International Journal of Civil Engineering and Technology (IJCIET)
Volume 10, Issue 02, February 2019, pp. 301–309, Article ID: IJCIET_10_02_033
Available online at http://iaeme.com/Home/issue/IJCIET?Volume=10&Issue=2
ISSN Print: 0976-6308 and ISSN Online: 0976-6316

©IAEME Publication **Scopus** Indexed

FINANCIAL LITERACY: A PANACEA TO POVERTY REDUCTION IN NIGERIA

E. Ben-Caleb
Department of Accounting and Finance, College of Business and Social Sciences,
Landmark University, Omu-Aran, Kwara State, (NIGERIA)

S. Faboyede, O. Olusanmi
Department of Accounting, College of Business and Social Sciences,
Covenant University, Ogun State, (NIGERIA)

B. Oyewo
Department of Accounting, Faculty of Business Administration,
University of Lagos, Akoka, Lagos State, (NIGERIA)

S. Fakile, A.E. Adegboyegun, A. Ademola
Department of Accounting and Finance, College of Business and Social Sciences,
Landmark University, Omu-Aran, Kwara State, (NIGERIA)

ABSTRACT

There are a number of intelligences that humans' are expected to possess in order to maximise life on the earth. These intelligences include spiritual, mental, physical, social and financial. Whereas all the different intelligences are important determinants of wellbeing, financial intelligence (FI) is pivotal for individual/family prosperity. Unfortunately, the configuration of Nigeria education curriculum at all levels does not include financial intelligence. This lacuna in the educational system has been reckoned to have contributed to the ever increasing rate of poverty in Nigeria. This paper theoretically discussed financial intelligence as a panacea to winning the war against poverty in Nigeria. The discussion covered an overview of the laws of financial intelligence, personal financial statement, the psychology of wealth creation and sources of passive income as well as the process of financial freedom among others. The paper concludes that if financial intelligence is embraced at the same level with other intelligence, the incidence of poverty in Nigeria will plummet significantly.

Key words: Financial, Intelligence, Literacy, Poverty, Nigeria.

Cite this Article: E. Ben-Caleb, S. Faboyede, O. Olusanmi, B. Oyewo, S. Fakile, A.E. Adegboyegun, A. Ademola, Financial Literacy: A Panacea to Poverty Reduction in Nigeria, *International Journal of Civil Engineering and Technology (IJCIET)* 10(2), 2019, pp. 301–309.
http://iaeme.com/Home/issue/IJCIET?Volume=10&Issue=2

1. INTRODUCTION

Education anywhere and everywhere promises among other things, to facilitate socialisation process, enhance skills for occupational placement, confers status, provoke attitudinal change and improves the general wellbeing of the educated (Kumar, 2011). Prosperity of the individuals is encompassed in those lofty objectives or promises of education. In fact education is identified as key for the capability to escape from poverty (Ajakaiye & Adeyeye, 2002). Supportably, Anyawu (2012) posited that labour is by far the most important asset of the poor; hence the education of the poor will tend to reduce poverty. However, the ever increasing rate and seemingly untamed nature of poverty in the world calls to question the relevance of traditional education in addressing this economic, social and physiological malady-poverty. Financial intelligence had been identified as the gap in the educational systems of the world, especially, in developing countries. In the United State of America for instance, empirical studies have shown that households generally make significant financial mistakes, ranging from unsustainable level of spending, poor saving attitude, poor retirement planning, credit debt crises to mention just a few (Bodie, 2013). In fact, it is reported that the 2008 financial crises was the aftermath of those mistakes and highlighted how such mistakes can not only harm the consumers who make them, but also create an economic crises that affects the country and the world at large (Bodie, 2013). It is financial mistakes that breed poverty in most cases. These financial mistakes are largely caused by ignorance and/or financial illiteracy fuelled by bad habits and/or bad advice.

Kiyosaki, Fleming, & Kiyosaki (2010) identified there kinds of education namely; scholastic education, professional education and financial education. Scholastic education teaches how to read and write, professional education relates to how to work for money, and financial education teaches how to have money work for you. These three kinds of education leads to at least five types of intelligences. (i) Spiritual intelligence- the knowledge of spiritual wellbeing. (ii) Physical intelligence-the knowledge about physical environment; (iii) Social intelligence - knowledge of how to relate with others in the society; (iv) Mental intelligence – academic or scholastic intelligence including professional intelligence and (v) financial intelligence – the knowledge of money and how it works (Akinyemi, 2012). Whereas all the different intelligences are important determinants of wellbeing, financial intelligence (FI) is pivotal for individual/family prosperity. This is because financial intelligence enables people process financial information to solve financial problem. Without the knowledge of how to solve financial problems, the prosperity of individuals/families will be far fetch. Given this identified gap in the academic curricula of the world in general and Nigeria in particular, it is therefore not surprising that poverty in Nigeria has remained intractable. In the opining of Kiyosaki (2008) cited in the International Network on Financial Education (2011) the main reason why the rich get richer, the poor get poorer and the middle class continues to struggle is because financial education is by trial and error or at best though at home and not in school.

The objective of this paper therefore, is to theoretically discuss financial intelligence as a panacea to winning the war against poverty in Nigeria. The rest of the paper is organised to cover an overview of the laws of financial intelligence, the concepts in personal financial statement, the sources of passive income, the process of financial freedom as well as relationship between financial intelligence and poverty reduction.

2. THE RATIONALE AND REQUIREMENT OF FINANCIAL INTELLIGENCE

The deregulation of financial markets coupled with easier access to credit has caused financial institutions to compete more with each other for market share and enhanced the development and marketing of financial products and services. Government world-wide are moving down the path of encouraging their citizens to take more responsibility for their retirement planning and move away from public pension (Marcolin & Abraham, 2006). This development has expanded the need for financial literacy skills. Individuals and families are now more than ever before expected to learn, understand and practice the requirement of financial intelligence (FI) or be trapped in the cobweb of financial struggles.

Financial Intelligence (FI) which is a product of financial education or literacy (although, used in this paper interchangeably), refers to that part of our total intelligence that is used in solving financial problems (Kiyosaki, 2008). It relate to the knowledge about money, the attitudes towards money and the skills in managing money. More formally, financial literacy connotes 'the ability to make informed judgments and to take effective decisions regarding the use and management of money, including the ability to balance a bank account, prepare budgets, save for the future and learn strategies to manage or avoid debt (Marcolin & Abraham, 2006). It will be germane at this juncture to distinguish between two forms of financial intellences (FI), that is corporate financial intelligence (CFI) and personal financial intelligence (PFI). Corporate financial intelligence (CFI) refers to the knowledge and skills gained from understanding finance and accounting principles in the business world, while Personal Financial Intelligence (PFI), which is our focus in this paper, relates to the understanding of personal finances. It involves the skill for making money, managing money and multiplying money (3Ms of Money). According to Kiyosaki (2008) it is PFI that enable people to process financial information and turn it into knowledge for wealth creation. Having financial literacy skills is an essential basis for both avoiding and solving financial problems, which in turn, are vital to living a prosperous, healthy and happy life (Marcolin & Abraham, 2006).

Unfortunately, studies conducted in both developed and developing countries show that most people are financial illiterate, hence, cannot take charge of their lives financially. For instance, in Australia, financial literacy survey conducted on a sample of first-year students from the University of Southern Queensland across five faculties came to the conclusion that university students were not skilled, nor knowledgeable in financial matters (Beal & Delpachitra, 2003 in Marcolin & Abraham, 2006).

In United State of America the report was not different, as different studies arrived at a consensus conclusion that American public are not well informed about financial matters, and that U.S. high school students lacked both personal financial skills and financial knowledge (Marcolin & Abraham, 2006). United Way (2006) reported that more than one-quarter of American household are asset poor. If their income flow is disrupted, their total savings will sustain them for no more than three months. It was also reported that up to 20% of American families lack saving. A more recent study revealed that about 40% of US adults spend more than they earned (Long, 2013). In Canada, about 40% of the adult population are reported to lack the basic and essential financial literacy skills needed to function in today's economy and society (Robson, 2012). Similarly, about 73% of young adults in Denmark have little or no knowledge about interest rate, 52% teenagers in the United Kingdom have been in debt from the age 17 and in Malaysia only 2% of young adult could make sound financial decisions. In Nigeria, it is reported that majority of the populace including the literates are financially illiterates. Specifically, about 64% of the adult population is financially excluded. That means they do not possess the skills to manage banking transactions and take advantage of a broad

range of financial products and services such as payments systems, savings, credit facilities, insurance and pension to improve their well-being (Roland Berger Strategy Consultants, 2012).

While it is consensual that a vast majority of the worlds' population lacks financal education, there is no aggreement as to what constitutes the benchmarcks for financial litracy corriculum or requirments. However, there are areas of commonallities in literature. For instance, Kiyosaki (2008) identified five basic intelligences or domains that make up financial intelligence. These are (i) making more money, (ii) protecting your money (iii) budgeting your money (iv) leveraging your money and (v) improving your financial information. These components relates to the 3Ms of money (make, manage and multiply). In the same vein, Lusardi, & Mitchell, (2011) identified three economic concepts that individuals should have some understanding of and to use them in making financial decisions: (i) interest compounding, (ii) inflation and (iii) risk diversification. The above two classifications looks different conceptually, but are the same in practical terms, except for the inclusion of budgeting your money in the former. Long (2011) advanced that the definition of what a "financially educated" person is ranges from a broad understanding of economics and decision-making to a more narrow issues of budgeting, saving, interest rate, and insurance.

Others have advocated for financial education to include, decision making, career planning, personal budgeting, and investing (savings, investment, coumpound interest and risk diversification). Again others have added knowledge of how to stay out of debt as an important component of financial literacy. Similarly, Akinyemi (2012) formulated a framework of what constitutes the financial intelligence syllabus to include but not limited to understanding and preparing personal financial statement, personal financial audit, concept and process of financial freedom, sources of passive income, the psychology of wealth creation, personal budgeting, retirement planning. Marcolin & Abraham (2006) in making their contributions, advised that young people in particular must understand the basics of investing and planning for the future, including risk-return relationship, the diversity between short-term and long-term investments and retirement planning.

3. SOURCES OF PASSIVE INCOME

Again, let's be reminded that financial freedom (FF) is the destination of all financial literacy adventures. FF occurs when an individual's passive income is higher than his/her living expenses. Passive incomes (PI) are income generated from passive activities. Better still, it is income that is earned without active involvement in the process of generating the income. Or more bluntly, "It is income you earn while sleeping". PI can be earned from five main investment vehicles/assets, namely, real estate, automated business, paper investment, intellectual property and network marketing (Akinyemi, 2012).

Real estate invariably is the most secured form of passive income source. Here you invest time and resources in building houses and give out on rentals. The passive income that comes out of real estate is rent. Real estate guarantees three wealth engines of leverage, compound interest and residual income with the capacity for three income streams, yield, capital appreciation and debt (Akinyemi, 2012). If you have enough of this investment you continue to earn rent passively as long as the contract lasts. However, the capital requirement to play in real estate is high; hence it is not for all comers. Financial intelligence is required to play in small deals before migrating to the big deals of real estate. Paper investment is another passive income generating assets. It involves any investment for which a paper document is given as evidence of the investment. Examples are: stock, treasury bills, bonds, mutual funds, fixed deposits to mention a few. The passive income in this case is dividend/interest. Automated business is a business model in which the owner/owners set up a system that runs

with or without them. It is called automated because the system functions without the owner. Automated businesses could be in trading, services, manufacturing, support services etc. The passive income generated from automated business is director's bonus.

Intellectual property is yet another asset that generates passive income in the form of royalty. Intellectual property can be in the form of, music, a good book, a piece of writing/speaking, movie etc. for which the author is paid royalty from. The last but certainly not the least of passive income sources is network marketing (also called Multi-Level Marketing, MLM). This is similar to franchising, and had been in existence since 1940 (Akinyemi, 2012). , MLM is a business model in which product are moved from manufacturers to final consumers through 'referrals' strategy usually by friends, family members and acquaintances. Accounting to Kiyosaki, Fleming, & Kiyosaki, (2010) the power of network marketing is not in the product but in the network. It is ranked the number one millionaires' creating business in the last 25 years, hence, it is considered the business of the 21st century and business model of the future (Kiyosaki, et al, 2010). The passive income of MLM is 'bonuses paid to distributors. It is invariably the business model that can service over 90% of the population, because of its low capital requirement.

4. THE PROCESS OF FINANCIAL FREEDOM

Financial Freedom (FF) is a financial state of affairs where passive income exceeds living expenses (Akinyemi, 2012, Emenuwe, 2013). It represents a condition of freedom from financial worries. FF is not an event but more or less a destination. And like every destination, it takes a journey to get there. The journey toward financial feedom reqiures an understanding of the process flow map. Financial maps are 'key train stops', that helps us to spot where we are and alerts us of the progress we are making towards financial freedom (FF). Akinyemi (2012) identified nine steps or stages in this process as depicted in figure 1.

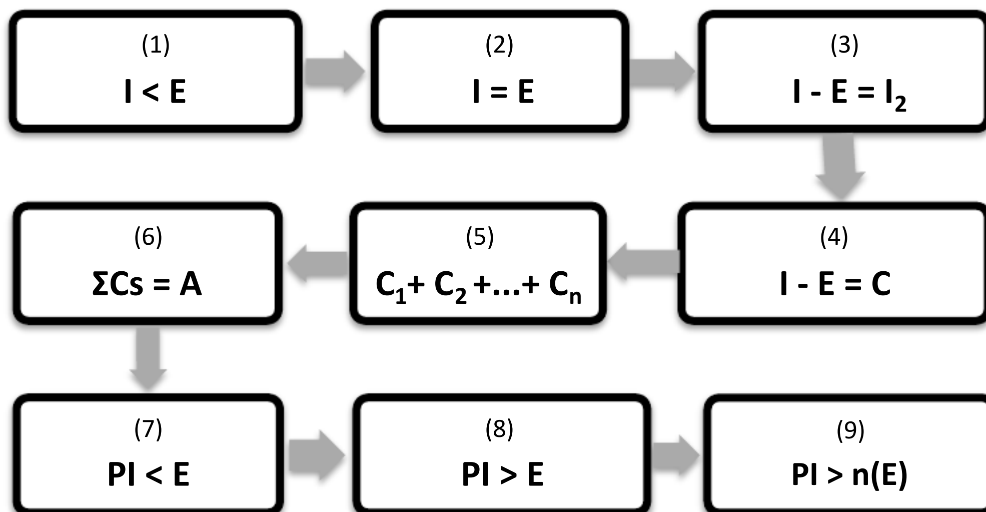

Figure 1 Financial Freedom Flow Map

Source: Adapted from Akinyemi (2012)

Stage 1: This stage represents a situation where the individual's Income (I) is less that his expences (E). It is a stage of either no income (dependent individuals) or reckless financial lifestyle. They are a lot of people both in the developed and developing economies that spend more than they earn. In America for insatnce, it is reported that about 40% of adults spent more than what they earn (Long, 2011). In Nigeria, the percentage were better imagined. The second stage in the process flow map represents a financial condition where the individual

income is just enough to take care of his expenses but without any savings (I = E). This state of affairs conforms effectively with the Pakinson's Law which posits that expenses often always grow symbiotically with increase in income. Individuals at this stage lived from hand to mouth and hope that the future will take care of itself. It is a state of low financial discipline.

Stage 3: this is a stage where the individual's income is hgher than his expenses (I > E or I - E = I_2). However, the excess of income over expenses is considered another income (I_2). In other words, the difference is saved but it is not safe. The I_2 is spent in an event of the slightest financal presure. Such individuals demostrates the culture of discipline, but not sufficient to lead to financial freedom. The fourth Stage in the FF process flow map, (I – E = C) is were the income is higer than expenses as in stage three, but rather than consider the difference as income, it is considered a 'net cashflow (NCF)'. A NCF is the difference between income and expenses. the NCF is then deposited in an "escrow account". An escrow account is an account in wish the NCF are deposited, but withdrawal is only permited when buying an asset (Akinyemi, 2012). It should be remembered that 'assets' under financial intelligence phraseology is anything of value that bring money to you on regular basis preferably passive income (Kiyosaki, 2008). It is assummed that individuals at this stage have their eyes on financial freedom as their ultimate goal or destination. The fifth stage is a stage where the individual continues to demostrate discipline, ensuring that the monthly NCF is deposited in his or her escrow account ($C_1 + C_2 + \ldots + C_n$).

Stage six: The accumulation of cash flow in stages 4-5 leads to stage six. Here, the individual utilises the accumulated cash flows to buy assets. Again, assets are anything of value that have capacity to generate passive income. (Akinyemi, 2012). Such assets may include; real estates, paper investment, intellectual property, automated business and network marketing. This stage can be refered to as the assets stage ($\Sigma Cs = A$). The United Way (2006) in their financial education survey report opined that assets buliding one way to move low income individuals and families into the economic mainstream. The next stage in the journey to financial freedom is the Passive income (PI) stage (stage 7). Here, the assets purchased had begun to yield passive income (PI). However, the passive income generated at this stage is less than expenses. It should be noted however that some passive income is better than no passive income. As the individual continues to build his assets column consistently, the passive income will beging to grow increasingly. This will lead to stage eight, where the passive income (PI) is higher that living expenses (PI > E). Then, to stage nine were passive income is a multiple of expenses.

It is from stage eight that the individual is considered financially free (FF). In fact, FF is what make sense in our journey of life, hence, it is considered the ultimate goal of anyone who is financially intelligent. Unfortunately, majority of the people in the world pursue financial security instead of financial freedom. This financial mistake result from the lack of financial intelligence and could acccount significantly on world poverty (Akinyemi, 2012).

5. THE RELATIONSHIP BETWEEN FINANCIAL INTELLIGENCE AND POVERTY REDUCTION

The epistemological doctrine of 'tabula rasa' as advanced by Locke (1690) posit that the human mind is originally blank before ideas are imprinted on it by the reaction of the senses to the external world of objects. In other words, the mind resembles a 'white paper, void of all characters," and that all the materials of reason and knowledge are derived from experience (Encyclopaedia Britannica). This doctrine is not only in tandem with common sense, but also goes to suggest that the material, social, psychological, financial and even spiritual well-being of every one is sharpened by the type, quantity and quality of information accessible by such individual. It also follows that; all kinds of intelligences, (educational, professional, financial, and spiritual) are acquired and not inborn, Taking the above view as given, it will be difficult

to divorce the level of financial intelligence from the incidence of poverty globally and in Nigeria in particular. After all, Knowledge affects behaviour (Martin, 2007).

According to Fields & Pfeffermann, (2003), escaping poverty depends critically on the availability and type of opportunities accessible to the poor. It is only the financially literates that see, recognise and leverage on financial opportunities to enhance their wellbeing. Kiyosaki (2008), Adelaja (2012) and Ben-Caleb Egbide, Omolehinwa Eddy, Obigbemi Imoleayo and Adeyemo Kingsly (2016) consensually opined that the difference between extraordinarily wealthy people and those struggling to make ends meet is often just a matter of knowledge. Hence, they concluded that it is not money that makes people rich but financial intelligence. In a personal testimony Pastor S. Adelaja stated thus:

I felt for sure that the rich were rich because they understood the laws of money, something about which I had to acquire more knowledge. Using the principles of wealth creation and following the laws of money…, I was able to make my first million U.S. dollars in nine months (Adelaja, 2012: 29).

Furthermore, literatures are awash with evidences in support of the above proposition. For instance, Marcolin & Abraham, (2006) conjectured that having financial literacy skills is an essential basis for both avioding and solving financial problems, which in turn are vital to living a prosperous healthy and happy life. Corroboratively, Adelaja (2012) stated that the main reason for poverty anywhere is that people fundamentally lack understanding of the laws and functions of money. Money comes to those who know how it works. In same vein, Brown, Jaya, Wilbert, & Basit (2013) studied the effects of exposure to financial training on debt outcome in early adulthood. They found significant effects of financial education on debt-related outcomes of youth, and concluded that financial literacy education has a sizable impact on the propensity of youth having a credit report, and reduces the incidence of adverse outcomes. Their study also revealed that financial mistakes, in the form of low saving, low market participation, high cost of borrowing, and negative credit habits among others are the aftermath of low financial literacy (Brown, et.al. 2013).

Lack of financial education has also been associated with poor financial planning, low standard of living, decreased psychological and physical well-being and greater reliance on government support. It is not very rear to escape poverty by default, nor can financial freedom be achieved by accident. Planning is required, and for good financial planning a certain minimal financial knowledge is required. In the opinion of Lusardi & Mitchell, (2011) people fail to plan because, they are financially unsophisticated. Planning requires making calculations, many of which are facilitated by financial literacy.

6. CONCLUSIONS

The correlation between financial literacy or financial well-being and poverty is common place in literature. More so, because of globalisation with its attendance increasingly risky market place, people must be able to make well-informed financial decisions. Financial decisions on the other hand are becoming increasingly complex, requiring a great deal of knowledge to make. We cannot, therefore, talk-down the value of financial intelligence especially in a developing country like Nigeria where the manifestation of poverty is almost in every home. Financial illiteracy not only cause individual poverty, but can contribute to large-scale economic decline, which affects many individuals (Long, 2011) The benefits of financial literacy could be cosmopolitan in effect. Increasing financial knowledge of individuals will have positive impact on their personal financial behaviours; impact on the community and facilitate the effective functioning of the financial system of the nation and the world (Central Bank of Nigeria (CBN), 2012).

Financial intelligence is the pathway to financial freedom, and it enables people to live their daily lives with dignity, (since there are no money worries) and do what they want to do, instead of doing what they have to do all their live time. In fact, financial literacy is "a gift" that each of us has to give to ourselves, in order to be dignified citizen of the world (International Network on Financial Education, 2012). Although, poverty is caused by several factors, financial literacy is the easiest one to eliminate (Long, 2011). It is therefore incumbent on all stake holders, individuals, parents, teachers, government, corporate bodies' civil societies and Non-Governmental Organisations to find ways to equip people, especially those still in school with adequate financial knowledge. If a large number of people are empowered to learn, practice and teach financial intelligence, poverty can be significantly reduced if not eliminated.

REFERENCES

[1] Kumar, B. (2011). What is the Importance of Education to our Society? Retrieved on 17/01/2014 from http://www.preservearticles.com/201102224127/what-is-the-importance-of-education-to-our-society.html

[2] Ajakaiye, D.O. & Adeyeye, V.A. (2002). Concepts, Measurement and Causes of Poverty. *CBN Economic and Financial Review*, *39(4)*

[3] Anyanwu J.C. (2012). Accounting for Poverty in Africa: Illustration with survey data from Nigeria; Africa Development Bank Group, Working Paper Series No. 149. Retrieve from http:/www.afdb.org/

[4] Bodie, Z. (2013). An Overview. In Z. Bodie, L. B. Siegel, & L. Stanton, *Life-Cycle Investing: Financial Education and Consumer Protection* (pp. 12-16). Research Foundation of CFA Institute.

[5] Kiyosaki, R., Fleming, J., & Kiyosaki, K. (2010). *The Business of the 21st Century.* Arizona: DreamBuilders.

[6] Akinyemi, A. (2012). The Process of Financia Freedom. A Webiner Presentations Slides. Lagos: Avenues to Wealth. Lagos, Nigeria: Avenues to Wealth.

[7] Locke, J. (1690). An Essay Concerning Human Understanding (Web Edition 2014), eBooks@Adelaide. The University of Adelaide Library: South Australia 5005. Retrieved from https://ebooks.adelaide.edu.au/l/locke/john/l81u/complete.html

[8] Kiyosaki, R. T. (2008) Increase your financial IQ: get smarter with your money First edition, Grand Central Publishing, united States of America

[9] International Network on Financial. (2012). *Financial Education in Schools.* Organisation of Economic Cooperation and Development (OECD).

[10] Marcolin, S., & Abraham, A. (2006). Financial Literacy Research: current Literature and Future Opportunities. *3rd International Conference on contempory Business.* Leura: University of Wollongong Research Online.

[11] United Way (2006). *Financial Education Survey Report.* Massachusetts: United Way of Massachusetts Bay.

[12] Long, A. (2011). *Financial Education as mean for Reducing Poverty.* Washington: Lee Univeristy.

[13] Robson, J. (2012). *The Case for Fiancial Literacy: Assessing the effects of financial literacy interventions for low income and vulnerable groups in Canada.* Canadian Centre for Fiancail Literacy.

[14] Roland Berger Strategy Consultants. (2012). *National Financial Inclusion Strategy: Summary Report.* Abuja: Central Bank of Nigeria (CBN).

[15] Lusardi, A., & Mitchell, O. S. (2011). Financial Literacy around the World: An Overview. *Journal of Pension Economics and Finance, 10*(4), 497-508.

[16] Emenuwe, E. (2013). *Secret of Personal Money Management.* Lagos: Daveson Productions.

[17] Martin, M. (2007). *A Literature Review on the Effectiveness of Financial.* Federal Reserve Bank of Richmond.

[18] Fields, S. G., & Pfeffermann, G. (2003). *Pathways Out of Poverty: Private Firms and Economic Mobility in Developing Countries.* Boston: Kluwer Academic Publishers Commonwealth Bank Foundation . (2004). *Improving Financial Literacy in Australia: Benefits for the Individual and the Nations.* Sydney: Common Wealthy Bank Foundation.

[19] Adelaja, S. (2012). *Money Won't Make You Rich: God's Principle for True Wealth, Prosperity and Sucess.* Florida: Charisma House.

[20] Ben-Caleb Egbide, Omolehinwa Eddy, Obigbemi Imoleayo and Adeyemo Kingsly (2016). Budgetary Systems Reforms in Nigeria: Implications for Poverty Reduction. The Social Sciences, 11(23), 5584-5589

[21] Meta, B., Jaya, W., Wilbert, V. D., & Basit, Z. (2013). *Financial Education and the Debt Behaviour of the Young*. New York: Federal Reserve System.

[22] Central Bank of Nigeria (CBN) (2012). *Exposure Draft of Financial Literacy Framework in Nigeria*. A Letter to Banks, Financial Institutions and other Stakeholders.