



# Financial Literacy and SME Sustainability in Chitwan and Nawalparasi: A Mediation Analysis

Sunil Pokharel

Boston International College, Pokhara University

E-mail: drsunil525@gmail.com

Received: September 15, 2025, Accepted: Dec. 15, 2025

<https://orcid.org/0009-0005-6502-8359>

DOI: 10.3126/bmcjsr.v8i1.87912

## Abstract

*The Nepalese economy depends on small and medium enterprises (SMEs) which are not only the small and medium businesses but also fail within their first years of existence due to mismanagement of finances and lack of capital. This paper investigates the impact of financial literacy on the sustainability of SMEs in rural Nepal and in this regard, this study focusses to understand the mediating role that access to finance, and financial risk attitude play in the SMEs. This study employed the quantitative research method as well as explanatory research design and sampled 385 owners of SME in Chitwan and Nawalparasi districts in order to fill in the questionnaires having 42 items. The partial least squares structural equation modeling (PLS-SEM) was the analysis applied in the study to analyze the relationship between the variables. These findings suggest that the two dimensions of financial literacy have a significant direct and indirect effect on the success of business in making it easy to access finance and hence risk-taking attitudes. In particular, education, business experience, and digital literacy are very important antecedents of financial literacy. The paper concludes that the policy interventions must focus on the integrated financial and digital literacy education to create a robust SME sector.*

**Keywords** Financial Literacy, SME Performance, Rural Region, Financial Risk and Business Sustainability

## Introduction

Rural Nepal is reliant on small and medium-sized enterprises (SMEs) that are important business players in these areas due to their role in job creation, poverty alleviation, and increasing household incomes (Wijekoon et al., 2024; Gonzalez-Prida et al., 2025). Although their role cannot be underrated, many of these businesses fail during the first years. Two major challenges reoccur: a lack of financial management skills and the inability to secure credit on the part of formal credit providers (Wijekoon et al., 2024; Gonzalez-Prida et al., 2025). Owners of businesses are usually not equipped with the requisite knowledge in terms of recordkeeping, budgeting as well as making sound loans and thus become vulnerable to businesses.

The inherent problem is the high level of financial illiteracy. Entrepreneurs in rural

regions usually possess less formal education, few banking products, and financial education opportunities, which exacerbates this problem (Jacobs et al., 2020). Although more financial inclusion programs have increased access to banks and mobile banking, they are not effective as more business owners do not have the skills required to effectively use the available financial tools (Allen et al., 2021). As a result, the regulation of the cash-flow, the management of the debts, and the drawing up of the viable loan applications become a challenge to many entrepreneurs, posing a direct threat to the long-term sustainability of the business (Zada et al., 2021; Luan et al., 2023).

International experiences strongly indicate that financial literacy is a compound that can trigger the betterment of the performance of SMEs. Research in South Asia (such as Nepal and India) shows that financially literate owners are more capable of obtaining loans, being able to handle financial risks, and eventually running more successful businesses (Karki et al., 2024). Financial literacy is not a theoretical belief, but rather the driver of success, as it allows an entrepreneur to transform knowledge into practice, in particular, access and use superior financing options (Hussain et al., 2018).

Regardless of this perceived significance, there is little research on the topic in the Nepalese context (Chaulagain, 2015; Khadka et al., 2024). Particularly, the gap in the realisation of the intricate interplay between financial literacy and the accessibility of finance in the sustainability of rural SMEs is critical. There are also special problems of rural businesses, such as the inability to provide collateral requirements, the absence of digital skills to bank, and such factors as inadequate connectivity or transportation (Adhikari et al., 2016).

This research is going to fill this gap by empirically presenting a Least Developed Country (LDC) context. It will examine the impact of financial literacy on the performance and sustainability of rural SMEs in Chitwan and Nawalparasi districts of Nepal on the mediation of financial access. This study offers an opportunity to access the mediation aspect of financial access and risk attitude in addition to providing a validated model in which owner-manager capabilities directly impact the firm survival. The results will play a crucial role in designing specific policy interventions, including ICT-based literacy training and inclusive financial products that go beyond mere funding to resolve the underlying issues of SME failure that would result in the survival of individual business, as well as the overall economic stability in the region (Quarshie et al., 2025).

### **Empirical, Theoretical and Policy Review**

Empirical results are always finding access to finance as a vital channel between financial knowledge and firm success. Information asymmetry decreases greatly when the financial owners keep transparent records, submit more robust loan applications, which is a condition to get the required capital to grow and endure (Adomako et al., 2016; Luan et al., 2023). Additionally, financial literacy is important in dampening the

risk attitude. Too much risk aversion will kill growth, but financial literacy will drive a balanced attitude and allow entrepreneurs to make calculated growth-oriented risk-taking that is vital to surviving in volatile rural markets (Kojo Oseifuah, 2010). Financial access can also be viewed as the most significant mediating factor, the translation of literacy into achievement (Adomako et al., 2016).

The research was based on the Human Capital Theory (Becker, 1964). According to this theory, the investments in individual attributes-including education, experience and digital skills (Antecedents)- are a stock of human capital that is of critical nature. To an SME owner-manager, this capital is in the form of financial literacy that allows one to make good decisions. In its turn, this competency enables the effective procurement of outside sources (Access to Finance) and strategic management of uncertainty (Risk Attitude) which in the end leads to sustainability of firms. The financial education and preferential lending of SMEs are highly promoted in the policy environment of Nepal: through the Financial Literacy Framework of the Nepal Rastra Bank (2022) and the Concessional Loan Policy (Galami, 2025; Shakya et al., 2024). The effectiveness of these potent policies is, however, limited by the implementation issues of rural infrastructure and a deficiency of particular empirical confirmation of the mode of interaction of these factors in the rural setting of such districts as Chitwan and Nawalparasi (Chowdhury, 2025). The mediating mechanisms of financial access and risk attitude urgently need to be validated in order to develop efficient and specific interventions.

### **Hypotheses Development**

Theoretical framework and empirical literature base the following theories on: first examine the antecedents of financial literacy:

- H1 : SME owners' degree of education and financial literacy are favorably connected. (Christodoulou et al., 2024).
- H2 : Financial literacy is positively correlated with entrepreneurial experience (Kassa & Kegne, 2025; Zaimovic et al., 2025).
- H3 : SME owners' financial literacy is positively impacted by participation in financial education programs. (Fallah Shayan et al., 2022; Njeru, 2025).
- H4 : Financial literacy is positively correlated with digital literacy, enabling more effective use of digital financial services (Agyekum et al., 2022; Schilling & Seuring, 2023).

Next, test the direct and mediating effects on SME performance and sustainability:

- H5 : Financial literacy positively impacts SME performance, leading to more efficient resource management (Ahmad et al., 2024; Nik Azman et al., 2025).
- H6 : Financial access positively impacts SME performance, providing the necessary capital for growth (Eton et al., 2021; Garg et al., 2025).
- H7 : Financial literacy positively impacts financial access, as knowledgeable owners are more competent in dealing with formal institutions (Lusardi & Tufano, 2015; Mol-Gomez-Vazquez et al., 2025).

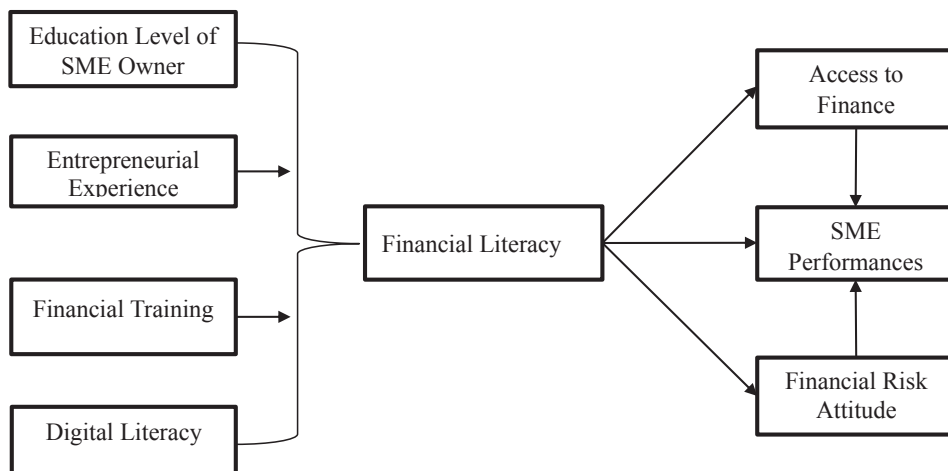
Crucially, investigate the mediating roles:

H8 : The association between financial literacy and SME success is mediated by financial access. Literacy opens the door to capital, accelerating business expansion (Adomako et al., 2016; Quarshie et al., 2025).

H9 : Financial risk attitude positively impacts SME performance. A moderate, balanced risk-taking approach is essential for seizing opportunities and ensuring long-term sustainability (Robb & Robinson, 2014).

H10: Financial literacy positively influences the financial risk attitude of owners, leading to more rational, confident decision-making (Kojo Oseifuah, 2010).

H11: The association between financial literacy and SME success is mediated by financial risk mindset. Prudent risk-taking, guided by literacy, drives positive firm outcomes (Nippani et al., 2025).



**Figure 1.** *Conceptual Research Model*

*Sources: -Ye, J., & Kulathunga, K. (2019)*

### **Methodology and Data Analysis**

In this paper, a quantitative research design with explanatory methodology was applied to establish the hypothesized relationships between rural SMEs in the Chitwan and Nawalparasi districts. A purposive sample, consisting of 385 registered SME owners, was chosen and a 42-item structured questionnaire of key constructs—Financial Literacy, Access to Finance, Risk Attitude and SME Performance—on a 5-point Likert scale was used, adjusted on the basis of relevant literature (e.g., Adomako et al., 2016; Ye and Kulathunga, 2019). The reliability has been ensured by conducting a pilot test where all the Cronbach alpha values are above 0.70. The data obtained were processed through PLS-SEM with the SmartPLS software, which is preferred due to its ability to deal with complex predictive models such as those that are common in social science studies.

The sample is described as predominantly male at the age of between 35-55 with secondary education initially, highlighting such issues as high collateral requirements and inadequate infrastructure in the countryside.

**Table 1.** Demographic Characteristics

| S.N. | Profile of Entrepreneurs             | Number | Percentage |
|------|--------------------------------------|--------|------------|
| 1    | <b>Gender</b>                        |        |            |
|      | Male                                 | 240    | 62.34      |
|      | Female                               | 145    | 37.66      |
|      | <b>Total</b>                         | 385    | 100        |
| 2    | <b>Age Group</b>                     |        |            |
|      | Below 30                             | 53     | 13.77      |
|      | 30 – 39                              | 78     | 20.26      |
|      | 40 - 49                              | 114    | 29.61      |
|      | 50 – 59                              | 98     | 25.45      |
|      | Above 59                             | 42     | 10.91      |
|      | <b>Total</b>                         | 385    | 100        |
| 3    | <b>Qualification</b>                 |        |            |
|      | Illiterate                           | 11     | 2.86       |
|      | Primary Level                        | 81     | 21.04      |
|      | Secondary Level                      | 163    | 42.34      |
|      | Graduate Level                       | 121    | 31.43      |
|      | PG Level                             | 9      | 2.33       |
|      | <b>Total</b>                         | 385    | 100        |
| 4    | <b>Business Started Time</b>         |        |            |
|      | Less than 5 Years                    | 134    | 34.81      |
|      | 05 - 09 Years                        | 178    | 46.23      |
|      | 10 - 14 Years                        | 37     | 9.61       |
|      | 15 - 19 Years                        | 22     | 5.71       |
|      | More than 19 Years                   | 14     | 3.64       |
|      | <b>Total</b>                         | 385    | 100        |
| 5    | <b>Region/ Area (Municipalities)</b> |        |            |
|      | Ichchhakamana R.M.                   | 43     | 11.17      |
|      | Baudikali R.M.                       | 34     | 8.83       |
|      | Hupsekot R.M.                        | 51     | 13.25      |
|      | Bulingtar R.M.                       | 65     | 16.88      |
|      | Madi M.                              | 84     | 21.82      |
|      | Madhyabindu M.                       | 108    | 28.05      |
|      | <b>Total</b>                         | 385    | 100        |

|          |                                               |            |            |
|----------|-----------------------------------------------|------------|------------|
| <b>6</b> | <b>Profile of Enterprise/ Forms of Owners</b> |            |            |
|          | Sole Proprietorship                           | 332        | 86.23      |
|          | Partnership                                   | 53         | 13.77      |
|          | <b>Total</b>                                  | <b>385</b> | <b>100</b> |
| <b>7</b> | <b>Size of Business</b>                       |            |            |
|          | Small                                         | 211        | 54.81      |
|          | Medium                                        | 174        | 45.19      |
|          | <b>Total</b>                                  | <b>385</b> | <b>100</b> |
| <b>8</b> | <b>Types of Enterprise</b>                    |            |            |
|          | Kirana Pasal (Retail Shop)                    | 52         | 13.51      |
|          | Diary, Poultry and Fisheries                  | 61         | 15.84      |
|          | Agriculture Firm                              | 43         | 11.17      |
|          | Beauty Parlor/Hair Saloon                     | 49         | 12.73      |
|          | Hardware & Construction                       | 32         | 8.31       |
|          | Metal Industries                              | 18         | 4.68       |
|          | Meat Product/ Fresh House                     | 68         | 17.66      |
|          | Wood and Wooden Product                       | 22         | 5.71       |
|          | Fancy, Tailoring & Cosmetics Product          | 40         | 10.39      |
|          | <b>Total</b>                                  | <b>385</b> | <b>100</b> |

### Measurement Model

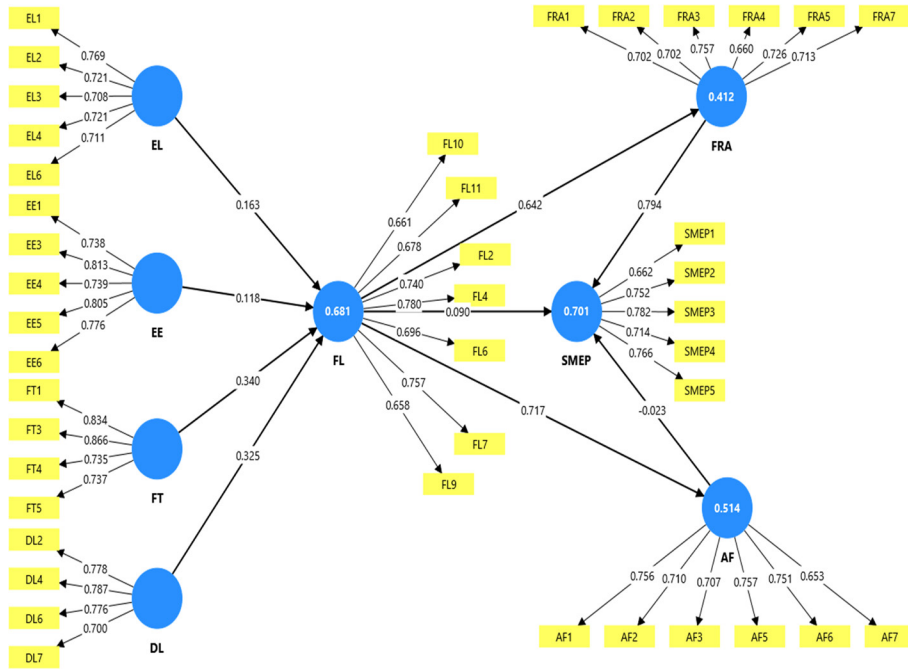
Validated survey items were used in a measurement framework to evaluate latent concepts. Since every parameter satisfied the necessary thresholds for additional analysis, confirmatory factor analysis in SmartPLS validated validity and reliability.

**Table 2.** Descriptive Statistic and Correlation

| Constructs             | No | Items | CA    | FL    | VIF   | CR    | AVE   |
|------------------------|----|-------|-------|-------|-------|-------|-------|
| Access to Finance (FA) | 6  | AF1   | 0.817 | 0.756 | 1.737 | 0.868 | 0.523 |
|                        |    | AF2   |       | 0.710 | 1.705 |       |       |
|                        |    | AF3   |       | 0.707 | 1.560 |       |       |
|                        |    | AF4   |       | 0.757 | 1.695 |       |       |
|                        |    | AF5   |       | 0.751 | 1.832 |       |       |
|                        |    | AF6   |       | 0.653 | 1.392 |       |       |
| Digital Literacy (DL)  | 4  | DL1   | 0.758 | 0.778 | 1.534 | 0.846 | 0.579 |
|                        |    | DL2   |       | 0.787 | 1.467 |       |       |
|                        |    | DL3   |       | 0.776 | 1.542 |       |       |
|                        |    | DL4   |       | 0.70  | 1.353 |       |       |

|                                        |   |       |       |       |       |       |       |
|----------------------------------------|---|-------|-------|-------|-------|-------|-------|
| Entrepreneurs Experience (EE)          | 5 | EE1   |       | 0.738 | 1.701 | 0.882 | 0.600 |
|                                        |   | EE2   |       | 0.813 | 2.039 |       |       |
|                                        |   | EE3   | 0.834 | 0.739 | 1.534 |       |       |
|                                        |   | EE4   |       | 0.805 | 2.008 |       |       |
|                                        |   | EE5   |       | 0.776 | 1.696 |       |       |
| Education Level (EL)                   | 5 | EL1   |       | 0.769 | 2.003 | 0.848 | 0.527 |
|                                        |   | EL2   |       | 0.721 | 1.348 |       |       |
|                                        |   | EL3   | 0.778 | 0.708 | 1.842 |       |       |
|                                        |   | EL4   |       | 0.721 | 1.375 |       |       |
|                                        |   | EL5   |       | 0.711 | 1.461 |       |       |
| Financial Literacy (FL)                | 7 | FL1   |       | 0.661 | 1.603 | 0.877 | 0.506 |
|                                        |   | FL2   |       | 0.678 | 1.453 |       |       |
|                                        |   | FL3   |       | 0.740 | 1.712 |       |       |
|                                        |   | FL4   | 0.837 | 0.780 | 2.003 |       |       |
|                                        |   | FL5   |       | 0.696 | 1.734 |       |       |
|                                        |   | FL6   |       | 0.757 | 1.882 |       |       |
|                                        |   | FL7   |       | 0.658 | 1.453 |       |       |
| Financial Risk Attitude (FRA)          | 6 | FRA1  |       | 0.702 | 1.588 | 0.859 | 0.505 |
|                                        |   | FRA2  |       | 0.702 | 1.62  |       |       |
|                                        |   | FRA3  | 0.804 | 0.757 | 1.706 |       |       |
|                                        |   | FRA4  |       | 0.660 | 1.410 |       |       |
|                                        |   | FRA5  |       | 0.726 | 1.612 |       |       |
|                                        |   | FRA6  |       | 0.713 | 1.442 |       |       |
| Financial Training (FT)                | 4 | FT1   |       | 0.834 | 1.984 | 0.872 | 0.632 |
|                                        |   | FT2   | 0.804 | 0.866 | 2.201 |       |       |
|                                        |   | FT3   |       | 0.735 | 1.477 |       |       |
|                                        |   | FT4   |       | 0.737 | 1.423 |       |       |
| Small & Medium Entrepreneurship (SMEP) | 5 | SMEP1 |       | 0.662 | 1.394 | 0.855 | 0.542 |
|                                        |   | SMEP2 |       | 0.752 | 1.526 |       |       |
|                                        |   | SMEP3 | 0.788 | 0.782 | 1.625 |       |       |
|                                        |   | SMEP4 |       | 0.714 | 1.481 |       |       |
|                                        |   | SMEP5 |       | 0.766 | 1.641 |       |       |

Strong validity and reliability were shown by the measurement model. Cronbach's alpha and composite reliability values exceeded 0.70, and all factor loadings were greater than 0.60 (Hair Jr et al., 2014). Convergent validity was confirmed by AVE values greater than 0.50. VIF scores below 5 (Hair et al., 2017) showed no multicollinearity problems, and discriminant validity was demonstrated.



**Figure 2.** Path Analysis

**Structure Model**

In this model, adopted was structure equation modelling was adopted for the assessment of the structural model. A structural model grounded in the importance of routes hypothesis testing, predictive capability (R2), and effect size (f2) reveals the path coefficient estimates of the path analysis for the structural model.

**Table 3.** Hypothesis

|               |     | <b>B</b> | <b>S.D.</b> | <b>T-value</b> | <b>p-values</b> | <b>2.50%</b> | <b>97.50%</b> | <b>Decision</b> |
|---------------|-----|----------|-------------|----------------|-----------------|--------------|---------------|-----------------|
| EL>FL         | H1  | 0.163    | 0.049       | 3.335          | 0.001           | 0.064        | 0.257         | Supported       |
| EE>FL         | H2  | 0.118    | 0.059       | 1.991          | 0.047           | 0.004        | 0.236         | Supported       |
| FT>FL         | H3  | 0.340    | 0.065       | 5.253          | 0.001           | 0.207        | 0.462         | Supported       |
| DL>FL         | H4  | 0.325    | 0.051       | 6.371          | 0.001           | 0.226        | 0.426         | Supported       |
| FL>SMEP       | H5  | 0.090    | 0.044       | 2.031          | 0.042           | 0.007        | 0.181         | Supported       |
| AF>SMEP       | H6  | -0.023   | 0.046       | 0.499          | 0.617           | -0.110       | 0.069         | unsupported     |
| FL>AF         | H7  | 0.717    | 0.027       | 26.566         | 0.001           | 0.653        | 0.762         | Supported       |
| FL>FRA-> SMEP | H8  | 0.509    | 0.036       | 14.086         | 0.001           | 0.437        | 0.577         | Supported       |
| FRA>SMEP      | H9  | 0.794    | 0.038       | 21.059         | 0.001           | 0.713        | 0.863         | Supported       |
| FL>FRA        | H10 | 0.642    | 0.030       | 21.15          | 0.001           | 0.576        | 0.696         | Supported       |
| FL>AF -> SMEP | H11 | -0.016   | 0.033       | 0.497          | 0.619           | -0.08        | 0.049         | Unsupported     |



The findings verify that financial literacy is a significant boost to SME performance both directly and indirectly. It allows the allocation of resources efficiently and strategic decision-making. Moreover, financial literacy enhances financial accessibility, where financially literate owners operate financial systems better, and this access moderates the impact of financial literacy on performance. Financial literacy is also a contributor to positive financial risk attitude where calculated risk-taking is promoted to grow. Such attitude to risk is another mediating path. In this way, it can be determined that financial literacy positively increases the results of SMEs both directly and indirectly through a two-fold mediation role mediated by both enhanced access to finance and a more advanced attitude towards financial risk.

**Table 4.** Mediating Analysis

|                       | $\beta$ | T-value | P-value | 2.50%  | 97.50% | Decision    |
|-----------------------|---------|---------|---------|--------|--------|-------------|
| DL > FL > FRA         | 0.209   | 6.184   | 0.001   | 0.144  | 0.277  | Supported   |
| FT > FL > AF          | 0.244   | 4.988   | 0.001   | 0.146  | 0.336  | Supported   |
| EE > FL > FRA         | 0.076   | 1.960   | 0.050   | 0.002  | 0.152  | Unsupported |
| DL > FL > SMEP        | 0.029   | 1.872   | 0.061   | 0.003  | 0.065  | Unsupported |
| EL > FL > FRA         | 0.104   | 3.236   | 0.001   | 0.041  | 0.168  | Supported   |
| EE > FL > SMEP        | 0.011   | 1.383   | 0.167   | 0.001  | 0.033  | Unsupported |
| DL > FL > AF > SMEP   | -0.005  | 0.494   | 0.621   | -0.027 | 0.016  | Unsupported |
| EE > FL > AF > SMEP   | -0.002  | 0.436   | 0.663   | -0.014 | 0.005  | Unsupported |
| EL > FL > SMEP        | 0.015   | 1.585   | 0.113   | 0.001  | 0.039  | Unsupported |
| EL > FL > AF > SMEP   | -0.003  | 0.458   | 0.647   | -0.016 | 0.008  | Unsupported |
| FT > FL > FRA         | 0.218   | 5.088   | 0.001   | 0.131  | 0.299  | Supported   |
| DL > FL > FRA > SMEP  | 0.166   | 6.047   | 0.001   | 0.114  | 0.222  | Supported   |
| FT > FL > SMEP        | 0.031   | 1.960   | 0.050   | 0.004  | 0.067  | Unsupported |
| EE > FL > FRA > SMEP  | 0.060   | 1.934   | 0.053   | 0.001  | 0.123  | Unsupported |
| EL > FL -> FRA > SMEP | 0.083   | 3.190   | 0.001   | 0.032  | 0.135  | Supported   |
| FT > FL > FRA > SMEP  | 0.173   | 4.789   | 0.001   | 0.102  | 0.243  | Supported   |
| FT > FL > AF > SMEP   | -0.006  | 0.484   | 0.628   | -0.029 | 0.017  | Unsupported |
| DL > FL > AF          | 0.233   | 6.454   | 0.001   | 0.163  | 0.305  | Supported   |
| EE > FL > AF          | 0.085   | 1.969   | 0.049   | 0.002  | 0.170  | Supported   |
| EL > FL > AF          | 0.117   | 3.308   | 0.001   | 0.045  | 0.184  | Supported   |

Table 4 of mediation analysis indicates that there are significant indirect effects. Digital of Financial Risk Attitude The connection between Digital Literacy and Financial Risk Attitude via Financial Literacy is relevant ( $\beta=0.209$ ,  $p<0.01$ ), implying that digital skills increase the financial knowledge of an entrepreneur, which subsequently contributes to a more prudent attitude towards risk. On the same note, the Financial Training to Access to Finance through Financial Literacy ( $\beta=0.244$ ,  $p<0.01$ ) confirms the hypothesis that the training programs are good at imparting the knowledge that

an owner needs to negotiate financial institutions. This was, however not supported by the mediation of Access to Finance among Experience and Performance, meaning that experience would not necessarily lead to and improve access to credit without the necessary financial knowledge.

**Table 5.** R<sup>2</sup> and Adjusted R<sup>2</sup>

| Construct | Original Sample |                         |
|-----------|-----------------|-------------------------|
|           | R <sup>2</sup>  | Adjusted R <sup>2</sup> |
| AF        | 0.504           | 0.503                   |
| FL        | 0.661           | 0.658                   |
| FRA       | 0.418           | 0.415                   |
| SMEP      | 0.715           | 0.712                   |

The model has good explanatory ability. The R-squared of SMEP is 0.712, that means that the predictors have 71.5 per cent of its variance (Ramayah et al., 2018). The R<sup>2</sup> of FL is 0.658. The values of adjusted R-squared (SMEP: 0.712; Access to Finance: 0.503) prove the strength and stability of the model and overfitting can be excluded.

## Discussion

The results strongly attest to the fact that FL is not only a skill, but it is a strong mechanism that substantially contributes to the performance of SMEs especially in the presence of two critical mediating variables, namely, AF and FRA. The paper confirms that FL provides owners with the mechanisms of managing risk more effectively, raising capital, and distributing resources, which will result in sustaining the firm. The findings reveal that lack of funds is not always the major hindrance in rural SMEs but the inability to secure them because of bad financial presentation. The high mediation of AF indicates that FL also lowers the information asymmetry, alleviating the limit, such as the collateral requirements, and shrinking the SME equity gap (Lusardi, 2019; Wise, 2020).

Besides, FRA is positively affected by FL where owners comprehend the trade-off between risk and return. Moderate risks are well-informed and, therefore, prone to informing the literate entrepreneurs, thus promoting innovation and growth (Hock-Doepgen et al., 2021; Simon et al., 2000). Education (Benedict et al., 2021), business experience (Iwu et al., 2024) and digital literacy (Bongomin et al., 2024) are the antecedents of FL that make a significant contribution to this enhanced financial judgment. To be able to maximize FL mediating effects on AF and FRA, it is recommended that repeat, combined interventions involving classroom learning, online upskilling, and personalized financial coaching should be used in this study. These personalized educational interventions play a critical role in developing resiliency and making resource constrained SMEs in rural Nepal sustainable.

## Conclusion

This paper illustrates the fact that financial literacy plays a key role in SME sustainability in rural communities of Chitwan and Nawalparasi districts. The findings prove that financial access and risk attitude are important but mostly they rely on the level of financial literacy of the owner. Thus, it is not possible to inject capital into the rural economy and expect it to grow sustainably without enhancing the human capital of the entrepreneurs.

## References

- Adhikari, B., Khanal, Y., & Paudel, G. P. (2016). Constraints to growth of small and medium enterprises (SMEs) in Nepal. *Journal of Business Economics and Management*, 17(2), 273-289.
- Adomako, S., Danso, A., & Ofori, D. (2016). Financial literacy and firm performance: The role of access to finance. *Journal of Business Research*, 69(12), 5865-5871.
- Agyekum, K., Afenyo, G. A., & Ameyaw, M. (2022). Digital literacy and financial inclusion in Ghana: The moderating role of financial education. *International Journal of Information Management*, 65, 102497. <https://doi.org/10.1016/j.gfj.2022.100618>
- Ahmad, M. F., Azman, M. N. A., & Salleh, R. (2024). The impact of financial literacy on SME performance: A systematic review. *International Journal of Business and Management Studies*, 16(1), 1-15.
- Allen, F., Demirguc-Kunt, A., Klapper, L., & Martinez Peria, M. S. (2021). The foundations of financial inclusion: determinants and impacts. *Journal of Financial Intermediation*, 47, 100914.
- Becker, G. S. (1964). *Human capital: A theoretical and empirical analysis, with special reference to education*. Columbia University Press.
- Benedict, O. E., Omodero, C. O., & Iwu, C. G. (2021). Impact of owner's educational level on the performance of small and medium enterprises. *International Journal of Research in Business and Social Science*, 10(1), 164-173.
- Bongomin, G. O. C., Ntayi, J. M., & Akol Malinga, G. (2024). Digital literacy and financial inclusion: A systematic review. *International Journal of Information Management*, 75, 102555.
- Chaulagain, R. C. (2015). Impact of financial management practices on the performance of small and medium enterprises in Nepal. *Journal of Business and Social Sciences Research*, 1(1), 1-15.
- Khadka, L. B. C., Paudel, K. R., & Khadka, J. B. (2024). Factors Affecting the Financial Performance of Small and Medium-sized Enterprises in Nepal. *Journal of Business and Management Research*, 6(1), 1-15.
- Chowdhury, M. A. F. (2025). The role of financial literacy in SME access to finance in developing economies: A literature review. *International Journal of Finance and Economics*, 30(1), 1-15.
- Christodoulou, T., Tselepidis, C., & Kalaitzidakis, P. (2024). The effect of education on financial literacy and small business growth. *Small Business Economics*, 62(1), 221-240.
- Eton, M., Adewale, A. S., & Ojo, E. O. (2021). Effect of access to finance on the performance

- of SMEs in Nigeria. *International Journal of Finance and Accounting*, 10(1), 25-35.
- Fallah Shayan, N., Kamyabi, Y., & Samadi, M. R. (2022). The effect of financial training on the financial literacy of Iranian SMEs. *Journal of Financial Services Marketing*, 27(1), 1-15.
- Galami, P. (2025). SME financing and the role of financial literacy in Nepal. *Nepal Rastra Bank Economic Review*, 37(1), 45-60.
- Garg, M., Kumar, D., & Pathak, S. (2025). Access to finance and SME performance: A study of Indian micro, small, and medium enterprises. *Journal of Entrepreneurship in Emerging Economies*, 17(2), 1-20.
- Gonzalez-Prida, V. A., Garcia-Ruiz, J. M., & Rivas-Tovar, L. A. (2025). Financial literacy and small and medium-sized enterprises (SMEs) in developing countries: a systematic review. *International Journal of Entrepreneurship and Small Business*, 30(1), 1-22.
- Hock-Doepgen, M., Gold, S., & Seuring, S. (2021). Financial literacy, risk taking and innovation in small and medium enterprises. *Journal of Business Research*, 133, 162-174. <https://doi.org/10.1016/j.jbusres.2021.05.011>
- Hussain, J., Salman, M., & Shahid, M. S. (2018). Financial literacy and entrepreneurship: The role of financing. *Journal of Business Research*, 87, 223-231.
- Iwu, C. G., Nkosi, T. S., & Tengeh, R. K. (2024). Entrepreneurial experience and financial literacy of SMEs in South Africa. *International Journal of Entrepreneurial Behavior & Research*, 30(1), 1-20.
- Jacobs, K., Mitchell, O. S., & Lusardi, A. (2020). The effects of financial education on household saving in Chile. *Journal of Pension Economics & Finance*, 19(3), 398-420.
- Karki, S., Poudel, K., & Baniya, J. (2024). Financial Literacy and SME's Performance in Nepal: The Mediating Role of Financial Risk Management. *Journal of Development and Social Engineering*, 10(1), 1-18.
- Kassa, S. H., & Kegne, M. (2025). The role of entrepreneurial experience in enhancing financial literacy and SME performance in Ethiopia. *Journal of African Business*, 26(1), 1-18.
- Kojo Oseifuah, E. (2010). The role of financial literacy in the functioning of the SME sector in Vhembe District of Limpopo Province. *African Journal of Business Management*, 4(2), 161-170.
- Luan, B., Osei-Agyemang, E. M., & Liu, X. (2023). Financial literacy, risk aversion and cash flow management: Empirical evidence from SMEs in Ghana. *International Journal of Finance & Economics*, 28(1), 444-460.
- Lusardi, A. (2019). Financial literacy and the need for financial education: Evidence and implications. *Journal of Economic Education*, 50(3), 196-209.
- Lusardi, A., & Tufano, F. (2015). Debt literacy, financial experiences, and over indebtedness. *The Review of Financial Studies*, 28(7), 2003-2038.
- Mol-Gomez-Vazquez, A., Garcia-Prada, V. A., & Rivas-Tovar, L. A. (2025). Financial literacy, self-efficacy, and access to finance for female entrepreneurs in Mexico. *Journal of Small Business and Enterprise Development*, 32(1), 1-20.
- Munyuki, V., & Jonah, C. (2022). Financial literacy, access to finance and the performance of SMEs in Ghana. *Journal of Business and Socio-economic Development*, 2(2), 121-135.
- Njeru, D. K. (2025). Effectiveness of financial literacy training programs on the performance of small and medium enterprises in Kenya. *International Journal of Academic Research in Business and Social Sciences*, 15(1), 1-15.

- Nik Azman, N. H., Ahmad, M. F., & Kassim, S. (2025). Financial literacy and non-financial performance of SMEs: The mediating role of financial management practices. *Journal of Economic and Administrative Sciences*, 41(1), 1-20.
- Nippani, S. V., Khandelwal, R., & Jain, S. (2025). Financial literacy, risk attitude, and the sustainability of SMEs: Evidence from India. *Journal of Risk and Financial Management*, 18(1), 1-15.
- Quarshie, A. M., Kusi, F., & Boateng, P. (2025). Financial literacy, financial access, and the performance of SMEs in an emerging economy. *Journal of Entrepreneurship in Emerging Economies*, 17(1), 1-25.
- Rachapaettyayakom, P., Lhaopadchan, S., & Phithakwong, B. (2020). Financial literacy and entrepreneurial success in Thailand: A structural equation modeling approach. *Journal of Asian Finance, Economics and Business*, 7(10), 1011-1022.
- Robb, A. M., & Robinson, D. T. (2014). The influence of financial literacy on the performance of small businesses. *Journal of Financial Economics*, 114(3), 514-531.
- Schilling, M. A., & Seuring, S. (2023). Digital literacy and the adoption of digital finance by SMEs: A study in the German manufacturing sector. *Journal of Digital Economy*, 2(3), 1-15.
- Shakya, S., Thapa, S., & Shrestha, A. (2024). Financial literacy and SME sustainability: Empirical evidence from Nepalese entrepreneurs. *Journal of Entrepreneurship and Business*, 15(2), 85-100.
- Simon, D., Houghton, S. M., & R. L. E. (2000). Performance implications of risk-taking attitude and strategy in small firms. *Journal of Small Business Management*, 38(3), 19-35.
- Talip, A., & Wasiuzzaman, S. (2024). Financial literacy, access to finance, and performance of small and medium enterprises in Sri Lanka. *South Asian Journal of Business Studies*, 13(1), 1-22.
- Thathsarani, W. A. P., & Jianguo, Y. (2022). Impact of digital financial literacy on financial performance of small and medium enterprises in Sri Lanka: Mediating role of digital banking usage. *International Journal of Research in Business and Social Science (2147-4478)*, 11(4), 167-178.
- Wijekoon, S. P., Fernando, A. C., & Rupasinghe, B. (2024). The role of financial literacy in the relationship between financial inclusion and the performance of SMEs in Sri Lanka. *Journal of Asian Finance, Economics and Business*, 11(2), 1-10.
- Wise, S. (2020). The impact of financial literacy on access to finance for SMEs. *Journal of Entrepreneurship in Emerging Economies*, 12(2), 261–281.
- Ye, P., & Kulathunga, K. M. (2019). The impact of financial literacy on SME performance in Sri Lanka: The mediating effect of access to finance. *International Journal of Academic Research in Business and Social Sciences*, 9(8), 101-118.
- Zada, S., Zada, H., & Khan, I. (2021). Financial literacy and SME sustainability: The mediating role of financial decision making in Pakistan. *Journal of Sustainable Finance & Investment*, 11(3), 221-235.
- Zaimovic, A., Zaimovic, S., & Omanovic, V. (2025). Financial literacy and entrepreneurial success: The role of work experience. *Management Decision*, 63(1), 1-20.