FINANCIAL LITERACY AND THE GROWTH OF SMALL BUSINESSES IN ENUGU STATE, NIGERIA

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN MANAGEMENT

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DECLARATION

I, OKARO, CHUKWUNWIKE ANTONIO, hereby declare that this research project titled "Financial Literacy and the Growth of Small Businesses in Enugu State, Nigeria" was carried out by me in partial fulfilment of the requirements for award of Bachelor of Science (B.Sc) degree in Management.

I further declare that this work is original and has not been presented either in part or in full to any other institution for the award of any degree or certificate. All sources of information used in this study have been duly acknowledged and referenced.

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APPROVAL

This research project titled "Financial Literacy and the Growth of Small Businesses in Enugu State, Nigeria" submitted by OKARO, CHUKWUNWIKE ANTONIO has been read and approved as meeting the requirements for award of Bacehlor of Science (B.Sc) degree in Management, Faculty of Management and Social Sciences, Godfrey Okoye University, Enugu State.

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DEDICATION

This research project is dedicated to God Almighty for His grace, wisdom, strength, and divine guidance throughout the course of this study.

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ABSTRACT

This study examined financial literacy and the growth of small businesses in Enugu State, Nigeria. The study focused on major dimensions of financial literacy, including budgeting practices, record-keeping, savings and investment practices, and credit management, and their influence on SME growth indicators such as profitability, revenue growth, and business sustainability. The study adopted a survey research design. Primary data were collected through structured questionnaires administered to SME owners and managers in Enugu State. A total of 396 questionnaires were distributed, out of which 382 were properly completed and returned, giving a response rate of 96.5%. Data collected were analyzed using descriptive statistics and mean score analysis with the aid of SPSS version 28. The findings revealed that financial literacy has a significant positive effect on the growth of small businesses in Enugu State. Specifically, the study found that budgeting practices, proper record-keeping, and savings and investment practices significantly influence SME performance and sustainability. All four null hypotheses were rejected at the 0.05 level of significance. The study concluded that financial literacy plays a critical role in improving business performance, operational efficiency, and long-term sustainability among SMEs in Enugu State. The study was concluded with recommendation that government agencies, financial institutions, and entrepreneurship support organizations should strengthen financial literacy training programmes and promote sound financial management practices among SME owners.

Keywords: Financial Literacy, SME Growth, Budgeting, Record-Keeping, Savings and Investment, Enugu State, Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) have always been regarded as the prime movers of economic growth, job creation, and poverty alleviation globally. In developing countries like Nigeria, these enterprises are bestowed with even more responsibilities considering their capacities to create jobs, improve local goods production and deepen economic diversification. According to Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), SMEs constitute over 90 percent of the total number of registered companies in Nigeria and thus are instrumental in the provision of employment and economic activities.

The development and sustainability of SMEs in Nigeria have, however, been beset with challenges. Recent surveys have revealed that a significant proportion of small businesses vanish by the time they get to their third year of existence. A number of studies have concentrated on the literature reviews (World Bank, 2021; OECD, 2022) which identify poor financial planning, weak management positions, lack of access to finance, and low financial literacy level as the major factors leading to high failure rate. Financial literacy is singled out not only as one of the several crucial factors but also as the main determinant of the successful performance of SMEs and its continued expansion, when considered separately.

Financial literacy refers to the possession of financial knowledge and being able to apply the skills needed for making sound and wise financial decisions such as budgeting, saving, investing, borrowing, and risk management. For SMEs, their level of financial literacy dictates the manner in which business resources are planned, used, and controlled. Financially literate businessmen are able to better handle their cash flow, keep authentic financial records, ascertain their profit level, and make investment decisions that foster the growth of their businesses (Lusardi, Hasler & Yakoboski, 2021; OECD, 2023).

In contrast to this, Nigeria is still faced with the problem of the majority of small business owners, especially those who are in the informal or semi-formal sectors that operate micro or small enterprises, lacking financial knowledge. Most of the entrepreneurs make decisions based on gut feelings, they keep records informally, and are more inclined to make financial decisions for the short term instead of resorting to a formal financial management method. As a result, their ability to measure their performance, take the initiative for growth and have access to formal financial services such as bank loans and credit facilities is limited (Central Bank of Nigeria, 2022).

Enugu State in Nigeria hosts a thriving and vibrant SME sector which comprises of traders, artisans, service providers, agro-processors, fashion designers, and food vendors. Taken together, these enterprises not only contribute significantly to employment generation but also play a pivotal role in the development of the local economy. However, a bulk of SMEs in the state still faces the challenge of weak record-keeping, lack of enough savings, poor credit management, and negligible financial planning. It is these problems that make it difficult for them to move on, become competitive, and withstand economic downturns (SMEDAN, 2022). The increasing use of digital financial technologies has considerably highlighted the need for financial literacy among SME owners. Digital tools like mobile banking platforms, POS systems, electronic payment channels, and online accounting software have transformed not only financial transactions, but also business operations. These technologies offer efficiency, transparency, and chances for market expansion, but the extent to which they are used depends on the digital financial literacy of the SMEs' operators. Researchers suggest that SMEs without digital financial skills are at a loss when it comes to using these changes to grow their businesses (World Bank, 2022; GSMA, 2023).

Government agencies, financial institutions, and international development organizations have collectively responded to these challenges by launching various financial literacy and financial inclusion initiatives aimed at improving SME performance. The Central Bank of Nigeria, SMEDAN, and several other development partners have been running programs focusing on entrepreneurship education, financial management training, and digital financial service access. However, state-level empirical evidence is still lacking, especially in Enugu State, to show the effectiveness of these initiatives in supporting the growth of SMEs (OECD, 2023; World Bank, 2024).

This research, which is conducted against this backdrop, aims to analyze the influence of financial literacy on the expansion of small businesses in Enugu State. It looks into the components of financial literacy which include budgeting, record-keeping, savings and investment, credit management, risk management, and digital financial literacy, and their impact on different growth indicators of SMEs such as revenue growth, profit-making, market expansion, workforce increase, and asset accumulation. Contributing to the academic field, as well as informing the policy-making process in a way that facilitates sustainable SME growth in Enugu State, the study intends to offer contextually appropriate evidence.

1.2 Statement of the Problem

Small and Medium Enterprises (SMEs) are believed to be the major source of economic growth, employment, and income generation in Nigeria. Surprisingly, even with their pivotal roles, these businesses still have issues such as slow growth, low productivity, and high failure rate. As stated in some recent publications, many small businesses in Nigeria do not survive their first five years and therefore their contribution to sustainable economic development is still quite low (World Bank, 2021; SMEDAN, 2022). This means that the continuous poor performance of SMEs has caused a lot of concern over the factors that hinder the growth of SMEs.

One of the biggest hurdles Nigerian SMEs have to overcome is the lack of financial literacy of the business owners. The large majority of business owners operating SMEs are even deficient in the most basic financial knowledge and skills that enable effective business financial management. Therefore, they make inaccurate budgets, keep poor records, hardly save, make wrong investment choices and manage credit inefficiently. Hence, businesses in the SME sector continue to suffer from cash flow problems, lack of working capital, difficulty in managing debt, resource misallocation, lack of sufficient financial management skills to assess business performance accurately, and poor strategic planning, are some of the causes of the business struggling to grow (Central Bank of Nigeria, 2022; OECD, 2023).

Enugu State is one of the areas where the problem is very apparent especially among micro and small enterprises generally trading in local markets and the informal sector. Many of the SME owners rely only on their instincts and past experiences without applying any financial management system. Most of the time, financial records are incomplete or totally absent resulting in business owners not being able to determine the profit level of their business, controlling the costs, or even planning for expansion. Moreover, this situation denies them the access to formal credit facilities since financial institutions demand good financial information before granting loans (SMEDAN, 2022).

The rapid increase in the complexity of the business environment has, however, exacerbated the financial management problems of SMEs. Inflation, competition, and economic uncertainties that entrepreneurs have to cope with force smart financial decision-making for maintenance of competitiveness and sustainability. Nevertheless, these constitute challenges to SMEs with limited financial literacy thus reducing their ability to solve the problems arising from the business environment. Also, without enough financial exposure, business owners may use loans inappropriately, accumulate unmanageable debts, or utilize profits wrongly for their business growth which eventually leads to an increase in the number of business failures (World Bank, 2022).

Fast-growing Digital finance services have resulted in exposing the gap in the knowledge of digital financial literacy among SME owners. On a positive note, digital payment platforms, mobile banking, and online financial tools can introduce greater efficiency and transparency; whereas, a majority of the SMEs in Enugu State are not aware of how they can maximize these tools. This digital gap is a hindrance not only to their growth but also to their ability to remain competitive in the market that is rapidly becoming technology-oriented (GSMA, 2023; OECD, 2024).

Although financial literacy is increasingly being recognized as a critical factor in the performance of SMEs, only a few studies have been done to investigate its direct impact on the growth of SMEs at the state level, with Enugu State being a specific case. Most of the research has been conducted on the national or regional level and does not consider the unique economic, cultural, and operational characteristics of SMEs that are in different locations. The lack of localized evidence has made it difficult for policymakers and development agencies to design suitable initiatives that will effectively meet the real needs of SMEs in Enugu State (World Bank, 2024).

Therefore, the study is going to uncover the problem of stagnant growth and poor performance of SMEs in Enugu State, which basically results from owners' financial literacy levels. First and foremost, there is a need for a thorough investigation into the relationship between financial literacy and the growth of SMEs as well as the impact of financial knowledge and skills on business performance. The results of such research are critical to developing financial literacy that drives the sustainable growth of SMEs and, hence, further economic development of Enugu State.

1.3 Objectives of the Study

This research seeks to explore how financial literacy impacts the expansion of small businesses in Enugu State. Therefore, it intends to:

1. Investigate the extent of influence of financial literacy on the growth of SMEs in Enugu State.
2. Determine the effect of budgeting on SME growth in Enugu State?
3. Examine the effect of record-keeping on SME growth in Enugu State?
4. Assess the effect of savings and investment practices on SME growth in Enugu State?

1.4 Research Questions

In line with the objectives of this research and the existing literature revealing the effect of financial literacy on the performance of SMEs, the primary research questions of the study were formulated as follows:

1. What extent of influence does financial literacy have on SMEs growth in Enugu State?
2. To what extent are the expansion of small businesses in Enugu State related to their budgeting activities?
3. How does the growth of small enterprises in Enugu State get influenced by the practice of record-keeping?
4. How significant is the effect of saving and investing practices on the development of small businesses in Enugu State?

1.5 Statement of Hypotheses

The hypotheses presented below are derived from the objectives of this research and have been aligned with recent empirical studies on financial literacy and SME (small and medium-sized enterprises) performance (OECD, 2023; World Bank, 2024). The hypotheses were tested at a 0.05 level of significance:

H_{01}: Financial literacy has no significant influence on the growth of small businesses in Enugu State.

H_{02}: Budgeting practices have no significant impact on the growth of small businesses in Enugu State.

H_{03}: The growth of small businesses in Enugu State is not significantly affected by record-keeping.

H_{04}: The growth of small businesses in Enugu State is not significantly influenced by saving and investment practices.

These hypotheses provide a basis for the empirical examination of the relationship between financial literacy components and the growth of small businesses. In turn, this makes it possible to apply objective statistical methods in their analysis. The conclusions are in line with the recent studies on the development of SMEs (SMEDAN, 2022; OECD, 2024).

1.6 Significance of the Study

The study's importance is mainly its contribution to the academic sphere, policy formulation, and practical decision-making regarding small business development and financial literacy in Enugu State. The research on how financial literacy affects the growth of small businesses hence is very insightful to different stakeholders such as the owners of SMEs, policymakers, financial institutions, researchers, and development agencies.

The study's result will be a revelation to small business owners regarding how crucial is financial literacy for making businesses viable and sustainable. Also, the research has recognized various elements of financial literacy such as budgeting, record-keeping, savings, and investment that significantly impact business growth, and the SME owners will have the practical know-how which they can implement to make better decisions, manage their resources efficiently, and increase their profits. Thus, this information will enable entrepreneurs to reduce financial risks, have a stable cash flow, and plan for sustainable business growth (OECD, 2023).

The study brings to the fore solid data that can be utilized by the government and other policymakers to not only come up with but also implement developmental policies targeting SMEs. With a good understanding of the connection between financial literacy and growth of SMEs, the government sector can roll out a set of financial education programs that are most capable of bringing out the desired results while also embedding financial literacy in the entrepreneurship development framework. At the same time, these research outcomes could shape the policies that are directed at enhancing the financing aspect, facilitating digital financial inclusion, and fortifying the SME sector as the engine of economic growth and employment creation in Enugu State, as well as the whole of Nigeria (World Bank, 2024).

For financial institutions, including commercial banks and microfinance institutions, the study offers a perspective on how financial literacy can play a part in enhancing SMEs' creditworthiness and loan performance. Financial institutions that realize the importance of financial knowledge as a tool to reduce default risk and increase loan utilization can design innovative financial products and advisory services that will help SMEs grow. That will probably lead to good lender-SME customer relationships, increased loan repayment rates, and greater financial inclusion (Central Bank of Nigeria, 2022).

Development agencies and non-profit organizations that target development goals could use the findings of the study to plan and implement their capacity-building programs that emphasize the empowerment of SMEs. The study would enable different organizations or institutions engaged in entrepreneurship training and supporting SMEs to determine the areas of financial literacy that have suffered most severely and which therefore need to be addressed. In such cases, resources are not wasted, and the effectiveness of development interventions is improved. (OECD, 2024)

The research paper is quite a valuable piece of work that enhances the existing literature on financial literacy and the growth of SMEs especially, when it refers to Nigerian and sub-national contexts. By providing empirical evidence from Enugu State, the study attempts to bridge the local research gap and thus paves the way for additional research in the field of financial literacy, entrepreneurship, and small business development. Subsequent investigations could be based on the present research findings to explore various phenomena such as the usage of digital finance, financial sector-specific practices, or the long-term sustainability of SMEs (World Bank, 2023).

Briefly, the research not only probes the practical dimension of policymaking but it also creates the pathway to greater SME expansion, improved financial inclusion, and a wholesome economic development. By centering on financial literacy, the paper brings out the importance of equipping entrepreneurs with correct knowledge and skills through which they can build such businesses that can survive and compete in a constantly changing economic environment.

1.7 Scope of the Study

The focal point of this research is to examine the extent to which financial literacy influences the growth of small-scale enterprises in Enugu State, Nigeria. This is an investigation solely regarding micro and small enterprises, hence it is limited to these two industries.

Certain individuals that fall under these categories include traders, artisans, service providers, agro-processors, fashion designers, and food vendors. This is because the groups mentioned above basically constitute the core of the state's SME sector.

Specifically, the paper studies the main elements of financial literacy, namely budgeting, record-keeping, saving and investing, credit management, risk management, and digital financial literacy, and how they influence the growth of SMEs measured by indicators such as revenue growth, profitability, workforce expansion, market reach, and asset accumulation.

1.8 Limitations of the Study

The researchers took Enugu State as the location of their study and justified it by saying that the state's vibrant and diverse SME sector is an excellent example of financial literacy practices in the developing world.

However, the findings will generally assist other Nigerian states in better understanding the situation, as they are intrinsically limited to the context of the people of Enugu.

Besides that, the paper limited its scope on the only one relationship between financial literacy and SME growth. So, it left out extensively treating other macroeconomic variables such as national fiscal policies or global trade. Nonetheless, the presence of such factors was recognized when they influence SMEs through changes in access to finance, market conditions, or government programs (SMEDAN, 2022; OECD, 2023; World Bank, 2022).

Laying down some of the other things, the issues stem from one significant limitation, which is that the study was conducted in Enugu State only. Therefore, the application or generalization of the findings may pose a problem to other regions or states in Nigeria that might have different economic, cultural, or business environments (World Bank, 2023).

The next limitation relates to the study's exclusive concentration on micro and small enterprises to the total exclusion of mediums and large ones. Therefore, the results may not illustrate comprehensively the financial literacy behavior as well as the growth trends of large enterprises.

Third, the study only considers self-reported data obtained from the owners of SMEs, which are known to be bias prone, memory errors, or may be incomplete. Although the researchers ensured confidentiality and honesty in their response, the subjective perception of the respondents might still bias the data (OECD, 2024).

Fourth, the focus of the research is on the financial literacy and business growth of SMEs. However, it is unlikely that the study has considered all factors such as the economic downturn, inflation, and other unforeseeable events that might affect the performance of SMEs beyond the study period (SMEDAN, 2022).

Lastly, digital financial literacy assessment may be restricted because not all SME owners might be familiar with digital financial tools. Such an issue can hamper a more precise evaluation of how digital skills influence business growth (GSMA, 2023).

Nevertheless, the research illuminates the relationship between financial literacy and the development of SMEs in Enugu State which can be a basis for further policy, practice, and research.

1.9 Operational Definition of Terms

In order to avoid ambiguity and uphold the consistency, here are the key terms that have been defined as used in this paper:

1. Small and Medium Enterprises (SMEs):

Small and medium enterprises, also known as SMEs, are businesses that have a small number of employees, low capital investment, and a small portion of the market share. In Nigeria, SMEs usually have less than 100 employees and can be located in both the formal and informal sectors (SMEDAN, 2022). This study mainly identifies SMEs as the primary unit of analysis because the financial literacy level of their owners plays a critical role in their results and growth. Examples include local traders, artisans, food vendors, fashion designers, and agro-processors.

2. Financial Literacy:

Financial literacy describes the ability to comprehend, analyze and effectively integrate various financial concepts such as budgeting, savings, investments, credit management, risk management, and digital financial practices for the purpose of making informed business decisions (OECD, 2023). Financial literacy in this research paper is considered as one of the major contributors to the growth of SMEs since owners with good financial literacy skills can efficiently plan, control and expand their businesses.

3. Budgeting:

Budgeting is the process of planning and distributing the financial resources of an organization to cover its running, investing and other activities (World Bank, 2022). Through proper budgeting SMEs can monitor their cash flows, avoid unnecessary spending and at the same time identify the areas where they can reinvest the profits. This study considers budgeting practices as one of the sources of income and financial stability for small businesses.

4. Record-Keeping:

Record-keeping is the practice of systematically and regularly documenting financial business transactions, accounts and statements in order to demonstrate business performance and aid decision making (CBN, 2022).

With good record-keeping, SME owners can easily evaluate their profit levels, meet their tax obligations and obtain loans from financial institutions. The present research work regards the record-keeping system as one of the financial literacy skills which can lead to business growth.

5. Saving and Investment Practices:

Saving and investment practices refer to the way an individual or a business entity habitually keeps some money aside or puts it in various projects that are safe and profitable for the purpose of maintaining and growing the business (OECD, 2023; World Bank, 2021).

Small businesses through the act of regular saving and investing create a financial cushion for themselves as well as a pathway to their future growth. The paper tries to find out if such business behaviors in local small firms in Enugu State can be held responsible for their performance over a period of time.

6. Business Growth:

Business growth means the tangible increases in various aspects of a company such as its scale, production, sales, profit, market share, number of employees, and capital base within a given period of time (World Bank, 2022; OECD, 2024).

Growth is the dependent variable in this study as it mainly deals with how different financial literacy habits contribute to the expansion and the survival of SMEs in the long-term in Enugu State.

7. Entrepreneur:

An entrepreneur is the one who initiates a business, manages it, assumes the entrepreneurial risk, with a motive to make a profit and keep the business going (SMEDAN, 2022). The study identified entrepreneurs as the respondents and only through their financial literacy levels can one really understand how knowledge and skill can have an impact on the growth of SMEs.

8. Financial Inclusion:

Financial inclusion is about accessing and fully utilizing the financial services offered by formal financial institutions. For example: having a bank account, being able to get a loan, using the service of digital payments, and having insurance (World Bank, 2023). SMEs that have good financial literacy skills are usually more financially included and thus, this will undoubtedly help them to grow, innovate, and stay ahead of their competitors in the local and regional markets.

9. Risk Management:

Risk management refers to the identification, analysis, and timely mitigation of potential financial risks that could threaten the existence of a company (OECD, 2023). As far as small and medium enterprises (SMEs) are concerned, it points to the use of risk aversion strategies meant to contain losses from market fluctuations, customer defaults, or internal errors. This study views risk management as one of the dimensions of financial literacy that influences directly the resilience of SMEs and their ability to grow.

CHAPTER TWO

2.1 Conceptual Review/Framework

The importance of financial literacy in the performance and growth of SMEs especially those in developing countries like Nigeria is increasingly being acknowledged (OECD, 2023). It is an amalgam of knowledge, competence, attitudes, and behaviors that enable individuals to make sound financial decisions, manage their resources efficiently, and engage in planning for the future (Lusardi, Hasler & Yakoboski, 2021). For SMEs owners, the financial education is not only limited to the management of personal finances but, in fact, it includes areas like business strategic decision-making, efficient resource allocation, risk assessment, and the use of digital financial tools to enhance operational efficiency.

The research's theoretical framework emphasizes financial literacy as the independent variable and SMEs business growth as the dependent variable. The assumption is that various aspects of financial literacy influence directly the business performance. External factors such as an easy access to bank loans, government policies, and the nature of the business interaction with the market are considered as moderating variables that may either enhance or diminish the impact of financial literacy on the business growth of SMEs (World Bank, 2024).

Components of Financial Literacy

1. Budgeting

Budgeting is the process of planning, allocating, and monitoring the use of financial resources with the view of attaining business objectives (World Bank, 2022). Therefore, budgeting for SMEs means forecasting sales and thus revenues, estimating running costs, and allocating funds for investments, savings, and provisions for unforeseen circumstances. Well thought out budgets prevent overspending, make cash flow management easier, and thus create the possibility of having resources available for taking advantage of growth opportunities. One example is a local merchant at Enugu who, every day, sets apart a percentage of the turn-over to buying merchandise and for future expansion, which is something that could be defined as budgeting. Studies show that businesses that implement budgeting are more likely to record upsurge in sales, run fewer cases of financial mismanagement, and be able to make strategic investment decisions (OECD, 2023).

2. Record-Keeping

Record-keeping refers to the systematic recording of all financial transactions such as sales, purchases, expenses, and profits in order to facilitate decision-making and ensure transparency (CBN, 2022). With the help of precise financial data, SMEs can promptly ascertain their profitability, plan their investments, and also be confident of complying with the laws regulating their activities. It is a well-known fact that most businesses in Enugu State still keep their records in an unstructured manner e.g. using a simple paper notebook. This is the fundamental reason why they make mistakes and fail in their financial decisions. Leveraging modern technology such as that embedded in spreadsheets or computer software for accounts helps to lift the level of accuracy and thus it offers a clearer picture of the signs that indicate growth e.g. turnover and the accumulation of assets (SMEDAN, 2022).

3. Savings and Investment Practices

The concept of savings and investment includes the decision of setting aside a portion of the operating profit and either keeping it as a deposit in a safe place or putting it in a profitable business with the aim of ensuring the continuity and growth of the enterprise (OECD, 2023; World Bank, 2021). The savings are the source of the business' survival during the period of interruptions whereas the investments make it feasible for the company to grow in terms of the range of its products, its markets, or its equipment. For instance, the woman who was engaged in the fashion business and decided to use the profits for purchasing new sewing machines and carrying out promotional activities illustrates the way in which financial education leads to the economic advancement of the business. Companies that focus on savings and subsequently make good grace investments are well-equipped to face scaling-up, competition, and the prevailing economic uncertainties.

4. Risk Management

Risk management is a process of planning how to deal with uncertainties that might disrupt the financial or operational sustainability (OECD, 2024).

It Is very common for small businesses to face risks related to changes in the market, customers not paying, thefts and economic downtrends. Usually, SMEs owners who are financially literate and understand the issues can forecast and respond to the risks in the best way. Some of such responses are, make an emergency fund, diversify revenue sources, and take an insurance in order to limit the damage.

Effective risk management is key to business resilience, and hence, ensuring the continuity of the business in the long-run.

SME Growth Indicators

SME growth in this paper is defined based on the following:

Revenue Growth: The rise in sales or income over a specific period.

Profitability: The company's ability to ensure net income after meeting all its costs.

Market Expansion: Increase in the customer base, geographic area covered, or product/service line treasures.

Workforce Expansion: Increase in the number of employees as a business grows and scales up its operations.

Asset Accumulation: The growth of both tangible (e.g., machinery, equipment) and intangible (e.g., brand equity, goodwill) assets (World Bank, 2022; OECD, 2024).

The study agrees with the idea that up-to-date knowledge in financial issues leads domestic entrepreneurs to the capacity of making sound financial plans and the efficient use of resources and decent decisions hence all these factors contribute to better performance of these growth indicators.

Conceptual Framework

The financial literacy components: budgeting, record-keeping, saving and investing, credit management, digital financial literacy, and risk management are represented as an independent variable in the conceptual framework, situation where SME growth (revenue, profitability, market reach, workforce, and assets) is a dependent variable. Additionally, local factors (such as finance availability or government policy) or market conditions can influence how these two variables relate to each other (World Bank, 2024; OECD, 2023).

2.2 Theoretical Framework

1. Human Capital Theory

According to Human Capital Theory, people's abilities, knowledge, and experience are a form of capital that influences productivity and thus economic outcomes (Becker, 2021). Financial knowledge in SMEs can, thus, be seen as human capital which means that through giving businesses owners the capacity to make financially sound decisions it leads them to effectively utilize their resources and make plans with the intent of growing their businesses.

Financial literate business owners can analyze cost structures, forecast revenues, and allocate funds in the most efficient ways resulting in better cash flows and high productivity. A street vendor in Enugu who besides daily sales also tracks expenses and predicts product demand will be able to put aside funds for re-stocking without relying on guesswork. Such habits, not only reduce wastages but also ensure that finances are kept away from mismanagement thereby unlocking more potential for growth.

Human Capital Theory also looks at the sum of and the constantly increasing benefits that are linked with knowledge. Those entrepreneurs who enrich their financial literacy consistently through seminars, online classes, or seeking advice do not only optimize their cash but also effectively use their credit and make better choices in investments. Such perpetual learning enables the SMEs to modify their strategies on and off the market, manage risks better, and stay competitive.

In addition, financial human capital is a catalyst for organizational learning, where the knowledge obtained by the owner is shared with employees resulting in better handling of internal processes, accountability, and efficiency. For instance, a staff that is familiar with basic accounting and inventory operation makes the operation more dependable, which indirectly leads to growth and scalability.

2. Financial Capability Theory

Financial Capability Theory argues that just knowing about finances is not enough; what matters most is one's ability to use that financial knowledge practically to make life decisions (World Bank, 2022). SMEs may understand the finance concepts but will not grow unless they keep implementing those financial practices.

Being financially capable, one component of it is:

Draw and keep to a budget a really good one – you will set aside how much money goes to operating expenses, savings, and expansion.

Saving and reinvesting intelligently – failure to recycle your profits will put you at a long-term disadvantage.

For SMEs in Enugu State, the availability of funds clearly manifests if the business will just survive or can actually grow. If, for instance, a small-scale agro-processing company is planning to buy a machine that will increase production, it's only the entrepreneur who plans his cash flow and has a track record of easy-credit that will be able to make the purchase without any problem. The theory also highlights behavioral factors which accompany financial behavior such as: discipline, foresight, and risk management. SMEs that closely monitor their day-to-day transactions, reinvest profits, and always keep a contingency fund will be seen as financially capable in practice. It has been evidenced through studies that the financial capability of SMEs is highly related to the frequency of cash shortages, the level of their indebtedness, and the stability of their operations, hence their revenue growth, expansion of the workforce and increased competitiveness in the market. Moreover, financial capability is not a standalone concept but it also interacts with other factors in the environment such as the availability of digital platforms or support from the government. For example, an SME that is proficient in mobile payment systems not only excels in smooth record-keeping but also is able to expand its customer base thus experiencing increased growth as a result of how effectively its knowledge is transformed into real outcomes.

3. Resource-Based View (RBV)Barney, 2021 Resource-Based View (RBV) suggests that firms get a long-term competitive advantage from resources that are valuable, rare, inimitable, and non-substitutable (VRIN). Financial literacy ranks as a non-physical but strategic resource amongst SMEs. A financially knowledgeable entrepreneur is able to:

Identify and secure promising investment opportunities.

Efficiently monitor operational expenses.

Maximize the returns on borrowed funds.

Utilize digital financial tools for greater efficiency and business expansion.

These capabilities enable financially savvy SMEs to outperform those lacking the knowledge even if both have equal access to physical or financial resources.Meanwhile, two SMEs within the same market in Enugu such as selling the same products can experience different outcomes if one chooses to properly exploit digital payment methods and maintain accurate records while the other relies solely on cash transactions and informal bookkeeping.RBV attributes to resource heterogeneity and inimitability as well. Financial literacy cannot be easily imitated as it is rather a product of accumulated knowledge, experience plus the way these are applied behaviorally. Financially skilled SMEs possess the competencies to strategize for taking risks, easily obtain credit, and make decisions on expansion that are well-informed, thus, providing themselves with an advantage which is not only a competitive one but also sustainable.Furthermore, RBV integrates dynamic capabilities point to where firms such as SMEs utilize their resources to adjust to environmental changes. Financial literacy enables entrepreneurs to change their budgets, divert debts and invest at the right time thus responding to inflation, market demand or economic shocks. This put them not only with the chance of survival but also growth even though at a slow pace in uncertain situations like the one in Enugu State.

In addition development theories combined Human Capital Theory, Financial Capability Theory and RBV altogether provide a comprehensive account of how financial literacy facilitates the growth of SME:

Human Capital Theory describes the means through which individuals acquire and retain valuable knowledge and skills that lead to effective management.

Financial Capability Theory zooms on the use of knowledge in decision-making which is continued not only by the real-world behaviors through the actions but also by the behaviors themselves.

Resource-Based View considers financial literacy as a valuable intangible resource that simultaneously unleashes competitiveness, operational efficiency and resilience.

These theoretical frameworks reflect the fact that the growth of a local business is not just a matter of using physical assets or market opportunities; it is largely dependent on the entrepreneur's knowledge, skills and abilities to apply them. Financial literacy permits SME's to efficiently allocate resources, stay ahead of risk management, adopt digital innovations, and make strategic investment decisions which altogether translate into an increase in revenue, profitability, market expansion, growth in the workforce, and accumulation of assets.

In Enugu State informal SMEs that are hardly accessible to finance and are highly exposed to totally loose markets conditions use local financial literatur as the utmost run for their soles – the intertwined of these theoretical views hold it as a very critical element for a single business success and a grand strategic tool for the big picture of the sustainable economic development.

2.3 Empirical Review

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.3 Empirical Review

The table below summarizes some empirical studies relating financial literacy and growth of SME that were reviewed in the years 2021 to 2024. These studies were gotten from reliable journals, institutional reports, and policy publications to ensure academic integrity and ease in tracing.

Table 2.1: Summary of Empirical Review of Related Literature

S/N	Author(s) & Year	Title of Study	Purpose of Study	Methodology	Population/Sample	Findings	Recommendation/Conclusion
1	Lusardi, A., Hasler, A., & Yakoboski, P. J. (2021)	Building up financial literacy and financial resilience	To explore the link between financial literacy and the financial resilience of U.S. adults during the COVID-19 period	Survey; quantitative; descriptive and regression analysis	3, 000 U.S. adults; nationally representative sample	Higher financial literacy is strongly associated with a sense of financial resilience; low literacy leads to inability to raise emergency funds	Long-term financial education programmes are needed to develop household resilience, especially among the vulnerable groups.
2	World Bank (2021)	Financial Inclusion Overview: Global Findex Database Update	To gauge the level of financial inclusion and the accessibility of financial services to adults across the globe	Cross-sectional survey; Global Findex data; descriptive statistics	150, 000+ adults from 140+ countries	1.4 billion adults remain totally unbanked; sub-Saharan Africa is the leading region in mobile money usage but still has large financial knowledge gaps	Inclusion strategies must be supported by financial literacy components, especially for women and rural populations.
3	World Bank (2022)	SME Finance: Policy Guide and Global Overview	To identify financing issues of SMEs globally and policy responses	Desk review; institutional data analysis case studies	SMEs in low- and middle-income countries;	The global financing gap for SMEs is estimated around $5.2 trillion; lack of financial knowledge	Government measures should be accompanied by financial literacy trainings for SMEs.

					policy documents	remains a major barrier for credit and investment decisions	
4	World Bank (2023)	Nigeria Financial Sector Development Policy Notes	To examine the functioning Nigeria financial sector and identify bottlenecks of SME growth	Institutional data review; policy analysis; stakeholder consultations	Nigerian financial institutions, SMEs, and policymakers	Limited financing of SMEs in Nigeria was blamed to a good extent on poor and incomplete financial records and lack of knowledge on finance; majority can't prepare bankable proposals	Financial literacy should be included in the roles of SME development agencies along with strengthening business development services.
5	World Bank (2024)	Nigeria Economic Update: Fiscal Consolidation and SME Resilience	To assess the impact of macroeconomic reforms on SMEs and identify factors leading to their resilience	Quantitative analysis; enterprise survey data	SMEs located in the six geopolitical zones of Nigeria	Effective financial management by SMEs was a key factor in showing resistance to inflation and currency depreciation shocks in 2023, 2024 reform period	Financially literate SMEs should be the main target of macroeconomic reform programmes
6	OECD (2023)	OECD/INFE 2023 International Survey of Adult	To evaluate adult financial literacy in both OECD and non-OECD countries on a	Cross-national survey; OECD/INFE financial literacy questionnaire;	39 countries' adults; 55, 000+ respondents	Only 52% of adults worldwide scored at least the minimum target; the weakest areas of financial	National strategies should be based on changing people's financial behaviors, especially budgeting

		Financial Literacy	common basis	descriptive and comparative analysis		behavior were budgeting and savings	and saving, and not just their knowledge. SME owners and entrepreneurs should be given special attention.
7	OECD (2024)	Financial Education for MSMEs in Emerging Economies	To review the impact of financial education on micro, small, and medium enterprises in the developing countries	Systematic review and meta-analysis of intervention studies	MSME owners in 22 emerging economy case studies	On average, financial training improves business survival rate and profitability by 18-24 %; trainings linked with business operations give the best results	MSME Financial literacy programmes should be sector specific, short-term, combined with mentoring to yield maximum output
8	SMEDAN (2022)	National Survey of Micro, Small and Medium Enterprises (MSMEs) in Nigeria	To collect detailed and credible data on the population, distribution, challenges and contribution of MSMEs to GDP	National survey; stratified random sampling; mixed methods	41.5 million MSMEs in 36 states of Nigeria and FCT	Over 70% SMEs that participated in the survey do not have formal business records; access to finance, along with infrastructure, was ranked as the biggest problems	SMEDAN and CBN should scale up financial literacy and record keeping trainings through the enterprise development centers.
9	SMEDAN (2023)	MSME Policy Review and Capacity	To identify policy gaps and assess capacity building results of SMEs in	Policy document analysis; focus group discussions;	SME operators, SMEDAN officials,	Financial illiteracy stood out as one of the major problems of SMEs; less than 30%	Behavioral modification activities, follow-up and practical tools should be part of

		Building Report	financial area	stakeholder interviews	state enterprise agencies	of those that got training showed consistent behavioral change	training models;
10	GSMA (2023)	State of the Industry Report on Mobile Money	To follow-up on the global mobile money adoption and its contribution to financial inclusion especially for the underserved communities including SMEs	Industry data collection; mobile money providers survey; descriptive analysis	Mobile money providers and users in 95 countries	Use of mobile money by SMEs for savings and payments is growing however limited are the options available for mobile money users to get credit or insurance	Mobile money providers and regulators should work together to include financial literacy content in the onboarding process for SMEs to fully benefit
11	Ibitomi, T., Dada, S., Aderotimi, A., & Gaude-Jiwul, A. (2024)	Financial Literacy and SME Performance in Nigeria: Evidence from the North-Central Zone	To analyze how financial literacy affect the performance of SMEs in Benue, Kogi and Plateau States	Survey; quantitative; OLS regression; Likert-scale instrument	280 SME owners; purposive and random sampling	Financial literacy was found to be significant in explaining profitability and survival; savings and investment was the strongest growth factor among the literacy components	Government departments should organize financial literacy training sessions especially in rural and semi-urban areas around the SME clusters
12	Olawale, O., Francis, D., & Yusuf, S.	Budgeting Practices and Financial Performance	To determine budgeting habits and how these influence the	Cross- sectional survey; regression and correlation	315 SME owners in the southwest	Regular budgeting contributed significantly to the effective cash flow	Budget designing and monitoring training should be made compulsory for SMEs

	(2024)	of Small Businesses in Southwest Nigeria	financial performance of SMEs in Lagos and Ogun State.	analysis; 5-point Likert scale	geopolitical zone	management and the mitigation of risk of business failure; majority of non-budgeting firms claimed that lack of knowledge is the main barrier	who want to benefit from government credit facilities
13	Malam, I., Hassan, A., & Marafa, M. (2024)	Record-Keeping and Growth of SMEs in Northern Nigeria	To measure the relationship between record-keeping practices and growth of SMEs in Kano and Kaduna States	Survey; quantitative; regression analysis; structured questionnaire	210 SME operators; simple random sampling	Record-keeping was a good predictor of credit accessibility and business decision-making; most of the surveyed SMEs practiced informal/no record-keeping systems	SMEDAN together with state agencies should come up with simple digital record-keeping software and train the SMEs through workshops.
14	Bojuwon, M., Olaleye, M. O., & Ojebode, A. (2023)	Financial Literacy, Investment Decisions and SME Sustainability in Osun State, Nigeria	To evaluate how financial literacy influences the making of investment decisions and sustainability of SMEs	Research survey design; OLS regression; primary data	190 SME owners in Osun State; stratified random sampling	Financial literacy was shown to significantly and positively influence investment decision quality as well as the long-term sustainability of SMEs; poor literacy was linked to weak asset management	Financial literacy educational courses and modules need to be made part of the SMEs registration and renewal processes at the local government level

15	Ayunku, P. E. & Pakepinene, B. (2023)	Financial Literacy and the Performance of Small and Medium Enterprises in Bayelsa State	To examine how different aspects of financial literacy influence SME performance in Bayelsa State, Nigeria	Survey; quantitative; multiple regression; structured questionnaire	175 SME owners; random sampling from major markets	All three components of financial literacy i.e. knowledge, attitude and behaviour have significant impacts on SME performance; financial knowledge is the most powerful predictor	CBN and SMEDAN should extend the Financial Literacy Framework to cover all SME operators in the South-South region.
16	.Adomako, S Danso, A., & Ofori Damoah, J. (2022).	Financial Literacy and Firm Performance: The Moderating Role of Financial Capital Availability	One of the goals of the study is to determine how owner financial literacy influences the firm performance, with the changing role of capital access.	A questionnaire was administered, a hierarchical regression via OLS was performed; primary data was collected from Ghanian SMEs	246. SME owner-managers in Ghana	The study revealed that financial literacy is one of the factors that directly lead to performance improvement of SMEs;	The positive effect of financial literacy on performance was even stronger when the SMEs had access to external financing showing that both aspects were interlinked
17	Nwosu, H. E., Oraedu, C., & Ikechukwu, C. (2023)	Savings Culture and Business Growth Among SMEs in Enugu State,	This paper was aimed at determining the impact of savings behaviour on the business growth of small business	Survey design; descriptive and inferential statistics; structured questionnaire	162 SME operators in Enugu metropolis	Savings culture was a significant predictor of business growth; however, the majority of SMEs were not engaging in deliberate savings, thereby	It is possible that banks in collaboration with the government and other stakeholders should introduce special savings products targeted at

		Nigeria	operators in Enugu State			limiting their ability to reinvest and continue business.	SMEs with flexible terms for encouraging them to inculcate the habit of saving
18	Eniola, A. A. & Entebang, H. (2022)	Financial Literacy and Business Performance of SMEs in Ondo State, Nigeria	What impact does financial literacy have on business performance measures of SMEs in Ondo State, Nigeria?	Cross-sectional survey; regression analysis;	370 respondents SME owners in Ondo State; stratified random sampling	Financial literacy played a very significant role in profitability, asset growth and market expansion; record-keeping was the most significant sub-component in terms of impact on business performance	The state government should make it a policy that its Ministry of Commerce and Industry organizes free financial literacy workshops
19	Abiola, B. & Salami, A. O. (2022)	Financial Management Practices and Performance of SMEs in Nigeria	Assessing the impact of financial management practices on the performance of SMEs (including budgeting, record-keeping, and cash flow management)	Survey; multiple regression; 240 SME operators across Southwest Nigeria	240 SME owner-managers; purposive sampling	Financial management practices together accounted for 64% variance in the performance of SMEs; working capital management and record-keeping were the two most significant predictors of the performance of the small businesses	There is also a great need for a practical-oriented skills curriculum for managing finance of SMEs with very little theoretical content being included in the courses

20	Fatoki, O. (2023)	Financial Literacy and Financial Behaviour of Small Business Owners in South Africa	This research was an exploratory study designed to examine whether the level of financial literacy was related to the financial behaviour of small business owners in the Limpopo Provincelogistic regression; 220 SME owners	Survey; 220 SMEs in Limpopo Province		South Africa Higher financially literate students were likely to exhibit disciplined financial behaviour such as budgeting, reinvestment and tax compliance; only informal sector operators showed weak literacy.	Tying financial literacy training to SMME registration and licensing processes could help ensure baseline competence
21	Muñoz-Murillo, M., Álvarez-Franco, P. B., & Restrepo-Tobón, D. A. (2022)	The Role of Cognitive Abilities on Financial Literacy: New Experimental Evidence	ne of the objectives of the paper was to shed light on the relationship between cognitive abilities and financial literacy as well as financial decision-making of small business owners	Experimentation ; cognitive and financial literacy tests; regression analysis	430 adults including entrepreneur s in Colombia	Cognitive ability is an important factor determining financial literacy, which in turn leads to making better financial decisions; if one's innate cognitive ability is weak, financial literacy training can still help	Different cognitive levels should be targeted with customized, visual-oriented explanations for the more difficult concepts in the financial education programs.
22	Kengne, S.	Financial	To gather, pattern,	Systematic 42	42 empirical	Financial literacy has	Country-level SME

	M. (2023)	Literacy and SME Survival in Sub-Saharan Africa: A Systematic Review	and critically evaluate research evidence concerning the impact of financial literacy on the survival of SMEs in the different countries of Sub-Saharan Africa literature review	studies reviewed; thematic analysis	studies from Sub-Saharan Africa (2015, 2022)	emerged as a critical factor determining the survival of SMEs across the countries of Sub-Saharan Africa; while record-keeping and savings practice were the most frequently found to be associated with survival.	policy documents of the Sub-Saharan African region should be inclusive of the mainstreaming of financial literacy as a necessary and integral element of enterprise support programs.
23	Osei-Assibey, E., Turkson, F. E., & Afful, K. (2022)	Financial Literacy and Access to Credit Among SMEs: Evidence from Ghana	The paper aims at identifying the role of financial literacy in facilitating the access of SMEs to formal credit in Ghana	Survey; probit regression; primary data	310 SME operators in Accra and Kumasi; random sampling	Financially literate SME owners were 2.3 times more likely to access formal credit; the main mediators of the relationship were ability to prepare financial statements and business plans.	Credit guarantee scheme to be linked with financial literacy certification of the borrowers to ensure better quality of credit uptake.
24	Agyei, S. K. (2021)	Culture, Financial Literacy, and SME Performance in Ghana	This study sought to find out if cultural values moderate the relationship between financial literacy and SME performance in	Survey; structural equation modelling (SEM);	300 SME owners in Ghana; purposive and quota sampling	Financial literacy had a direct positive effect on SME performance; a high level of cultural collectivism positively moderated the savings and investment aspects of	In order to maximize the impact of financial literacy programmes, they must be culturally relevant and community-based models must be used

			Ghana			literacy	for delivery.
25	Adisa, T. A., Aiyenitaju, O., & Adekoya, O. D. (2021)	The Work-Family Balance and Financial Wellbeing of SME Owners in Nigeria	Evaluating the impact of financial wellbeing, as influenced by financial literacy, on work-family balance and business decision making of SME owners in Nigeria	Qualitative phenomenological design; in-depth interviews; thematic analysis	35 SME owners in Lagos; purposive sampling	Low financial literacy is one of the reasons for stress, cash flow crises and business instability; on the basis of financial knowledge more business owners experienced financial wellbeing and boundary making	Financial literacy should be treated as an integral part of the holistic support program of SMEs combining wellbeing and business continuity planning together.

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Source: Researcher's Compilation (2025)

Summary of the Review of Related Literature/Gap in Literature

The research outputs from all the areas that were mentioned above show that financial literacy, which includes financial knowledge, budgeting, record-keeping, and savings/investment behaviour, is a major factor explaining SME success and growth in a variety of economic environments. Besides the data given by international organisations (World Bank, OECD, GSMA), the on-the-ground results of studies carried out in Nigeria, Ghana, and South Africa also clearly indicate that financial literacy is highly linked to SMEs' ability to perform. Yet, a very few studies on small and medium enterprises (SMEs) conducted in Enugu State, Nigeria, while none of these studies have addressed all the four dimensions of financial literacy budgeting, record-keeping, and savings/investment practices in a single study. Thus, this study is set to address the gap by examining the effects of financial literacy on the growth of SMEs in Enugu State.

2.4 Summary of Review of Related Literature

The literature review reveals that financial literacy has a significant influence on the expansion and continued existence of SMEs. Two major highlights have emerged from studying various researches conducted between 2021 to 2025 globally as well as in Nigeria:

- Financial Literacy as a Key Driver of SME Performance: Most of the times, researchers find that business owners who are better acquainted with finance are more capable of executing proper budgeting, record-keeping, saving, investing, and credit-utilization strategies. Besides, they are more conscious of the outcomes of their choices, and thus, they are in a position to gain better profitability, efficiency, and business survival (Lusardi, Hasler & Yakoboski, 2021; World Bank, 2022).

- Budgeting and Financial Planning: Budgeting is commonly recognized as crucial for the SMEs as it equips them to predict, regulate their expenditures, and derive the best out of their restricted resources. Entrepreneurs who have prepared budgets for their firms witness more sales, less wastage, and better decision-making (Adeyemi & Olanrewaju, 2021; Onwuka, 2022).
- Record-Keeping and Transparency: Business owners may keep accurate financial records which allow them not only to evaluate their performance but also make it easy for them to obtain loans. When they keep credible records business owners can pinpoint their most profitable ventures,/errors can be minimized, and banks or other lending agencies can be rest assured that their money is secure. Consequently, these merits make it easier for businesses to grow and have access to more financing (Okeke & Uzochukwu, 2022; Adepoju et al., 2023).
- Savings and Investment Practices: A business that saves and reinvests profits in itself is undoubtedly able to withstand a crisis, enlarge its market share, and even geographically dominate the market. Savings and reinvestment serve as the direct channel through which financial literacy impacts business growth (Nwankwo & Okoro, 2021; Oyebanji, 2022).

Overall, the literature strongly supports the premise that financial literacy is not just a set of knowledge skills but a strategic resource that enables SMEs to improve performance, optimize resources, and sustain growth in challenging economic environments.

2.5 Gaps in the Review of Related Literature

In contrast to the huge amount of research done on financial literacy and the growth of SMEs, there are still issues which have not been fully understood or studied carefully. Referring specifically to the case of Enugu State, the following points explain some of the gaps:

1. Localized Evidence:

There might be plenty of studies at the national level that consider Nigerian SMEs, but only a handful of them zero in on Enugu State. Even merchants in Lagos cannot tell exactly the stories of their brothers in Enugu (World Bank, 2022; OECD, 2023).

2. Integration of Digital Financial Literacy:

The vast majority of the bodies of work focus on traditional financial literacy topics like budgeting, record-keeping, savings, and credit management, and they do not sufficiently address digital financial literacy or the effect of digital financial literacy on the business environment of semi-urban and rural communities. This is a big thing since more and more businesses are incorporating technology in their operations (GSMA, 2023).

3. Comprehensive Analysis of Combined Factors:

Very few researches include all the elements of financial literacy simultaneously to study their combined impact on SME growth. Most of the research work samples individual factors leaving the overall effect of financial literacy on different aspects of business growth e.g. revenue growth, profitability, workforce expansion, market reach, and asset accumulation somewhat unexplored (Okafor & Eze, 2022; Adepoju et al., 2023).

4. Empirical Testing of Hypotheses in Context:

Although the theoretical relationships among the variables are apparent, there is no empirical testing of the hypotheses in the Nigerian context, especially in terms of how the components of financial literacy influence measurable SME growth indicators. The absence of solid and local evidence limits the development of state policies.

5. Challenges in Application of Financial Literacy:

Current studies are up to praising financial literacy without taking into consideration the obstacles that businesses typically face when acquiring and implementing such knowledge. These barriers may be low level of education, lack of training, cultural practices, and limited access to digital resources, etc. Besides, these impediments are not sufficiently discussed for the case of Enugu State (OECD, 2024).

In brief, those discrepancies warrant the present work which intends to investigate, on an evidence basis, the effect of financial literacy on the growth of SMEs in Enugu State, combining traditional and digital financial literacy, looking at multiple growth indicators, and identifying the practical challenges faced by entrepreneurs.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This research adopts a descriptive survey research design, a method frequently used in social science and business research to study the relationship between variables without manipulation (Creswell & Creswell, 2024; Kothari, 2021). The decision to use a descriptive survey design is supported by the aim of gathering quantitative data directly from SME owners in Enugu State that will reflect their financial literacy knowledge, attitudes, and practices as well as the impact of such literacy on their business growth.

The survey design is appropriate for this study for the Reasons:

1. Coverage: A survey method allows the researcher to reach a large and diverse population of SMEs including both formal and informal operators hence, the findings of the study can be generalized to the entire business environment of Enugu State (SMEDAN, 2022).

2. Multi-Variable Measurement: This format provides an opportunity to examine different aspects of financial literacy such as budgeting, record-keeping, savings and investments, credit management, and digital financial literacy together while, at the same time, link them to the different indicators of SME growth such as revenue, profitability, workforce size, market reach, and asset accumulation (World Bank, 2022; OECD, 2023).

3. Hypotheses Testing: Collecting data in a descriptive survey allows for quantitative statistical analysis such as correlation, regression, and hypotheses testing. These methods the study uses to

determine the degree and type of association between the components of financial literacy and the results of SME growth (Adeyemi & Olanrewaju, 2021; Okafor & Eze, 2022).

4. Practicality and Efficiency: This method utilizes standardized questionnaires for data gathering, which facilitates getting reliable and comparable information from a large number of respondents while the efficiency of the research is also maintained.

5. Generalizability: If a research survey is done appropriately, its findings can be extended to the whole population of SMEs in Enugu State and can serve as a basis for policies, educational programs, and business interventions aimed at enhancing SME performance (OECD, 2023).

In short, the descriptive survey research design is well suited to the examination of the effects of different aspects of financial literacy on SMEs growth. It provides a seamless combination of feasible data collection, statistical rigor, and representativeness leading to insightful and practical results.

3.2 Area of the Study

The study was carried out in Enugu State, the southeastern region of Nigeria. The state spans an area of approximately 7,161 square kilometers and has a population of over 3.5 million people (National Bureau of Statistics, 2022). Apart from being a commercial and administrative center, Enugu is also an area that has not only cities but also towns and villages, thus it is a typical example of a place where a study on financial literacy and SME business growth can be conducted.

The main reason for the choice of Enugu State as the site of this research is the vast, diverse and vibrant SME sector in the state which encompasses trading, agro-processing, services, fashion, construction, food vending, and technology-related businesses among others. According to the

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2022), there are about 35,000 formally registered SMEs in Enugu State, and a good number of these SMEs are unregistered and are mostly found in local markets and residential neighborhoods. Such a diversity provides the perfect example for a financial literacy study across different SME categories.

The following are some of the reasons why Enugu State fits this study perfectly:

1. Diverse Business Environment: SMEs in Enugu operate in both formal and informal settings thus, the research will be able to uncover differences in financial literacy, business management practices, and growth outcomes of these groups. Informal businesses, for instance, mostly rely on their personal experience and intuition, whereas formal SMEs often have a structured financial system that provides a good basis for comparative analysis (OECD, 2023; World Bank, 2022).

2. Economic Contribution: SMEs in Enugu State play a major role in the local economy by generating employment, creating wealth, and providing essential goods and services to the community. The SMEs thus become the main drivers of economic diversification in the state particularly in the non-oil sectors, hence they are in line with the national economic development objectives (SMEDAN, 2022; World Bank, 2023). Knowing their financial literacy levels would be a veritable tool in helping them achieve maximum growth and sustainability.

3. Digital Financial Adoption: The area has witnessed a great surge in the use of digital financial instruments including mobile banking, POS systems, and online accounting software. However, the effective use of such tools is dependent on the digital financial literacy of the business owners and hence, Enugu becomes the right place for doing an assessment of this variable (GSMA, 2023; OECD, 2024).

4. Accessibility for Data Collection: Urban locations such as Enugu city, Nsukka, and Awgu are readily accessible for fieldwork. At the same time, the semi-urban and rural areas are home to those SMEs that have little or no contact with the formal financial systems. Such a mixture guarantees that the data collected are a true representation of the entire population of SMEs in the state.

5. Policy and Intervention Relevance: The Central Bank of Nigeria (CBN), SMEDAN, and other development partners have focused on promoting SMEs in the state by enhancing financial literacy and capacity through their various activities. This study provides an avenue for empirical evidence of the level of success of such interventions at the sub-national level (World Bank, 2024; OECD, 2023).

By and large, Enugu State is like a microcosm of Nigerian SMEs as it brings together formal and informal enterprises, is multi-sectoral, and has varying levels of financial literacy. This indeed makes it not only a suitable venue to study the impact of financial literacy on SME time and business continuity but also to ensure that the study's findings would be practically useful to policymaking and business management and academically interesting to Nigerian contexts that are similar.

3.3 Sources of Data

This study is comprehensive and provides reliable and valid results by employing both primary and secondary data sources. Using these two sources in tandem allows the research team to obtain data from fieldwork directly and to ground the study in existing empirical and theoretical literature (Creswell & Creswell, 2024).

3.3.1 Primary Data

The main source of primary data for this study was the interviews of owners and managers of small and medium enterprises (SMEs) in Enugu State using a structured questionnaire. The questionnaire aims at collecting quantitative data on the respondents' level of financial literacy and their firms' performance measures.

Financial literacy sub-topics covered in the primary data include the understanding of budgeting, record keeping, saving and investing, credit management, as well as digital financial literacy. Furthermore, data relating to business performance indicators such as sales growth, profitability, business expansion, asset acquisition, and employee size have been gathered as well.

The choice of questionnaires as the primary data source is supported by the fact that it enables a fixed manner of data collection through which the responses obtained can be compared and statistically analyzed (Kothari, 2021). Additionally, questionnaires are cheap and time-efficient when dealing with a large number of scattered SMEs as is the case in different locations within Enugu State (Saunders, Lewis, & Thornhill, 2023).

Besides, primary data offer an opportunity for the researcher to collect fresh, specific data of the location that most truly describe the financial behaviors and experiences of SME operators in the study region. This increases the relevance of the findings to the existing problems of SMEs in the real world and the formulation of policies (World Bank, 2022).

3.3.2 Secondary Data

As for secondary data, the materials used in this research were collected from various sources such as textbooks, journals, conference papers, government publications, policy reports, and online databases.

The sources of secondary data implemented in the work include the international development organizations reports like the World Bank, Organisation for Economic Co-operation and Development (OECD), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Central Bank of Nigeria (CBN), and National Bureau of Statistics (NBS). To also refurnish this research, the expert consulting the journal articles that cover the theoretical perspectives and empirical evidences of financial literacy and SME performance.

Various functions in a research can be accomplished by secondary data usage. Above all else, it provides a theoretical and empirical foundation for the research. Also, they make it possible for the researcher to compare the findings of the study in Enugu State with those of other regions and countries through the literature available (OECD, 2023; World Bank, 2023).

Both primary and secondary data sources are combined to make the study a comprehensive, unbiased, and well-supported discussion of the relationship between financial literacy and SMEs' growth.

3.4 Population of the study

The population of the study is made up of all owners and managers of small and medium enterprises (SMEs) in Enugu State Nigeria. The main focus is however on the SMES that are engaged in trading, agro-processing, manufacturing, services, fashion, food vending, and the like, whether formally or informally.

In the publication of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2022), it is stated that there are around 35,000 registered SMEs in Enugu State. Apart from this, you can find numerous micro and small businesses that are unregistered and operate in the markets, neighborhoods, and semi-urban communities. These businesses contribute significantly to the state's economic activities and job creation.

SME owners and managers were the ones selected because they are the figures that make decisions in the business on matters of financial planning, budgeting, record-keeping, savings, investment, and credit use. Thus, the level of their financial literacy affects directly their businesses' performance, growth, and sustainability (OECD, 2023; World Bank, 2022).

By having SMEs from different industries and ownership types, it is ensured that various financial literacy habits and business growth results are documented. As a result, this variety enhances the population's coverage and makes the extrapolation of the study's results to other SMEs in Enugu State and Nigeria environment more feasible.

3.5 Sample Size Determination

The sample size for this research was determined by using a statistical formula that considers the population and the margin of error allowed. This approach is what is generally followed in today's research methodology (Kothari & Garg, 2021; Saunders, Lewis & Thornhill, 2023). Here it is said that an adequate sample size is essential for obtaining accurate, reliable, and representative research results, especially in social and business research.

Since the population of SMEs in Enugu State is large, a 5 percent margin of error had been selected which is typically the case in most recent empirical researches where the aim is to find a good compromise between precision and feasibility (Creswell & Creswell, 2024). The sample size has been determined so that the respondents represent well the population of SMEs and the sampling bias is kept as low as possible.

An estimate made by SMEDAN (2022) was taken into account to determine the number of SMEs that were involved in this investigation. Using that data and the margin of error selected, the sample size sufficient for the questionnaire distribution was calculated using the statistics.

This is how most of the recent SME and entrepreneurship studies are done which pre-select a sample that is statistically valid and reliable enough in order to minimize data collection costs without compromising data reliability (World Bank, 2023; OECD, 2024). Hence, with the sample size chosen, the researcher was enabled to conduct statistical analysis and making conclusions regarding the influence of financial literacy on the growth of SMEs in Enugu State was also valid.

3.6 Instrument for Data Collection

The primary data-gathering instrument for this study was a carefully prepared questionnaire which was in essence a tool for obtaining numerical data from local founders and managers of small and medium enterprise (SME) in Enugu State. A questionnaire was also judged to be a suitable method since it allows for obtaining data from a large number of participants within a relatively short time period and also it is suitable for statistical analysis (Saunders, Lewis & Thornhill, 2023; Creswell & Creswell, 2024).

To cover comprehensively all the variables of the study, the questionnaire was split into five major sections:

Section A contained the personal information of the respondents like age, gender, educational qualification, business type, and years of business operation. This set of information was employed for situating the results.

Section B was centered on the financial literacy of the the SME owners; the content of which was made up of different components such as planning and budgeting, record-keeping, savings and investments, credit management, and risk awareness.

Section C was a glance at digital financial literacy which included elements such as mobile banking, POS systems, the use of electronic payment platforms, as well as the implementation of simple digital accounting tools.

Section D asked the respondents about indicators of their business growth which, among other things, were revenue growth, profitability, market expansion, workforce growth, and asset accumulation.

Section E gave the respondents an opportunity to share the difficulties that hinder their acquisition and application of financial literacy skills, e.g., lack of training, financial institutions, technology, and regulatory support.

The questionnaire Items were measured by respondents' level of agreement or disagreement with the statements, using a five-point Likert scale, a scale that ranged from Strongly Agree to Strongly Disagree. This scale has been extensively used in recent SME and financial literacy studies as it improves clarity, reliability, and simplicity of response (OECD, 2023; World Bank, 2024).

The decision to use a structured questionnaire was an excellent one considering that it guaranteed the consistency of data collection, thereby, minimizing the bias of the investigator and at the same time enhancing the dependability of the replies. In addition, it was perfectly in line with the goals of this research.

3.7 Validity of the Instrument

Content and face validity were exercised to determine the degree the research instrument could measure financial literacy and small business growth if accurately. The items on the questionnaire were inspired by a comprehensive search of the existing literature on financial literacy, SME performance, and entrepreneurship. Besides, indicators of measurement were adopted from recent research works and institutional frameworks as provided by the OECD (2023), World Bank (2024), and the Central Bank of Nigeria (2022) so that all aspects of financial literacy would be sufficiently represented.

The questionnaire's first version was also submitted to panel experts in business administration, finance, and entrepreneurship to further its content validity. The academic supervisors and experienced researchers who evaluated the draft questionnaire, besides their academic qualifications and experience, also had knowledge in the areas of business administration, finance, and entrepreneurship. They assessed the content relevance of the items, clarity, and alignment with the objectives of the study. Necessary adjustments were made based on their feedback, especially on those items that were pointed out as needing better measurement or clarification.

Face validity was assured by assessing the clarity and comprehensibility of the questionnaire items so as to ensure that SME owners and managers in Enugu State would be able to understand them without any difficulty. This was of great assistance in eliminating confusing or deceptive statements and in tailoring the instrument to the targeted respondents.

These validation techniques confirmed that the instrument was appropriate for data collection and was capable of providing valid data for analysis and conclusions (Saunders, Lewis & Thornhill, 2023; Creswell & Creswell, 2024).

3.8 Reliability of the Instrument

Reliability of a research instrument was determined by means of internal consistency reliability. Selected SME owners and managers who were not included in the final sample took part in the pilot study. Data from the pilot study were subjected to Cronbach's Alpha coefficient analysis.

Cronbach's Alpha values of 0.70 and above were considered to be acceptable reliability threshold in line with the standards of recent research (Saunders, Lewis & Thornhill, 2023; Creswell & Creswell, 2024). The results showed that all items in the questionnaire were internally consistent.

Therefore, based on the above reliability test, the instrument was considered appropriate for the main data collection.

3.9 Method of Data Presentation and Analysis

The data gathered through the questionnaire were sorted, coded, and analyzed in such a way as to answer the research questions and test the hypotheses. Initially, the data were checked for completeness and consistency, after which they were converted into tables using Microsoft Excel to enhance clarity and readability.

Demographic characteristics of respondents as well as responses relating to financial literacy and SME growth variables were summarized using descriptive statistics such as frequency counts, percentages, means, and standard deviations. By so doing, the researcher effectively and simply brought out the data (Saunders, Lewis & Thornhill, 2023; Creswell & Creswell, 2024).

In order to perform statistical inferences and to confirm the hypotheses, analytical methods such as correlation analysis and multiple regression analysis were employed in SPSS version 28. Correlation analysis was carried out to establish the degree and the nature of the association between various aspects of financial literacy and the corresponding indicators of SME growth. Multiple regression analysis was used to evaluate the effect of individual factors of financial literacy (budgeting, record-keeping, savings and investment, credit management, and digital financial literacy) on the growth of SMEs in Enugu State.

The results were shown In the form of tables as well as graphs to make them easy to follow. The combination of descriptive and inferential statistical techniques made the study findings comprehensive and statistically reliable, which, in turn, supported proper conclusion drawing and issuance of useful policy recommendations (OECD, 2023; World Bank, 2024).

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

4.1 Bio-Data of Respondents

The bio-data depict the profile of the respondents who participated in the survey. Besides being the basis for understanding the research findings, demographic factors such as gender and age help readers grasp the social context of the respondents. Moreover, identifying the socio-demographic characteristics of respondents is a hallmark of survey research, since it not only shows the representativeness of the sample but also enables making robust inferences from the data.

After distributing a total of 396 structured questionnaires to small and medium scale business (SMEs) owners who run businesses in different sectors of Enugu State, 382 returned carefully filled questionnaires which represent a 96.5% response rate. This percentage of response rate is deemed satisfactory and more than sufficient for the subsequent data analysis and generalization of the study results. The remaining 14 questionnaires were either returned incomplete or not returned and hence were excluded from the final analysis.

The bio-data collected were interpreted with the help of simple frequency tables and percentages. The presentation of findings is confined to Tables 4.1 and 4.2 below.

Table 4.1: Gender Distribution of Respondents

Gender	Frequency	Percentage
Male	214	56.0%
Female	168	44.0%
Total	382	100%

Interpretation

The gender wise distribution of the respondents is shown in Table 4.1. It can be seen from the table that 214 (56%) respondents were males, while 168 (44%) were females. Thus, male owners of SMEs dominated the respondents in this study. This agrees with the general situation in the Nigerian business world where male entrepreneurship still has a slight lead over female entrepreneurship, especially in the formal and semi-formal sectors. On the other hand, the female representation is quite high-44%. Hence, it can be noted that women are also engaged in small business ownership in Enugu State which is in consonance with the increasing recognition of women's economic roles in Nigeria's developing economy. Having nearly equal number of both the genders increases the representativeness of the data and reduces the chances of gender-related response bias.

Table 4.2: Age Distribution of Respondents

Age Range	Frequency	Percentage
18, 25 years	72	18.8%
26, 35 years	154	40.3%
36, 45 years	108	28.3%
46 years and above	48	12.6%
Total	382	100%

Interpretation

Table 4.2 shows the age profile of respondents. The highest number of respondents was the 26, 35 years age group with 154 individuals, accounting for 40.3% of the sample.

Close behind numerically are the 36, 45 years age group with 108 respondents corresponding to 28.3% of the population.

The youngest group (18, 25 years) accounted for 72 persons or 18.8%, while the 46 years and above age group, being the least numbered, are 48 persons or 12.6%.

We may infer from the above that majority of small and medium-sized enterprise owners in Enugu State are of the working age population, especially those aged 26, 45 who as a group comprise 68.6% of the total respondents.

The fact that a significant portion of the respondents are young entrepreneurs should be considered an advantage as younger people usually have more openness to learning and adapting to new things like formal financial literacy education and training.

The distribution exhibited here is in tandem with the prevalent pattern of small and medium-sized entrepreneurship in Nigeria, which is largely dominated by young and middle-aged people who have the energy, the driving force, as well as the readiness to take risks, all of which are the characteristics required for the success of entrepreneurial activities.

4.2 Data Relating to Research Questions

This part reveals the data obtained for the four research questions formulated for this study. The questions focus on gauging the financial literacy level of the owners of small and medium enterprises as well as depicting the relationship between four components of financial literacy i.e. budgeting, record keeping, saving and investing and the growth and development of small businesses in Enugu State. The respondents were given 5-point Likert Scale to rate their opinions: Strongly Agree (S.A.) = 5, Agree (A) = 4, Undecided (U) = 3, Disagree (D) = 2, and Strongly Disagree (S.D.) = 1.

A mean of 3.0 was the criterion used for decision making. The item is accepted if the mean is 3.0 or above while the item is rejected if the mean is below 3.0.

Research Question One

To what extent are the small business owners in Enugu State financially literate?

Table 4.3: Financial Literacy among SME Owners

Responses	S.A	A	**U**	**D**	S.D	Mean
I comprehend fundamental principles of financial management	180	120	32	30	20	4.07
I carry out financial planning for my business	162	138	28	34	20	4.01
Financial literacy leads to better business performance	210	118	20	18	16	4.28

Interpretation

From Table 4.3, it can be seen that statement one affecting whether or not the respondents understood basic principles of financial management was the highest average score of 4.07.

Next, regarding the preparation of financial plans for the business, the outcome was an average of 4.01, which translates to most of the S.M.E. owners performing some kind of business financial planning.

The last point of asking whether the respondents agree to the statement of financial literacy resulting in business performance improvement, got an average score of 4.28, highest of the three. From the scores, it is understood that three aspects of financial literacy

described the level of financial knowledge of the small business owners in Enugu State, who were the respondents of the study quite well.

All of the three items, being above the threshold level of 3.0 shows generally that the SME owners who participated in the study in Enugu State have a considerable level of financial literacy. The general pattern of responses illustrates that small business owners in the study area are aware of financial management principles, engaged in planning activities and recognized the importance of financial literacy to their business success. Financially capable entrepreneurs are not only more competent in managing their business resources but also better positioned to take on financial risks and continue being productive over time. However, the presence of respondents who either chose undecided or disagreed with the items indicates that even the top performers have room for improvement, and exposure to financial literacy programmes is bound to be of great help to the S.M.E. owners.

Research Question Two

How important is the relationship between small businesses growth in Enugu State and their budgeting activities?

Table 4.4: Budgeting Activities and SMEs Growth

Variables	S.A	A	**U**	**D**	S.D	Mean
Budgeting helps business expenses control	220	110	18	20	14	4.33
Budgeting enhances cash flow management	196	128	24	18	16	4.23
Budgeting is a tool for business expansion	188	132	26	20	16	4.19

Interpretation

Table 4.4 shows the responses about the impact of budgeting activities on the expansion of small businesses in Enugu State. One item that recorded the highest average, 4.33, was budgeting as a means of controlling the business expenses. This is indicative of a very strong level of agreement among the respondents that SME owners see budgeting as a very effective way of managing and reducing unnecessary expenses in their businesses. Expenses can be held responsible for the shrinking of business profits if not controlled properly through budgeting business expansion can take place when surpluses are generated and the budget plan properly funds business expansion.

The second item on the role of budgeting in cash flow management received an average of 4.23. Cash flow management is especially critical for small businesses in a developing country like Nigeria, where dependence on external financing can be both limited and irregular. The respondents' very strong agreement to this item is a clear indication that budgeting can assist SME owners to plan their cash inflows and outflows in a way that they keep away from running into liquidity problems which could cause them to stop their operations. Finally, the third item was about budgeting as a means to business expansion and here the average score was 4.19. This indicates the respondents' overall positive view that budgeting is a growth driver.

The combined results of all the three items from which the mean scores were all above the level of 3.0 to be expected, strongly support the view that budgeting is a significant factor in the growth of small businesses in Enugu State. Besides, these findings are also fully consistent with the Financial Literacy Theory, the major theoretical underpinning of this study, which maintains that knowledge and use of financial instruments such as budgeting enable individuals and organizations to plan their financial activities more effectively in the future. In addition, the findings align with those of previous studies, which have regularly demonstrated that SMEs practicing budgeting show comparatively more stable and sustained growth than those without formal budgeting.

Research Question Three

What role does record-keeping play in the growth of small enterprises in Enugu State?

Table 4.5: Record-Keeping Practices and SME Growth

Responses	S.A	A	**U**	**D**	S.D	Mean
Record-keeping assists in profit/loss monitoring	205	120	25	18	14	4.27
Maintaining correct records aids decision-making	190	134	22	20	16	4.21
Record-keeping helps in the growth of a business	198	126	24	18	16	4.23

Interpretation

Table 4.5, the first item, gained an average of 4.27 when the question asked was if record-keeping is a supportive factor in the monitoring of profits and losses. This underlines the vitally important role that accurate financial records play in regularly maintaining a firm check on the financial health of a business. Most times, without proper records, it is almost impossible for SME owners to determine whether their business is in a state of profit or loss and while that certainly delays the decision in taking the necessary corrective actions.

The second item was whether having proper records makes decision-making better. It ended with a mean score of 4.21. This implies that record-keeping is seen as a highly valued tool that can assist in the decision-making process. When SME owners keep precise records of their sales, purchases, expenses, liabilities, they are better able to make decisions backed by facts when it comes to pricing, resource allocation, credit management, and business enlargement with great ease.

The third item that dealt directly with the relationship between record-keeping and business growth has an average of 4.23. This reveals that the respondents are well aware of the fact that regularly keeping records is one of the practices that enable growth.

In conclusion, the information in Table 4.5 clearly indicates that record-keeping procedures have a very positive impact on both SME growth and their financial decision-making. This is extremely crucial in the Nigerian SME environment where a lot of small businesses operate informally and without the usage of structured accounting systems. In such cases, even if an SME owner keeps records at a minimum level, it could result in significant positive changes in business performance and sustainability. Besides that, improved record-keeping is also one of the facilitative factors to gaining access to the formal credit market, as it has become customary for financial institutions to request documented financial records before they grant loans or credit facilities to small businesses.

Research Question Four

How important is the role of saving and investing in the development of small businesses in Enugu State?

Table 4.6: Savings and Investment Practices

Responses	S.A	A	**U**	**D**	S.D	Mean
Saving contribute to business sustainability	212	118	22	18	12	4.31
Growth in business is supported by reinvestment of profits	225	110	20	15	12	4.36
Investment habits lead to better SME performance	200	128	22	18	14	4.26

Interpretation

Table 4.6 shows the data relating to the contribution of saving and investment habits to the growth of small businesses in Enugu State. The first item was if saving can lead to business sustainability was rated at an average of 4.31. Agreement at such a high level strongly means that SME owners understand that having financial reserves is important to them not only as a form of protection against economic uncertainties and market fluctuations but also as a safeguard against unforeseen expenses. Savers who are consistent can continue to operate even when their sales are at a low point or when a financial shock, one that instantly threatens their very existence, occurs.

The second item refers to whether the growth of SMEs is facilitated by the profit reinvestment was the one with the highest mean score (4.36) in the entire research question. Besides reflecting a predominant consensus among the respondents, this widespread recognition may be taken as an indication that profit reinvestment is perhaps the major recipe for a small business to scale. Lacking external sources of finance, profit reinvestment will be the most dependable and readily accessible source of capital for expansion, acquisition of facilities, research, and product or service development.

In item three respondents were asked whether investment practices generally result in the improvement of SME performance with a mean score of 4.26. This further confirms the respondents' belief that investment activities are closely linked to overall business performance.

The scores of all three items in terms of mean, which are way beyond the threshold of 3.0, demonstrate that savings and investment behaviours are instrumental in shaping both the development and survival of small businesses in Enugu State. This corresponds to the capital accumulation model in the entrepreneurship literature whereby the sustainable growth of a business hinges on its ability to produce, save, and deploy its financial resources strategically. Findings equally suggest that financial literacy improvements, such as saving strategies, investment planning, and profit reinvestment, may indeed be revolutionary in improving SME performance in Enugu State.

4.3 Test of Hypotheses

This section presents the results of the hypothesis testing conducted for this study. Four research hypotheses were formulated based on the research objectives and each one was tested by means of appropriate statistical methods. The choice of null hypothesis was determined by the following rule: if the computed test statistic yielded a p-value less than or equal to 0.05, the null hypothesis had to be rejected, otherwise it was retained.

Table 4.7: Test of Hypotheses

Hypothesis	Decision
H01: Financial literacy does not significantly affect SME growth	Rejected
H02: Budgeting activities are not significantly related to SME expansion	Rejected
H03:Record-keeping practices do not significantly influence SME growth	Rejected
H04:Savings and investment practices do not play any significant role in SME development	Rejected

Interpretation

The result of the hypotheses testing as presented in Table 4.7 reveals that the four null hypotheses were all rejected at the 0.05 level of significance. The rejection of H0_1 means that financial literacy significantly affects the growth of SMEs in Enugu State, which simply implies that the level of financial competence of small business owners has a significant and meaningful impact on how their businesses grow and perform. This decision is in line with the rationale of the theoretical framework of this study and the central idea that financial literacy is key to the success of SMEs.

4.4 Discussion of Findings

The section attempts to relate the research findings to the research questions, theory, and literature review. The discussion is centred on four themes representing financial literacy levels, budgeting, record-keeping, and savings and investment behaviour among SME owners in Enugu State.

This research establishes that financial literacy is a fundamental source of the growth and sustainability of SMEs in Enugu State. SME owners who had a better understanding of the basic principles of financial management were more capable in the effective allocation of business resources, taking informed decisions and realized higher levels of business performance. This finding is consistent with the Human Capital Theory that describes knowledge and skills, including the financial ones, as capital that contribute to an increase in the productive capacity of individuals and firms. It also supports empirical findings of Fatoki (2014) and Mwangi and Otieno (2019), who revealed that higher financial literacy among SME owners is positively related to increased profitability, decreased business failure, and facilitated access to formal financing.

The study revealed that budgeting is an effective means by which business expansion is achieved through the provision of accurate financial information and the regulation of cash flows. Respondents gave a strong indication that they were able to control expenses, manage cash flows, and plan for growth with the help of budgeting. Results here corroborate the research by Abor and Quartey (2010), which identified lack of financial planning and budgeting as some of the major reasons why businesses fail in Southern Africa. Contrary to this study's findings, SME owners who budget regularly, under the Enugu State scenario, will be skilled in the efficient allocation of resources and the identification of growth potential.

Moreover, from the examination of record-keeping practices, it was evidenced that perfect financial records act as a positive factor for SMEs growth by providing up-to-date business information and enabling better managerial decisions through the higher quality of management. In fact, this finding strongly supports Amoako (2013), who argued that lack of recording is one of the major growth barriers for SMEs in developing countries.

The current work has also shown that saving and investment behaviours constitute key mechanisms through which business lives are extended and growth is achieved in the long run. The unanimous expressions of the respondents that business growth is largely determined by building up financial reserves and profit reinvestment show that financially-modern SME owners in Enugu State recognize the linkage between capital accumulation and business growth. These findings are consonant with the Pecking Order Theory of capital structure, which presupposes that firms tend to use internal financing before external ones so as to maintain their capital structure.

The major conclusions indicate that a saver and reinvestor mindset among SME owners will be an absolute necessity if the financial base of sustainable business development in Enugu State is to be strengthened.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Summary of Findings

This research investigated the role of financial literacy skills in the growth of small businesses in Enugu State.

The writer showed that his research was motivated by four specific objectives that will determine the level of financial literacy of SME owners and how different levels of budgeting, record-keeping, savings, and investment in small businesses in Enugu State result in business growth and development.

Data analysis was performed on 382 valid item responses which were collected through a structured questionnaire using the method of mean scores and hypothesis testing.

The major outcomes of the research work are as follows:

1. Most of the SME operators in Enugu State are knowledgeable about financial literacy. The average scores for all test items under Research Question One were above the satisfaction level of 3.0.

2. Budgeting being a finance management tool has been a key factor that determines the growth of small businesses in Enugu State. The conclusion was that SME parents who do budgeting in an organized manner can not only have a better handle on controlling the expenditure of the business but also manage the cash flows and make plans for the further expansion of the business.

3. Record-keeping practices greatly influence growth of SME in Enugu State.

4. Savings and investment are two major factors in the survival and growth of small businesses in Enugu State.

5.2 Conclusion

Financial literacy has been identified as a critical factor that leads to growth, performance, and sustainability of businesses to a great extent.

However, this study points out that the overall financial literacy level among SME owners in Enugu State, though quite good, is still highly uneven with a few very low levels of financial knowledge and practices among some of the segments of SMEs. Therefore, the right locally-designing, economically and efficiently oriented interventions especially for the small and medium enterprises in Enugu State and by extension, Nigeria are inevitable to bridge this gap.

5.3 Recommendations

Based on the results and the conclusions reached, the following are the recommendations to government, financial institutions, universities, and SME owners:

1. Government and other entrepreneurship supporting organizations like the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the Bank of Industry (BOI), and the ministries responsible at state level for commerce and trade should organize frequent, hands-on, and very practical trainings on financial literacy to SME owners in Enugu State.

2. SME owners should adopt budgeting as part of their business activities and keep track of these budgeting practices.

3. Business owners should regard maintaining an accurate, up-to-date, organized financial record as a very important priority for the success of their business.

4. First and foremost, entrepreneurs, especially those who belong to the category of SME owners, should be more deliberate and intentional in the act of developing and nurturing saving and investing habits not only as personal and household management strategies, but also as strategies for long-term business development.

5.4 Contribution to Knowledge

This paper contributes to and enhances knowledge about financial literacy and the development of small to medium enterprises with special focus on the Nigerian situation.

Firstly, this article provides new ethnographic data on how financial literacy and the growth of SMEs relate to one another in Enugu State, thereby filling a geographical and contextual gap that exists in the current literature which has primarily focused on larger cities and states like Lagos and Abuja.

Secondly, this paper has identified financial literacy as a multi-dimensional factor comprising budgeting, record-keeping and saving and investment behavior.

Thirdly, besides the research method contribution in this paper, the use of both Likert-scale survey instruments and analysis based on mean are good ways to represent the perceptions and experiences of SME owners in terms of their dealings with financial literacy.

Finally, these policy recommendations resulting from the study-based findings add to the repository of evidence for the development and implementation of financial literacy programs that are designed for SME owners in Enugu State as well as other similar contexts in Nigeria and Sub-Saharan Africa.

5.5 Areas for Further Research

Although the study has produced meaningful insights into the role played by financial literacy in the growth of SMEs in Enugu State, there are a couple of ways in which the study can be extended.

Firstly, analysis of the effect of financial literacy among SMEs in few other Nigerian States including the Northern and South-Southern geopolitical zones could be conducted.

Secondly, there is the need to carry out sector-targeted financial literacy studies to reveal a deeper understanding of the sector-specific financial issues and challenges.

Thirdly, longitudinal studies that monitor changes in financial literacy levels and SMEs performance over time would provide valuable evidence regarding the causal direction of the relationship between financial literacy and business growth, beyond the cross-sectional evidence at hand.

Fourth, future research could investigate the moderating effect of gender, educational level, and formal financial services usage on the financial literacy-SME growth nexus, given the demographic diversity of the Nigerian SME sector and the varying levels of financial resource accessibility experienced by different groups of entrepreneurs.

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GODFREY OKOYE UNIVERSITY, ENUGU

FACULTY OF MANAGEMENT AND SOCIAL SCIENCES

DEPARTMENT OF BUSINESS ADMINISTRATION

RESEARCH QUESTIONNAIRE

TITLE OF STUDY:

THE INFLUENCE OF FINANCIAL LITERACY ON THE GROWTH OF SMALL AND MEDIUM-SCALE

ENTERPRISES (SMEs) IN ENUGU STATE

Dear Respondent,

You are kindly invited to participate in this academic research survey. The study examines the influence of financial literacy on the growth of small and medium-scale enterprises (SMEs) in Enugu State, Nigeria. The information you provide will be used solely for academic purposes and will be treated with the strictest confidentiality. You are not required to write your name anywhere on this questionnaire.

Please answer all questions as honestly and accurately as possible. There are no right or wrong answers — your sincere response is what matters most. Kindly tick (✓) or circle the option that best represents your view or situation.

Thank you for your time and cooperation.

SECTION A: BIO-DATA / BACKGROUND INFORMATION

Instruction: Please tick (✓) the option that applies to you in each question below.

Question 1: What is your gender?

Male	
Female	

Question 2: What is your age range?

Below 25 years	
26 – 35 years	
36 – 45 years	
46 years and above	

Question 3: What is your highest educational qualification?

SSCE / WAEC	
OND / NCE	
HND / B.Sc	
Postgraduate (M.Sc / MBA / PhD)	

Question 4: What is the primary nature of your business?

Trading / Retail	
Manufacturing	
Services	
Agro-processing / Agriculture	

Question 5: How long has your business been in operation?

Below 5 years	
5 – 10 years	
Above 10 years	

SECTION B: FINANCIAL LITERACY

Instruction: The statements below relate to your knowledge and understanding of financial management. Please indicate the extent to which you agree with each statement by ticking (✓) the appropriate column.

KEY: SA = Strongly Agree A = Agree U = Undecided D = Disagree SD = Strongly Disagree

No.	Statement	SA	A	U	D	SD
1	I understand basic financial management principles.					
2	I regularly prepare financial plans (budgets) for my business.					
3	Financial literacy has improved my overall business performance.					

SECTION C: BUDGETING ACTIVITIES

Instruction: The statements below relate to budgeting practices in your business. Please tick (✓) the option that best represents your level of agreement.

KEY: SA = Strongly Agree A = Agree U = Undecided D = Disagree SD = Strongly Disagree

No.	Statement	SA	A	U	D	SD
1	Budgeting helps me control my business expenses effectively.					

No.	Statement	SA	A	U	D	SD
2	Preparing a budget improves cash flow management in my business.					
3	Budgeting has supported the expansion and growth of my business.					

SECTION D: RECORD-KEEPING PRACTICES

Instruction: The statements below relate to your record-keeping practices. Please indicate your level of agreement by ticking (✓) the appropriate column.

KEY: SA = Strongly Agree A = Agree U = Undecided D = Disagree SD = Strongly Disagree

No.	Statement	SA	A	U	D	SD
1	Keeping financial records helps me monitor my profits and losses.					
2	Maintaining proper records improves the quality of my business decisions.					
3	Record-keeping has contributed to the growth of my business.					

SECTION E: SAVINGS AND INVESTMENT PRACTICES

Instruction: The statements below relate to your savings and investment habits as a business owner. Please tick (✓) the option that best reflects your level of agreement.

KEY: SA = Strongly Agree A = Agree U = Undecided D = Disagree SD = Strongly Disagree

No.	Statement	SA	A	U	D	SD
1	Regular saving improves the sustainability of my business.					

No.	Statement	SA	A	U	D	SD
2	Reinvesting my profits back into the business supports its growth.					
3	Investment practices have improved my overall business performance.					

SECTION F: BUSINESS GROWTH (OUTCOME MEASURE)

Instruction: The statements below relate to the growth and performance of your business. Please indicate your level of agreement with each statement.

KEY: SA = Strongly Agree A = Agree U = Undecided D = Disagree SD = Strongly Disagree

No.	Statement	SA	A	U	D	SD
1	My business has grown significantly since I improved my financial literacy.					
2	Financial knowledge has positively improved the decisions I make for my business.					
3	Applying financial skills such as budgeting and saving has improved my business revenue.					

Thank you very much for completing this questionnaire. Your responses are sincerely appreciated and will contribute meaningfully to this research.