Annals of Social Sciences & Management Studies
ISSN: 2641-838X

Juniper Publishers
key to the Researchers

Perspective
Volume 9 Issue 2 - August 2023
DOI: 10.19080/ASM.2023.09.555758

Ann Soc Sci Manage Stud

Socio-economic and Security Effects of Financial Exclusion in Africa: An Experts' View

Solomon O Okunade[1,2]*, Adekunle T Olawumi[3], Oluwole J Adeyemi[1] and Amosun O Olayemi[4]

[1]*Department of Economics, Chrisland University, Abeokuta, Nigeria*

[2]*Centre for Research and Statistics, Chrisland University, Abeokuta, Nigeria*

[3]*Department of International Relations and Diplomacy, Chrisland University, Nigeria*

[4]*Department of Accounting and Finance, Chrisland University, Abeokuta, Nigeria*

Submission: July 09, 2023; **Published:** August 03, 2023

***Corresponding author:** Solomon O Okunade, Department of Economics, Chrisland University, Abeokuta, Nigeria,
E-mail:osolomon2085@gmail.com

Abstract

Financial exclusion in Africa has significant social, economic and security implications that hinder economic development and perpetuate inequality. Financial exclusion in Africa limits access to formal financial services for marginalized populations, exacerbating economic inequality and impeding wealth accumulation. It also hampers entrepreneurial activities and stifles economic growth by restricting small and medium-sized enterprises (SMEs) from accessing credit and financial resources. Moreover, financial exclusion creates barriers to essential services such as education, healthcare, and housing, exacerbating social inequalities and exclusion. Additionally, it increases vulnerability to fraudulent activities and illicit networks, posing security risks within societies. Addressing financial exclusion requires a collaborative approach involving governments, financial institutions, FinTech companies, and civil society organizations. This approach focuses on enhancing financial literacy, expanding access to affordable and inclusive financial products, leveraging technology and digital solutions, and establishing an enabling regulatory environment. By prioritizing financial inclusion, Africa can reduce poverty, stimulate economic growth, promote social integration, and enhance security within societies. Implementing inclusive financial policies and embracing technological innovations are crucial steps toward building a more inclusive and resilient financial ecosystem in Africa.

Keywords: Finance Exclusion; Financial Inclusion; Socio-Economics; Security, Africa

Abbreviations: SMEs: Small and Medium-Sized Enterprises; AFI: Alliance for Financial Inclusion

JEL Classification: O16; G21; H56

Introduction

Financial exclusion, characterized by limited access to financial services and products, poses significant social and security challenges in Africa. This social and economic opinion aims to provide insights into the socio-economic and security effects of financial exclusion in Africa and emphasize the importance of addressing this issue. The effect of financial exclusion on economic inequality and poverty cannot be overemphasized [1,2]. Financial exclusion, according to Seidu and Shamsuddeen (2020) refers to the limited access individuals or communities have to financial services and products, such as banking, credit, insurance, and savings. In African countries, like in many developing countries, financial exclusion is a pressing issue with significant social, economic and security implications. This economic opinion aims to shed light on the social, economic and security effects of financial exclusion in Nigeria and highlight the importance of addressing this issue.

Socio-economic and Security Implications:

Financial exclusion exacerbates economic inequality and perpetuates poverty in Africa. The lack of access to formal financial services, including banking, credit, insurance, and savings, hampers individuals' ability to accumulate wealth, invest in productive assets, and participate fully in economic activities [3-5]. Without access to formal financial services, individuals and households are forced to rely on informal and often unreliable channels for savings and credit. This restricts their ability to accumulate wealth, invest in productive assets, and participate in economic activities. Consequently, financial exclusion widens the income gap and disparities, hindering social mobility and perpetuating poverty among vulnerable populations. Recent studies [3,4] (Seidu & Shamsuddeen 2020) examined the relationship between financial inclusion and poverty reduction in Sub-Saharan Africa. It was found that increasing financial inclusion significantly reduces poverty rates, emphasizing the importance of improving access to financial services to alleviate poverty and promote inclusive growth.

Financial exclusion limits the prospects of entrepreneurship and economic Growth in Africa by stifling entrepreneurship and hinders economic growth in Africa [6,7]. Small and medium-sized enterprises (SMEs) are vital drivers of economic development, yet they often struggle and face several challenges in accessing formal financial services. The lack of credit, savings, and insurance products restricts business expansion, restricts job creation, and hampers innovation. By excluding a significant portion of the population from the financial system, Africa's economies are deprived of the potential contributions that entrepreneurship and SMEs can offer.

Financial inclusion and entrepreneurship are two critical drivers of economic development and poverty reduction in Africa. Entrepreneurship plays a vital role in fostering innovation, job creation, and sustainable economic growth [2,6]. In recent years, there has been increasing recognition of the synergistic relationship between financial inclusion and entrepreneurship in Africa. Access to financial services enables aspiring entrepreneurs to start and expand their businesses, while entrepreneurship contributes to economic growth and creates opportunities for individuals to improve their financial well-being. Consequently, promoting financial inclusion among entrepreneurs has emerged as a key policy priority for governments and development organizations across the continent. However, despite progress made in advancing financial inclusion in Africa, significant challenges persist. According to the Global Findex Database [7], a substantial portion of the African population, particularly those in rural areas and marginalized communities, still lacks access to formal financial services. Limited financial literacy, high transaction costs, and inadequate infrastructure pose barriers to entrepreneurship and impede inclusive economic growth.

According to a recent study by Demirguc-Kunt et al. [6],enhancing financial inclusion can significantly boost entrepreneurship in Africa. The study highlights that improved access to credit and financial resources enables entrepreneurs to invest in their ventures, purchase necessary equipment, and hire skilled labor. Moreover, financial inclusion fosters entrepreneurial resilience by providing a safety net against unexpected shocks and facilitating business continuity. Also, Ali, Mafoua, Yogo [8] examined the link between financial inclusion and economic growth in Sub-Saharan Africa. The study highlighted a positive relationship, indicating that increased financial inclusion positively impacts entrepreneurship, investment, and overall economic growth.

In addition, financial exclusion contributes to social instability and exclusion in Africa. Individuals who are financially excluded lack the means to fully participate in society and face difficulties accessing essential services such as education, healthcare, and housing. In order world, individuals who are financially excluded are more susceptible to social exclusion, as they lack the means to participate fully in society. Financial exclusion fuels social instability and exclusion. Limited access to financial services affects their ability to secure housing, education, healthcare, and other essential services, perpetuating a cycle of poverty. This exclusion can lead to social tensions, unrest, and potential conflicts, perpetuating social inequalities, marginalization, social exclusion, and undermining sustainable development. A study by Mamatzakis, Zhang, Wang [9] investigated the social consequences of financial inclusion in African countries. The findings demonstrated that financial inclusion positively affects social development indicators, such as poverty reduction, education, and health outcomes. The study underscored the importance of inclusive financial policies and interventions in tackling social exclusion.

The security implications of financial exclusion are numerous. Financial exclusion has security implications at various levels in Africa. Firstly, it increases the vulnerability of individuals to financial fraud and cybercrime [10,11]. When individuals are excluded from formal banking systems, they are more likely to resort to informal channels, which are less regulated and prone to fraudulent activities. Additionally, financial exclusion can exacerbate income inequality, which has been linked to higher crime rates. It creates an environment conducive to illicit activities, as individuals may turn to informal and criminal networks to meet their financial needs [12,13]. Gelb, Decker [14] highlighted the security risks associated with financial exclusion in Africa. The study emphasized that financial inclusion enhances security by reducing poverty, inequality, and the likelihood of engaging in illegal activities. The findings underscored the importance of inclusive financial policies in promoting security and stability.

Providing Solutions to highlighted Problems

First, financial inclusion is a solution without side effects. Addressing financial exclusion in Africa requires a comprehensive and collaborative approach involving governments, financial institutions, regulators, and other stakeholders. Enhancing financial literacy and education is crucial to empower individuals with the necessary knowledge and skills to make informed financial decisions. Furthermore, expanding access to affordable and inclusive financial products and services, such as mobile banking and microfinance, can bridge the gap between excluded populations and formal financial systems.

Recent efforts to promote financial inclusion in Africa have gained momentum. The African Union has developed the African Financial Inclusion Policy Framework, which provides guidance for member countries in implementing inclusive financial strat-

How to cite this article: Okunade SO, Olawumi AT, Adeyemi OJ, Amosun OO. Socio-economic and Security Effects of Financial Exclusion in Africa: An Experts' View. Ann Soc Sci Manage Stud. 2023; 9(2): 555758. DOI: 10.19080/ASM.2023.09.555758

egies. Additionally, initiatives such as the Alliance for Financial Inclusion (AFI) and the African Development Bank's Financial Inclusion Strategy are working to enhance financial inclusion across the continent.

Another key solution to mention is the technological advancements, particularly in mobile banking and digital financial services, have played a crucial role in expanding financial access in Africa. Mobile money platforms, such as M-Pesa in Kenya and EcoCash in Zimbabwe, have demonstrated the transformative potential of mobile-based financial services in reaching underserved populations. Lastly, collaboration between governments, financial institutions, FinTech companies, and civil society organizations is essential to drive sustainable progress in financial inclusion. This includes creating an enabling regulatory environment, investing in digital infrastructure, fostering innovation, and promoting financial education programs tailored to the needs of diverse populations.

Conclusion

Financial exclusion in Africa has profound social and security effects. It perpetuates economic inequality, hampers entrepreneurship and economic growth, contributes to social instability, and poses security risks. Recent studies have highlighted the positive relationship between financial inclusion and poverty reduction, economic growth, and social development. To address financial exclusion, Africa must prioritize efforts to enhance financial literacy, develop inclusive financial products and services, and foster collaboration among stakeholders. The implementation of inclusive financial policies, leveraging technological innovations, and promoting partnerships will be critical in advancing financial inclusion and mitigating the social and security consequences of financial exclusion in Africa.

References

1. Rivera J (2015) Gartner's Hype Cycle for Emerging Technologies Identifies the Computing Innovations That Organizations Should Monitor. 2015 Hype Cycle Special Report Illustrates the Market Excitement, Maturity and Benefit of More Than 2,000 Technologies.
2. Lefebvre H, Legner C, Fadler M (2021) Data democratization: toward a deeper understanding.
3. Sherbinin A de, Bowser A, Chuang T-R, Cooper C, Danielsen F, et al. (2021) The Critical Importance of Citizen Science Data. Front Clim 3.
4. Vashisth S, Linden A, Hare J, Krensky P (2019) Hype Cycle for Data Science and Machine Learning.
5. Davenport TH, Mittal N, Saif I (2020) What Separates Analytical Leaders From Laggards?.
6. Bean R (2023) Why Is It So Hard to Become a Data-Driven Company?
7. Blackman R, Sipes T(2022) The Risks of Empowering "Citizen Data Scientists". Harvard Business Review.
8. Bowser A, Cooper C, Sherbinin A de, Wiggins A, Brenton P, et al. (2020) Still in Need of Norms: The State of the Data in Citizen Science. Citizen Science: Theory and Practice 5.

DOI: 10.19080/ASM.2023.09.555758

How to cite this article: Okunade SO, Olawumi AT, Adeyemi OJ, Amosun OO. Socio-economic and Security Effects of Financial Exclusion in Africa: An Experts' View. Ann Soc Sci Manage Stud. 2023; 9(2): 555758. DOI: 10.19080/ASM.2023.09.555758