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FINANCIAL LITERACY OF MICRO, SMALL, AND MEDIUM ENTREPRENEURS: EVIDENCE FROM CENTRAL INDIA

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ABSTRACT **DOI No: 10.36713/epra21239** **Article DOI: https://doi.org/10.36713/epra21239**

The objective of this study is to investigate the levels of financial literacy among Micro, Small, and Medium Enterprise (MSMEs) entrepreneurs in central India by examining four key aspects such as financial knowledge, financial skills, financial attitudes, and financial behaviour. By utilising the OECD/INFE framework for data collection and analysis, the survey method was employed to collect the data from 459 MSMEs entrepreneurs in the selected districts of Madhya Pradesh and Chhattisgarh through bilingual structured questionnaires. The results show the financial literacy score among entrepreneurs is 74.38/100, where Financial Attitude (78.40) emerged as the highest scoring dimension, followed by Financial Behavior (75.16), Financial Skills (73.10), and Financial Knowledge (72.24). In contrast, entrepreneurs display a strong sense of operational capabilities by scoring (86.10) in payment behaviour and (82.40) in financial planning, while there are significant gaps in matters like understanding of financial markets (52.30) and insurance behaviour (63.30). This study gives fruitful insights for government, educational institutions, researchers, policymakers and financial institutions for a sophisticated and targeted interventional approach to develop financial, managerial and risk-handling skills among MSME entrepreneurs in central India.

KEYWORDS: ***Financial Literacy, MSME, Entrepreneurs, Central India, OECD Framework.***

INTRODUCTION

A developed financial sector plays an important role in capital allocation investments and provides key information to stakeholders, which is paramount for the growth of the national economy. The efficiency in the financial system creates easy transactions, provides key information, and streamlines contract implementation; as a result, it improves credit access, improves structure, promotes innovation, and increases individual welfare. Market expansion and accessibility happen due to an enhanced financial system, which significantly creates long-term economic development; this system leads to efficient credit allocation through the developed financial system, which increases output and productivity (Guru & Yadav, 2019). The primary function of the financial system is to channel the savings of individuals into credit for businesses and individuals and also provide other key financial services. The entire process supports that funds are directed towards entrepreneurial activities, resulting in rapid economic growth, minimising the cost of financing, employment generation, proper income distribution, more tax revenues, and a continuous reduction in societal inequalities through enhanced financial services.

The MSME sector has a significant role in Indian economic activities, mainly benefiting from the accessibility of financial resources, as we can see in underserved regions like central India. An advanced financial market and enhanced banking system accelerated this process by providing access to required financial products and services. To make use of available financial resources, entrepreneurs have to be equipped with financial literacy, which enables them to make informed financial decisions by using

their knowledge and skills (Adomako et al., 2016). This literacy also supports us in better financial management through proper budgeting, cost management, timely bill payment, investment decisions, better diversification, emergency fund creation, and regular savings (Hilgert et al., 2003). It also influences our financial behaviour, which results in ideal debt management, active participation in the stock market, focus on wealth creation, and early start for retirement planning (Lusardi & Mitchell, 2007). Many studies indicate a positive correlation between financial literacy and better financial practices, but a deeper and basic awareness of financial concepts is low, which is a cause of concern for many entrepreneurs and the general population. This low level of understanding affects their ability to handle finances, and they experience difficulties in proper capital allocation, arranging finances, debt management, interest rate and tax calculations. In the end, fewer earnings, stagnant expansion plans, reduced prosperity, less scope for economic growth, and deteriorating competitiveness (Eniola & Entebang, 2017).

Financial literacy is crucial for entrepreneurs and individuals to manage their finances judicially. Financial competency provides a cushion to entrepreneurs for making important decisions related to capital arrangements at favourable rates, reduced financial risk, understanding of financial statements, cash flow management, and ideal resource allocation to maximise profits. With a better financial understanding, entrepreneurs would be able to manage their expenditures and short and long-term investment decisions for organisational growth. This also helps to follow government regulations and avoid legal complications. As entrepreneurs develop their financial literacy, they become more capable of identifying opportunities that might not be possible otherwise, which ultimately increases financial stability and organisational strength.

In the recent financial budget announcement for 2025-26, significant benefits have been provided to the MSMEs sector by increasing the investment and turnover threshold limits. The investment ceiling has been increased by 2.5 times to the previous limit, while the turnover limit increased 2 times to its previous limit. As a result, the revised classifications of MSMEs as follows: Micro units now include businesses with an investment limit upto ₹2.5 crore and a turnover limit upto ₹10 crore; Small units classified with an investment limit upto ₹25 crore and a turnover limit upto ₹100 crore; and for Medium business enterprises its new investment limit increased upto ₹125 crore and a turnover limit upto ₹500 crore. These significant changes in eligibility criteria will bring a large number of businesses within the umbrella of MSME support schemes, which will expedite more significant investment, fostering growth and enhancing the overall contribution to the national economy. Hence, the objective of this study to indentify the levels of financial literacy among MSMEs entrepreneurs in Central India so that they can make use of available financial benefits given by the government (MSMEs, 2025).

LITERATURE REVIEW

Recent studies have adopted a more detailed framework to measure financial literacy, which is developed by OECD and various other organisations. This framework includes a broad assessment mechanism of financial literacy by examining four fundamental components: financial knowledge, which includes an understanding of core financial concepts; financial skills, which is about assessing the practical ability to use financial principles; financial attitude, which explores an individual's perspectives and approaches related to financial matters; and financial behaviour, which explains actual financial practices and decision-making patterns. This comprehensive and detailed framework supports the researchers in evaluating the levels of financial literacy, which covers the different aspects, such as cognitive, practical, and behavioural, that constitute true financial literacy (OECD, 2020).

Financial Knowledge

Scholarly studies highlight the significant role of financial knowledge in efficient financial decision-making, and this includes crucial elements such as inflation, interest and tax calculations, investment and savings, diversification, and the time value of money. The research of (Huston, 2010) and (Hilgert et al., 2003) explains financial knowledge with two dimensions: subjective and objective, where subjective knowledge is about self-perceived understanding and objective knowledge demonstrates quantifiable aspects of key financial concepts. Many evidence suggests a significant correlation between financial knowledge and positive financial outcomes, including financial well-being (Riitsalu & Murakas, 2019), better financial behaviour (Babiarz & Robb, 2014), and enhancement of financial capabilities (Khan et al., 2017). Notably, research by (Robb & Woodyard, 2011) highlights that subjective financial knowledge has more strong associations with positive financial outcomes than objective knowledge, which signifies the importance of both perceived and objective financial knowledge.

Financial Skills

Financial skills explain the abilities and competencies of individuals for practical uses and enhance their financial management and decision-making activities. As (Hung et al., 2009) describe, these skills are critical abilities to use actual and perceived knowledge in different financial situations, support individuals in making efficient decisions and minimise financial

difficulties (Priyadharshini, 2017). Financial skills are expressed through different practical capabilities, which include the collecting of critical financial information, preparation of budget and financial management (Elbogen et al., 2011). This also supports the effective use of banking products and services, understanding credit systems, and evaluating financial products (Lusardi & Mitchell, 2007). Research from (Remund, 2010) identifies four fundamental operational dimensions of financial skills: budgeting, saving, investing, and borrowing. These aspects of financial skills are further improved by the Measure of Awareness of Financial Skills (MAFS) it, designed for the measurement of practical financial capabilities (Cramer et al., 2004). However, a study by (Lusardi & Mitchell, 2011) identified a low level of financial skills among individuals, which affects overall financial instability and economic crises.

Financial Attitude

The financial attitude dimension of financial literacy highlights the psychological and emotional aspects of individuals and their perceptions and approaches towards financial matters. (Priyadharshini, 2017) describes attitude as core beliefs and values related to personal finance, which influence their understanding of financial concepts and challenges. (Diacon & Ennew, 2001) explains financial attitude is about self-control and belief towards financial principles, financial planning, saving, financial challenges, and risk and return. In the financial literacy framework, financial attitude serves as a crucial factor which works alongside knowledge and skills to achieve financial well-being (Atkinson & Messy, 2012). Findings suggest that positive attitudes enhance financial practices and decision-making, ultimately influencing individual financial outcomes and overall financial literacy.

Financial Behaviour

Financial behaviour is a manifestation of financial decisions and actions taken by an Individual using financial knowledge, skills, and attitudes. (Woodyard, 2013) describes it as financial management practices, whether positive or negative, and (Xiao, 2021) explains it as actions related to money management. Positive financial behaviours can be assessed if individuals are effectively managing their cash, keeping emergency funds, and working toward long-term financial goals. In contrast, negative behaviours are assessed if they are overspending, avoiding financial discussions, and only relying upon employer pension schemes (Dewi et al., 2020); a strong correlation was found between financial literacy and financial behaviour, and also with investment behaviour (Bhushan, 2014), saving and spending habits (Babiarz & Robb, 2014) and debt management (Bhushan & Medury, 2013). In conclusion, it is a measure of people's practical financial decisions and actions, which is an outcome of theoretical knowledge and attitudes, ultimately impacting overall financial well-being (Fitzsimmons et al., 1993).

1. Financial Knowledge (FK): Taxation and Interest Rate, Financial Markets, Financial Planning and Budgeting, Banking Products and Services, and Government Schemes.
2. Financial Skills (FS): Financial Confidence, Financial Markets Skills, Interest Rate and Tax Calculation, and Accounting and Balance Sheet.
3. Financial Attitude (FA): Growth and Innovative Mindset, Uncertainty Management, and Willingness
4. Financial Behaviour (FB): Investment Behaviour, Borrowing Behaviour, Insurance Behaviour, Saving Behaviour, and Payment Behaviour

RESEARCH METHODOLOGY

In this study we have used descriptive research design, combined with purposive and convenience sampling methods, to collect the data from 459 Micro, Small, and Medium Enterprises (MSMEs) in Madhya Pradesh (Jabalpur, Shahdol, Sidhi, Singrauli, Anuppur, Umaria, and Indore) and Chhattisgarh (Bilaspur, Raipur, GPM, MCB, and Durg). The entrepreneurs were both registered and unregistered MSMEs from different sectors like service, manufacturing, and trading. This study included only those MSMEs who have a minimum of two to three employees for data collection. Structured questionnaires were used to collect the primary data through personal visits and online surveys via the Udyam registration portal. The questionnaire, in both the language (English and Hindi) to reduce the language barrier, formed 5-point Likert scale questions for measuring financial literacy components.

This study used the OECD/INFE Toolkit to measure financial literacy scores with the help of 5-point Likert scale questions, which are calculated by using factors such as financial knowledge, skills, attitudes, and behaviour. This toolkit suggested a two-quadrant system that explains how to code responses ranging from 5 (completely agree) to 1 (completely disagree) and divides responses (5-1) into financially literate and illiterate groups. The scoring mechanism assigns 1 point for responses of 4 or 5 and 0 points for all other responses, which then sums up the score points of all questions. The final financial literacy score is calculated by dividing the sum of points by the maximum possible score and multiplying by 100. Each question was placed in such a way that there should be variations so that response biases can be minimised. The standardised scoring approach enables the creation of sub-scores for knowledge, skills, attitudes, and behaviours, which collectively form a comprehensive financial literacy measure. As

highlighted by OECD, this standardised methodology facilitates meaningful cross-country comparisons of financial literacy levels (OECD, 2020).

RESULTS AND ANALYSIS

Variable Name	Score (out of 100)
Financial Literacy (FL)	74.38
1. FINANCIAL KNOWLEDGE (FK)	72.24
Financial Planning and Budgeting (FPB)	82.40
Taxation and Interest Rate (TIR)	82.40
Banking Products and Services (BPS)	72.60
Government Schemes (GS)	71.50
Financial Markets (FM)	52.30
2. FINANCIAL SKILLS (FS)	73.10
Financial Confidence (FC)	80.00
Interest Rate and Tax Calculation (IRTC)	70.40
Accounting and Balance Sheet (ABS)	81.40
Financial Markets Skills (FMS)	60.60
3. FINANCIAL ATTITUDE (FA)	78.40
Willingness (W)	83.20
Growth and Innovative Mindset (GIM)	80.20
Uncertainty Management (UM)	71.80
4. FINANCIAL BEHAVIOR (FB)	75.16
Investment Behavior (IB)	71.80
Saving Behavior (SB)	78.30
Payment Behavior (PB)	86.10
Borrowing Behavior (BB)	76.30
Insurance Behavior (InB)	63.30

The results of this study reveal scores of Financial Literacy (FL), which is 74.38/100, indicating strong financial awareness among MSME entrepreneurs. This composite score is calculated from four significant components, where Financial Attitude (FA) stands as the strongest factor at 78.40, the second best factor is Financial Behavior (FB) at 75.16, then Financial Skills (FS) at 73.10, and followed by Financial Knowledge (FK) at 72.24. Within these components, a detailed analysis of each component with its sub-variables demonstrates a significant variation across sub-categories. Financial Knowledge reveals strength in Financial Planning and Budgeting (FPB=82.40) and Taxation and Interest Rate (TIR=82.40), followed by Banking Products and Services (BPS=72.60) and Government Schemes (GS=71.50). At the same time, Financial Markets (FM) scores notably lower at 52.30. The Financial Skills sub-variables results explain high proficiency in Accounting and Balance Sheet (ABS=81.40) and Financial Confidence (FC=80.00), moderate strength in Interest Rate and Tax Calculation (IRTC=70.40), and relatively lower performance in Financial Markets Skills (FMS=60.60). Financial Attitude, the strongest component results reveal robust scores across Willingness (W=83.20) and Growth and Innovative Mindset (GIM=80.20), with Uncertainty Management (UM) scoring lower at 71.80. In Financial Behavior, the sub-variable output shows an excellent result in Payment Behavior (PB=86.10), then Saving Behavior (SB=78.30) and Borrowing Behavior (BB=76.30), moderate Investment Behavior (IB=71.80), and a low score in Insurance Behavior (InB=63.30). These sub-variables results of each component highlight there are some areas that require attention, especially in financial market understanding and insurance behaviour, despite the overall strong financial literacy levels among the surveyed entrepreneurs.

DISCUSSION

This study provides several key insights into financial literacy among MSME entrepreneurs in central India. The overall financial literacy score of 74.38 reveals a relatively good understanding of financial concepts, with some variations in the results of different components. Financial attitude is a strong factor

(78.40), which explains that MSME entrepreneurs have a positive attitude towards financial management and growth, where high willingness scores (83.20) and a growth mindset (80.20) explain a strong attitude towards financial decision-making and business development. Financial market knowledge (52.30) and associated financial markets skills (60.60) are weak areas requiring urgent improvement. This gap demonstrates a significant limitation in entrepreneurs' ability to access and utilise market-based financial products and services, ultimately constraining their growth opportunities. In the same manner, the low insurance behaviour score (63.30) indicates a low understanding of risk management tools, which increases the vulnerability to business risks. On the other hand, high scores in variables like Payment Behavior (86.10) and Financial Planning and Budgeting (82.40) show operational financial management capabilities. However, the moderate scores in Investment Behavior (71.80) and Uncertainty Management (71.80) demonstrate room for improvement in strategic financial planning and risk management. The findings align with previous research and give us new insights into financial literacy in Central Indian MSMEs. The results reveal that basic financial literacy exists. At the same time, some improvement interventions are required in financial knowledge and skills, particularly in market operations and risk management.

CONCLUSION

This study provides key insights into the financial literacy status of MSME entrepreneurs in Central India and demonstrates some strong areas and some areas for improvement. The research highlights that despite strong foundational financial literacy, especially operational aspects and attitudes, there are some issues regarding understanding complex financial concepts and their practical application. These results provide valuable use cases for policymakers, financial institutions, research institutions, researchers and educational bodies. First, it indicates a dire need for targeted educational programmes which provide knowledge and skills related to financial market operations and risk management. Second, the high attitude scores indicate that entrepreneurs are receptive to financial learning, provided they are receiving the right kind of interventions. Third, the variation in scores across different components indicates that a differentiated approach to financial literacy development may be more effective than a one-size-fits-all strategy. Future research can examine the relationship between these financial literacy components and business performance, along with the effect of training programmes on financial literacy.

Additionally, longitudinal research may provide a better understanding of financial literacy, how it evolves and its long-term impact on the entrepreneurial journey. These results reveal the need for more comprehensive financial education programmes designed explicitly for MSME entrepreneurs, emphasising sophisticated financial concepts and risk management strategies. Financial institutions may come up with more products and services which will cover the needs of entrepreneurs, and they should align with current literacy levels and provide excellent support for the development of MSMEs.

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