

UNLOCKING THE GROWTH OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN NIGERIA THROUGH ACCESS TO INNOVATIVE FUNDING: THE MEDIATING ROLE OF FINANCIAL LITERACY

DESBLOQUEANDO O CRESCIMENTO DE MICRO, PEQUENAS E MÉDIAS EMPRESAS NA NIGÉRIA ATRAVÉS DO ACESSO A FINANCIAMENTO INOVADOR: O PAPEL MEDIADOR DA ALFABETIZAÇÃO FINANCEIRA

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Abstract

Access to innovative funding persists as a challenge for Micro, Small, and Medium Enterprises (MSMEs). Majorly, in developing countries like Nigeria where the conventional credit systems are often stiff and inaccessible. This study delves into the crucial role of financial literacy as a mediating variable in the relationship between access to Peer-to-Peer (P2P) financing and the growth of MSMEs in Enugu State, Nigeria. The study employed descriptive survey research design while structured questionnaire was utilized in collecting data from 301 owners of registered MSMEs in Enugu state. Adopting validated scales from extant literature, the variables were measured, and data analyzed using Structural Equation Modelling (SEM) with Smart PLS 4.0. Results show that while access to P2P financing significantly affects MSME growth ($\beta = 0.432$, $p < 0.001$), financial literacy shows positive and significant effect on MSME growth ($\beta = 0.394$, $p < 0.001$). Furthermore, the findings indicate the mediating effect of financial literacy in the nexus between access to P2P financing and MSME

Resumo

O acesso a financiamento inovador continua sendo um desafio para as Micro, Pequenas e Médias Empresas (MPMEs). Principalmente em países em desenvolvimento como a Nigéria, onde os sistemas de crédito convencionais são frequentemente rígidos e inacessíveis. Este estudo investiga o papel crucial da alfabetização financeira como variável mediadora na relação entre o acesso ao financiamento Peer-to-Peer (P2P) e o crescimento das MPMEs no estado de Enugu, Nigéria. O estudo empregou uma abordagem de pesquisa descritiva, utilizando um questionário estruturado para coletar dados de 301 proprietários de MPMEs registradas no estado de Enugu. Adotando escalas validadas da literatura existente, as variáveis foram medidas e os dados analisados por meio de Modelagem de Equações Estruturais (MEE) com o software Smart PLS 4.0. Os resultados mostram que, embora o acesso ao financiamento P2P afete significativamente o crescimento das MPMEs ($\beta = 0,432$, $p < 0,001$), a alfabetização financeira apresenta um efeito positivo e significativo sobre o crescimento das MPMEs ($\beta = 0,394$, $p <$



growth (indirect effect = 0.266, $p < 0.001$), suggesting that financially literate MSME owners are able to maximize the alternative financing mechanisms for business growth. These findings emphasize the strategic relevance of improving financial literacy of MSME owners to enhance financing outcomes and the growth of the business. However, their effectiveness is significantly enhanced when MSMEs owners demonstrate financial astuteness to access the platform effectively. The study provides useful ideas for policymakers, development agencies, as well as fintech providers by contributing to fintech and entrepreneurship literature.

Keywords: Financial Literacy, Peer-To-Peer Financing, Micro Small Medium Enterprises` Growth, Fintech, Structural Equation Modelling, Innovating Funding.

0,001). Além disso, os resultados indicam o efeito mediador da alfabetização financeira na relação entre o acesso ao financiamento P2P e o crescimento de micro, pequenas e médias empresas (efeito indireto = 0,266, $p < 0,001$), sugerindo que proprietários de micro, pequenas e médias empresas com conhecimento financeiro são capazes de maximizar os mecanismos alternativos de financiamento para o crescimento de seus negócios. Esses resultados enfatizam a relevância estratégica de aprimorar a alfabetização financeira dos proprietários de micro, pequenas e médias empresas para melhorar os resultados de financiamento e o crescimento dos negócios. No entanto, sua eficácia é significativamente ampliada quando os proprietários de micro, pequenas e médias empresas demonstram perspicácia financeira para acessar a plataforma de forma eficaz. O estudo fornece ideias úteis para formuladores de políticas, agências de desenvolvimento e provedores de fintech, contribuindo para a literatura sobre fintech e empreendedorismo.

Palavras-chave: Alfabetização Financeira. Financiamento P2P. Crescimento de Micro, Pequenas e Médias Empresas. Fintech. Modelagem de Equações Estruturais. Inovação em Financiamento.

1 INTRODUCTION

Poor access to finance persists as a barrier to the growth of Micro, Small, and Medium Enterprises (MSMEs), particularly in developing countries like Nigeria. MSMEs have also remained the key factor in the global economy, contributing meaningfully through employment of workers, income generation, and development of technical and entrepreneurial skills (Ogujiuba *et al.*, 2022; Langroodi, 2021; Onileowo and Anifowose, 2020). In Nigeria, MSMEs contribute 87.9% of employment, 46.32% of GDP, 6.21% of exports and 96.9% of businesses (PWC, 2024). In 2020, the total number of MSME was 39, 654,385. While small and medium enterprises stood at 3.1%, Micro Enterprises account for 96.9 % (SMEDAN/NBS, 2021).

Despite the efforts by the Nigerian government to boost the growth of MSMEs, through some finance programmes, access to innovative funding remains a daunting task for many MSMEs` owners in Nigeria, stifling their expansion and impeding economic

progress. 55.6% of MSME's rely on personal savings as their source of capital, while 11.7% depend on families and only 17.5% make use of loan (NBS, 2019). Traditional banking institutions often impose stringent requirements, high interest rates, and prolonged loan processing times that exclude MSMEs from accessing credit facilities. As a result, many small business owners are unable to scale, innovate, or even sustain operations. Regrettably, 96% of businesses in Nigeria close due to limited access to finance (SMEDAN, 2021). Over 20% of businesses classified as small and medium, fail within the first year. 70%, fail within the first three years of their establishment, and almost 50% of small startups fail within the first five years (Franklin *et al.*, 2018).

Closing this funding gap remains a challenge for MSMEs as they are unable to obtain funding from the traditional banks because financial intermediaries view them as high-risk investment without collateral, credit bank history, documentation, and a strong framework for debt resolution and loan recovery (Nugraheni and Aziza, 2020 ; Rahman *et al.*, 2017; Fatoki, 2014). In response to this financing gap, fintech solutions, particularly Peer-to-Peer (P2P) lending platforms- loan based model of crowdfunding have emerged as promising alternatives to formal financial institutions that will bridge the funding gap for MSMEs (OJK, 2020). It aims to build a network between MSMEs and investors as well as present opportunities through innovation for the growth of MSMEs (Eldridge *et al.*, 2021). The relationship between fintech and financial literacy has been demonstrated by various research (Lontchi *et al.*, 2023; Widyastuti and Hermanto, 2022; Morgan and Trinh, 2019). This nexus underscores the necessity of improving the financial literacy of MSMEs' owners to reduce challenges in accessing funds. Despite proliferation of P2P financing platforms, their effectiveness largely depends on the level of MSME owners' financial knowledge.

Financial literacy as defined by (Ahmad and Shah, 2022), is one's capacity to comprehend and apply financial principles. It is the ability to comprehend and effectively utilize a number of financial skills, which include financial management, investing as well as budgeting. Financial literacy is critical in enabling MSME owners to make informed financial decisions, assess risk, and allocate resources effectively. However, there is paucity of studies examining the intersection of financial literacy, P2P lending, and MSME growth, particularly in the Nigerian context. This study seeks to close this gap in literature by investigating the mediating effect of financial literacy in the nexus between access to P2P financing and the growth of MSMEs in Enugu State, Nigeria.

Specifically, it examines how knowledge and skills provided by financial literacy can assist MSME owners to benefit from P2P financing thus influence their strategic, structural, and financial growth. This study therefore, through the adoption of Structural Equation Modelling (SEM) offers a profound insight into how accessing finance through fintech P2P lending platform and financial literacy of MSME owners/managers mutually drive entrepreneurial success of MSME.

2 LITERATURE REVIEW

2.1 Medium, small and medium-sized enterprises` growth (MSMEs` growth)

SMEDAN defines MSMEs as business organization with less than 300 employees and annual revenue of less than 100 million naira (SMEDAN, 2021). Federal Ministry of Industry defines medium-sized business as organization that has assets of less than 200 million naira and lower than 300 employees, while small business according to Federal Ministry of Industry is considered as one with assets less than 50 million naira and employees that are less than 100 in number. Growing and preserving small business in Nigeria can be as difficult as launching one. Even while the majority of MSMEs work hard to stay in business, they may end up taking on additional debt if they are unable to manage the difficulties arising from not taking on more debt to grow their business. Business growth is viewed by (Wickham, 1998) from four interrelated perspectives: organizational, structural, strategic, and financial. According to (Wickham, 2006) financial growth refers to the expansion of the business as a profitable entity which focuses on increase in turnover, asset value, income and expenditure as well as profitability, while strategic growth deals primarily with how a firm builds its capacity to take advantage of the market. Also, structural growth refers to the process of managing a firm's internal system as it relates to managerial role and duties, reporting lines, communication channels, and resource control systems. Research (Wickham, 2006) highlights the indicators of financial growth as increase in total assets, capital, turnover, and profit. While the indicators of Strategic growth are shift in the production cost, sales volumes and customer base. In addition (Wickham, 2006) further suggests that the indicators of structural growth are fluctuations in employees` number and size of business while organizational growth refers to shift in operations, culture, and attitudes of a

business as it expands and progresses. It also focuses on how the owner's leadership style and function must evolve as the company grows from a small to a large enterprise.

2.2 Peer- to - peer financing

Fintech-based Peer-to-Peer financing otherwise known as Peer-to-peer lending (P2PL), is a legal entity and non-traditional banks that offers loans to people or organizations in the absence of intermediary traditional banks (Muhammad *et al.*, 2024; Khan *et al.*, 2023; Dorfleitner *et al.*, 2022; Wang and Fu, 2022; Nguyen *et al.*, 2021; Morgan and Trinh, 2019; Carolan, 2019). While P2PL allows fund owners to offer loans to Fund borrowers, particularly those without bank accounts, directly with higher returns at simpler terms and a quicker application requirements (Suryono *et al.*, 2021), it also enhances MSMEs' performance, stimulates innovation, boosts their competitive advantage, and eventually contributes to their growth by facilitating their access to capital (Eldridge *et al.*, 2021; Anwar, 2018).

Additionally, minimal transaction costs, a variety of online financing sources, and the potential to assume default risk distinguishes P2PL from other traditional sources of funding and increase their attractiveness to capital-constrained MSME entrepreneurs (Gao *et al.*, 2018). In a similar perspective, (Lee and Shin, 2018) argued that MSMEs stand a better chance of obtaining loan from P2PL as a result of the lending criteria factors integrated in the P2PL which may not be so with the traditional banks. Also, Fintech based P2PL assesses the credit risk of SMEs more accurately (Jagtiani and Lemieux, 2019) and is characterized by lower interest rates and reduced operating costs thereby possibly allowing MSMEs to be eligible for loans (Lee and Shin, 2018).

In Nigeria, P2PL is progressively gaining traction as an easy and accessible method of investing in loans and obtaining credit. Modern technology and sophisticated data analytics are used in Nigeria's P2PL platform-based paradigm to provide safe, open, and effective transactions. In addition to providing small businesses with finance for working capital, inventory, or expansion, P2Plending provides a lifeline for individuals seeking personal loans for emergencies, education, or personal growth. Additionally, it gives investors the platform to profit from their loans. Some of Peer to Peer lending platforms thriving in Nigeria include inter alia Prestmit, Sycamore, P2Vest, C24Capital,

KiaKia, Lidya, Migo, Quickcheck, ALAT, LENDigo, Payhippo, Risevest, Farmcrowdy, Piggyvest, SukFin, and Startcredits.

2.3 Financial literacy of MSMEs owners

Financial literacy as defined by (Ahmad and Shah, 2022), is one's capacity to comprehend and apply financial principles. While in the opinion of (Nathan *et al.*, 2022), financial literacy is the degree of individual proficiency in comprehending the fundamentals of financial issues. By providing individuals with the skills they need, financial literacy assists them to build a strong foundation for their financial well-being (Askar *et al.*, 2020; Widyastuti and Hermanto, 2020), steer clear of financial pitfalls and navigate the complex financial landscape (Hasan *et al.*, 2021; Morgan and Trinh, 2019). Financial literacy according to (OECD, 2020) is made up three elements: attitude, behavior, and financial knowledge. Financial knowledge entails the knowledge of financial products, services, and the attendant risks that impact behavior. Sucuahi, (2013) highlights that financial behavior involves the ability to take good informed financial decisions that will improve wealth and reduce uncertainty for both individuals and enterprises. While (Rajina *et al.*, 2011) explains that financial attitude is the use of financial principles in taking informed financial decision thereby creating and maintaining value as well as manage resources properly.

Accordingly, (Kuchciak and Wiktorowicz, 2021) maintain that financial literacy boosts borrowers' decision-making capabilities by improving their knowledge through available information sources. Similarly, (Wu and Huang, 2022) assert that, financially literate MSMEs' owners are poised to leverage digital financial services effectively, thereby enhancing business growth. According to (Butticè and Vismara, 2022), MSMEs can gain a competitive advantage by implementing digital financial services, which can also enhance operational performance, facilitate financing, improve risk management, and foster innovation.

3 THEORY AND HYPOTHESES DEVELOPMENT

3.1 Resource-based view (RBV) theory

MSMEs' growth is determined by the entrepreneur's ability to make informed decisions, explore and seize opportunities, gain the trust of others, and influence them to invest in his business. The Resource Based View theory, as put forth by (Barney, 1991), sees firm as a collection of resources and contends that these resources both directly and indirectly impact the firm's growth and performance by creating competitive advantages. Every firm or enterprise has different internal organizational resources which can be referred to as strengths and weaknesses (Wernerfel, 1984). These consist of the firm's knowledge, capabilities, assets and information (Barney, 1991; Wernerfel, 1984) which determine the firm's competitive advantage. Among the several resources available to an enterprise, financial literacy (FL) is an enabling resource which can be expressed in terms of pricing, financial management and negotiating access to funding (Penrose, 1959; Wernerfel, 1984).

The Resource Based View (RBV) is used in this study to understand the nexus between access to P2P financing, MSME growth, and the FL of MSME owners. The theory proposes that FL influences growth by enhancing MSME owners' ability to make informed decision and allocate resources appropriately as well as provides the knowledge and skills necessary to understand digital finance and gain competitive advantage. For instance, MSME with unique and considerable resources will certainly outperform their rivals and have a long term competitive advantage (Chatterjee *et al.*, 2023). Hence, financially literate MSMEs owners are poised to recognize and realize the benefits of adopting digital financial services, allocate resources effectively, and identify areas for investment or cost reduction (Putra *et al.*, 2021). Thus, this study therefore is supported by the theory by providing a theoretical lens to comprehend the pivotal role of financial literacy as a critical resource for MSMEs' growth and access to P2P financing.

3.2 Access to P2P financing and MSMEs' Growth

Access to innovative funding have for a long time been a key factor in determining the growth of MSMEs. Various studies (Babandi and Barjoyal, 2021; Adeyele, 2018;

Quartey, *et al.*, 2017), argue that the major barrier to MSMEs' growth is poor financing. Corroborating this view, (Giang *et al.*, 2019) contend that MSMEs' productivity is greatly enhanced by increased financial accessibility. In the same vein, (Yang *et al.*, 2019), posit that access to finance in addition to improving an organization's capability for innovation, facilitates market entry as well as fosters entrepreneurship and enhances MSMEs' ability to manage risk. Tiwari *et al.*, (2013) also submit that accessing loan at a lower interest rate leads to enhanced performance of the MSMEs' business. While (Aranda-Usón *et al.*, 2019) revealed that when financial sources are easily affordable and available businesses are poised to adopt circular economy initiatives.

Studies have provided empirical evidence that underscores the influence of innovative funding such as FinTech based P2P lending in enhancing MSME growth, innovation and sustainability (Pan *et al.*, 2021; Coakley and Huang, 2020; Pizzi *et al.*, 2020; Rosavina and Rahadi, 2019). Supporting this claim, studies in Indonesia (Suryanto *et al.*, 2020; Tamara and Kasri, 2020) found that the P2PL platform significantly enhanced the growth of SMEs. Similarly, (Coakley and Huang, 2020) asserted that a substantial ratio of P2PL to total assets was proportional to an increase in working capital expenditures which indicates expansion in the scale in production scale. In the same vein, (Pan *et al.*, 2021) have demonstrated that P2PL encourages MSME owners to invest more in product research and development which improves the efficiency of the supply chain. Furthermore, using data from OECD countries for the period of 2011 and 2018, (Abbasi *et al.*, 2021) reported that P2PL improves small businesses' access to finance. While, (Nurdana, 2018) concluded that P2P loans to MSMEs to an extent increased turnover, employment, sales volume, and profitability. Therefore, based on the evidence that access to P2P financing influences the growth and competitive advantage of MSMEs, we hypothesized that (H_i): Access to P2P financing positively affect MSMEs growth.

3.3 P2P financing and financial literacy of MSMEs' owners

Typically, financial literacy is acknowledged as a critical determinant in MSMEs access to innovative funding. Various studies have further highlighted the significant influence of financial literacy on MSMEs' growth. For instance, Burchi *et al.* (2021) emphasize that MSME owners' financial literacy is a crucial factor in improving the relationship between the fund borrower and fund lender which is essential for applying

for credit. Similarly, (Kotzè and Smit, 2018; Hussain, *et al.*, 2018; Wise, 2013) demonstrate that MSMEs that produce accurate financial statements have higher loan approval and repayment rates and are unlikely to experience business failure. Additionally, with adequate level of financial literacy, MSMEs are well positioned to prepare proper cash flows and budgets as well as manage their financial resources effectively (Makanyeza & Chikoko, 2020). This enhances business resilience and growth by allowing MSMEs to make timely financial decision-making, allocate resources effectively, and invest strategically.

Recent empirical evidence further emphasizes the role of financial literacy on fintech-based financing. Muhammad *et al.* (2024), investigating agricultural peer-to-peer (P2P) lending, reported that while P2P platforms assisted less financially literate farmers, high level of financial literacy basically assisted farmers to greatly understand the risks, minimize the rate of loan default and utilize financial products effectively. This underscores the role of financial literacy in facilitating access to innovative funding and sustainable MSMEs growth. These empirical evidence indicate that higher level of financial literacy assist MSMEs to access and gain from P2P financing platforms effectively. Hence, we hypothesize (H2) as follows: there is significant positive relationship between financial literacy and access to P2P financing by MSMEs.

3.4 Financial literacy and MSMEs growth

While there are divergent views on the relationship between financial literacy and MSME growth, many studies corroborate its positive impact. For instance, some authors have reported no correlation between MSMEs owners' financial literacy and MSMEs' growth (Winarno and Wijijayanti, 2018; Eresia-Eke and Raath, 2013). Conversely, other studies found that financial literacy significantly, influences profitability, market value and sales growth (Ying *et al.*, 2019), reinforces financial management practices (Danso *et al.*, 2019), and improves MSME performance (Agyei, 2018; Dahmen and Rodriguez, 2014; Kimani and Ntoiti, 2015).

In addition, studies have also highlighted the role of financial literacy training programmes in enhancing profitability and long-term sustainability (Chepkemai *et al.*, 2017; Salome and Memba, 2014; Simeyo *et al.*, 2011). All together, these findings demonstrate that financial literacy assists MSMEs to distribute resources effectively,

manage risks, and enhance competitive advantage. Hence, we hypothesise (H3) that: Financial literacy has a significant positive effect on the growth of MSMEs.

3.5 The mediating role of financial literacy

Financial literacy not only has direct effect on MSME`s growth, it also plays a critical mediating role in the relationship between access to finance and small business growth. Studies demonstrate that financially literate small business owners are poised to attract investors, obtain loan and bargain favorable terms which contribute to the sustainable growth of MSMEs. Affirming this view, (Adomako *et al.*, 2016; Agyapong, and Attram, 2019) highlight that financial literacy affects owners` ability to take informed decision on how to select, use and manage financial resources effectively which in turn shapes financing strategies and outcomes. In the same vein, (Bongomin *et al.* 2017) established that financial literacy reinforced the nexus between MSMEs` access to finance and their growth in Uganda through its moderating and mediating potential role in financing and performance dynamics. Also, studies from other countries affirm this view. For instance, (Ye and Kulathunga, 2019) reported that higher levels of financial literacy are related to improved MSME growth. While (Hussain *et al.*, 2018; Adomako *et al.*, 2016; Kimani and Ntoiti, 2015; Cowling *et al.*, 2014) submitted that financial literacy develops MSMEs` ability to easily access finance, improve sustainable capital structures, and expand business growth.

4 METHODOLOGY

The study utilized primary sourced data, and employed descriptive survey research design. The study population comprised all owners of registered Micro, Small and Medium Scale Enterprises in Enugu State, Nigeria. Sample of 328 owners/managers of the registered Micro, Small and Medium Scale Enterprises in Enugu State, Nigeria were selected randomly and studied. Eight (8) research assistants were employed under the supervision of the author to help in distributing questionnaire to the participants in Enugu state for the period of 3 weeks duration of the field work.

To measure the constructs of access to P2P financing, this study considered the ease of accessibility, usage and the impact of the fund by asking the respondents to

respond to the following statements: access to P2P loan generates income for MSMEs (AP2PF1); Accessing loan from the P2PL platforms is easier, timely, flexible, convenient and efficient than the traditional banks (AP2PF2); Low interest rate encourages MSME owners to access loan from P2PI platforms (AP2PF3); The P2PL set loan requirements enables MSME owners to access finance (AP2PF4); Availability of loan processing and requirement information on P2PI platforms helps to reduce the vulnerability of MSME to external shocks (AP2PF5); Increase in the rate of accessing loan and Increased number of loans accessed boost MSMEs` growth (AP2PF 6); and Establishing good credit relationships with P2PI loan provider institutions boosts MSMEs` business growth (AP2PF7). This is based on the assumption that access to financing is the ease with which MSME owners can apply for credit/loan with minimal or the absence of hurdles or challenges related to administrative costs or processes from the formal credit providers (Lusimbo and Muturi, 2016). Also, it is assumed that MSMEs stand a better chance of obtaining loan from P2PI as a result of the reduced interest rates and lower operating costs (Lee and Shin, 2018) as well as the lending criteria factors integrated in the P2P lending which may not be so with the traditional banks.

The three components of financial literacy: financial behavior, knowledge and attitude as highlighted by (OECD, 2020) were used in this study to measure financial literacy. Financial literacy of MSMEs Owners were assessed by considering factors like understanding financial principles and utilization of financial techniques to take informed business decisions. Hence, participants responded to these question items: As MSME owner, good knowledge of debt management enables me negotiate access to P2PL finance (FL-SMEs1); As MSME owner, the debt literacy enables me to know my monthly maximum installments at the maturity of loan (FL-SMEs2); As MSME owner, ability to analyze financial reports facilitates my access to loan (FL-SMEs3); As MSME owner, ability to prepare financial statements and keep cash books properly increase my eligibility to access loan (FL-SMEs 4); As MSME owner, I know that the knowledge of budgeting literacy helps in obtaining loan (FL-SMEs 5); As MSME owner, I know that the knowledge of budgeting literacy helps in making well-informed decisions on finance for business growth (FL-SMEs 6); and Knowledge of the impact of inflation and interest rates on business loans has helped me to navigate the financial markets for business growth (FL-SMEs7).

Drawing on elements of business growth as established by Wickham (1998), this study measures MSME's Financial, Structural, and Strategic growth to determine the influence of P2PI and financial literacy on their business growth. Hence, MSME owners were asked to indicate any change in business growth by reacting to these question items: Asset value (G-MSMEs1); Capital (G-MSMEs2); Turnover (G-MSMEs3); Profit (G-MSMEs4); Sales volumes (G-MSMEs5); Customer base (G-MSMEs6); and increase in number of branches (G-MSMEs7). A well-structured questionnaire was used in the data collection while Structural Equation Modelling (SEM) aided by SmartPLS 4.0, was utilized in statistical analysis of data. The SEM was assessed, considering the rating scales and structural criteria of the research instrument, the path and measurement models were presented in the analysis. Discriminant validity in SEM model as well as the average variance extracted (AVE) were assessed using (Fornell and Larker, 1981) criterion and Heterotrait-Monotrait (HTMT) ratio. This was to ensure that the model is correctly specified and that the constructs are well represented. Other assumptions checked were independence, normality, collinearity properties of the research variables.

Table 1

Thresholds of Validity and Model Adequacy Tests

Tests	Recommended Threshold
variance inflation factor (VIF)	<3.0
average variance extracted (AVE)	≥0.50
Standardized Root Mean Squared Residual (SRMR)	<0.08
Heterotrait-Monotrait (HTMT) ratio	0.85 or less
Cronbach alpha or composite reliability	0.70 or greater

5 RESULTS

5.1 Questionnaire return of response

In this study, 328 copies of questionnaire were administered by hand to owners of MSME. However, 301(91.7%) copies of questionnaire were returned as shown in table 1.

Table 1*Return Rate of the Questionnaire*

	Freq.	% percentage
Questionnaire Distributed	328	100
Questionnaire Returned	301	91.7

Table 2*Participants' profile*

Demography	Category	Frequency (n)	Percentage (%)
Age	20-29	26	8.6%
	30-39	123	40.9%
	40-49	116	38.5%
	>50yrs	36	12.0%
Academic Qualification	informal education	15	5.0%
	elementary education	27	9.0%
	Senior secondary education	123	40.9%
	Higher education	57	18.9%
	Vocational education	75	24.9%
	Post graduate	04	1.3%
Type of business activity	Agro allied	69	22.9%
	Manufacturing	15	5.0%
	ICT Services	57	18.9%
	Retailing/Trading	108	35.9%
	Services	37	12.3%
	Others	15	5.0%
Business Characteristics (Age of business)	Less than 3yrs	126	41.9%
	3yrs and above	175	58.1%
Training Attended	Attended Business training	256	85.0%
	No. Business training	45	15.0%
Asset value	Less than N5m	106	35.2%
	N5m-N49m	150	49.8%
	N50m-N500m	45	15.0%
Turn over per annum	Less than 100m	256	85.0%
	100m and above	45	15.0%
No. of employees	Less than 10	87	28.9%
	10-49	135	44.8%
	50-200	48	15.9%
Source of funding	P2PL Platform	138	45.8%
	Others	163	54.1%

Table 2 is the demographic profile of the respondents, which reveal various insights into their age distribution, educational qualifications, business activities, and Business characteristics, Training attended, Asset value, Turn over per annum, No. of employees and Source of funding. The demographic analysis highlights majority of the respondents are within the age bracket of 30–39 years, representing 40.9% (123 respondents), followed by 40–49 years at 38.5% (116 respondents). This reveals that the respondents' pool predominantly comprised active engagement of young individuals in

MSMEs. Younger respondents aged 20–29 years accounted for 8.6% (24 respondents), while older respondents aged over 50 years constituted 12.0% (36 respondents). Educational qualifications show a moderate-to-high level of attainment, with 40.9% (123 respondents) holding senior secondary education and 24.9% (75 respondents) having vocational training. Higher education accounted for 18.9% (57 respondents), while 9.0% (27 respondents) had elementary education and 5.0% (15 respondents) had informal education. Only 1.3% (4 respondents) had postgraduate qualifications. This shows a well-educated respondents' pool with the majority possessing relevant skills and training for their business ventures.

Business activities are diverse, with retailing and trading being the most common, involving 35.9% (108 respondents). Agro-allied businesses follow at 22.9% (69 respondents), while ICT services and general services make up 18.9% (57 respondents) and 12.3% (37 respondents), respectively. Manufacturing and other types of businesses were less represented, each accounting for 5% (15 respondents). This diversity underscores the various sectors in which respondents operate, with retail and trade as the dominant activities. The analysis also highlights the age of businesses and the prevalence of business training among respondents. A majority of businesses, 58.1% (175 respondents), have operated for three years or more, while 41.9% (126 respondents) were newer, with less than three years of operation. Additionally, 85.0% (256 respondents) have attended business training, reflecting a strong emphasis on skills development and entrepreneurial knowledge, while 15.0% (45 respondents) have not participated in any training. In terms of financial characteristics, 35.2% (106 respondents) reported asset values below ₦5 million, 49.8% (150 respondents) between ₦5 million and ₦49 million, and 15% (45 respondents) above ₦50 million. Annual turnover was predominantly less than ₦100 million for 85% (256 respondents), while 15% (45 respondents) reported turnovers of ₦100 million or more. Regarding funding, 46% (138 respondents) accessed loans through P2P platforms, while 54% (163 respondents) utilized other funding sources. These figures demonstrated financial diversity, with many respondents relying on external funding and moderate turnovers.

Table 3*Descriptive statistics*

Code	Variable	Mean	Std. Dev	Minimum acceptance means
AP2PF	Access to P2P financing	3.31	1.014	2.5
G-MSMEs	Growth of MSMEs	3.17	1.115	2.5
FL-SMEs	Financial literacy of MSMEs owners	2.98	1.072	2.5

Table 3 shows the descriptive statistics of the variables in the study which are measured on a 4-point Likert scale for Access to P2P Financing (AP2PF), Growth of MSMEs (G-MSMEs), and Financial Literacy of MSMEs Owners (FL-SMEs), this result shows a positive observation across all constructs. AP2PF has a very high mean score of 3.31 (SD = 1.014) when compared with other variables, suggesting access to P2P financing by the respondents. Standard deviation suggests uniformity in responses, with limited variability in their response agreement. The average scores for G-MSMEs (3.17, SD = 1.115) and FL-SMEs (2.98, SD = 1.072) also exceeded the minimum acceptance value of 2.5, suggesting a positive views on MSME growth and financial literacy among MSME owners. Though, the higher standard deviation for G-MSMEs reveals high variability in their respondents' opinions when compared to AP2PF and FL-SMEs, while regarded the least among all the three constructs, still shows an adequate level of MSME owners` financial literacy. Finally, the results reveal that the participants view access to P2P financing, MSME growth, and financial literacy as acceptable, with access to P2P financing regarded the most positive.

Table 4*Collinearity test (VIF)*

AP2PF1	1.679	FL-SMEs5	2.164
AP2PF2	1.704	FL-SMEs6	2.193
AP2PF3	1.588	FL-SMEs7	1.882
AP2PF4	1.245	G-MSMEs1	1.774
AP2PF5	1.382	G-MSMEs2	1.766
AP2PF6	1.206	G-MSMEs3	1.879
AP2PF7	1.169	G-MSMEs4	1.617
FL-SMEs1	1.166	G-MSMEs5	1.530
FL-SMEs2	1.243	G-MSMEs6	1.768
FL-SMEs3	2.083	G-MSMEs7	1.628
FL-SMEs4	2.596		

The collinearity test which is tested by using the Variance Inflation Factor (VIF) as shown in table 4 suggests that all the measurement items used for this study have VIF values below 3. This result shows that multicollinearity among the independent variables

is not significant in the model. VIF values below 5 (and more conservatively below 3) are considered acceptable, as they indicate that the independent variables are not extremely correlated with each other. Therefore, the low VIF values confirmed the appropriateness of the independent variables inclusion in the model, and the results derived from the analysis are reliable and not influenced by overlying variance between the independent variables.

This study shows the component structure by removing items with standardized factor loadings that is below the normal threshold and assessing both validity and reliability of the measurement constructs using SmartPLS 4.0's confirmatory factor analysis. The discriminant validity verified as AVE values were higher than the constructs' squared correlations. Cronbach's alpha values surpassed the known established value of 0.7, confirming internal consistency. The study hypotheses were tested using the structural models at a 95% bias-corrected confidence interval, guaranteeing robust and dependable results. To assess the validity and reliability of the test, composite reliability (CR), Cronbach's alpha (α) and average variance extracted (AVE) were ascertained.

Table 5

Validity and Reliability test

	Cronbach's alpha	CR (rho_a)	CR (rho_c)	(AVE)
AP2PF	.767	.764	.757	.515
G-MSMEs	.790	.821	.857	.501
FL-SMEs	.846	.852	.883	.520

Table 5 reveals the result of the test for the reliability and validity of the variables which confirms how robust the measuring instruments is as well as indicates good internal consistency of the three study variables. Calculated Cronbach's alpha values - 0.767, G-MSMEs- 0.790 and FL-SMEs- 0.846 surpassed the recommended limit of 0.70. Validity, evaluated using AVE also met the requirement of convergent validity, with AVE values each surpassing the least requirement of 0.50. The results demonstrated that the constructs are well-represented by their respective items, with more than 50% of the variance explained.

Figure 1

The measurement model showing the effect of access to P2P financing and financial literacy of MSMEs owners on growth of MSMEs

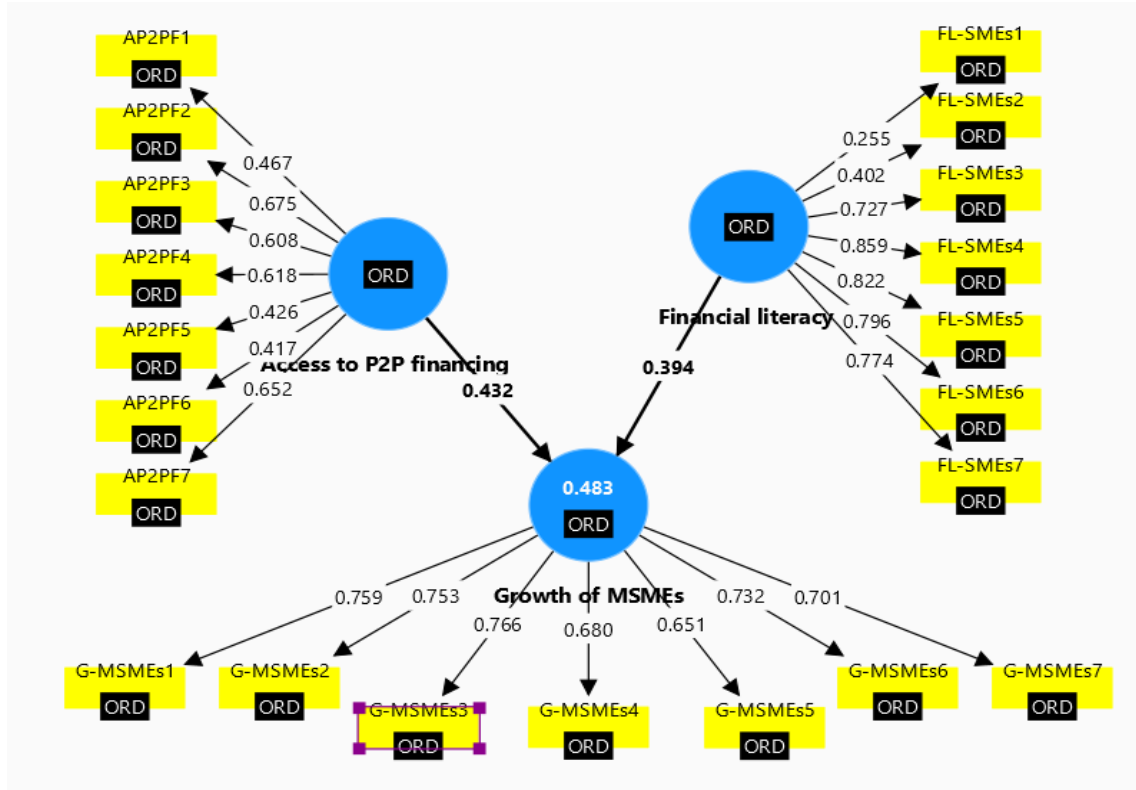


Figure 2

The measurement model showing the mediating role of financial literacy in the relationship between access to P2P financing and growth of MSMEs

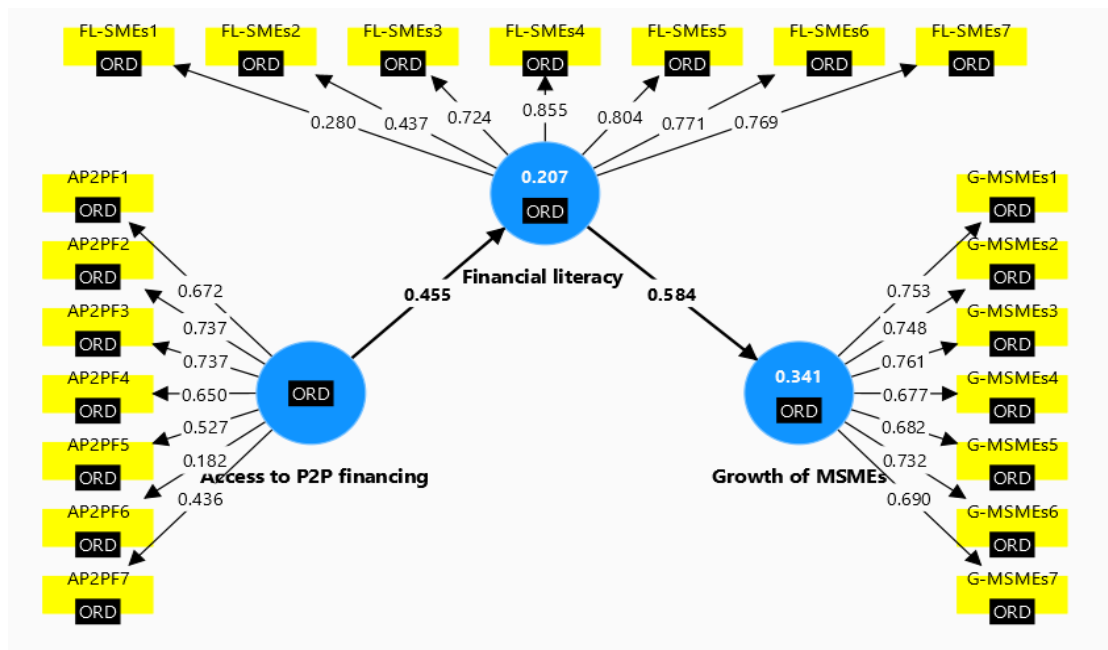


Table 6*Factor loadings of the construct items*

Construct	Factor Loadings	Construct	Factor Loadings	Construct	Factor Loadings
Access to P2P financing		Financial literacy of MSMEs owners		Growth of MSMEs	
AP2PF1	0.467	FL-SMEs1	0.255	G-MSMEs1	0.759
AP2PF2	0.675	FL-SMEs2	0.402	G-MSMEs2	0.753
AP2PF3	0.608	FL-SMEs3	0.727	G-MSMEs3	0.766
AP2PF4	0.618	FL-SMEs4	0.859	G-MSMEs4	0.860
AP2PF5	0.426	FL-SMEs5	0.822	G-MSMEs5	0.651
AP2PF6	0.417	FL-SMEs6	0.796	G-MSMEs6	0.732
AP2PF7	0.652	FL-SMEs7	0.774	G-MSMEs7	0.701

Table 7*Discriminant validity (Fornell Lacker)*

	AP2PF	FL-SMEs	G-MSMEs
AP2PF	0.561		
FL-SMEs	0.414	0.697	
G-MSMEs	0.595	0.573	0.721

Table 8*Discriminant Validity (HTMT)*

	AP2PF	FL-SMEs	G-MSMEs
AP2PF			
FL-SMEs	0.631		
G-MSMEs	0.531	0.683	

The confirmatory factor analysis (CFA) results, presented in Tables 6-8, reveal strong empirical evidence that supported the uniqueness of the study variables. The absence of issues with the discriminant validity as seen from the HTMT and Fornell Lacker respectively showed that no collinearity problems were detected among the latent constructs which supported the VIF tested earlier and presented in table 4. The structural model as shown in table 9 indicates an R-squared value of 0.483 for the growth of MSMEs. The study predictors' variable explains the observed variation of 48.3% in the growth of MSMEs which indicates the model's predictive ability. The model fit, shown in Table 10, was assessed specifically using SRMR. The SRMR value of 0.042 indicates a moderate fit since values less than 0.08 are deemed good.

Table 9*Model Fit*

	Saturated model	Estimated model
SRMR	0.042	0.042
d_ULS	3.461	3.461
d_G	0.914	0.914
Chi-square	433.302	433.302
NFI	0.573	0.573
	R-Square	R-Square Adjusted
Access to P2P and Financial literacy on Growth of MSMEs	0.483	0.472

Table 10*Total Direct effect*

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Access to P2P financing -> Growth of MSMEs.	0.432	0.448	0.090	4.814	0.000
Financial literacy of MSME owners -> Growth of MSMEs.	0.394	0.406	0.075	5.271	0.000

Table 10 presents the analysis of total direct effects, showing the relationships between access to P2P financing, MSME owners` financial literacy and MSMEs` growth. The effect of access to P2PL MSMEs` growth is statistically significant and positive, at p-value <0.001 and 0.432 coefficient value. Financial literacy of MSMEs owners showed a positive effect on the growth of MSMEs, evidenced by significant p-value <0.001 and 0.394 coefficient value.

Table 11*Specific Indirect effect*

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Access to P2P financing -> Financial literacy -> Growth of MSMEs.	0.266	0.316	0.069	3.864	0.000

The mediation analysis presented in Table 11 investigates the crucial role played by financial literacy as a mediating variable in the link between MSMEs` growth and access to P2P financing. Result of the analysis shows value, 0.266 mediating effect, probability value <0.001 indicating that this mediating effect is statistically significant at 5% level. Hence there is strong empirical evidence supporting the alternative hypothesis

that financial literacy significantly mediates in the relationship between access to P2P financing and growth of MSMEs.

6 DISCUSSION

The finding provides strong empirical evidence that access to P2P financing and financial literacy to a large extent contribute to MSMEs' growth in Enugu State. The study showed that **access to P2P financing significantly and positively affect MSME growth** ($\beta = 0.432$, $t = 4.814$, $p < 0.001$). The result suggests that when loan application requirements are flexible, affordable and not complicated with lower interest rate, MSME owners are encouraged to access funds which enable them invest effectively, generate income and improve MSME growth. This finding corroborates previous studies (Suryanto *et al.*, 2020; Abbasi *et al.*, 2021; Nurdana, 2018) that fintech-based P2P lending enhances access to finance, increases scale of production and improves turnover, profitability, and employment.

Similarly, Financial literacy was also found to have a direct and **strong positive** effect on MSME growth ($\beta = 0.394$, $t = 5.271$, $p < 0.001$). The result suggests that owners with high level of financial knowledge are more capable of preparing budgets, managing cash flows and making informed investment decisions for sustainability and competitiveness. This aligns with earlier studies (Ye and Kulathunga, 2019; Hussain *et al.*, 2018; Adomako *et al.*, 2016) that higher levels of financial literacy are linked to improved MSME growth, enhanced access to external funding, increased profitability and better financial resource allocation.

Furthermore, the result of the analysis affirmed that financial literacy significantly mediates the relationship between access to P2P financing and MSME growth ($\beta = 0.266$, $t = 3.864$, $p < 0.001$). Which further demonstrate that while access to P2P financing provides the necessary financial resources for MSME growth, financial literacy assists the owners to manage these resources effectively, mitigate risks, and transform financing opportunities into real growth outcomes. This aligns with the study (Bongomin *et al.*, 2017) that financial literacy reinforced the influence of financial access on MSME performance in Uganda, emphasizing its fundamental role as an enabler of growth as well as a direct driver. Generally, these results underscore the significance of both access to innovative funding and financial literacy as mutual catalyst of MSME growth. Access to

P2P financing offers the financial basis for growth, while financial literacy magnifies its influence by allowing MSME owners to utilize resources skillfully and purposefully. This alliance supports the expansive argument that financial literacy is not only a direct determinant of growth but also a key mediator that ensures sustainable financing innovation in developing economies.

7 CONCLUSION

This study examined the nexus between access to fintech-based Peer-to-Peer lending, financial literacy, and MSMEs' growth in Enugu State, Nigeria. The result demonstrates that P2P lending platforms to a large extent enhanced MSME growth through accessible, affordable, and flexible innovative funding. Specifically, the result showed that financial literacy is a crucial mediating factor in this relationship, indicating that high financially literate owners are poised to leverage the P2P lending effectively for MSME growth. The findings further revealed that while fintech innovative funding solutions such as P2P lending are enhancing access to finance, their impact is greatly improved when MSME owners acquire high level of financial literacy skills. Financial literacy should therefore be considered as a strategic imperative in enterprise growth not just as an ancillary skill. Policymakers, financial institutions, and fintech providers should integrate the mainstreaming of financial literacy training into MSME support initiatives. Furthermore, P2P lending platforms providers should ensure that financial literacy services are user friendly to inspire informed borrowing. This study therefore concludes that it is imperative to boost financial literacy of MSME owners for better access to innovative funding as well as achieving long-term business growth and economic development. This model could be examined further in future by looking at other moderating variables like digital literacy or entrepreneurial orientation using other climes.

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Authors' Contribution

All authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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