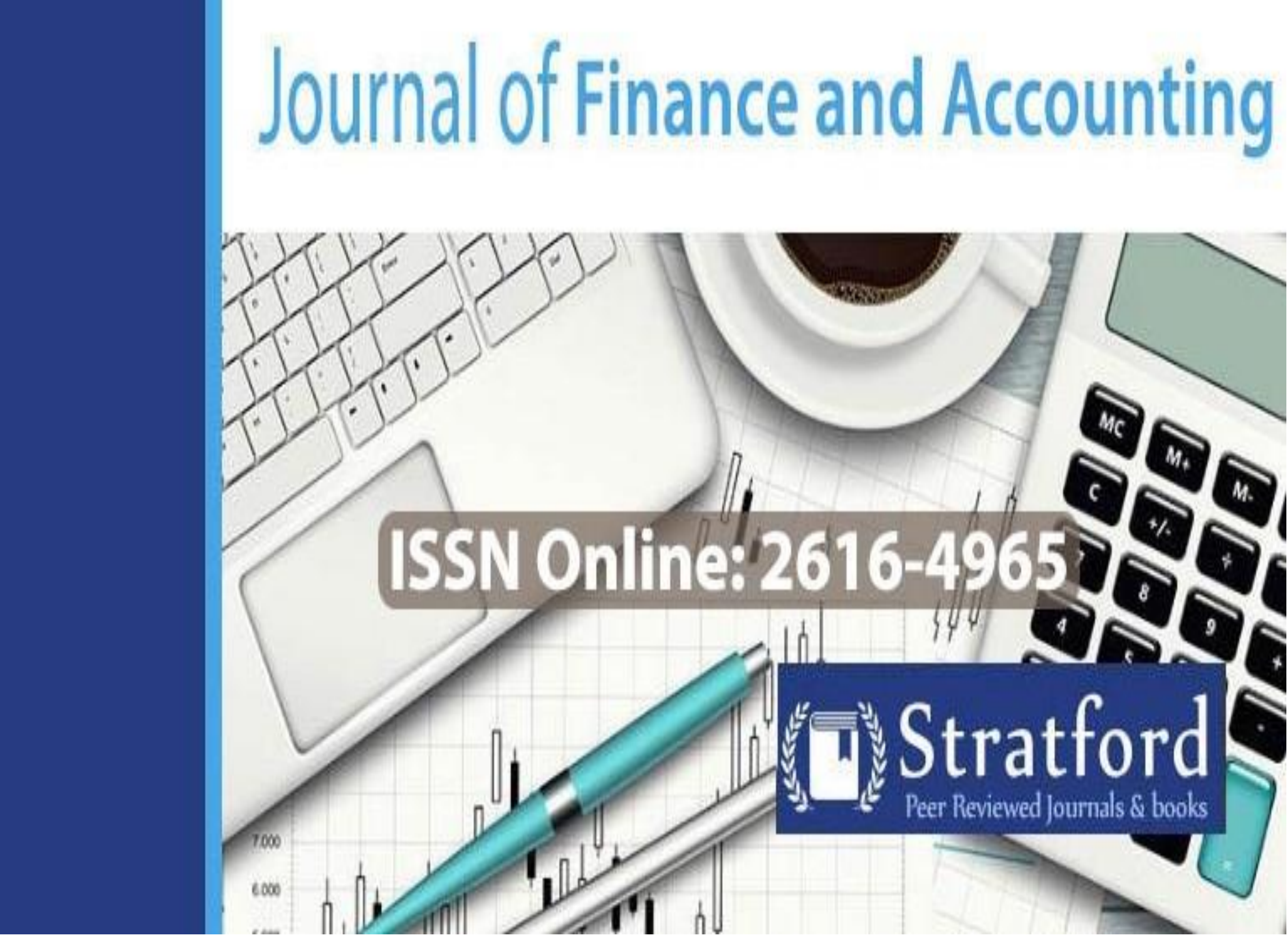

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ISSN: 2616-4965

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 9||Issue 3 ||Page 33-45||September||2025|
Email: info@stratfordjournals.org ISSN: 2616-4965

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How to cite this article: **Cheruto, A., Ng'eno., E. & Mose, N. (2025). Assessing the Impact of Financial Inclusion on Financial Performance of Micro, Small and Medium Enterprises in Baringo County, Kenya. *Journal of Finance and Accounting*, 9(3) pp.33-45.**

https://doi.org/10.53819/81018102t3140

Abstract

Financial sectors that effectively mobilize savings and allocate resources play a crucial role in promoting financial inclusion, which in turn enhances resource allocation and risk management, ultimately influencing financial performance. However, financial institutions in Baringo County, Kenya, are currently underperforming, which hinders micro, small, and medium enterprises (MSMEs) from benefiting from financial inclusion. This study explores the impact of financial access, usage, and awareness on the performance of MSMEs, guided by theories of financial inclusion and credit access. Data were collected from 111 MSMEs across six sub-counties using a simple random sampling method and analysed through both descriptive and inferential statistics. The findings reveal that increased access to lending institutions and higher levels of entrepreneurial literacy improved the performance of MSMEs by 0.46% and 0.95%, respectively. Conversely, higher interest rates hurt performance, reducing it by 0.33%. While an increase in savings balances and the frequency of daily bank transactions enhanced performance by 0.98% and 1.08% respectively. Equally, financial awareness especially through credit access guidance and risk management training increased the performance of MSMEs by 0.25% and 0.14%, respectively. To bolster the performance of MSMEs, policymakers should focus on improving access to financial institutions and enhancing entrepreneurial literacy, while also regulating interest rates to promote sustainable growth and development. Promoting savings and increasing financial awareness will further support the sustainable growth of these enterprises.

Keywords: *Financial Access, Financial Awareness, Financial Usage, Performance*

1.0 Introduction

Financial inclusion has gained significant recognition in policy discussions, particularly in emerging economies (Lestari et al., 2022). It refers to the ability of individuals to access and utilize diverse, convenient, and affordable financial services, such as savings, loans, and insurance, which are designed to be accessible and reliable (Fuad, 2020). Financial indicator (FI) is crucial for promoting economic growth and wealth creation in developing nations (Lestari et al., 2022; Appugol & Naik, 2025). Additionally, it plays a key role in financial literacy, enhancing community capacities to engage with formal financial institutions. This increased utilization of financial services positively impacts citizens' living standards and serves as a fundamental indicator of financial inclusion (Dalkilic & Kirkbesoglu, 2015; Njagi & Mutwiri, 2024). Cole et al. (2013) and Thomi (2021) documented that FI is a fundamental parameter to personal and societal well-being, and business development and growth, especially micro, small, and medium enterprises (MSMEs). Like never before, businesses and individuals need to have unwavering access to practical and reasonably priced goods and services, including payments, transactions, savings, credit, and insurance. Collins et al. (2009) further opined that the ability to send and receive payments as well as save money makes having access to a transaction account the first step toward greater financial inclusion.

Financial inclusion indicators include access, usage, quality, and impact. Access includes penetration of the bank branches or point-of-sale devices in rural areas, and barriers to access, such as costs or information. On the other hand, usage considers average savings balances, the number of transactions per account, prices, inflation, number of electronic payments made (Achangaet al., 2014; Musambi, 2023). Quality is a parameter that describes financial products and services' capacity to match clients' needs, the range of options available to customers, and clients' awareness and understanding of financial products and their impact. Moreover, quality as an FI indicator scrutinizes the influence of inclusion on the enterprises' outcomes, including the level of performance or human capital investments. Access to capital, on the other hand, is a major stumbling block to MSME expansion in emerging markets and developing countries, ranking as the second most cited barrier (Gombarume & Mavhundutse, 2014). Small businesses are less likely than large businesses to be able to acquire bank loans; thus, they must rely on internal money or cash from friends and family to start and run their businesses (Dorfleitner & Roble, 2018).

In Kenya, MSMEs are regarded as an engine of economic change (Fuad, 2020). Most MSMEs in the country rely on personal savings, others on domestic aid such as family, friends or relatives for funding (Fuad, 2020). Nonetheless, small and medium-sized enterprises in Kenya continue to face harsh economic times as they strive to recover from the COVID-19 quagmire (Fuad, 2020). Banks, on the other hand, are not flexible and remain reluctant to expand credit other than to the most credit-worthy borrowers, which in most cases excludes the MSMEs (Kongolo, 2010). Further, according to Adewuyi and Emmanuel (2018), at least 60 per cent of MSMEs in Kenya were denied funding in the last three years. Lack of collateral was highlighted as the major reason for the snub, as Adewuyi and Emmanuel detailed a range of turmoil faced by these businesses in their report. Additionally, according to the report, debt financing, which is mostly provided by banks, microfinance institutions, and non-banking institutions, is the preferred type of financing for MSMEs as opposed to equity financing (Adewuyi & Emmanuel, 2018).

In Baringo County, Kenya, micro, small and medium enterprises (MSMEs) are crucial to the local economy, accounting for about 70% of employment and contributing significantly to financial growth. These businesses are diverse, with a strong emphasis on the service sector, particularly wholesale and retail trade, as well as manufacturing and food/accommodation services. The county government and organizations like KCB support MSMEs through initiatives such as the Hustler Fund. Research by Osodo et al. (2019) indicates that approximately 60% of MSMEs do not survive beyond three years, with nearly 46% closing within their first year. Specific sub-sectors, such as fish farming, have shown

https://doi.org/10.53819/81018102t3140

particularly poor performance. MSMEs face numerous challenges in accessing credit due to their classification as high-risk borrowers, leading many to rely on personal savings or informal support, as banks often restrict credit to only the most creditworthy. Studies by Chelimo and Sopia (2014) demonstrate that MSMEs with access to micro-credit and good bookkeeping practices experience enhanced growth and profitability. However, Komen (2014) points out that a lack of formal business training hinders many SMEs from accessing microcredit. In addition, women-owned businesses often struggle with stringent collateral requirements when seeking financial support (Wachira, 2012). Overall, the performance of MSMEs in Baringo County presents challenges and opportunities that are of great interest to researchers and policymakers.

MSMEs have been underperforming in Kenya, specifically in Baringo County, limiting their promising potential to influence the country's overall economic development (Appugol & Naik, 2025). Toromo (2020) reports that socio-cultural parameters, limited skill and knowledge level, lack of information access, and lack of collateral security contributed negatively towards financial inclusion or easy access to credit. In addition, empirical studies demonstrated that high interest rates and limited credit access by MSMEs, given that cash flow, profit margin, and sales are pivotal for the enterprise (Gichuki, Njeru & Tirimba, 2014). This assertion posits a gap, indicating that financial position knowledge is crucial as the business burgeons. Moreover, in Baringo County, most MSMEs need help with their profitability and growth, besides their potential to contribute to economic empowerment (Oseko et al., 2024). Chelimo and Sopia (2014) observed that in Mogotio, Baringo County, a small number of MSMEs attained start-up capital for their business of KES 50,000, impacting MSMEs' growth rate. Nonetheless, most of these MSMEs that made profits only collected about KES 20,000, which needed to be improved for collateral security, limiting their access to formal financial institutions for substantial credit. Despite the critical role that MSMEs play in financial development in Baringo County, there remains a knowledge gap regarding MSMEs' financial inclusion, which impacts their financial performance.

2.0 Literature Review

The Theory of Financial Inclusion (FI) posits that increasing access to financial services, particularly among the underprivileged and marginalized, facilitates firm growth. According to Kimani and Muturi (2021), access to financial services such as savings, credit, insurance, and payment services enables individuals and businesses to increase their investments, manage risks, and create wealth. By increasing access to financial services, FI promotes economic growth by increasing employment opportunities, improving social conditions and reducing poverty (Mutai, 2025). The theory emphasizes the critical role of FI in promoting financial stability and social inclusion, particularly in developing countries. In addition to promoting economic growth, FI fosters financial discipline among economic agents. Kithae and Kariuki (2021) argue that by providing financial information, education, and tools to individuals and businesses, FI facilitates responsible financial behavior, including better financial planning, savings, and investment practices. Furthermore, FI helps to reduce informal financial activities and promote formal financial channels, leading to greater transparency and accountability. The Theory of Credit Access emphasizes the importance of access to credit for promoting business growth and development. According to Agyapong and Bokpin (2019), the theory argues that access to credit is crucial for individuals and businesses to invest, grow, and create wealth. Moreover, credit access enables individuals and businesses to manage risks, particularly in times of financial hardship or economic shocks. The theory emphasizes that credit access is particularly important for small and medium-sized enterprises (SMEs) and micro-enterprises, which often face significant barriers to accessing credit. SMEs and micro-enterprises are critical engines of economic growth, particularly in developing countries, and credit access enables them to invest in their businesses, expand their operations, and create jobs.

Kinyua (2014) conducted an empirical study on the impact of access to financial services on MSME performance in Nakuru town, Kenya. The data were analyzed descriptively and inferentially and presented through figures and tables. The results showed that 62.6% of respondents felt that a lack of financial records hindered access to lending proposals, while 86.6% noted that financial institutions were reluctant to provide long-term credit. Additionally, 63.3% reported that high interest rates and loan processing costs made it difficult for MSMEs to secure funding. Furthermore, 44.1% of respondents believed firms with intangible assets could borrow less, and 59.5% indicated MSMEs struggled to meet collateral requirements. Lastly, 67.2% reported that MSMEs faced challenges in accumulating sufficient assets. Mulandi (2013) investigated the elements influencing the Kenyan biogas industry's ability to acquire loans. A sample of 48 firms was selected from all the firms using the random sampling technique, and 40 of them responded satisfactorily. The findings indicated that supply-side factors that affected access to finance included a lack of business performance and creditworthiness information about the borrower, and policies and practices of banks affected access to finance. Moreover, the relationship between the level of access and the size of the business was positive and significant.

Kostov et al. (2013) studied the use of financial services in South Africa, finding that financial usage significantly determines access, even after controlling for various factors. Similarly, Cull and Kinnon (2009) conducted a randomized experiment in Ghana, revealing that the identity of the respondent and product-specific prompts notably increased reported usage rates of informal savings, formal credit, and insurance. This trend remained consistent across samples, whether factoring in travel time to the nearest bank or controlling for regional effects. Atieno (2001) assessed the role of institutional lending policies among formal and informal credit institutions to determine the awareness of small-scale enterprises of credit in Kenya. The study was carried out in market centres in the rural areas of five districts of western Kenya: Kisumu, Siaya, Vihiga, Bungoma and Kakamega. Small-scale entrepreneurs engaged in MSMEs, wholesale and retail trade, and primary processing of agricultural products were selected as the units of study. Ultimately, the study demonstrated that a lack of awareness of credit limited access to credit by 21% (Atieno, 2001). About 15% of the respondents revealed that they did not require the credit, and 4.5% lacked collateral or security, limiting their credit access. To reiterate, lack of information is the major barrier to credit access, not only in this study but in other studies as well. Conceptual, contextual and methodological gaps are evident from the findings in the previous empirical studies conducted by Atieno (2001), Cull and Kinnon (2009), Kostov et al. (2013), Mulandi (2013) and Kinyua (2014). Further, each study focused on different contextual environments and sectors, which cannot be generalized to this study. Most of the studies focused on different areas like SACCOs, but still need to address the financial inclusion of MSMEs.

3.0 Methodology and Data

This study employed descriptive and cross-sectional survey designs to examine the relationship between financial inclusion and the performance of MSMEs in Baringo County, Kenya, where major economic activities include pastoralism, agriculture, and sand harvesting, with agricultural activities encompassing MSMEs involved in growing maize, groundnuts, cotton, and coffee in the highlands, while pastoralism is practiced in low-lying plains focusing on rearing goats, sheep, cattle, camels, and beekeeping. The target population comprised 1,900 MSMEs operating businesses registered and licensed by the Baringo County government, including 450 MSMEs in manufacturing, 618 in trading, and 832 in the service industry, according to the 2019 annual report by the Department of Finance and Economic Planning. Using Yamane's (1967) formula with a 95% confidence level and fitting the values

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

where;

n = sample size

N = population size (1900)

e = error term (0.05)

The calculation yielded a sample size of 106 registered MSMEs, with an additional 5% (5 respondents) added to account for non-response and incomplete questionnaire responses, totaling 111 participants selected through multistage sampling comprising purposive sampling, stratified random sampling, and simple random sampling with proportionate sampling based on MSME population in each sub-county. Primary data was collected from 111 MSME owners/managers through face-to-face interviews using structured questionnaires that captured information on age, gender, education level, employment type, business type, number of employees, and period of operation, with questionnaires delivered through a hand-delivery system considering participants' willingness to participate, while validity and reliability were ensured through pilot testing, expert reviews, statistical analysis, and comparisons with previous research under a research permit obtained from NACOSTI. Data analysis was based on research questions and objectives using correlation analysis to determine relationship strength between study variables and regression analysis to provide linear prediction and estimate coefficients of linear regression equations describing the relationship between independent quantitative variables and MSME growth resulting from financial inclusion changes, employing a multivariate regression model $FP = \beta_0 + \beta_1 FU + \beta_2 FA + \beta_3 FW + \varepsilon$

Where;

FP represents the financial performance of MSMEs

FU represents MSMEs' usage of financial services

FA represents MSMEs' access to financial services

FW represents MSMEs' awareness of financial services

β_0 is the constant term

Coefficients βi ($i = 1\ldots 3$) measure sensitivity of the dependent variable to unit changes in predictor variables, and ε represents the error term capturing unexplained variations. Before applying multiple linear regression, models using ordinary least squares, diagnostic tests were conducted to verify underlying assumptions, specifically performing multicollinearity tests using tolerance and Variance Inflating Factor (VIF) to check the correctness of variable estimates.

4.0 Results and Discussion of Findings

A Multivariate linear regression model was used to determine the factors influencing the performance of the MSMEs. The results are presented in the sub-sections that follow.

4.1 Assessing the Impact of Financial Access on Performance of MSMEs

The estimated results on the effects of financial access on the performance of the MSMEs are shown in Table 1 of the results.

Table 1: Regression Analysis on Financial Access

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	***P*-value**
	Beta	**Std. Error**	**Beta**		
Interest rates	-0.330	0.045	-0.509	-7.333	0.000***
Demand for collateral security	-0.031	0.455	-0.004	-0.068	0.945
Number of lending institutions	0.465	0.103	0.325	4.514	0.000***
Entrepreneurial literacy level	0.951	0.320	0.189	2.971	0.004***
Distance to nearest financial institution	-0.009	0.141	-0.004	-0.064	0.952
Financial infrastructure penetration	0.127	0.207	0.037	0.614	0.542
Constant	3.283	0.629		5.565	0.000***
Adjusted R Squared = 0.618 Note: *** $p < 0.01$ are significance levels at 1%, in which the null hypothesis is rejected.					

Source: Authors' calculation using SPSS 27

The result in Table 1 of the results shows that interest rates charged by the financial institutions in the study area were statistically significant at a 1% level with a β coefficient of -0.33. The current finding implies that a one-unit increase in the interest rate charged by financial institutions reduces the financial performance of the MSMEs by -0.33%. When interest rates are high, credit is more expensive for MSMEs, which can make it harder for them to access, compete and be profitable. Higher interest rates can also lead to a decrease in access or demand for products. This implies that an increase in the lending interest rates would lead to the underperformance of MSMEs. This is because high lending rates discourage loans taken from financial institutions by MSMEs, since repaying such loans may take up all of the proceeds that MSMEs get from their business. The current study's findings on interest rates converge with a study by Mnang'at et al. (2016),Cheruto (2025) and Nyumba et al. (2015) on the loan interest rate and performance of small and medium enterprises in Kenya, which established that there was a significant negative relationship between interest rate and performance of MSMEs. The results from Table 1 further indicated that there was a significant positive influence of the number of lending institutions on the performance of the MSMEs, with a coefficient (β = 0.46). This implies that a one-unit increase in the number of financial lending institutions in the study area is likely to increase the financial performance of the MSMEs by 0.46%. This indicates that a high number of lenders in the study area will likely increase the chances of MSME owners/managers accessing and acquiring credit for business start-ups or operations. The positive influence of the number of lenders on MSME performance has been demonstrated in Kenya in several studies by Oborah (2014) and Mohamed (2017).

Further, the results showed that the entrepreneurial literacy level was statistically significant at a 1% level and influenced MSME performance with a positive coefficient (β = 0.95). This implies that a unit increase in entrepreneurial literacy level will likely increase the financial performance of the MSMEs by 0.95%. According to Sutrisno et al. (2023), entrepreneurial literacy level improves the knowledge and management skills required in operating MSMEs. The literacy level of MSME owners may also determine the rate of access and adoption of suitable management practices that are important for running MSMEs and directly affect their capacity to absorb new ideas (del Pilar López-Peña, 2020). Further, MSME owners who acquire entrepreneurial literacy are more inclined to practice and benefit from running MSMEs due to their higher levels of technical knowledge as compared to those who have no formal education (Meijer et al., 2015). The current study's finding compares well with the results of the study by Mutuku et al.(2022) and Kisubi et al. (2022).

4.2 Examining the Impact of Usage of Finance on Performance of MSMEs

The estimated results on the usage of bank loans on the financial performance of the MSMEs are shown in Table 2.

Table 2: Regression Analysis on Usage of Finance

	Unstandardized Coefficients		Standardized Coefficients	t	*P*-value
	Beta	Std. Error	Beta		
Saving balances	0.987	0.146	0.478	6.760	0.000***
Number of daily bank transactions	0.027	0.016	0.103	1.688	0.088
Daily electronic payments to banks	1.086	0.164	0.421	6.622	0.000***
Constant	3.709	0.249		14.870	0.000***
Adjusted R Squared = 0.632 Note: *** p < 0.01 are significance levels at 1%, in which the null hypothesis is rejected					

Source: Authors' calculation using SPSS 27

Table 2 of the results shows that the savings balances significantly influenced MSME financial performance positively at a 1% level with a β coefficient of 0.98. This implies that a one Kenyan shilling increase in average savings balances would likely increase the financial performance of the MSMEs by 0.98% through an increase in the usage of financial services. The current study shows that the savings balance is the lifeline of the MSMEs since it covers unexpected expenses or cash flow shortages. The current study's findings concurs with the results in the study by Oluoch (2016) and Njagi and Mutwiri (2024)on the impact of cash management practices on the performance of SMEs in Kenya. Results also show that the number of daily electronic payments to banks was statistically significant at a 1% level and influenced the financial performance of MSMEs positively with a β coefficient of 1.08. This implies that a unit increase in the number of daily payments to banks increased the financial performance of the MSMEs by 1.08%, through an increase in usage. Electronic payments to banks, as defined by Riivari (2017), are a sort of banking in which money is moved by an electronic signal exchange as opposed to a cash, check, or other paper document exchange. Electronic bank payments can help businesses streamline payment processes, improve supplier relationships, reduce operational costs, enhance cash flow, as well as improve overall visibility into the accounts payable process. The current results are in agreement with the study findings by Mue (2021) and Mutiso and Reuben (2021) on the impact of mobile banking on the financial performance of SMEs in Kenya.

4.3 Analysing the Impact of Financial Awareness on the Performance of MSMEs

The estimated results on clients' financial products awareness or financial literacy on the performance of the MSMEs are shown in Table 3.

Table 3: Regression Analysis on Financial Awareness

	Unstandardized Coefficients		Standardized Coefficients	t	*P*-value
	Beta	Std. Error	Beta		
Credit Awareness	0.439	0.398	0.129	1.103	0.097
Guidance on credit access	2.586	0.367	0.604	7.046	0.000***
Education on types of credit	1.445	0.308	0.295	4.691	0.000***
Constant	0.026	0.345		0.075	0.939
Adjusted R Squared = 0.643 Note: *** p < 0.01 are significance levels at 1%, in which the null hypothesis is rejected					

Source: Authors' calculation using SPSS 27

The result from Table 3 shows that guidance to credit awareness was statistically significant at a 1% level with a positive β coefficient of 2.58. This implies that a unit increase in guidance to credit awareness increases the financial performance of the MSMEs by 2.58%. The current study converges with a study on Financial Education for MSMEs and Potential Entrepreneurs, where 80.95% of MSME owners/managers received guidance on credit awareness, which positively influenced the financial performance of MSMEs (Atkinson, 2017). The current study also converges with the qualitative analytical study by Richardson (2016) on non-financial services in SME banking where financial institutions have provided various kinds of non-financial guidance to SMEs such as account Manager Support, Provision of information and knowledge management, specialist consulting services, IT services among others, the study indicate that provision of these services has assisted several MSMEs to improve their performances. The current study diverges from a study on the impact of advisory services on Iranian SME performance based on an empirical investigation of the role of professional accountants, where the bank's professional accountants′ advisory services significantly affected the performance of SMEs by 67.1% (Kamyabi & Devi, 2012).

Further, the results from Table 3 show that financial skill training in credit risk management was statistically significant at a 1% level with a positive β coefficient of 1.44. This implies that a unit increase in financial skill training in credit risk management increases the financial performance of the MSMEs by 1.44%. Training on financial literacy enables SME owners to acquire the financial skills and awareness necessary for running the business and carry out advanced planning on loan usage and repayment, as well as the ability to conduct self-internal audits while ensuring proper channeling of resources towards credit management (Abdallah et al., 2024). The current study converges with a study on the effects of financial literacy training on business profitability in the coastal region: a case of Kwale County SMEs, which found that financial literacy positively affected the profitability of SMEs in Kwale County, Kenya by 78% (Chepkemoi et al., 2017). The study employed R-squared to evaluate the goodness of fit for a linear regression model analyzing MSME financial performance. Table 1 reveals an R-squared value of 0.618, meaning 61.8% of the variation is due to financial access. Table 2 shows an R-squared of 0.632, indicating 63.2% is linked to bank loan usage. Finally, Table 3 indicates an R-squared of 0.643, where 64.3% of the variation is tied to clients' awareness of financial products. A multicollinearity test using the Variance Inflating Factor (VIF) showed low correlation among variables, with VIF values ≤5 indicating no multicollinearity present.

5.0 Conclusion

Estimated results using multiple linear regressions, for the first specific objective of the study, on financial access and MSMEs' performance show that total variation in the financial performance was significantly affected by financial access. The result indicates a strong correlation between access to financial resources and the overall performance of small and micro-enterprises (MSMEs). This suggests that financial access is a key driver of financial success for MSMEs. The availability and accessibility of financial lending resources and entrepreneurial literacy play a crucial role in the financial outcomes of MSMEs in the study area. Further, estimated results for the second specific objective of the study revealed that the financial performance of MSMEs was affected by financial service usage. Therefore, more savings deposits and electronic transactions can lead to increased profitability and revenue for the MSME institution, as it indicates higher customer engagement and activity, often associated with less costly transactions. Electronic transactions are typically less expensive for banks to process compared to traditional branch transactions, leading to operational cost savings. Likewise, customers often prefer the convenience and accessibility of electronic banking, which can lead to better customer retention and loyalty. Finally, the study established that financial performance was affected by clients' financial product awareness. Therefore, training in credit risk management equips MSME owners with the knowledge to make informed decisions about borrowing and managing their finances.

6.0 Recommendations

Based on the study findings, this section proposes key policy recommendations to enhance MSME quality in Baringo County with potential replication in other regions. Financial institutions should reduce interest rates and increase lending presence, particularly in remote areas requiring long-distance travel for banking transactions, while providing entrepreneurial financial literacy training for effective MSME management. Both financial institutions and government entities must establish policies facilitating MSME finance access through loans, incentives, and support services focused on customer needs, clear service standards, and consistent quality delivery to boost financial performance. There is an urgent need to sensitize MSME owners about increasing savings balances and institutional payments while encouraging financial institutions to expand loan amounts to enhance saving capacity. County and national governments, alongside stakeholders, should collaborate with financial institutions to ensure quality services meeting client financial needs with diverse MSME options, including credit facility provision and public awareness campaigns to enhance credit awareness through MSME-friendly schemes, institutional guidance, and comprehensive training programs for fund-seeking owners and managers. Given that this study focused on the marginalized Baringo County, where access is particularly challenging, future research should compare financial inclusion effects on MSME performance between marginalized areas and other rural regions that are not marginalized to provide broader insights into regional variations in financial inclusion impact.

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