

Financial Literacy and the Survival of Microenterprises

Marco Trombetta

Professor, IE University, Spain

Abstract

Microenterprises play a significant role in employment generation, local economic activity, and income creation, particularly within developing and emerging markets. However, many small-scale businesses face challenges related to financial management, resource allocation, cash flow control, and long-term sustainability. Financial literacy has emerged as an important capability that enables microenterprise owners to make informed financial decisions, manage business risks, and improve enterprise survival prospects. This study examines the relationship between financial literacy and the survival of microenterprises by analysing key dimensions including financial knowledge, budgeting capability, access to financial information, and risk management practices.

The research adopts a simulation-based analytical framework to explore how financial literacy influences the sustainability and continuity of microenterprises. A conceptual model was developed in which financial literacy dimensions represent influencing factors and enterprise survival represents the outcome variable. Simulated analytical values are used to demonstrate quantitative evaluation procedures and interpret possible relationships between financial capabilities and business performance outcomes.

The findings indicate that budgeting skills, financial decision-making ability, and risk management awareness demonstrate strong influence on microenterprise survival. Entrepreneurs with better financial understanding are more likely to maintain effective cash flow management, control operational expenses, and respond effectively to financial uncertainties. The study highlights that financial literacy should be considered a strategic capability rather than only an individual skill.

The research contributes to small business and entrepreneurship literature by explaining the importance of financial knowledge in improving microenterprise resilience. The findings provide practical implications for policymakers, financial institutions, and entrepreneurship development organizations seeking to strengthen small business sustainability through financial education initiatives.

Keywords: Financial Literacy, Microenterprises, Business Survival, Financial Management, Entrepreneurship Development, Small Business Sustainability, Risk Management, Entrepreneurial Capability.

1. Introduction

Microenterprises represent an essential component of economic systems by creating employment opportunities, supporting household incomes, and contributing to local economic development. These small-scale businesses operate across various sectors, including retail, services, manufacturing,

agriculture-based activities, and informal economic activities. Despite their importance, microenterprises frequently experience high levels of uncertainty due to limited financial resources, market competition, operational challenges, and restricted access to formal support systems.

Financial literacy has become increasingly recognized as a critical factor influencing the survival and growth of small businesses. For microenterprise owners, financial literacy involves the ability to understand financial concepts, prepare budgets, manage cash flows, evaluate investment decisions, and plan for future uncertainties. Effective financial management enables entrepreneurs to make informed decisions and reduce risks associated with poor resource allocation.

The survival of microenterprises depends not only on entrepreneurial motivation but also on the ability of owners to manage financial challenges effectively. Many small businesses fail not necessarily because of lack of demand or entrepreneurial effort but due to inadequate financial planning, weak record-keeping practices, and ineffective management of income and expenses. Financial literacy provides entrepreneurs with essential capabilities to maintain business stability and improve long-term sustainability.

In competitive business environments, microenterprise owners must continuously adapt to changing market conditions and financial pressures. Access to financial services, digital payment systems, and business support programs can improve enterprise performance; however, these benefits can only be effectively utilized when entrepreneurs possess adequate financial knowledge. Therefore, financial literacy acts as a bridge between available resources and successful business management.

This study investigates the relationship between financial literacy and the survival of microenterprises. By examining factors such as financial knowledge, budgeting capability, financial planning, and risk management awareness, the research aims to provide a structured understanding of how financial capabilities influence small business sustainability. The study contributes to entrepreneurship research by highlighting the importance of financial education as a foundation for improving microenterprise resilience and economic participation.

2. Review of Literature

2.1 Financial Literacy and Small Business Performance

Financial literacy has become an important area of research within entrepreneurship and small business studies because of its influence on financial decision-making and business sustainability. For microenterprise owners, financial literacy involves understanding financial principles, managing available resources, interpreting financial information, and making appropriate decisions regarding income, expenses, investments, and business risks. These capabilities are particularly important because microenterprises often operate with limited financial resources and have fewer opportunities to recover from financial mistakes.

Previous research indicates that entrepreneurs with stronger financial knowledge are more capable of maintaining effective financial records, preparing budgets, controlling operational costs, and planning for future business requirements. Financially literate business owners are also better positioned to evaluate financing options and avoid unnecessary financial risks. These capabilities contribute to improved business efficiency and greater chances of long-term survival.

However, financial literacy among microenterprise owners varies considerably due to differences in education levels, access to training programs, business experience, and availability of financial

information. Therefore, improving financial education opportunities has become an important strategy for strengthening small business ecosystems and supporting entrepreneurial development.

2.2 Financial Management Practices and Microenterprise Survival

Microenterprise survival depends heavily on effective financial management practices. Unlike larger organizations with specialized financial departments, microenterprise owners are often directly responsible for managing all financial activities, including accounting, cash flow monitoring, expense control, and investment decisions. Weak financial management can create significant challenges, even when businesses have strong market potential.

Research suggests that financial planning, record maintenance, and cash flow management are important predictors of small business stability. Entrepreneurs who regularly monitor financial performance are more likely to identify problems early and make corrective decisions. Effective financial management also helps businesses maintain operational continuity during periods of economic uncertainty.

The relationship between financial management and business survival highlights the importance of developing practical financial capabilities among entrepreneurs. Training programs focusing on budgeting, financial planning, taxation awareness, and digital financial tools can improve the ability of microenterprise owners to manage business challenges effectively.

2.3 Role of Financial Education and Entrepreneurial Resilience

Financial education plays an important role in developing entrepreneurial resilience by improving individuals' ability to respond to financial difficulties and market uncertainties. Microenterprise owners often face challenges such as fluctuating income, limited access to credit, rising operational costs, and unexpected business disruptions. Financially knowledgeable entrepreneurs are more likely to develop strategies that protect business continuity.

Financial literacy also improves entrepreneurs' confidence in interacting with financial institutions and utilizing available financial services. Better understanding of loans, savings mechanisms, insurance products, and digital financial systems can increase access to resources required for business growth.

Existing literature demonstrates that financial literacy contributes significantly to microenterprise sustainability. However, further research is required to understand how different financial capabilities influence business survival and how financial education programs can be designed to address the specific needs of small-scale entrepreneurs.

3. Objectives of the Study

The present study aims to examine the influence of financial literacy on the survival of microenterprises. The research focuses on understanding how financial knowledge and management capabilities contribute to business sustainability.

The objectives of the study are:

- To examine the relationship between financial literacy and microenterprise survival.
- To analyse the influence of budgeting skills, financial planning, financial knowledge, and risk management practices on business continuity.

- To evaluate the importance of financial education in strengthening the resilience and sustainability of microenterprises.

4. Research Methodology

4.1 Research Design

The study adopts a quantitative analytical research design to examine the relationship between financial literacy and microenterprise survival. A conceptual framework was developed in which financial literacy dimensions represent influencing variables and enterprise survival represents the outcome variable.

The research follows a simulation-based analytical approach. Hypothetical values are used to demonstrate quantitative assessment procedures and interpretation patterns. The study clearly distinguishes illustrative analysis from actual microenterprise survey data.

4.2 Research Variables and Measurement Framework

The research framework includes four major financial literacy dimensions: financial knowledge, budgeting capability, financial planning, and risk management awareness. These factors represent important entrepreneurial capabilities that may influence microenterprise survival.

Enterprise survival is considered the dependent variable, reflecting business continuity, financial stability, and ability to manage operational challenges.

Table 1: Research Variables and Measurement Framework

Variable Category	Construct	Measurement Focus
Independent Variable	Financial Knowledge	Understanding of financial concepts and business finance
Independent Variable	Budgeting Capability	Ability to plan and control income and expenses
Independent Variable	Financial Planning	Long-term financial preparation and resource allocation
Independent Variable	Risk Management Awareness	Ability to identify and manage financial uncertainties
Dependent Variable	Microenterprise Survival	Business continuity and financial resilience

4.3 Data Framework and Analytical Procedure

A simulated dataset representing microenterprise owners was developed for analytical demonstration. The assumed framework considers small business owners operating in different local economic environments. Descriptive analysis was applied to compare the contribution of different financial literacy dimensions toward enterprise survival. The analysis focuses on identifying which financial capabilities demonstrate stronger potential influence on business sustainability.

The methodology maintains transparency by identifying the simulated nature of the dataset. Future empirical studies may apply field surveys, regression analysis, structural equation modelling, or longitudinal research approaches to validate the proposed relationships.

5. Analysis

5.1 Assessment of Financial Literacy Factors Influencing Microenterprise Survival

The analysis examines the influence of financial literacy dimensions on the survival of microenterprises. Since the study follows a simulation-based analytical framework, the presented values are illustrative and demonstrate the application of quantitative evaluation techniques. The analysis focuses on four major financial literacy factors: financial knowledge, budgeting capability, financial planning, and risk management awareness.

The simulated findings indicate that budgeting capability demonstrates a strong influence on microenterprise survival. This suggests that entrepreneurs who effectively manage income, expenses, and operational costs are more likely to maintain business stability. Enterprise survival also demonstrates a high evaluation score, indicating that financial capabilities contribute significantly to long-term business continuity.

Financial planning and financial knowledge show positive contributions because entrepreneurs with better understanding of financial concepts are more capable of making informed decisions regarding investment, resource allocation, and future business requirements. Risk management awareness also supports business resilience by enabling entrepreneurs to anticipate and manage financial uncertainties.

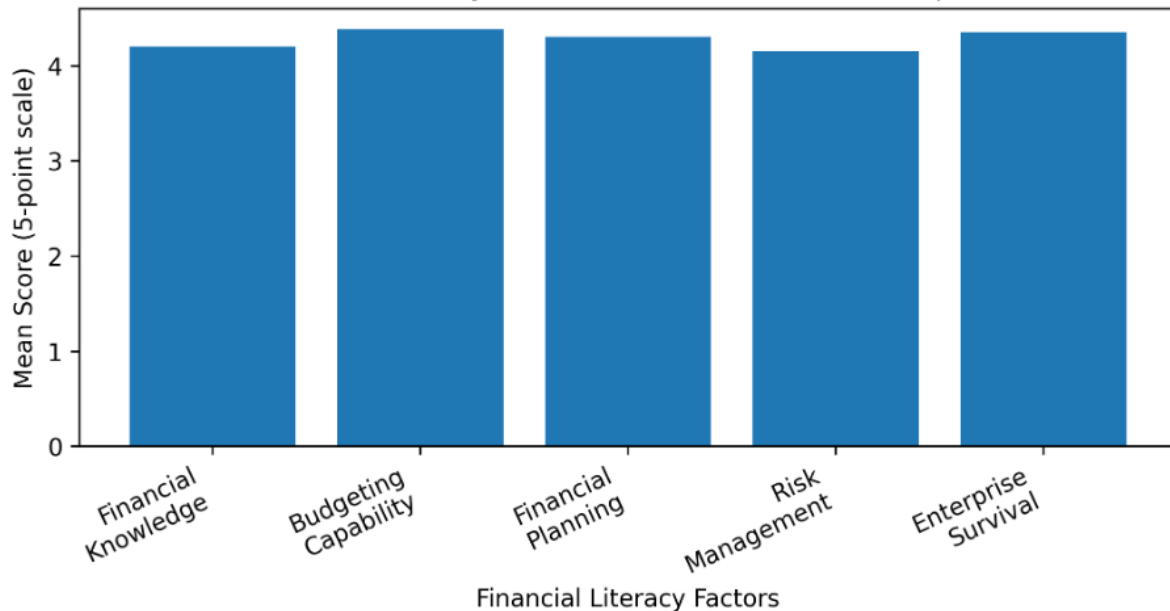
Table 2: Simulated Analysis of Financial Literacy Variables

Study Variable	Mean Score	Interpretation
Financial Knowledge	4.20	Strong contribution through financial understanding
Budgeting Capability	4.38	Highest influence through effective resource management
Financial Planning	4.30	High contribution through future-oriented decisions
Risk Management Awareness	4.15	Positive influence through uncertainty management
Microenterprise Survival	4.35	Strong business continuity and resilience

Note: The values are simulated for methodological demonstration and do not represent actual microenterprise survey findings.

5.2 Graphical Representation of Financial Literacy Influence

Figure 1: Financial Literacy and the Survival of Microenterprises



Interpretation: The graph illustrates the comparative influence of financial literacy dimensions on microenterprise survival. Budgeting capability records the highest mean score, demonstrating that effective management of financial resources is a critical factor supporting small business continuity.

The results further indicate that financial planning and financial knowledge significantly contribute to enterprise stability. Entrepreneurs who understand financial concepts and apply structured planning practices are better prepared to manage operational challenges and respond to changing market conditions.

6. Challenges

6.1 Limited Financial Knowledge among Microenterprise Owners

One of the major challenges affecting microenterprise sustainability is limited financial knowledge among business owners. Many entrepreneurs possess technical skills or market understanding but may lack expertise in accounting practices, financial planning, taxation, and investment decisions.

Insufficient financial knowledge can result in poor budgeting, ineffective cash flow management, and difficulty accessing appropriate financial services. Therefore, financial literacy development programs are essential for improving entrepreneurial decision-making capabilities.

6.2 Difficulties in Accessing Formal Financial Services

Another significant challenge is limited access to formal financial resources. Many microenterprise owners face barriers such as lack of financial documentation, limited awareness of financial products, and difficulties meeting institutional requirements. Improving financial inclusion requires simplified financial services, entrepreneurship training, and better communication between financial institutions

and small business owners. Digital financial platforms may also provide new opportunities for improving access to financial resources.

7. Discussion

7.1 Role of Financial Literacy in Business Survival

The findings highlight that financial literacy is a fundamental capability influencing microenterprise survival. Entrepreneurs who possess stronger financial knowledge are more capable of making informed decisions, controlling expenses, and maintaining business stability during uncertain conditions.

Financial literacy enables microenterprise owners to move beyond short-term operational decisions and develop strategic approaches toward growth and sustainability. Effective financial management therefore represents an important foundation for entrepreneurial resilience.

7.2 Importance of Budgeting and Financial Planning Practices

The analysis demonstrates that budgeting and financial planning play significant roles in improving enterprise continuity. Microenterprises often operate with limited resources, making effective allocation and monitoring of finances essential for survival.

Entrepreneurs who regularly prepare budgets, track expenses, and evaluate financial performance can identify potential challenges earlier and take corrective actions. These practices improve efficiency and reduce the likelihood of financial difficulties.

7.3 Strategic Implications for Entrepreneurship Development Programs

The study suggests that entrepreneurship development initiatives should integrate financial literacy training as a core component of business support programs. Providing entrepreneurs with practical financial skills can improve their ability to manage resources and achieve sustainable growth.

Financial institutions, government agencies, and business development organizations should collaborate to provide accessible training, digital financial tools, and advisory support. Strengthening financial capabilities among microenterprise owners can contribute to broader economic development and entrepreneurial sustainability.

8. Conclusion

The present study examined the relationship between financial literacy and the survival of microenterprises by analysing how financial capabilities influence business continuity, resilience, and sustainability. Microenterprises play an important role in economic development by generating employment opportunities, supporting household incomes, and encouraging local entrepreneurship. However, their long-term survival depends significantly on the ability of entrepreneurs to manage financial resources effectively and make informed business decisions.

The simulation-based analytical findings indicate that budgeting capability, financial planning, and financial knowledge are important factors influencing microenterprise survival. Among the evaluated dimensions, budgeting capability demonstrated the strongest influence, highlighting that effective management of income, expenses, and cash flow is essential for maintaining business stability. Entrepreneurs who possess stronger financial capabilities are better positioned to respond to financial

uncertainties, allocate resources efficiently, and sustain operations during challenging economic conditions.

The study further emphasizes that financial literacy should be considered a strategic entrepreneurial capability rather than merely a personal skill. Understanding financial concepts enables microenterprise owners to evaluate investment opportunities, access financial services, control operational costs, and develop long-term business strategies. Financially literate entrepreneurs are more likely to demonstrate resilience and adapt effectively to changing market conditions.

From a policy and managerial perspective, strengthening financial literacy among microenterprise owners should become an important component of entrepreneurship development initiatives. Governments, financial institutions, and business support organizations should provide accessible financial education programs, digital financial training, and advisory services tailored to the specific needs of small-scale entrepreneurs. Improving financial capabilities can enhance enterprise sustainability and contribute to broader economic development.

The study has certain limitations because it follows a simulation-based analytical framework rather than a field-based empirical investigation. Therefore, the findings should be interpreted as a conceptual demonstration of possible relationships between financial literacy factors and business survival outcomes. Future research may include large-scale surveys, comparative studies across different regions, longitudinal analysis, and advanced statistical techniques to validate the proposed framework. Further investigations may also explore the influence of digital finance adoption, entrepreneurial experience, financial inclusion policies, and business networks on microenterprise resilience.

References

1. Engström, P., & McKelvie, A. (2017). Financial literacy, role models, and micro-enterprise performance in the informal economy. *International Small Business Journal*, 35(7), 855–875. <https://doi.org/10.1177/0266242617717159>
2. Agyapong, D., & Attram, A. B. (2019). Effect of owner-manager's financial literacy on the performance of SMEs in the Cape Coast Metropolis in Ghana. *Journal of Global Entrepreneurship Research*, 9, 67. <https://doi.org/10.1186/s40497-019-0191-1>
3. Ye, J., & Kulathunga, K. M. M. C. B. (2019). How does financial literacy promote sustainability in SMEs? A developing country perspective. *Sustainability*, 11(10), 2990. <https://doi.org/10.3390/su11102990>
4. Sanistasya, P. A., Raharjo, K., & Iqbal, M. (2019). The effect of financial literacy and financial inclusion on small enterprises performance in East Kalimantan. *Jurnal Economia*, 15(1). <https://doi.org/10.21831/economia.v15i1.23192>
5. Masiyamoorthy, P., Vidhya, K., & Rajendhiran, N. (2017). Financial literacy and small scale industries firm performance in India. *International Journal of Research in Social Sciences*, 7(8), 424–432.
6. Drexler, A., Fischer, G., & Schoar, A. (2014). Keeping it simple: Financial literacy and rules of thumb. *American Economic Journal: Applied Economics*, 6(2), 1–31. <https://doi.org/10.1257/app.6.2.1>

7. Adomako, S., Danso, A., & Damoah, J. O. (2016). The moderating influence of financial literacy on the relationship between access to finance and firm growth in Ghana. *Venture Capital*, 18(1), 43–61. <https://doi.org/10.1080/13691066.2015.1079952>
8. Eniola, A. A., & Entebang, H. (2016). Financial literacy and SME firm performance. *International Journal of Research Studies in Management*, 5(1). <https://doi.org/10.5861/ijrsm.2015.1304>
9. Dahmen, P., & Rodríguez, E. (2014). Financial literacy and the success of small businesses: An observation from a small business development center. *Numeracy*, 7(1).
10. Eresia-Eke, C. E., & Raath, C. (2013). SMME owners' financial literacy and business growth. *Mediterranean Journal of Social Sciences*, 4(13), 397–406.
11. Sabana, B. M. (2014). *Entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi City County, Kenya* [Doctoral dissertation, University of Nairobi].
12. Njoroge, J. K. (2013). *Relationship between financial literacy and entrepreneurial success in Nairobi County, Kenya* [Master's thesis, University of Nairobi].
13. Musie, L. (2015). *The use of financial literacy concepts by entrepreneurs in the small and medium enterprise sector in Mpumalanga Province, South Africa* [MBA mini-dissertation, University of Pretoria].
14. Mutegi, H. K., Njeru, P. W., & Ongesa, N. T. (2015). Financial literacy and its impact on loan repayment by small and medium entrepreneurs. *International Journal of Economics, Commerce and Management*, 3(3).
15. OECD. (2017). *Financial education for MSMEs and potential entrepreneurs*. OECD Working Papers on Finance, Insurance and Private Pensions, No. 43. OECD Publishing. <https://doi.org/10.1787/bb2cd70c-en>
16. OECD. (2018). *OECD/INFE core competencies framework on financial literacy for MSMEs*. OECD Publishing. <https://doi.org/10.1787/220101c9-en>
17. Ripain, N., Amirul, S. M., & Mai, R. (2017). Financial literacy and SMEs' potential entrepreneurs: The case of Malaysia. *Journal of Applied Business and Social Sciences*, 3, 60–68.
18. Kulathunga, K. M. M. C. B., Ye, J., & Weerathunga, P. R. (2019). Financial literacy and SMEs performances: Mediating role of risk attitude. *Proceedings of the 16th International Conference on Innovation and Management*.
19. Bautista, L. B. (2019). Financial literacy, new venture survival, and debt repayment. *Business Research Journal*, 5(1).
20. *Microempresas de base social y sus posibilidades de supervivencia* [Survival probabilities of low value added microenterprises]. (2016). *Contaduría y Administración*, 61(3), 551–567. <https://doi.org/10.1016/j.cya.2015.04.001>