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Research Article

Impact of Financial Literacy on the Survival of Micro, Small and Medium Scale Enterprises in the North-East, Nigeria

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Abstract
This study investigates the impact of financial literacy on the survival of micro, small and medium enterprises (MSMEs) in North-East, Nigeria, a region marked by economic fragility, insecurity, and limited institutional support. Two research questions guided the study and one hypothesis was tested. A cross-sectional survey design was adopted. The population for the study comprised 400 MSME owners and managers across Bauchi, Gombe, and Taraba States. A structured questionnaire was used for data collection. The questionnaire instrument was validated by three experts for the study. The reliability of the instrument was ascertained using Cronbach Alpha which showed that the clusters achieved co-efficient values of 0.92 and 0.88 respectively for the clusters B1 and B2, with an overall reliability co-efficient value of 0.90. Data related to the research question 1 and 2 was analyzed using mean and standard deviation and for research question 2 Pearson's correlation was used, while multiple regression was used to test the hypothesis at 0.05 level of significance. The findings of the study revealed that financial literacy levels among MSME operators are moderate to high, with budgeting, record-keeping, and financial decision-making emerging as the most influential predictors of business survival. A strong positive relationship was found between financial literacy and MSME sustainability ($r = 0.614$, $p < 0.01$), affirming that financially literate entrepreneurs are more resilient, better at managing risk, and more likely to sustain and grow their businesses. The study concluded that financial literacy plays a significant and positive role in enhancing the survival and sustainability of micro, small, and medium enterprises (MSMEs) in North-East, Nigeria. It was recommended that government agencies, NGOs and microfinance institutions should collaborate to design and deliver regular, sector-specific financial literacy programmes focusing on budgeting, record-keeping, credit management, and financial decision-making.
Keywords: Financial Literacy, MSME Survival, Resource-Based View, North-East, Nigeria.

Introduction
Developed and developing economies continue to rely on small businesses to play a key role in triggering and sustaining economic growth and equitable development. In Nigeria, micro, small and medium enterprises (MSMEs) are generally referred to as enterprises with up to 250 employees. Micro enterprises: between 1 and 9 employees. Small enterprises: between 10 and 49 employees. Medium enterprises: between 50 and 249 employees. They are universally acknowledged as pivotal engines of economic growth, innovation, employment generation, and poverty alleviation, especially in developing economies (Ariyo and Jerome, 2020). In Nigeria, MSMEs constitute about 96 percent of all businesses and contribute nearly 50 percent to the gross domestic product (GDP), highlighting their significance in the national economic framework (NBS, 2021; SMEDAN, 2021). Their capacity to absorb a large segment of the informal labor force and operate in diverse sectors makes them particularly vital for regional development and inclusive economic participation. However, despite their crucial roles, the survival and sustainability of MSMEs in Nigeria particularly in the North-East region have been persistently threatened by a myriad of structural and contextual challenges, including insecurity, infrastructural deficits, limited market access, and more critically, financial illiteracy (Ogujiuba, 2021). MSMEs contribute largely to output, employment in both developed and developing countries and contribute greatly to the revitalization of the global economy and of individual national economies (Esiebugie *et al.,* 2018).

The need for financial literacy by SMEs has been emphasized by different scholars. Financial literacy is the mastery of a set of knowledge, attitudes and behaviors. Financial literacy, broadly defined as the knowledge and ability to understand and effectively apply various financial skills such as budgeting, financial planning, accounting, and risk management has been identified as a core competency for business sustainability (Lusardi and Mitchell, 2017). Financial literacy and its role in helping entrepreneurs make prudent financial decisions including accessing external finance for the growth of their businesses has recently grown in importance (Potrich and Vieira, 2018). In developed and emerging countries, policymakers are increasingly paying attention to this field of study. Helping people make wise financial decisions when dealing with financial concerns is one of the key goals of financial literacy. For MSMEs, financial literacy directly influences strategic decision-making processes, such as investment appraisal, capital allocation, debt management and pricing strategies (Ogujiuba, 2021). Fatoki (2014) and Nwankwo and Eze (2019) asserted that many small-scale entrepreneurs in Sub-Saharan Africa are gradually acquiring foundational financial knowledge through informal learning, peer networks, and exposure to microfinance institutions. Numerous empirical studies have established a strong linkage between financial literacy and firm performance, indicating that financially literate entrepreneurs are more likely to maintain sound financial records, access external funding, and adapt to changing business environments (Adomako *et al.,* 2016; Ogujiuba, 2021).

Despite the apparent importance of financial literacy, financial skills and competencies level and the level of financial capability among MSME operators in Nigeria particularly the North-East region still remains low. Several factors contribute to this deficiency, including low levels of formal education, poor exposure to formal banking institutions, cultural and religious constraints regarding financial dealings, and the dominance of informal financial practices such as traditional saving groups (Yakubu and Affoi, 2020). Many business owners operate in isolation from formal financial institutions, lack knowledge of basic financial products, and rely heavily on intuition or informal advice in making financial decisions. The situation is further exacerbated by the socio-political instability in the region, where insecurity and displacement hinder structured training, mentorship, and access to government and non-government enterprise support programs (UNDP, 2022). Ogujiuba (2021), who established that financial literacy positively affects start-up survival by reducing the likelihood of insolvency and poor strategic choices. Similarly, Esiebugie *et al.,* (2018) consented that financially literate entrepreneurs in Ghana were better positioned to leverage access to finance, minimize operational risks, and sustain competitive advantage. As a result, MSMEs in the North East are often left vulnerable, poorly managed, and ill-equipped to withstand economic shocks or sustain long-term operations.

From a theoretical perspective, the relationship between financial literacy and MSME sustainability can be framed using Human Capital Theory of Becker (1964) and the Resource-Based View (RBV) of Barney (1991). To Becker (1964), human capital theory posits that individuals and organizations derive competitive advantage and economic value from investments in education and skill development. Financial literacy, in this context, is considered a form of human capital that enhances the entrepreneurial capacity to plan, control, and grow business operations. Complementing this is the RBV framework advanced by Barney (1991), which argues that firm resources tangible or intangible that are valuable, rare, inimitable, and non-substitutable serve as the foundation for sustained competitive advantage. Financial literacy, as an internal capability, meets these criteria and can therefore be seen as a strategic asset that enhances the resilience and sustainability of MSMEs.

Additionally, Behavioral Finance Theory offers an important lens through which to interpret how financial decisions are made under uncertainty. Thaler (1999) argued that cognitive biases, such as overconfidence, anchoring, and mental accounting, often distort financial judgment. Entrepreneurs with low financial literacy may be particularly susceptible to such biases, leading to sub-optimal financial decisions and poor business outcomes. Financial literacy, therefore, plays a dual role: it serves as both a technical skillset and a behavioral regulator that mitigates irrational financial behaviors. In fragile and post-conflict contexts like North-East, Nigeria, the significance of financial literacy becomes even more pronounced. The UNDP (2022) stressed that financial education is a key component of resilience-building programs in crisis-affected areas. Empowering entrepreneurs with financial knowledge can help them rebuild their livelihoods, adopt innovative financing strategies, and re-integrate into disrupted markets. This is particularly crucial in regions such as North-East, Nigeria, where access to formal financial institutions is limited, and informal financial practices are prevalent (Yakubu and Affoi, 2020).

North-East, Nigeria, comprising states such as Borno, Adamawa, Yobe, Gombe, Bauchi, and Taraba, faces peculiar socio-economic dynamics. The lingering security crisis driven by insurgency, internal displacement and poor infrastructural development has exacerbated the vulnerability of MSMEs in the region (UNDP, 2022). Many of these enterprises are informal, poorly structured, and owner-managed, often lacking the financial literacy necessary for strategic planning and sustainable growth. Consequently, the mortality rate of MSMEs in the region remains high, with many failing within the first five years of operation (SMEDAN, 2021). While government interventions and donor programs have sought to support enterprise development, a significant gap persists in addressing the cognitive and skill-based dimensions of enterprise survival, particularly financial education and training (Nwankwo and Eze, 2019).

It was against this backdrop, examining the impact of financial literacy on the survival of MSMEs in North-East, Nigeria becomes both timely and necessary. Understanding the specific financial competencies that influence business resilience in this unique context can provide a basis for targeted policy interventions and capacity-building initiatives. Furthermore, given the growing discourse on financial inclusion and sustainable development in post-conflict and fragile economies, this study provides an empirical platform to re-evaluate the strategic relevance of financial literacy in enterprise sustainability frameworks in Nigeria and similar settings.

Statement of the Problem

Despite the recognized importance of micro, small, and medium enterprises (MSMEs) to economic development, their survival rate in North-East, Nigeria remains critically low. Many MSMEs in the region fail to transition into sustainable and growth-oriented enterprises due to poor financial management practices, limited access to credit and a pervasive lack of financial literacy. While infrastructure, security, and market challenges contribute to this fragility, a core, often overlooked constraint is the inadequate financial knowledge and decision-making capacity of enterprise owners. Financial literacy encompassing budgeting, saving, investing, and risk assessment is fundamental for business resilience. However, empirical evidence specific to the North Eastern region remains scant, leaving a critical gap in understanding how financial literacy influences MSME survival in this unique socio-economic and post-conflict context. This study, therefore, seeks to address the problem of limited financial capability among MSME operators in North Eastern Nigeria by investigating the extent to which financial literacy impacts their business survival. By identifying the specific dimensions of financial knowledge that significantly affect entrepreneurial outcomes, the study sought to inform targeted interventions and policies that can enhance the sustainability of MSMEs in the region.

Purpose of the Study

The main purpose of the study was to examined the impact of financial literacy on the survival of micro, small and medium scale enterprises in the North-East, Nigeria. Specifically, the study examined the:

1) Level of financial literacy among owners and managers of micro, small and medium enterprises (MSMEs) in North-East, Nigeria.
2) Relationships between financial literacy and the survival rate of MSMEs in the region.

Research Questions

The following research questions guided the study:

1) What are the level of financial literacy among owners and managers of micro, small and medium enterprises (MSMEs) in North-East, Nigeria?
2) What are the relationships between financial literacy and the survival rate of MSMEs in the region?

Hypothesis

The null hypothesis was tested at 0.05 level of significance:

1) There is no significant relationships between financial literacy and the survival rate of MSMEs in the region.

Method

Descriptive survey research design was adopted for the study. The population for the study consisted of 54,815 registered MSMEs from the area of study. The study was carried out in the North Eastern geopolitical zone of Nigeria, comprising six states: Borno, Adamawa, Yobe, Gombe, Bauchi and Taraba. These sates were characterized by economic fragility, high levels of insecurity, infrastructural deficits, and low levels of financial inclusion. The choice of this region is purposeful, given the high vulnerability of MSMEs operating in such fragile contexts and the limited empirical evidence available on financial literacy in the area. A multi-stage sampling technique is employed in selecting participants. First, three states are purposively selected from the six in the North East namely Bauchi, Gombe and Taraba based on relative accessibility and the density of MSME activity. Within each selected state, two urban centers with active clusters of MSMEs are identified. Stratified sampling is then used to categorize MSMEs based on size (micro, small, and medium), followed by proportionate random sampling to select respondents across each stratum. The sample size for this study was calculated using Yamane (1967) formula. According to the formula:

$n = N/1+N(E)^2$

Where,
n = Sample size (to be calculated)
N = Population of the study
E = Standard error (0.5)

Based on the estimated MSME population in the selected states, the calculated sample size is 397, which is rounded up to 400 respondents to account for potential non-response or incomplete data.

The primary instrument for data collection is a structured questionnaire, developed based on existing, validated financial literacy and enterprise performance scales (Lusardi and Tufano, 2015; OECD, 2018). A five-point Likert scale was used to measure responses, ranging from Strongly Disagree (1) to Strongly Agree (5). The instrument is pre-tested on a sample of 30 MSME operators in a nearby region to assess reliability and validity**.** The pilot test yields a Cronbach's alpha coefficient of 0.82, indicating a high level of internal consistency. Data was collected through inter-person administration of questionnaires with the aid of trained field enumerators. This approach ensures higher response rates and reduces the risks of misinterpretation, especially given the varied literacy levels of respondents. Data collected were analyzed using mean and standard deviations to answer the research question 1 and Pearson's correlation coefficient was used for research question 2, and multiple regression analysis was used to test the hypotheses at 5% level of significance.

Results

Research Question 1: What are the level of financial literacy among owners and managers of micro, small and medium enterprises (MSMEs) in North-East, Nigeria?

Table 1. Summary of the mean scores and standard deviations for financial literacy dimensions.

Financial literacy component	Mean (M)	Standard deviation (SD)	Interpretation
Budgeting and planning	4.12	0.81	High
Record-keeping and bookkeeping	3.78	0.97	Moderate to high
Credit and debt management	3.45	1.02	Moderate
Savings and investment practices	3.34	1.10	Moderate
Financial decision-making	3.91	0.88	High
Overall financial literacy	**3.72**	**0.96**	**Moderate to high**
Source: Survey, 2025			

Data in Table 1 show the mean scores suggest that respondents demonstrate relatively high competence in budgeting and financial decision-making, with moderate proficiency in credit management and investment knowledge. The overall financial literacy level (M = 3.72) reflects a moderate to high understanding, indicating some level of capacity among MSMEs but also areas in need of improvement, especially in long-term investment and credit planning.

Research Question 2: What are the relationships between financial literacy and the survival rate of MSMEs in the region?

Table 2. Pearson's correlation between financial literacy and MSME survival.

Variables	R	p-value	Relationship
Financial literacy	0.614**	0.000	Strong, positive
Note: $p < 0.01$ indicates statistical significance at the 1% level.			

Data in Table 2 show a significant positive correlation ($r = 0.614$, $p < 0.01$) exists between financial literacy and MSME survival, indicating that higher levels of financial literacy are strongly associated with better business continuity, profitability, and resilience. This finding supports the hypothesis that financial capability enhances business sustainability.

Hypothesis 1: There is no significant relationships between financial literacy and the survival rate of MSMEs in the region.

Table 3. Relationships between financial literacy and the survival rate of MSMEs in the region.

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	121.340	5	24.268	41.471	0.000***
Residual	172.221	394	0.437	-	-
Total	293.561	399	-	-	-
Regression coefficients					
Predictor	**B**	**Standard error**	**Beta**	**T**	**p-value**
(Constant)	0.784	0.295	-	2.659	0.008
Budgeting and planning	0.218	0.067	0.251	3.254	0.001
Record-keeping	0.195	0.061	0.201	3.197	0.002
Credit and debt management	0.109	0.054	0.118	2.018	0.044
Savings and investment	0.082	0.049	0.097	1.673	0.095
Financial decision-making	0.205	0.066	0.228	3.106	0.002
Note: *p < 0.01; B = Unstandardized coefficient; Beta = Standardized coefficient					

Data in Table 3 shows the regression model is statistically significant ($F = 41.471$, $p < 0.001$), explaining approximately 41.2% of the variance in MSME survival. Key predictors; budgeting and planning ($\beta = 0.251$), record-keeping ($\beta = 0.201$), and financial decision-making ($\beta = 0.228$) are significant contributors to MSME survival. While credit management is marginally significant, investment practices show a weaker effect, suggesting that daily operational financial competencies have greater influence than long-term planning in this region's fragile context.

Discussion of Findings

The first research question revealed that overall financial literacy among MSME operators in the region is moderate to high (Mean = 3.72). Respondents demonstrated relatively high competence in budgeting and financial decision-making, while credit management and investment practices scored moderately. These results are indicative of a growing awareness and functional knowledge of basic financial principles among entrepreneurs, despite the region's socio-economic challenges. The finding aligns with the findings of Fatoki (2014) and Nwankwo and Eze (2019) who asserted that many small-scale entrepreneurs in Sub-Saharan Africa are gradually acquiring foundational financial knowledge through informal learning, peer networks, and exposure to microfinance institutions. However, the moderate scores in areas like savings, investment, and credit management point to persistent gaps in long-term financial planning and resource optimization which are critical areas for business expansion and sustainability.

From a Human Capital Theory perspective, these results support the argument that knowledge acquisition whether formal or informal translates into economic behavior that affects productivity. Financial literacy, as a form of human capital, enhances entrepreneurial capability by equipping business owners with the cognitive tools necessary for managing uncertainty, reducing waste, and maximizing returns (Becker, 1964; Lusardi and Tufano, 2015).

The second research question revealed Pearson's correlation analysis (Table 2) and regression analysis (Tables 3) provide compelling evidence of a statistically significant and positive relationship between financial literacy and MSME survival ($r = 0.614$, $p < 0.01$). Moreover, the regression model explains approximately 41.2% of the variance in business survival outcomes, with key financial literacy dimensions especially budgeting, record-keeping, and decision-making emerging as strong predictors. These findings are consistent with Ogujiuba (2021), who established that financial literacy positively affects start-up survival by reducing the likelihood of insolvency and poor strategic choices. Similarly, Esiebugie *et al.,* (2018) consented that financially literate entrepreneurs in Ghana were better positioned to leverage access to finance, minimize operational risks, and sustain competitive advantage.

Theoretically, the results affirm the Resource-Based View (RBV), which positions financial literacy as a strategic internal resource that is both rare and inimitable. Unlike external capital or infrastructure over which entrepreneurs often have limited control financial capability is an endogenous, knowledge-based asset that can be cultivated to build adaptive capacity and foster resilience (Barney, 1991). In fragile economic regions like North Eastern Nigeria, where MSMEs face systemic external constraints (e.g., insecurity, limited infrastructure), internal competencies such as financial literacy become pivotal to enterprise sustainability. Moreover, these results further show the mediating role of financial literacy in the access-to-finance-survival nexus.

Conclusion

Based on the findings of this study, it is concluded that financial literacy plays a significant and positive role in enhancing the survival and sustainability of micro, small, and medium enterprises (MSMEs) in North-East, Nigeria. Specifically, the findings reveal that competencies in budgeting, record-keeping, and financial decision-making are critical to enterprise continuity, profitability, and resilience in a region challenged by insecurity and limited institutional support. Anchored in Human Capital Theory and the Resource-Based View, the study affirms that financial literacy is not only a vital individual skill but also a strategic internal resource that empowers MSME operators to navigate uncertainty, manage resources efficiently, and sustain long-term growth.

Recommendations

Based on the findings of the study, the following recommendations are proposed to enhance the financial literacy and survival of MSMEs in North-East, Nigeria:

- Implement Targeted Financial Literacy Training Programmes: Government agencies, NGOs and microfinance institutions should collaborate to design and deliver regular, sector-specific financial literacy programmes focusing on budgeting, record-keeping, credit management, and financial decision-making. These programmes should be delivered in local languages and tailored to the socio-economic realities of MSME operators in the region.
- Integrate Financial Education into Enterprise Development Policies: Financial literacy should be made a mandatory component of all government-sponsored MSME support schemes, including access to grants, loans, and capacity-building initiatives. This will ensure that beneficiaries possess the foundational skills to manage financial resources effectively and sustainably.

Declarations

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