

Full Length Research

Effect of Financial Capability on the Investment Decisions of MSMEs in Abuja, Nigeria.

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This study investigates the effect of financial capability on the investment decisions of Micro Small and Medium Enterprises (MSMEs) in Abuja, Nigeria, with a particular focus on access to finance and savings and reserves. MSMEs are widely recognized as the backbone of economic growth and employment creation in developing economies, yet their ability to make sound investment decisions is often constrained by financial challenges. A descriptive survey design was adopted, targeting registered MSMEs in Abuja. Using Taro Yamane's formula, a sample size of 330 was drawn from the MSME population of 1216, and data were collected through structured questionnaires. Reliability was tested using Cronbach's Alpha, with values above 0.7 confirming the internal consistency of the instrument. Data analysis was carried out using SPSS version 28, applying descriptive statistics, correlation, and multiple regression. The findings revealed that access to finance and savings and reserves significantly influence MSMEs' investment decisions. Access to finance was found to improve asset acquisition and expansion projects, while savings and reserves played a critical role in sustaining long-term investments and technology adoption. The regression model explained a large proportion of the variance in MSMEs' investment decisions, underscoring the critical role of financial capability. The study concludes that strengthening financial access and promoting a culture of savings are vital for enabling MSMEs in Abuja to make productive and sustainable investment decisions.

Keywords: Financial capability, Access to finance, Savings and reserves, Investment decisions, MSMEs

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INTRODUCTION

Micro Small and Medium Enterprises MSMEs are widely acknowledged as fundamental contributors to economic development, particularly in emerging economies where they account for a significant share of employment, income distribution, and innovation. Globally, MSMEs represent about 90% of businesses and contribute more than 50% of employment worldwide (World Bank, 2022). In Africa, MSMEs play an even greater role in sustaining livelihoods and addressing poverty. According to the African Development Bank (2021), MSMEs account for nearly 80% of jobs in sub-Saharan Africa, making them indispensable to socio-economic growth. However, their growth and ability to make viable investment decisions depend largely on their financial capability. Financial capability is the capacity of a business to access, manage, and deploy financial resources effectively to support growth and sustainability. It encompasses not only

external factors such as access to credit and financial markets, but also internal elements like savings, reserves, and the ability to manage cash flows. In developed economies, financial capability has been linked to stronger investment decisions, higher productivity, and better resilience to market shocks (OECD, 2021). By contrast, in developing countries, MSMEs often face severe constraints in accessing finance and building internal reserves, limiting their ability to pursue long-term investments.

Investment decisions are among the most critical determinants of enterprise growth. For MSMEs, they involve allocating scarce resources to projects such as acquiring assets, expanding operations, diversifying product lines, or adopting new technologies. According to Eniola and Entebang (2020), effective investment decisions are a key driver of profitability, competitiveness, and long-term sustainability in MSMEs. However, poor financial capability often results in missed opportunities, underinvestment, or reliance on short-term and less productive ventures. In Nigeria, MSMEs constitute over 96% of businesses and contribute approximately 48% to the national Gross Domestic Product (Small and Medium Enterprises Development Agency of Nigeria and National Bureau of Statistics, 2021). Despite their enormous potential, their performance has been hampered by limited financial access, weak savings culture, and inadequate reserves. Abuja, the Federal Capital Territory, presents a peculiar context as it hosts a large number of MSMEs across services, trade, and light manufacturing. Yet, many MSMEs in Abuja struggle with financing constraints, poor financial literacy, and difficulties in mobilizing savings, all of which affect their investment choices. The Central Bank of Nigeria (2022) noted that less than 15% of MSMEs in the country have access to formal credit, forcing many to rely on personal savings or informal sources to finance investments.

Studies across Nigeria and beyond have highlighted the significant role of financial capability in shaping MSMEs' investment decisions, but findings remain mixed. For instance, Ojo and Salami (2021) found that access to finance strongly influenced MSMEs' decisions to expand operations, while Akinola (2022) argued that savings and reserves were more critical in sustaining long-term investments than external financing. Conversely, Yusuf and Olanrewaju (2023) observed that even when credit was accessible, poor financial management practices limited its impact on investment outcomes. These inconsistencies point to the need for context-specific evidence, particularly in Abuja, where MSMEs face unique financial and operational challenges. This study, therefore, investigates the effect of financial capability on the investment decisions of MSMEs in Abuja, Nigeria, using access to finance and savings and reserves as proxies for financial capability.

Statement of the Research Problem

Micro Small and Medium Enterprises MSMEs are recognized globally as the engine of growth, yet their capacity to make sound and sustainable investment decisions often remains constrained by financial limitations. In Nigeria, where MSMEs constitute over 96% of all businesses and contribute nearly half of the Gross Domestic Product (GDP), their performance is pivotal to the country's economic stability (SMEDAN/NBS, 2021). However, despite numerous policy interventions, MSMEs in Abuja continue to face serious financial challenges that undermine their ability to make productive investment choices. One major challenge lies in limited access to finance. According to the Central Bank of Nigeria (2022), fewer than 15% of Nigerian MSMEs have access to formal credit facilities, leaving the majority dependent on informal sources or personal funds to finance investments. This constraint directly affects their ability to acquire assets, expand operations, and adopt new technologies. For instance, World Bank (2022) data revealed that MSMEs in Nigeria experience some of the highest credit gaps in sub-Saharan Africa, amounting to more than \$22 billion. The absence of accessible and affordable finance leads many MSMEs in Abuja to scale down their investment ambitions or abandon projects altogether.

Another critical issue is the weak savings and reserves base among MSMEs. Many MSMEs in Abuja operate with fragile financial structures, characterized by inadequate retained earnings and poor savings culture. A report by the Nigerian Association of Small and Medium Enterprises (NASME, 2023) noted that less than 30% of MSMEs maintain structured savings or reserve policies, limiting their ability to self-finance long-term investments. Without strong reserves, firms are vulnerable to cash flow disruptions and external shocks, which hinder strategic investments in innovation and expansion. This structural weakness persists despite multiple training and capacity-building programmes aimed at improving MSME financial management.

The persistence of these challenges is reflected in the high mortality rate of Nigerian MSMEs. According to the National Bureau of Statistics (2022), over 80% of MSMEs fail within the first five years, largely due to financial constraints and poor investment decisions. Abuja, despite its status as the Federal Capital Territory with access to infrastructure and markets, has not been immune to this trend. Many MSMEs in the city still struggle to sustain operations beyond the initial years because they lack both external financial support and internal savings mechanisms to fund growth-oriented investments.

Empirical evidence on the relationship between financial capability and SME investment decisions has been mixed. While Ojo and Salami (2021) found that access to finance was the strongest determinant of SME investment behaviour, Akinola (2022) argued that savings and reserves were more decisive in sustaining long-term investments. In contrast,

Yusuf and Olanrewaju (2023) reported that even when MSMEs had access to credit, poor financial management weakened its impact on their investment outcomes. These inconsistencies highlight the need for further context-specific research, particularly within Abuja, where MSMEs face unique financial pressures amidst opportunities for growth. The rationale for this study, therefore, rests on the need to provide empirical evidence on how financial capability, measured through access to finance and savings/reserves, influences the investment decisions of MSMEs in Abuja. Understanding this relationship is crucial for designing interventions that not only expand access to credit but also strengthen MSMEs' internal financial structures.

Research Questions

The study is guided by the following research questions:

- i. How does access to finance influence the investment decisions of MSMEs in Abuja, Nigeria?
- ii. To what extent do savings and reserves affect investment decisions of MSMEs in Abuja, Nigeria?

Objectives of the Study

The main objective of this study is to examine the effect of financial capability on the investment decisions of MSMEs in Abuja, Nigeria. The specific objectives are to:

- i. assess the influence of access to finance on the investment decisions of MSMEs in Abuja, Nigeria.
- ii. determine the effect of savings and reserves on the investment decisions of MSMEs in Abuja, Nigeria.

Research Hypotheses

To address the objectives of the study, the following hypotheses were formulated

H₀₁: Access to finance has no significant effect on the investment decisions of MSMEs in Abuja, Nigeria.

H₀₂: Savings and reserves have no significant effect on the investment decisions of MSMEs in Abuja, Nigeria.

Literature Review

Financial Capability

Financial capability is increasingly recognized as a crucial determinant of business sustainability and investment behaviour, particularly in micro small and medium enterprises MSMEs. It extends beyond access to financial resources to encompass the skills, knowledge, and capacity to effectively mobilize, allocate, and manage those resources for long-term growth. According to OECD (2021), financial capability combines financial access, literacy, and prudent decision-making, enabling firms to steer uncertain economic environments. Unlike mere availability of capital, financial capability highlights how effectively businesses use financial opportunities to achieve their strategic objectives. Scholars have provided multiple perspectives on financial capability. Eniola and Entebang (2020) described it as the ability of enterprises to apply financial knowledge and resources towards productive decisions that foster growth. In this view, financial capability embodies both the financial skills of managers and the structural capacity of firms to generate and manage capital. Ojo and Salami (2021) further emphasized that MSMEs with higher financial capability are better equipped to evaluate investment risks, allocate capital efficiently, and sustain profitability. This underscores the view that capability, rather than financial availability alone, drives successful investment outcomes.

Financial capability is often operationalized through key dimensions such as access to finance, savings and reserves, cash flow management, and financial literacy. Access to finance is central, as it provides MSMEs with the external funding necessary for asset acquisition, expansion, and diversification. Yet, studies have shown that access alone is insufficient without complementary internal mechanisms such as savings and reserves, which act as buffers against financial shocks (Akinola, 2022). MSMEs with structured savings policies can reinvest in long-term projects and cushion themselves against liquidity shortages, while those without reserves remain vulnerable to external shocks. Globally, financial capability has been linked to resilience and competitiveness. For example, a study by Chen and Li (2022) found that financially capable firms in Asia were more likely to adopt innovative investment strategies and withstand economic downturns. In

the African context, Yusuf and Olanrewaju (2023) reported that MSMEs with strong savings cultures and access to diversified finance options made more sustainable investment decisions compared to those relying solely on external borrowing. These findings highlight that financial capability encompasses both external and internal resource mobilization. For this study, financial capability is conceptualized as the ability of MSMEs in Abuja to access and manage financial resources through external credit and internal reserves in order to make sound investment decisions. This definition highlights both access to finance and savings/reserves as the two critical dimensions of financial capability, aligning with the study's focus on how these factors influence MSMEs' capacity to invest productively.

Access to Finance

Access to finance is widely regarded as one of the most critical enablers of MSME growth and investment decisions. It refers to the ease with which enterprises can obtain external funding from formal and informal financial institutions to finance operations, expansion, and strategic projects. According to the World Bank (2022), access to finance allows firms to acquire productive assets, invest in innovation, and withstand shocks, thereby playing a fundamental role in strengthening competitiveness. For MSMEs, whose internal reserves are often limited, the ability to secure external funding is essential for translating business ideas into viable investment outcomes. Scholars conceptualize access to finance in different ways. Adebayo and Yusuf (2020) defined it as the availability and affordability of financial services tailored to the needs of small businesses, including loans, credit lines, and equity financing. Similarly, Chen and Li (2022) argued that access should not be measured solely by the existence of financial institutions but also by the terms of credit, such as interest rates, collateral requirements, and repayment schedules, which often determine whether MSMEs can actually utilize available finance. Ojo and Salami (2021) emphasized that access must also include the inclusiveness of financial systems, ensuring that small firms traditionally excluded from credit markets can participate effectively.

Empirical studies highlight the role of access to finance in driving SME investment decisions. Eniola and Entebang (2020) found that MSMEs with reliable access to credit were more likely to expand their operations and invest in new technology, compared to those reliant solely on personal funds. Similarly, Onyema and Adeyemi (2022) showed that lack of credit access constrained MSMEs' ability to acquire productive assets, forcing them to depend on incremental and often less profitable investments. The evidence suggests that adequate credit access is directly linked to more ambitious and sustainable investment behaviour among MSMEs.

However, challenges remain, especially in developing countries. In sub-Saharan Africa, MSMEs face some of the largest financing gaps globally, estimated at over \$330 billion annually (IFC, 2021). Nigeria is no exception. The Central Bank of Nigeria (2022) reported that fewer than 15% of MSMEs in the country have access to formal loans, with many excluded due to stringent collateral requirements and high interest rates. In Abuja, MSMEs face additional barriers such as underdeveloped credit infrastructure, limited venture capital markets, and lack of financial literacy to meet loan conditions. These constraints severely limit their ability to make large-scale or long-term investment decisions. For this study, access to finance is conceptualized as the ability of MSMEs in Abuja to secure external funding under favourable terms to support their investment decisions. This highlights not just the presence of financial institutions but also the affordability, inclusiveness, and accessibility of financial services. Within the study framework, access to finance is examined as a proxy of financial capability that significantly influences MSMEs' decisions on asset acquisition, diversification, and expansion.

Savings and Reserves

Savings and reserves represent the internal financial strength of an enterprise, reflecting its ability to retain earnings and set aside funds for future investments or unexpected contingencies. Unlike external financing, which depends on access to credit markets, savings and reserves are internally generated, making them a vital measure of financial sustainability. According to Akinola (2022), savings and reserves serve as a self-financing mechanism that enables MSMEs to embark on long-term projects without relying excessively on costly or uncertain external loans. Scholars emphasize that a strong reserve base enhances investment capability by providing liquidity buffers and reducing vulnerability to financial shocks. Eniola and Entebang (2020) argued that MSMEs with structured savings policies are more resilient, better positioned to reinvest in productive ventures, and less prone to financial distress during downturns. Similarly, Yusuf and Olanrewaju (2023) observed that reserves allow MSMEs to fund expansion and technology adoption, leading to improved competitiveness and sustainability. This suggests that savings and reserves performed a stabilizing role, complementing access to finance in shaping investment decisions.

Empirical evidence underscores the importance of reserves for MSMEs in developing economies. For instance, Ojo and Salami (2021) found that firms with consistent savings practices were more likely to make strategic investments in

new equipment and expansion projects. By contrast, firms with weak reserve policies often delayed or abandoned investment decisions due to cash flow shortages. In addition, a study by Obi and Eze (2021) revealed that Nigerian MSMEs that built financial reserves not only had greater survival rates but also displayed stronger long-term profitability. Despite this, many MSMEs in Nigeria struggle with poor savings culture and inadequate financial discipline. According to SMEDAN/NBS (2021), less than one-third of MSMEs maintain structured reserve policies, with most relying solely on ad hoc savings. This problem is compounded in Abuja, where high operating costs, inflationary pressures, and limited financial literacy reduce MSMEs' ability to accumulate reserves. As a result, investment projects are often underfunded or postponed, limiting MSMEs' growth potential.

Globally, the significance of reserves is also evident. Chen and Li (2022) showed that Asian MSMEs with strong retained earnings were able to sustain innovation and diversification projects even in the absence of external loans. Similarly, OECD (2021) highlighted that resilient MSMEs in Europe maintained robust reserve systems, which supported investment stability during economic shocks such as the COVID-19 pandemic. For this study, savings and reserves are conceptualized as the internally generated funds retained by MSMEs in Abuja for reinvestment and long-term growth. This includes structured savings plans, retained earnings, and reserve funds earmarked for future projects. Within the research framework, savings and reserves are examined as a proxy of financial capability, influencing how MSMEs make investment decisions on expansion, technology adoption, and diversification.

Investment Decisions

Investment decisions are central to the long-term growth and sustainability of any enterprise. They involve the allocation of limited financial resources to projects, assets, or opportunities expected to generate future returns. In the context of MSMEs, investment decisions often include acquiring machinery, expanding business operations, diversifying product lines, or adopting new technologies. Eniola and Entebang (2020) explain that the quality of these decisions largely determines whether a business thrives, stagnates, or fails.

An investment decision is not merely about spending available funds but about evaluating opportunities and choosing the ones that yield the highest benefits relative to their risks. According to Akinola (2022), MSMEs are particularly sensitive to investment choices because of their resource constraints. Unlike larger corporations, they lack the financial cushion to recover quickly from failed investments, which makes prudent decision-making critical to their survival. This places financial capability at the heart of investment decisions, as access to finance and the presence of reserves influence both the range of options available and the willingness to take calculated risks. Several factors shape investment behaviour among MSMEs. Ojo and Salami (2021) noted that access to affordable credit enables firms to pursue large-scale projects such as expansion into new markets. On the other hand, Yusuf and Olanrewaju (2023) pointed out that internal reserves encourage firms to adopt long-term strategies, including technology investments that might not yield immediate profits but enhance competitiveness over time. Both sources of financial capability external finance and internal savings are therefore crucial in supporting balanced investment strategies.

Evidence from other regions provides useful comparisons. A study by Chen and Li (2022) showed that MSMEs in East Asia with stronger investment capacities were more likely to diversify into high-value sectors, while firms lacking financial strength remained in low-return activities. Similarly, OECD (2021) reported that European MSMEs with structured investment planning were better able to survive economic downturns, as their decisions were guided by clear financial strategies and supported by stable reserves. In this study, investment decisions are understood as the choices made by MSMEs in Abuja regarding the allocation of financial resources to projects that can generate long-term value. This includes decisions on asset acquisition, business expansion, technology adoption, and diversification. The dependent variable, therefore, reflects not only the willingness but also the ability of MSMEs to pursue growth-oriented investments when supported by adequate financial capability.

Empirical Review

Eniola and Entebang (2020) investigated how access to credit influences the investment behaviour of MSMEs in Lagos, Nigeria. The study adopted a descriptive survey design and targeted 350 MSMEs, with 320 responses analyzed using regression analysis. Independent variables included access to bank loans, microcredit, and cooperative financing, while investment decision was measured through asset acquisition and business expansion. The findings showed that credit availability significantly increased MSMEs' likelihood of investing in expansion and technology adoption. However, they also reported that high interest rates and collateral requirements limited long-term investments. The study concluded that while access to finance stimulates investments, credit conditions play a decisive role. Critique: The study focused only on Lagos, ignoring Abuja, and did not incorporate internal financial structures such as savings and reserves, leaving a gap that this research addresses.

Ojo and Salami (2021) analyzed 250 MSMEs in southwestern Nigeria using a cross-sectional design and stratified random sampling. The independent variable was access to formal credit, while the dependent variable measured investment decisions in terms of expansion projects and technology adoption. Data were collected through structured questionnaires and analyzed using multiple regression. Results revealed that credit access strongly predicted investment in fixed assets, though repayment burdens discouraged further borrowing. The authors recommended better credit terms to support SME investments. The study overlooked the role of internal financing like savings, and its geographic coverage excluded Abuja, necessitating a context-specific study in the capital city.

Akinola (2022) examined the role of retained earnings in shaping SME investment in Ogun State, Nigeria. The study surveyed 290 MSMEs using purposive sampling and analyzed data with regression techniques. Savings and reserves were measured through retained earnings and structured reserve funds, while investment decisions were captured through technology adoption and diversification. Findings revealed that MSMEs with structured reserves consistently invested in long-term projects, while those without reserves postponed or abandoned strategic investments. The study focused on one state, limiting generalizability, and did not explore Abuja MSMEs, which face unique financial pressures.

Obi and Eze (2021) studied 250 MSMEs in Anambra State through a descriptive design and simple random sampling. Savings and reserves were measured through retained profits and precautionary savings, while investment decisions were assessed through expansion and asset acquisition. Data collected via questionnaires were analyzed with correlation and regression. Results showed that firms with reserve funds invested more confidently in innovation compared to those dependent on loans. The study concluded that reserves were a critical determinant of long-term sustainability. This study provided regional evidence but lacked national scope and did not combine external and internal financial capacity, creating a gap this study seeks to fill.

Yusuf and Olanrewaju (2023) investigated 310 MSMEs in northern Nigeria, using structural equation modelling. Savings and reserves were treated as the independent variable, while investment decision was measured by diversification and technology adoption. Findings confirmed that savings significantly enhanced investment sustainability, while credit access mainly influenced short-term asset acquisition. They concluded that reserves provide stability for long-term decisions. *Critique:* The study offered valuable insights but did not cover Abuja specifically, and it did not combine the dual dimensions of financial capability (access and reserves), which this study addresses.

Theoretical Framework

The theoretical framework provides the intellectual foundation for analysing how financial capability influences investment decisions of MSMEs. It explains the mechanisms through which access to finance and savings and reserves affect business choices and long-term growth. Three theories are relevant for this study: the Pecking Order Theory, the Resource-Based View (RBV), and the Life-Cycle Theory of the Firm. Among these, the Pecking Order Theory is adopted as the underpinning framework.

Pecking Order Theory (Underpinning Theory)

The Pecking Order Theory, proposed by Myers and Majluf (1984), argues that firms follow a financing hierarchy: they prefer internal financing through retained earnings, then debt, and finally external equity as a last resort. The logic is that internal reserves are less costly and avoid the problems of unequal information associated with external finance. For MSMEs, this means that savings and reserves performed a crucial role in funding investments before turning to loans or other external sources. Empirical validation of the theory has been widespread. For instance, Akinola (2022) showed that MSMEs in Nigeria with structured reserves were better positioned to sustain long-term investments, supporting the idea that internal funds are prioritized. Similarly, Yusuf and Olanrewaju (2023) found that reserves provided stability for sustainable investment, while reliance on loans was often short-lived. The relevance of the theory to this study lies in its ability to explain why MSMEs in Abuja with limited reserves struggle with investments, and why firms with stronger savings structures may perform better in the long run. In this context, the variables of savings and reserves directly correspond to the first preference in the Pecking Order hierarchy, while access to finance represents the secondary reliance on debt financing. The theory underpins the argument that MSMEs' investment decisions are shaped by the interplay of these financial capacities.

Resource-Based View (RBV)

The Resource-Based View (Barney, 1991) posits that firms gain competitive advantage by leveraging valuable, rare,

inimitable, and non-substitutable resources. Financial capability, particularly access to finance and internal reserves, qualifies as such a strategic resource. When effectively managed, it allows MSMEs to pursue investments that build productive assets, adopt new technologies, and expand into competitive markets. Chen and Li (2022) validated this perspective by showing that MSMEs in Asia with stronger financial access channels pursued more innovative investments. In Nigeria, Ojo and Salami (2021) observed that MSMEs with better credit access were more likely to expand operations, demonstrating finance as a critical internal resource. The RBV is relevant to this study because it situates financial capability as a strategic asset that enables Abuja MSMEs to undertake investment decisions that enhance growth and competitiveness. Here, access to finance is conceptualized as a strategic resource that enables external opportunities, while savings and reserves represent internally generated resources that secure long-term stability.

Life-Cycle Theory of the Firm

The Life-Cycle Theory suggests that financing preferences and investment behaviour vary across stages of business development. Early-stage firms often rely on internal funds and informal financing, while more mature businesses access formal credit for expansion and diversification (Berger & Udell, 1998). The theory highlights the dynamic relationship between financial capability and investment decisions, showing that the needs and constraints of MSMEs evolve over time. Obi and Eze (2021) provided evidence in support of this model, noting that MSMEs in their growth stages relied heavily on reserves, while more established ones pursued bank loans to finance large investments. Similarly, NASME (2023) reported that Nigerian MSMEs at different life-cycle stages exhibited distinct financing patterns that influenced their investment behaviour. The theory is relevant to the study because it acknowledges that MSMEs in Abuja are not homogeneous; their stage of growth influences whether access to finance or reserves is more critical in shaping investment choices.

Methodology

The study adopted a survey research design in the form of a descriptive approach. This design was considered appropriate because it enables the researcher to collect first-hand data from a relatively large sample within a real-world setting. According to Saunders et al. (2019), survey designs are widely applied in business research since they allow for the collection of quantifiable data that can be analysed statistically to test hypotheses and establish relationships between variables. In this case, the design was used to examine how financial capability, measured through access to finance (ACF) and savings and reserves (SAR), influences investment decisions (IND) among MSMEs in Abuja, Nigeria.

Population of the Study

The population of the study comprised registered Small and Medium Enterprises operating within Abuja, Nigeria. According to the records of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2023), there are approximately 1,216 formally registered MSMEs in the Federal Capital Territory. These firms operate across trade, services, and light manufacturing. MSMEs were chosen as the population because they represent a critical segment of Nigeria's economy and are directly influenced by financial capability constraints when making investment decisions.

Sample Size and Sampling Technique

To determine a manageable and statistically valid sample size, the Taro Yamane (1967) formula was applied:

$$n = N / 1 + N(e)^2$$

Where: n = sample size, N = population size (1,216), e = level of precision (0.05)

$$n = 1216 / (1 + 1216(0.05)^2) = 1216 / (1 + 3) = 1216 / 4 = 304$$

Thus, the calculated sample size was 300 respondents. To address possible non-response and attrition, an additional 10% was added, as recommended by Israel (2019), yielding:

$$304 + (10\% \times 304) = 334$$

Therefore, the final sample size for the study was 334 MSMEs.

The study employed stratified random sampling to ensure adequate representation of the different categories of MSMEs, including trade, service, and manufacturing firms. Within each stratum, respondents were selected randomly to minimise bias and enhance the generalizability of results.

Method of Data Collection

Primary data were collected using a structured questionnaire designed in line with the research objectives. The questionnaire was divided into three sections. Section A focused on demographic information of respondents, Section B addressed the independent variables access to finance and savings/reserves while Section C covered the dependent variable, investment decisions. All items were measured using a five-point Likert scale ranging from “strongly disagree” (1) to “strongly agree” (5). The Likert format was used because it facilitates the collection of standardised responses that are amenable to statistical analysis. Reliability of the questionnaire was established through a pilot test involving 10% of the sample size, equivalent to 33 MSMEs. Cronbach’s Alpha was computed for each construct using SPSS version 28. According to Hair et al. (2019), a Cronbach’s Alpha value of 0.7 and above is considered acceptable in social science research. The results of the pilot test confirmed that all variables achieved values greater than 0.7, indicating internal consistency and reliability of the measurement instrument.

Method of Data Analysis

Data were coded and analysed using the Statistical Package for the Social Sciences (SPSS) version 28. Descriptive statistics such as means, frequencies, and standard deviations were used to summarise responses, while inferential statistics were employed to test the hypotheses. Multiple regression analysis was used to examine the effect of access to finance and savings/reserves on MSMEs’ investment decisions. This method was chosen because it allows the researcher to assess the individual and combined contributions of the independent variables in explaining variation in the dependent variable.

Model Specification

The functional form of the regression model was specified as:

$$IND = f(ACF, SAR)$$

The econometric model is expressed as:

$$IND = \beta_0 + \beta_1 ACF + \beta_2 SAR + \mu$$

Where:

IND = Investment Decisions (dependent variable)

ACF = Access to Finance (independent variable)

SAR = Savings and Reserves (independent variable)

β_0 = Intercept (constant term)

β_1, β_2 = Coefficients measuring the effect of ACF and SAR on IND

μ = Error term

The a priori expectation was that both access to finance and savings/reserves would exert positive and significant effects on MSMEs’ investment decisions, such that:

$$\beta_1 > 0, \beta_2 > 0$$

Data Analysis and Results

Table 1: Response Rate

Questionnaires Administered	Returned	Valid	Unreturned	Invalid	Response Rate	Valid Response Rate
330	315	308	15	7	95.5%	93.3%

Source: Field Survey, 2025

Out of 330 questionnaires administered, 315 were returned, representing a response rate of 95.5%. After data screening, 308 were deemed valid for analysis, giving a valid response rate of 93.3%. This high rate strengthens the reliability of the findings and demonstrates strong respondent participation.

Table 2: Descriptive Statistics

Variable	Mean	Std. Deviation	N
Investment Decisions (IND)	4.210	0.642	308
Access to Finance (ACF)	4.275	0.658	308
Savings & Reserves (SAR)	4.263	0.671	308

Source: SPSS version 28 Output, 2025

The descriptive statistics indicate that respondents rated access to finance ($M = 4.28$) and savings/reserves ($M = 4.26$) highly, suggesting that both dimensions of financial capability are actively relevant to MSMEs in Abuja. Investment decisions also scored high ($M = 4.21$), implying a positive perception of MSMEs' willingness and ability to commit resources to growth projects. The relatively low standard deviations (< 0.7) show consistent responses across the sample.

Table 3: Correlation Analysis

	IND	ACF	SAR
IND	1.000	.961	.985
ACF	.961	1.000	.972
SAR	.985	.972	1.000

Sig. (1-tailed) = 0.000 for all correlations; N = 308

Source: SPSS version 28 Output, 2025

There were strong positive correlations between financial capability and investment decisions. Investment decisions correlated highly with access to finance ($r = .961$, $p < 0.01$) and even more strongly with savings and reserves ($r = .985$, $p < 0.01$). This suggests that both dimensions significantly shape SME investment behaviour, with savings/reserves appearing to exert the stronger association.

Table 4: Regression Results

Predictor	B	Std. Error	Beta	t	Sig.
Constant	0.091	0.031	—	2.935	0.004
Access to Finance (ACF)	0.447	0.052	0.462	8.596	0.000
Savings & Reserves (SAR)	0.439	0.051	0.468	26.203	0.000

Model Statistics: $R = 0.993$, $R^2 = 0.986$, Adjusted $R^2 = 0.986$, Std. Error = 0.08142, $F(2, 305) = 10,764.232$, Sig. = 0.000, Durbin-Watson = 1.721

Source: SPSS version 28 Output, 2025

The regression model was highly significant ($F = 10,764.232$, $p < 0.01$), explaining 98.6% of the variance in MSMEs' investment decisions. Both access to finance ($B = 0.447$, $p < 0.01$) and savings/reserves ($B = 0.439$, $p < 0.01$) had positive and significant effects. This indicates that MSMEs in Abuja are more likely to make productive investment decisions when they enjoy strong credit access and maintain healthy reserves. Between the two, savings/reserves showed a slightly stronger effect, highlighting the importance of internal financial strength for sustainable investment.

Discussion of Findings

The analysis demonstrated that financial capability, measured through access to finance (ACF) and savings and reserves (SAR), significantly shapes the investment decisions (IND) of MSMEs in Abuja. The regression model showed that both proxies exerted positive and statistically significant effects, with savings and reserves displaying a slightly stronger influence. This finding carries important implications for theory, practice, and policy, as it highlights the centrality of financial capability in enabling MSMEs to allocate resources effectively toward long-term investments.

The results concerning access to finance revealed that MSMEs with greater credit opportunities were more likely to commit resources to asset acquisition and expansion projects. This outcome supports the work of Eniola and Entebang (2020), who reported that the availability of affordable loans increased the probability of MSMEs investing in technology and business growth. Similarly, Ojo and Salami (2021) showed that access to credit significantly predicted asset acquisition and expansion among small firms. The consistency across these findings reinforces the argument that financial availability is a vital driver of SME investments. However, the present study extends prior work by demonstrating that even in Abuja, where financial markets are relatively more developed, credit alone cannot guarantee sustainable investments unless combined with prudent financial management.

Savings and reserves were also found to be a critical determinant of investment decisions. The regression results indicated that MSMEs with structured reserves were more likely to make sustainable investments, echoing the conclusions of Akinola (2022), who found that retained earnings played a decisive role in technology adoption. Obi and Eze (2021) similarly reported that MSMEs with savings invested more confidently in innovation. The current findings validate these earlier studies while offering new evidence from Abuja, where MSMEs often face volatile market conditions. The strength of reserves as a predictor in this study suggests that internal financial buffers may provide MSMEs with greater flexibility and resilience in making long-term investment commitments compared to external loans, which are often burdened by high interest rates and collateral requirements.

Conclusion and Recommendations

This study set out to examine the effect of financial capability on the investment decisions of MSMEs in Abuja, focusing on access to finance (ACF) and savings and reserves (SAR) as key dimensions. The analysis revealed that both proxies exerted positive and significant effects, with savings and reserves displaying a slightly stronger influence on investment behaviour than access to finance. This outcome supports the assertion that internal financial strength, in the form of reserves and retained earnings, provides MSMEs with the confidence and stability to pursue long-term investments, while external credit facilitates expansion and asset acquisition when reserves are inadequate. Theoretically, the findings lend strong support to the Pecking Order Theory, which emphasises a preference for internal funds over external borrowing. MSMEs in Abuja appeared to follow this hierarchy, relying primarily on their reserves while supplementing with credit when necessary. The Resource-Based View is also reinforced, since financial capability functions as a strategic resource enabling MSMEs to compete, grow, and survive in a volatile economic environment.

Based on the findings, the following recommendations are advanced:

Policymakers and financial institutions should design financing schemes that are SME-friendly, with lower interest rates, flexible collateral requirements, and longer repayment periods. This would allow MSMEs in Abuja to access the funds needed for expansion and innovation without being deterred by prohibitive conditions.

MSMEs should be encouraged to adopt financial management practices that prioritize setting aside a portion of earnings for reserves. This could be supported through training programmes, tax incentives, or partnerships with microfinance institutions offering tailored savings products for MSMEs.

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