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The Impact of Financial Literacy on Financial Sustainability of Microenterprises: An Empirical Study in Darjeeling and Kalimpong District, West Bengal

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Abstract

Micro-entrepreneurs' ability to understand and manage necessary financial sources is considered one of the major factors that impact the financial sustainability of microenterprises. Despite the availability of a pool of financial services, micro-entrepreneurs fail to utilize these financial facilities to expand their business due to low financial literacy. Therefore, the significance of having financial literacy for decision-making and monetary stability cannot be overlooked as it sustains a business. This study aims to identify the key components of financial literacy. The main objective of the paper was to study the impact of the financial literacy of micro-entrepreneurs on the financial sustainability of microenterprises. A quantitative research design was adopted, and a total of 400 microenterprises were surveyed to obtain the data. Data obtained were evaluated using covariance-based structured equation modeling. Results disclosed that saving literacy, investment literacy, and debt literacy positively and significantly influenced the financial sustainability of microenterprises. Improving the financial literacy of microentrepreneurs could help them navigate the complexities of the financial landscapes, which could in turn assist them in building a sustainable business. The study tries to contribute to existing literature and could help policymakers in developing an enabling ecosystem for micro-entrepreneurs to sustain their businesses.

Keywords: Financial Literacy, Saving Literacy, Investment Literacy, Debt Literacy, Microenterprises

Introduction

In today's dynamic economic landscape, the contribution of microenterprises towards initiating and sustaining the process of economic development is well-acknowledged and widely accepted globally, particularly in emerging economies like India. These small-scale enterprises often act as a foundation for the local communities by creating jobs, encouraging creativity, uplifting the social standards, and thus reducing poverty. It is a vital thread that weaves together innovation, economic growth, and job creation.

Micro enterprises are "those enterprises where the investment in Plant and Machinery does not exceed one crore rupees and turnover does not exceed five crore rupees" (Micro, Small and Medium Enterprises Development Act, 2006). Over 99% of the overall estimated MSMEs are in the micro sector, with an estimated 630.52 lakh enterprises in this sector (Ministry of Micro, Small and Medium Enterprises, 2024). These small-scale businesses are often operated by individuals or families and act as the pivoting factor for the development of rural and backward areas and lessening regional disparities by ensuring a fair distribution of income and wealth. However, various obstacles, such as restricted access to funds, unavailability of raw materials and skilled labour, and unstable market conditions, make it difficult for many microenterprises to go through early phases, raising major concerns about their sustainability (Raj, 2016).

Despite the myriad contributions the microenterprises make to an economy, they are still plagued with many challenges, managing of finance emerging as one of the major concerns (Rani, 2018). Financial literacy is defined as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being" (Remund, 2010). Having a basic understanding of financial products, budgeting, savings, investment, and debt management is made possible by financial literacy which equips micro-entrepreneurs with the skills required to make sound financial decisions. Unlike other developed nations like the United States, United Kingdom, etc, the financial literacy rate of India is quite low. According to surveys, only 27 percent of the people in India are financially literate (Business Standard, 2023). It means that in India, only one out of every five people understand the importance of managing their finances effectively.

In the business world, financial illiteracy is one of the major reasons for the rising number of business failures (Kumari et al., 2024). Having basic financial literacy could mitigate this pressing issue by offering the micro-entrepreneurs essential information and competencies required for successfully managing the intricacies of business finance. An individual's ability to effectively manage his finances is correlated with the level of financial literacy he possesses (Dwiastanti, 2015). Several sophisticated financial products have emerged in the market that demand an individual to develop basic financial knowledge which could prove to be beneficial for the upliftment of their business.

In today's economic situations, it is vital to comprehend how financial literacy plays a decisive role in maintaining the financial sustainability of any business. With the help of empirical analysis, the paper examines the impact of financial literacy of micro-entrepreneurs on the financial sustainability of microenterprises. Financial literacy is measured in terms of saving literacy, investment literacy, and debt literacy. The impact of these three major components on financial sustainability has been assessed in this study. This research paper adds to the existing literature related to financial literacy and its key components. It sheds light on how enhanced financial knowledge can serve as a catalyst for sustained growth. It shall also help the policymakers and the government build an enabling environment for the micro-entrepreneurs so that they can become financially literate which could in turn help them thrive in their business.

Literature Review

By exploring the multifaceted ways in which financial literacy shapes business outcomes, decision-making processes, financial knowledge, etc, this research paper intends to understand the profound impact of financial literacy on the financial sustainability of microenterprises. Existing literatures were reviewed to have a better understanding of the theoretical concepts and to find the research gap.

Financial literacy can be considered an important tool for enhancing financial well-being as it assists in making sound decisions related to savings plans, debt management, financial management and planning, better investment decisions, etc (Lusardi & Mitchell, 2011). Individuals require sufficient financial literacy to effectively manage and utilize their financial resources to achieve personal well-being (Mandell & Klein, 2007). The ease at which business owners can assess various kinds of banking activities from opening a bank account to saving, investing in financial products, taking loans, and examining interest rates makes it easier for them to carry out their business for a long time (Zaniarti et al, 2022).

Financial literacy aids an entrepreneur in developing financial plans for their business by equipping them with the abilities and skills required to sustain a business (Hamdana et al, 2021). The higher the financial literacy, the higher the ability of the owner to cope with emergency expenses during uncertain times (Lusardi, 2019). Possessing financial literacy helps business owners face various issues related to the changing business landscapes and empowers them to attain financial well-being (Erhomosole & Obi, 2022). Hence, it was found that financial literacy related to making investments, budget creation, good capital management, managing expenses, etc has a significant influence on the sustainability of the business (Burchi et al, 2021).

Usama and Yusoff (2019) used predictors such as financial awareness, saving, debt management, bookkeeping, diversification, access to credit, and risk management to measure financial literacy and the overall model disclosed that these predictors had a statistically significant relationship with business performance. Out of the seven dimensions of financial literacy, saving had the highest influence on the dependent variable. Bookkeeping literacy and budgeting literacy have also been studied and found to be crucial predictors of overall business performance, sales, and profit growth (Iramani et al, 2018). Pandey et al (2022) found in their study that financial literacy also acts as a mediator between the drivers of financial inclusion and the sustainability of the enterprise. Financial literacy also influences access to finance and financial risk attitude as well as a direct positive impact on the sustainability of enterprises (Ye & Kulathunga, 2019).

Having financial literacy enables an individual to utilize money efficiently (Hilgert et al, 2003). An individual's understanding of savings methods (Das & Ranjan, 2023), how compound interest works, risk diversification (Lusardi & Mitchell, 2008), ability to evaluate complex financial instruments (Mandell& Klein, 2007), and understanding the application of various financial tools in business (Remund, 2010), all together comes under the umbrella of financial literacy. Therefore, financial literacy has been segregated into three key components or areas which are mentioned as follows:

Saving Literacy

Saving literacy refers to the ability to understand the importance of saving for the future and employing strategies for saving money effectively. It is the art of setting aside a portion of the revenue for future needs. Saving literacy was found to have a positive impact on the debt repayment ability of micro-entrepreneurs (Zainal et al., 2024). Financial literacy was shown to significantly impact saving behavior as managing money effectively required micro-entrepreneurs to make careful expenditure decisions so that more money could be saved and hence be able to sustain their business (Mpaata et al, 2021).

Investment Literacy

Investment literacy refers to understanding the risk-return dynamics of financial investment products, financial intermediaries, and the financial markets (Aboluwodi & Nomlala, 2020). Being able to make beneficial investment choices and building an appropriate investment portfolio can help in avoiding money loss and earning long-term wealth. Financial literacy is correlated with higher returns on investments and investment in complex assets (Lusardi, 2019). Having financial literacy helps an individual make better investment decisions (Iram et al, 2023). The profits earned from the investments can improve a microentrepreneur's financial position and it can also be utilized by them as working capital for the business or can serve as an emergency fund. It can serve as an additional source of income for the microenterprise and can supplement the cash flow of the business, thereby improving its financial stability.

Debt Literacy

Debt literacy refers to the ability to make intelligent decisions related to debt contracts and having basic knowledge about compound interest (Lusardi & Tufano, 2009). Gaurav and Singh (2012) have found debt literacy to be a key component of financial literacy. Understanding the debt management practices of the micro-entrepreneurs facilitated in further enhancement of their debt-handling abilities which had a positive influence on the success of their business (Silda & Bacasmot, 2023). The likelihood of possessing a costly loan was found to be higher for those with a low level of financial literacy (Moore, 2003).

After an extensive analysis of the existing research, it was found that there were only a few research studies that examined the impact of the above-mentioned components of financial literacy on the financial sustainability of microenterprises. Studies have been conducted taking them separately but a comprehensive study that includes all the three components together postulating a conceptual model is hardly to be found.

Objectives of the Study

Based on the various literature reviewed, this study intends to achieve the following research objectives:

i. To assess the impact of savings literacy of micro-entrepreneurs on the financial sustainability of microenterprises.

ii. To assess the impact of investment literacy of micro-entrepreneurs on the financial sustainability of microenterprises.

iii. To assess the impact of debt literacy of micro-entrepreneurs on the financial sustainability of microenterprises.

Hypothesis Formulation

The following hypotheses have been formulated based on the objectives of the study:

H_1: Saving literacy of micro-entrepreneurs has a significant impact on the financial sustainability of microenterprises

H_2: Investment literacy of micro-entrepreneurs has a significant impact on the financial sustainability of microenterprises

H_3: Debt literacy of micro-entrepreneurs has a significant impact on the financial sustainability of microenterprises

Research Methodology of the Study

Research Design

A quantitative research design through a direct survey method was adopted for this study to systematically collect and analyze the data to address the objectives of the study. This research design has been used for an empirical investigation to understand the impact of financial literacy on the microenterprise's financial sustainability.

Sampling Design

The sample frame of the study includes a total population of 33,847 Udyam registered microenterprises operating in Darjeeling (30,438) and Kalimpong Districts (3409) in West Bengal as disclosed on the official website of the Ministry of MSME. The study used Slovin's formula (1960) to determine the appropriate sample size. The formula is

$$n = \frac{N}{(1 + Ne^2)}$$

where,

n= desired sample size to be determined

N= Total population

e = Accepted error limit, i.e., 5%

$$n = 395.328$$

The sample size derived for our study was 395. To reduce the chances of human error and to derive more accurate results 400 microenterprises were surveyed. The study utilized a random sampling technique to select the respondents from the chosen sample frame.

Data Collection Instrument

Primary data has been collected using a structured questionnaire. This questionnaire was segregated into two sections and had a total of 22 items. Section A consisted of 5 items to understand the demographic profile of the respondents. Section B consisted of 17 statements related to savings literacy, debt literacy, investment literacy, and financial sustainability. A 5-point Likert scale has been used for the study. These statements were developed based on validated instruments from prior studies. The respondents were provided with the required information, consent was taken, and were assured of the confidentiality and anonymity of their responses.

Variables used in the study

Saving literacy, investment literacy, debt literacy, and financial sustainability of microenterprise are the four constructs that have been used in the study as mentioned in Table 1.

Table 1: Latent variables and observed variables

Constructs	Items	Statements	Source
Saving Literacy	SL1	I set aside a certain part of my profit for savings.	Morales, 2023
	SL2	I save money regularly in a bank savings account.	
	SL3	I compare the interest rates offered by different banks before opening a bank account.	
Investment Literacy	IL1	I invest my extra money to draw profit which is then used for business purposes.	Morales, 2023
	IL2	I carefully research my investment options.	
	IL3	I read articles on investment portfolios and stock markets in newspapers, magazines, books, or, the internet.	
Debt Literacy	DL1	Before taking loans or credits, I evaluate the benefits and risks.	Morales, 2023
	DL2	I read and understand the terms and conditions including the interest rates before taking the loan.	
	DL3	I make sure that I pay back my loan on time.	
Financial Sustainability of Microenterprise	FSM1	The majority of the revenue generated from my business becomes profit.	Gurung & Sarkar, 2022
	FSM2	My business has sufficient funds to meet any business uncertainties.	
	FSM3	My business can meet its debt obligations on time.	

Source: Researcher's compilation

Data Analysis Tools and Methods

Covariance-Based Structural Equation Modeling (CB-SEM) was employed in this study to examine the relationships among latent variables. Given the need for the study, CB-SEM was chosen as it is suitable for theory confirmation and model fit testing. Before conducting CB-SEM, a pilot study was done taking 53 respondents to check the reliability of the questionnaire. Necessary modifications required in the questionnaire were made to make it more effective before the final data collection.

The raw data set was then tabulated in Microsoft Excel and descriptively analyzed. Cronbach's Alpha has been used to check the reliability again. Confirmatory Factor Analysis (CFA) has been adopted to first test and validate the measurement model for the study before making a structural model as suggested by Awang (2016). Validity was also checked using the Average Variance Extraction (AVE) and Fornell-Lacker criterion. Model fit indices were examined to check the fitness of the model. Finally, the path diagram was made using CB-SEM. Data analysis was conducted using IBM SPSS Statistics 23 and IBM AMOS 23.

Results and Discussions

Demographic profile of the respondents

After the computation of the data collected through questionnaires, the demographic characteristics of the microenterprise owners and their enterprises taken in this study are shown in Table 2.

Table 2: Demographic profiles

Particulars	Classifications	Frequency	Percentage
Gender of the owner	Male Female	284 116	71 29
Age of the owner	18-28 years old 29-39 years old 40-50 years old Above 50 years old	37 125 187 51	9.25 31.25 46.75 12.75
Education qualification	Primary Secondary Graduation Post Graduation and above	23 108 191 78	5.75 27 47.75 19.5
Type of enterprise	Manufacturing Agribusiness Service Retail/Wholesale	54 32 125 189	13.5 8 31.25 47.25

Source: Researcher's computation, 2024

Table 2 itself is self-explanatory. The majority of the respondents were male which comprised 71 percent of the total sample size and the remaining 29 percent were female. Most of the micro-entrepreneurs were graduates (47.75 percent) and belonged to the age group ranging from 29-39 years old (31.25 percent) and 40-50 years old (46.75 percent). The type of enterprises owned was mainly comprised of the retail/wholesale business (47.25 percent), followed by the service business (31.25 percent) and the lowest share was of agribusiness with just 8 percent.

Confirmatory Factor Analysis

The measurement model has been tested and validated using the Confirmatory Factor Analysis (CFA) before making the structural model. It is a specific type of factor analysis that is used to assess whether the indicators of the constructs align with the researcher's perception of the nature of the construct (Awang, 2016). The model has four constructs, namely, saving literacy, debt literacy, investment literacy, and financial sustainability of microenterprise.

A pooled measurement model was assessed where all the constructs of the study were put together and an item-deletion process was done to remove items with factor loading below 0.7. Moreover, modification indices (MI) were checked in order to examine the redundancy of items. Outliers were removed with the help of Mahalanobis distance due to which the sample size was brought down to 398. After making the necessary modifications, a final measurement model was derived for the study as shown in Figure 1. Items with factor loadings above 0.70 have been taken for the study which has been shown in Table 3.

Figure 1: The measurement model

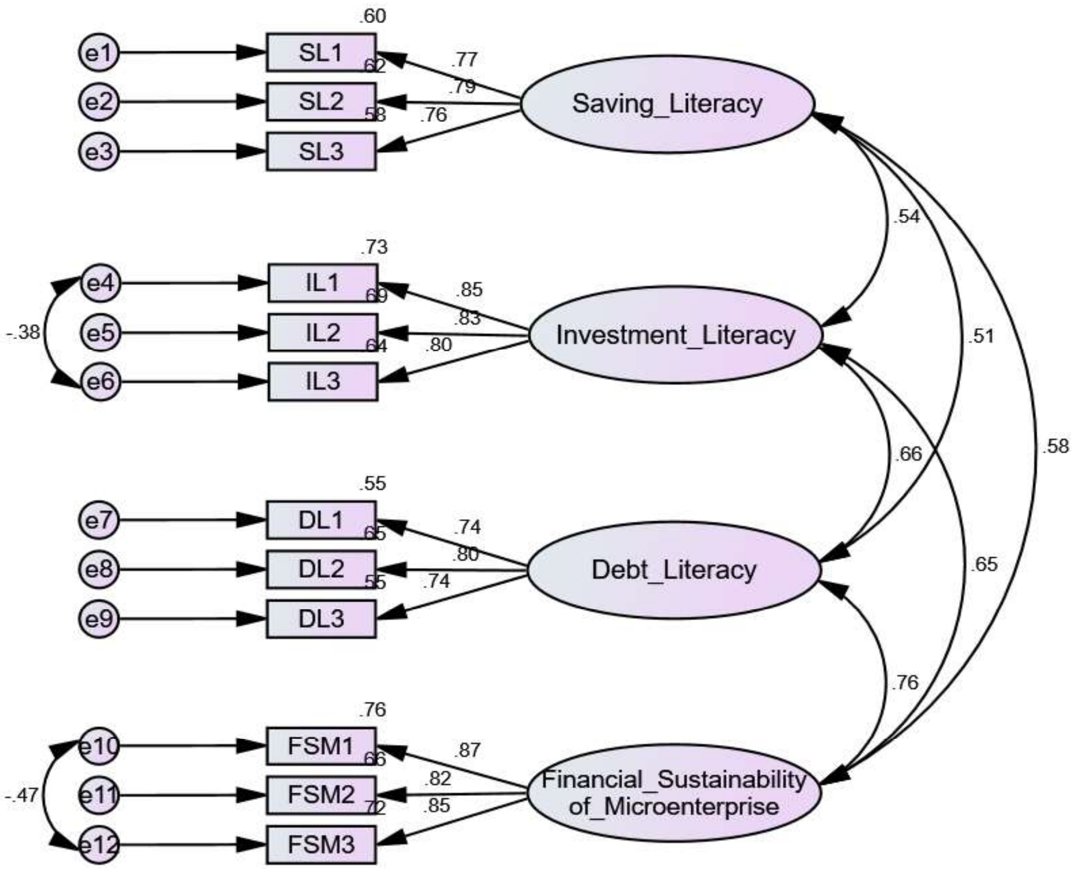

Table 3: CFA report summary

Construct	Item	Factor loading	Cronbach alpha (>0.7)	CR (>0.7)	AVE (>0.5)
Saving literacy	SL1 SL2 SL3	0.773 0.787 0.759	0.813	0.816	0.597
Investment literacy	IL1 IL2 IL3	0.854 0.830 0.803	0.846	0.868	0.688
Debt literacy	DL1 DL2 DL3	0.739 0.805 0.742	0.804	0.806	0.581
Financial sustainability of microenterprise	FSM1 FSM2 FSM3	0.872 0.815 0.851	0.862	0.884	0.719

Source: Researcher's computation, 2024

In CB-SEM, it is essential to evaluate the fitness of the model by checking several model fit indices. The model fit indices show how well the model represents the data. Absolute fit, Parsimonious fit, and Incremental fit are the three categories of fit indices that have been reported in this study as recommended by Awang (2016) to check the model fit as shown in Table 4.

Table 4: Model fit summary for the measurement model

Name of category	Name of index	Abbreviation	Index value	Acceptable value
Parsimonious fit	Chi-Square /Degree of Freedom	CMIN/DF	2.278	≤3.0
Absolute fit	Goodness of Fit Index Root Mean Square Error of Approximation	GFI RMSEA	0.959 0.057	≥0.95 ≤0.06
Incremental fit	Comparative Fit Index Tucker Lewis Index Normed Fit Index Incremental Fit Index Relative Fit Index	CFI TLI NFI IFI RFI	0.976 0.966 0.959 0.977 0.941	≥0.95 ≥0.95 ≥0.95 ≥0.90 ≥0.90

Source: Researcher's computation, 2024

Reliability and validity

After the CFA is completed, the reliability and validity of the measurement model are required before making the structural model. Internal reliability using Cronbach's alpha and construct reliability using CR have been evaluated to check the reliability of the measurement model. As per Table 3, both Cronbach's alpha and construct reliability (CR) for the four constructs are more than the threshold of 0.7 as recommended by Hair et al (2010).

The validity of the measurement model has been analyzed using convergent validity (AVE > 0.5), constructs validity (Fitness Indexes), and discriminant validity (Fornell-Lacker criterion) as shown in Tables 3, 4, and 5 respectively. The average variance extraction (AVE) used to calculate the convergent validity is more than 0.5 for all the constructs. Table 5 presents the discriminant validity with the help of the Fornell-Larcker criterion which is a widely used method in CB-SEM. The diagonal bold values are the square root of AVE for each construct and discriminant validity is confirmed when the square root of AVE is higher than the other values in the rows and columns which represents the correlations among the respective constructs (Awang, 2016).

Table 5 – Discriminant validity

Constructs	Saving literacy	Investment literacy	Debt literacy	Financial Sustainability of microenterprise
Saving literacy	**0.773**			
Investment literacy	0.542	**0.829**		
Debt literacy	0.517	0.668	**0.763**	
Financial Sustainability of microenterprise	0.577	0.65	0.758	**0.848**

Source: Researcher's computation, 2024

Normality and Multicollinearity

After assessing the model fit indices of the measurement model, the normality of the data must be examined before modeling the structural model (Awang, 2016). Jarque- Bera test has been used to confirm the normality. The null hypothesis assumes that the data is normally distributed. As shown in Table 6, the p-value of all items of the four constructs are higher than the significance level of 0.05, we accept the null hypothesis. Therefore, we infer that the data is normally distributed.

Table 6: Normality Test

Saving Literacy		Investment Literacy		Debt Literacy		Financial Sustainability of Microenterprises	
Items	P-value	Items	P-value	Items	P-value	Items	P-value
SL1 SL2 SL3	0.586 0.084 0.134	IL1 IL2 IL3	0.273 0.162 0.270	DL1 DL2 DL3	0.413 0.078 0.241	FSM1 FSM2 FSM3	0.097 0.107 0.073

Source: Researcher's computation, 2024

Variance Inflation Factor (VIF) and Tolerance values have been computed to detect multicollinearity between the independent and the dependent variables. As per Table 7, all the VIF values are below the threshold limit of 5 and the tolerance values are above 0.2 indicating clearly that there is no multicollinearity.

Table 7: Multicollinearity

Variables	FSM1		FSM2		FSM3	
	VIF	Tolerance	VIF	Tolerance	VIF	Tolerance
SL1 SL2 SL3	1.912 1.982 1.876	.523 .505 .533	1.912 1.982 1.876	.523 .505 .533	1.912 1.982 1.876	.523 .505 .533
IL1 IL2 IL3	2.299 2.618 1.983	.435 .382 .504	2.299 2.618 1.983	.435 .382 .504	2.299 2.618 1.983	.435 .382 .504
DL1 DL2 DL3	1.918 2.083 1.765	.521 .480 .567	1.918 2.083 1.765	.521 .480 .567	1.918 2.083 1.765	0.521 0.480 0.567

Source: Researcher's computation, 2024

Path Analysis

Finally, the structural model was constructed as shown in Figure 2. The fitness indices shown in Table 8, clearly indicate that the proposed model fits well as CMIN/DF is 2.278 and RMSEA is 0.057 which is less than the acceptable value and all the other indices like GFI, CFI, TLI, IFI, and RFI which are reported are more than the acceptance criteria.

Figure 2: The Structural Model

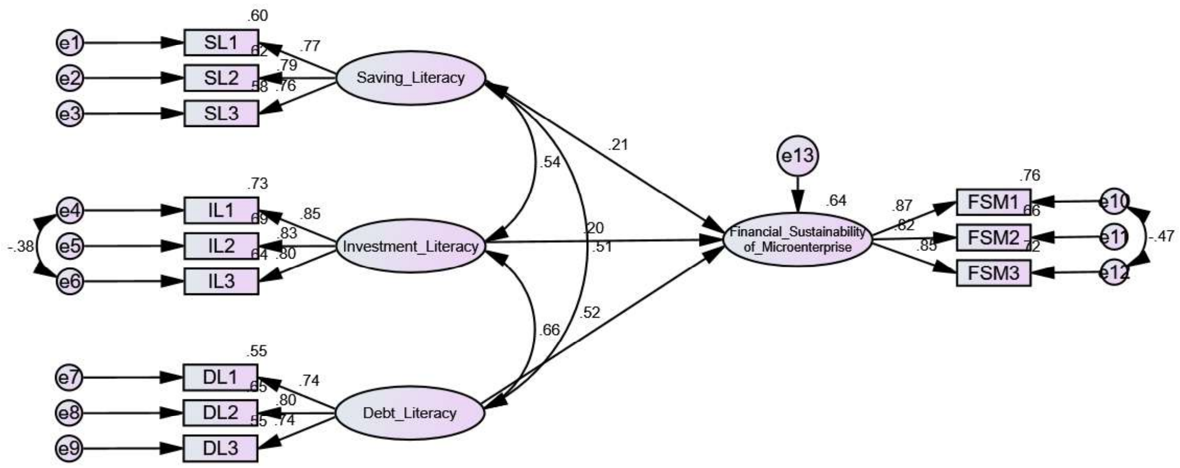

Table 8: Model fit summary for the structural model

Name of category	Name of index	Abbreviation	Value for the model	Acceptable value
Parsimonious fit	Chi-Square /Degree of Freedom	CMIN/DF	2.278	≤3.0
Absolute fit	Goodness of Fit Index Root Mean Square Error of Approximation	GFI RMSEA	0.959 0.057	≥0.95 ≤0.06
Incremental fit	Comparative Fit Index Tucker Lewis Index Normed Fit Index Incremental Fit Index Relative Fit Index	CFI TLI NFI IFI RFI	0.976 0.966 0.959 0.977 0.941	≥0.95 ≥0.95 ≥0.95 ≥0.90 ≥0.90

Source: Researcher's computation, 2024

Table 9: Hypothesis results

Hypothesis	Estimates	P-value	Results
H1: Saving Literacy→Financial Sustainability of Microenterprise	0.207	***	Accepted
H2: Investment Literacy→Financial Sustainability of Microenterprise	0.195	0.001	Accepted
H3: Debt Literacy → Financial Sustainability of Microenterprise	0.523	***	Accepted

Source: Researcher's computation, 2024

Table 9 shows the hypothesis results which state that the p-value for all three hypotheses of the study is below 0.05 level of significance. Hence, we can infer that all three hypotheses are accepted which means that saving literacy, investment literacy, and debt literacy have a significant influence on the financial sustainability of microenterprises.

Findings

Three hypotheses were formulated to test the impact of financial literacy of micro-entrepreneurs on the financial sustainability of microenterprises. Based on the data, the financial literacy of micro-entrepreneurs most certainly has a strong impact on the financial sustainability of microenterprises as all the three components used to measure financial literacy, namely, saving literacy, investment literacy, and debt literacy showed a positive effect on financial sustainability. Business owners with more financial literacy had a greater likelihood of successfully running a business for a long time. They were more satisfied with the growth of their business, had sufficient working capital, and had better financial position.

The following results were gathered after testing the three hypotheses:

i. The study accepts the first hypothesis (H_1) by indicating that saving literacy has a significant impact on the financial sustainability of microenterprises as the p-value is below 0.05 level of significance. The basis of saving literacy is budgeting or creating strategies for dividing the income into spending, savings, and investing. The data revealed that all microenterprise owners had a bank savings account and the majority of the owners created a budget to allocate their income. They set aside emergency funds in case of business uncertainties and saved regularly. Individuals with a good understanding of interest rates are capable of making wise financial decisions and the data reveals that the owners did know the interest rates and compared them before opening a bank account. Regularly setting aside money and maintaining a separate business fund helped the owners meet their expenses, pay off debts on time, and run their business smoothly. Realizing the value of starting to save early and the power of the compounding effect could assist in achieving long-term financial goals.

ii. The study confirms the second hypothesis (H_2) by revealing that investment literacy also positively influenced the financial sustainability of microenterprises as the p-value is 0.002 which is below the significance level. A business owner who has an understanding of different types of investment was able to make smart investment plans which improved their financial position. This financial freedom gave them a sense of security as selling an investment or the profits generated from the investments could help their business survive in uncertain times or serve as a second income stream for the business when the cash flow is low. The data revealed that the microenterprise owners possessed awareness about the importance of investing their money but only had an idea about limited investment options. This may be due to the lack of proper knowledge about the new financial products which might seem complex. They mostly invested their extra money in fixed deposits, recurring deposits, mutual funds, life insurance schemes, gold, and local schemes. Only limited owners knew stock markets and invested in shares, stocks, bonds, etc. Nevertheless, the microenterprise owner did invest their money which could serve as an effective way to maintain the financial sustainability of their business.

iii. The study confirms the third hypothesis (H_3) also by indicating that debt literacy has a statistically significant impact on the financial sustainability of microenterprises as the p-value is below the significance level. Understanding the terms and conditions, interest rates, and repayment options related to the debt allows the owners to make wise borrowing decisions. The majority of microenterprise owners took loans from their relatives or friends rather than the bank. Most of the owners made it a point to understand clearly the debt agreement and the interest rates. The cost and benefits of the debt were carefully scrutinized before availing the loan and the majority were able to make the repayments on time. The findings disclosed that owners who had high debt struggled to maintain their cash flow to repay the loan. Having debt literacy helped the owners avoid debt traps and prevented them from acquiring credits that could harm the financial position of the business and put the business at risk. Microenterprise owners with high levels of debt literacy usually avoid taking excessive loans and plan a budget for repayments that will reduce the cost of interest and accelerate debt payoffs.

Conclusion and policy recommendations

The research paper raised one question, 'How is the financial sustainability of microenterprises affected by financial literacy?' To answer this question, an attempt was made to develop a conceptual model representing three major components of financial literacy and their relationship with the financial sustainability of microenterprises. After a thorough analysis of existing literature and empirical evidence, the results demonstrated a direct positive effect of saving literacy, investment literacy, and debt literacy on the financial sustainability of microenterprises. It is apparent that financial literacy overall plays a crucial part in building, maintaining, and sustaining a business for a long time.

In today's dynamic business landscape, only those businesses that can anticipate the changes and are willing to adapt to those changes are the ones that can survive and grow in the long run. Micro-entrepreneurs are offered several financial products and services which if used wisely can empower them and help them in driving the sustainability and growth of their business. They can thrive in the marketplace by embracing these modern financial products that can help them overcome various financial hurdles. Modern financial products offer insurance tools, digital tools, payment platforms, and financing solutions that cater to the varied requirements of micro-entrepreneurs, and by harnessing this power, micro-entrepreneurs can enhance the overall performance of their business.

Financial literacy helps micro-entrepreneurs to make better and more beneficial financial decisions, which in turn has a positive influence on the performance of the microenterprises. Having saving literacy could help micro-entrepreneurs understand the importance of saving money for the further development of their business. Similarly, investment literacy enables micro-entrepreneurs to invest their extra money in financial products so that the profit derived from the investments can be utilized for business purposes or in case of a financial emergency. Managing debts carefully can save a business from bearing huge financial losses and that can only happen if an individual possesses debt literacy. Therefore, understanding these three components of financial literacy is of utmost importance, and equipping micro-entrepreneurs with the required financial knowledge and education can assist them in fostering a thriving business that makes contributions towards the economic development of the country.

Micro-entrepreneurs who possess financial literacy are equipped to overcome financial complexities to a greater extent as they have a better understanding of saving, investing, and borrowing which subsequently helps them make knowledgeable financial decisions, efficiently allocate financial resources, and manage risks associated with the business aiding financial sustainability of the microenterprises. In conclusion, addressing financial literacy not only empowers individual businesses but also fosters inclusive growth at the grassroot level and the overall economic growth.

Some policy recommendations have been made to enhance the financial literacy of micro-entrepreneurs which are mentioned below:

i. Awareness of the numerous modern financial products and services among micro-entrepreneurs can be improved by conducting financial education programs covering budgeting, debt management, cash flow management, and investment options through workshops and online platforms to reach a larger audience. To ensure participation and understanding, workshops can be conducted in local languages. Feedback on such programs should be taken to improve them so that they leave maximum impact.

ii. Offering rewards to microenterprises that participate in such programs, or demonstrate sustainable growth can encourage the micro-entrepreneurs to attend the workshops.

iii. Banks and microfinance institutions should avoid providing complex financial products and services and should simplify them to cater to the needs of micro-entrepreneurs. Documents should be written in simple language for better understanding. Also, providing small loans with affordable interest rates can help to gradually increase the confidence of micro-entrepreneurs in handling credit.

By implementing these recommendations, policymakers and development agencies can help micro-entrepreneurs understand the value of financial literacy and strengthen their business.

Scope for further studies

This research is bounded by certain limitations like small sample size, limited dimensions, and geographical limitations. Therefore, future research endeavors can include more specific components of financial literacy on a larger sample size. The long-term effects of financial literacy on the financial sustainability of microenterprises can be understood by adopting a longitudinal research design. Future studies can also investigate micro-entrepreneurs of other regions to identify similarities or differences.

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