction

- Although the literature is rife with requisite factors that drive industralization, for developing economies, Nigeria, characterised by a large youthful population, what is often not seen in the literature is how youth entrepreneurial willingness can contribute to the industrialization process
- The Nigeria Industrial Development Plan (NIDP) and National Development Plan (NDP) 2021-2025 emphasize youth-led entrepreneurship as essential for economic diversification and job creation.
- However, limited access to credit, low financial literacy, and weak digital banking adoption hinder youth participation in industrialization.

Problem Statement

Despite Nigeria's commitment to industrial development, financial exclusion remains a key barrier preventing youth from engaging in entrepreneurship, thereby limiting their contributions to industrialization.

What Drives Youth Entrepreneurial Willingness in Nigeria?

This paper, abstracting from the literature on youth entrepreneurial willingness, interrogates several proxies for financial inclusion as a key determinant of youth Entrepreneurial willingness.

Literary Review

Koloma (2021)

Financial inclusion positively affects business formation (study in Mali).

Ajide (2020), Ibekwe et al. (2021)

Access to credit increases entrepreneurial activity.

Global Entrepreneurship Monitor (2022)

Countries with higher financial inclusion rates report greater business creation.

Theoretical Framework

The study is based on the **Unified Theory of Acceptance and Use of Technology (UTAUT)**, which explains how youth **adopt and use financial services**.

Supporting Theories

- **Performance Expectancy** – If youth believe financial services help their businesses, they will use them.
- **Effort Expectancy** – If services are easy to access, more youth will engage with them.
- **Social Influence** – Peers, family, and mentors impact financial service adoption.
- **Facilitating Conditions** – Infrastructure and policies determine how easily youth can access financial tools.

Objectives

Access to Bank Accounts

Evaluate the impact of financial access on youth-led industrial start-ups

Access to Credit

Assess credit accessibility for youth entrepreneurs under Nigeria’s financial policies.

Financial Literacy Levels

Analyze the role of financial literacy in youth participation in industrialization.

Mobile Money Usage

Examine the adoption of digital banking and its role in expanding industrial financing for youth.

Regulatory Gaps

Identify regulatory and policy gaps that hinder financial access for young entrepreneurs in industrial sectors.

Significance

For Government & Policymakers

- Provides empirical evidence to shape **targeted financial inclusion policies to incentivize youth entrepreneurial uptake**.
- Supports **youth entrepreneurship** in alignment with industrialization and the national development plan **creation**.

For Financial Institutions

- Provides the regulatory framework to enhance financial inclusion policies by increasing penetration of banking services, credit accessibility, and digital platforms
- Stimulates the framework for banks & MFIs to develop **youth-focused financial products**.

For Nigerian Youth

- Identifies **barriers & opportunities** in financial access for startups.
- Empowers youth with **knowledge & advocacy tools** to demand better services.

For Researchers & Academics

- Offers **new insights & empirical data** for further studies.
- Contributes to **financial inclusion & entrepreneurship models**.

Broader Impact

- Supports **poverty reduction & economic diversification of the NIDP**.
- Drives policy discussions for **innovation & sustainable development**.

Methodology

Variables Operationalization

Variable	Proxy	Variable Definition	Measurement	Data Source
Independent Variable: Financial Inclusion	Access to Bank Accounts (ABA)	The extent to which Nigerian youth have access to and actively use bank accounts.	Percentage of youth with bank accounts	Global Economy-Nigeria
	Access to Credit (AC)	The availability of credit facilities to youth and their usage in starting new businesses.	Average credit amount accessed by youth, credit uptake rate	EFInA Nigeria
	Mobile Money Usage (MMU)	The extent to which Nigerian youth use mobile money services for transactions and business activities.	Volume and frequency of mobile money transactions	EFInA Nigeria
	Financial Literacy Levels (FLL)	The level of financial knowledge and understanding among Nigerian youth that could influence their entrepreneurial activities.	Scores from financial literacy tests or surveys	EFInA Nigeria
	Insurance Coverage (IC)	The extent to which Nigerian youth have insurance coverage, which might impact their willingness to start new ventures.	Percentage of youth with insurance coverage	EFInA Nigeria
Dependent Variable: Entrepreneurship Willingness	Entrepreneurial Start-Up Rate of Nigerian Youth	The extent to which Nigerian youth are willing to engage in and initiate new business ventures.	Number of new business registrations by youth per year	Global Economy-Nigeria

Functional Equation

$ESR_t = \beta_0 + \beta_1 ABA_t + \beta_2 AC_t + \beta_3 MMU_t + \beta_4 FLL_t + \beta_5 IC_t +$

Where:

- ESR_t = Entrepreneurship Startup Rate at time *t*
- ABA_t = Access to Bank Accounts at time t
- AC_t = Access to Credit at time t
- MMU_t = Mobile Money Usage at time t
- FLL_t = Financial Literacy Levels at time t
- IC_t = Insurance Coverage at time t
- ϵ_t = Error term at time t

Results

Dependent Variable is Entrepreneurial Startup rate (ESR)	
	Coefficient
Lagged ESR	-0.4775
ABA	-0.04311
AC	0.2404
MMU	0.2659
FLL	0.2078***
IC	0.2043
ECT	

Model Result

The model reveals that access to banking services is a significant positive predictor of youth entrepreneurship willingness. In contrast, access to credit and the investment climate do not show significant impacts, while financial literacy level is negatively associated with entrepreneurial willingness. The model has a strong explanatory power and is statistically significant overall.

Key Findings – Financial Inclusion Status

Entrepreneur Start-up Rate (ESR)

- Findings suggest that past startup activity does not strongly drive future startup rates.
- One possible reason is market saturation—if many new businesses were created in the past, the market might become more competitive, reducing the incentives for new startups.
- Alternatively, past startup failures could discourage new entrants, creating a "discouragement effect" where potential entrepreneurs perceive high risk in starting new businesses.

Access to Bank Accounts (ABA)

- The studies show that although access to bank accounts facilitates financial inclusion, simply having a bank account does not necessarily lead to higher entrepreneurial activity.
- Many entrepreneurs, especially in developing economies, might not rely on traditional banks for startup capital, preferring informal sources like personal savings, family, or microfinance.
- Additionally, banks often have strict lending conditions, making it difficult for startups to secure credit.

Key Findings – Financial Inclusion Status

Access to Credit (AC)

- Theoretically, greater access to credit should promote entrepreneurship by easing capital constraints. However, the insignificance suggests deeper issues.
- Credit access alone does not guarantee business success—entrepreneurs also need financial literacy, market opportunities, and supportive business environments.
- This result suggests that while access to credit is important, other complementary factors (e.g., financial literacy, business training, and regulatory policies) are necessary to translate credit access into higher startup rates.

Mobile Money Usage (MMU)

- Findings suggest that while mobile money facilitates payments and transfers, it does not necessarily translate into higher startup rates.
- A Possible explanation is that entrepreneurs might use mobile money more for operational transactions rather than startup financing.
- The ecosystem around mobile money may not yet be mature enough to support startup funding (e.g., lack of mobile-based credit products).
- This result highlights that mobile money is a worthwhile financial tool but not a direct driver of entrepreneurial startups.

Key Findings – Financial Inclusion Status

Financial Literacy Levels (FLL)

- FLL depicts a significant positive impact, which suggests that higher financial literacy levels lead to higher entrepreneurial startup rates.
- Financial literacy reduces the risk of business failure, making entrepreneurship a more attractive option.
- Entrepreneurs with financial knowledge are more likely to explore diverse financing options beyond traditional banks (e.g., venture capital, crowdfunding, microfinance).
- This result aligns with global evidence that financial literacy plays a crucial role in business creation and sustainability.

Mobile Money Usage (MMU)

- Findings suggest that while Insurance is designed to mitigate risks, its impact on startup rates is not significant.
- This may be because entrepreneurs in informal economies do not prioritize insurance because they view it as an additional cost rather than an investment.
- Startups often face immediate liquidity needs, making them less likely to allocate funds for insurance.
- In some cases, entrepreneurs might prefer informal risk-sharing mechanisms (e.g., family support, community savings groups) over formal insurance products.
- This result suggests that while insurance is valuable for business stability, it does not directly influence new business creation.

Summary Findings on Factors Affecting Youth Entrepreneurial Start-Ups in Nigeria

1. Access to Bank Accounts:

- **Positive but statistically insignificant** impact on youth start-ups.
- Indicates **financial inclusion's potential** to enhance entrepreneurship.
- Studies (Adebayo et al., Anastesia et al., 2020) support the importance of bank account access in fostering entrepreneurship.
- **Practical implications**: Even minimal access can support business growth in underserved regions.

2. Access to Credit:

- **Statistically insignificant** effect on start-up rates.
- Hindered by **high interest rates** and **stringent lending criteria**.
- Suggests a need for **complementary support** (financial literacy programs, tailored financial products).
- **Studies**: Kaigama & Kachalla (2023) emphasize credit access but note constraints like high costs.

3. Mobile Money Usage:

- **Significant positive effect** on entrepreneurship.
- Mobile platforms (M-Pesa, Paga) provide crucial financial resources.
- Supported by **Senou & Manda (2022)** and other studies linking mobile money to higher start-up rates.

4. Financial Literacy:

- **Significant positive effect** on start-up rates.
- Key driver for informed financial decisions, risk management, and sustainability.
- **Studies**: Nwosu & Akinola (2023) emphasize the importance of integrating financial education.

5. Insurance Coverage:

- **Insignificant impact** on youth start-ups.
- Low prioritization due to cost and limited understanding.
- Supported by **Banjo et al. (2023)**, showing minimal insurance uptake among entrepreneurs.

- **Financial inclusion** through bank accounts, mobile money, and literacy is essential.
- **Credit and insurance** have limited effects, underscoring the need for broader support mechanisms.

Conclusion

✓ Financial inclusion significantly influences youth entrepreneurship and industrializationin Nigeria.

✓ Expanding bank account access and mobile money usage will drive youth-led industrial startups

✓ Reforming credit policies and improving financial literacy training will enhance effectiveness.

✓Industrial insurance schemes should be developed to support youth businesses.

Recommendations

1. Expand **youth-friendly financial services** by promoting collateral-free loans and flexible credit policies for start-ups.
2. Strengthen **financial literacy programs** through vocational training and digital education initiatives tailored to entrepreneurs.
3. Enhance **fintech and mobile banking solutions** to improve financial access for youth in rural and underserved industrial zones.
4. Develop targeted industrial financing policies that **prioritize youth-led enterprises** within Nigeria's industrial development strategy.
5. **Simplify regulatory processes** to enable easier business registration, access to government industrial grants, and integration into industrial supply chains.

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Thank You

For Your Attention

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Q&A

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