

**CREDIT PROVISION BY MICROFINANCE INSTITUTIONS ON GROWTH
OF MICRO, SMALL AND MEDIUM ENTERPRISES IN MACHAKOS
COUNTY, KENYA**

BY

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MASTER OF SCIENCE IN DEVELOPMENT FINANCE

KCA UNIVERSITY

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**THIS RESEARCH DISSERTATION IS SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE
MASTER OF SCIENCE IN DEVELOPMENT FINANCE IN THE SCHOOL
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OCTOBER 2024

DECLARATION

I declare that this research project is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's project of

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And have approved it for examination

This is to declare that this project has been submitted for examination with my approval as the University Supervisor.

Sign:  Date: 15/10/2024

Dr. Fanice Junge Nafula

Dissertation Supervisor

ABSTRACT

The purpose of this study was to determine credit provision by microfinance institutions on growth of MSMES in Machakos County, Mwala Constituency. The specific objectives of the study were; to determine the influence of access to credit on growth of MSMES in Machakos County, Mwala Constituency, to investigate the influence of financial literacy on growth of MSMES in Machakos County, Mwala Constituency, and to assess the influence of financial inclusion on growth of MSMES in Machakos County, Mwala Constituency. The study holds significance for MSMES in Machakos County, policymakers, and future researchers. This study employed a descriptive research design, with a target population of 90 MSMES in Machakos County, Mwala Constituency. Data collection instruments were questionnaires. Data was analyzed using descriptive statistics and presented using tables. The study recommends that stakeholders, including financial institutions, government agencies, and development organizations, collaborate to enhance access to credit for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. Financial institutions should consider developing tailored loan products with favorable terms, such as lower interest rates and extended repayment periods, to accommodate the unique needs of MSMEs. The government is encouraged to implement policies that support credit accessibility, such as providing guarantees or subsidies for MSMEs that may struggle to secure loans due to lack of collateral. Furthermore, establishing partnerships between financial institutions and local MSME associations can facilitate information sharing and create a supportive ecosystem for entrepreneurs seeking funding. By addressing these recommendations, stakeholders can significantly improve credit access, thereby fostering the growth and sustainability of MSMEs in the region. The study recommends that stakeholders, including educational institutions, government agencies, and financial organizations, collaborate to enhance financial literacy programs for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It is essential to develop targeted training sessions and workshops that focus on fundamental financial management skills, such as budgeting, accounting, and investment strategies, to empower MSME owners with the knowledge needed to make informed financial decisions. Additionally, the incorporation of practical financial literacy resources, such as online courses and mobile applications, can provide ongoing support and accessible learning opportunities for entrepreneurs. Government agencies should also consider implementing policies that incentivize financial institutions to offer financial education alongside their services, ensuring that MSMEs have the tools necessary to effectively utilize financial products. The study recommends that financial institutions, government bodies, and relevant stakeholders collaborate to enhance financial inclusion initiatives for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It is crucial for financial institutions to develop tailored products that cater to the unique needs of MSMEs, such as flexible loan terms and microfinance options that consider the cash flow patterns of these businesses. Additionally, the government should implement policies that encourage financial literacy programs to educate MSME owners about available financial services and how to access them effectively. Creating awareness campaigns to promote the benefits of formal banking and digital financial services can also help bridge the gap between MSMEs and financial institutions.

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DEDICATION

I dedicate this work to my father, mother, brother, two sisters, colleagues and friends. I thank them all for their encouragement, support, motivation and unconditional love throughout my academic journey. May the Almighty bless them.

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ACRONYMS AND ABBREVIATIONS

IFC International Finance Corporation

UK United Kingdom

MFIs Microfinance Institutions

MSMEs Micro, Small, and Medium Enterprises

RCTs Randomized Control Trials

KNBS Kenya National Bureau of Statistics

SPSS Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS

Access to Credit- refers to the ability of individuals, businesses, or institutions to obtain financial resources from lenders or financial institutions to meet their financial needs. It involves not only the availability of credit but also the conditions under which credit is provided, including the ease with which borrowers can apply for, receive (Beck, Demirgüç-Kunt, & Levine, 2007).

Credit Provision- refers to the process through which financial institutions, such as banks, microfinance institutions, and credit unions, offer financial resources to individuals, businesses, or other entities with the expectation of repayment over time, often with interest. This concept encompasses various types of credit products and services designed to meet the diverse financial needs of borrowers (Mishkin & Eakins, 2018).

Financial Inclusion- refers to the process of ensuring that individuals and businesses have access to useful and affordable financial products and services that meet their needs such as transactions, payments, savings, credit, and insurance delivered in a responsible and sustainable manner. It aims to remove barriers to accessing financial services for underserved and marginalized populations, thereby promoting economic participation and improving financial stability (Demirgüç-Kunt, 2018).

Financial Literacy- refers to the ability to understand and effectively use various financial skills and knowledge to make informed decisions about personal finance. It encompasses a range of competencies related to managing money, understanding financial products, and making strategic financial decisions that contribute to long-term financial well-being (Lusardi & Mitchell, 2014).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to the International Finance Corporation (IFC), 2021, Micro, Small, and Medium Enterprises (MSMEs) are defined based on the number of employees, annual turnover, or assets (Nema, Suryavanshi, & Verma, 2021). Specifically, micro-enterprises have fewer than 10 employees, small enterprises have between 10 and 50 employees, and medium enterprises have between 50 and 250 employees (Rahman, 2020). The World Bank defines MSMEs as businesses that are characterized by their relatively small size, limited organizational structure, and reliance on local markets. These enterprises often face challenges such as limited access to finance, inadequate infrastructure, and regulatory constraints. Despite these challenges, MSMEs are recognized for their resilience, innovation, and contribution to economic growth and social development (Mensah, 2020).

1.1.1 Global Perspective of credit provision by microfinance institutions on growth of MSMEs

A study by Smith (2018) examined the impact of credit provision by microfinance institutions (MFIs) on the growth of micro, small, and medium enterprises (MSMEs) in the United Kingdom. The study employed surveys and structured questionnaires to collect data from 150 MSME owners in London. Descriptive and inferential statistics, including regression analysis, were used to analyze the relationship between microcredit availability and business expansion. The findings revealed that access to microcredit had a positive impact on the revenue growth and operational scale of MSMEs. However, the study also identified that high-interest rates and rigid repayment schedules imposed by

some MFIs limited the benefits for certain enterprises. It concluded that while microfinance is a critical enabler for small businesses, MFIs need to adopt flexible terms to ensure sustained growth.

A study by Rahman and Ahmed (2020) investigated the role of MFIs in enhancing the performance of MSMEs in rural and urban Bangladesh. The researchers conducted interviews and focus group discussions with 200 MSME owners and used content analysis and logistic regression to evaluate the collected data. The findings indicated that microfinance services significantly improved business capital, inventory management, and customer base. However, the study highlighted challenges such as limited financial literacy among entrepreneurs and the need for more comprehensive financial support beyond credit. The study concluded that MFIs are instrumental in driving the growth of MSMEs in Bangladesh, but additional training in financial management could amplify the impact.

A study by Johnson and Lee (2019) explored the contribution of MFIs to the development of MSMEs in Canada, focusing primarily on immigrant entrepreneurs. Data was gathered through online surveys and interviews with 120 MSME operators. Regression models were applied to analyze the data and establish correlations between microfinance access and business growth. The study found that MFIs provided essential funding to entrepreneurs excluded from traditional banking systems, especially in the early stages of business development. However, the study noted that some entrepreneurs struggled with cash flow management, impacting loan repayment. The study concluded that while microfinance fosters business growth, additional mentorship and advisory services could enhance the sustainability of MSMEs.

1.1.2 Regional Perspective of credit provision by microfinance institutions on growth of MSMEs

A study by Ogunbanjo (2017) assessed how credit from MFIs influences the expansion of MSMEs in Lagos, Nigeria. The researcher collected data using questionnaires and interviews from 180 business owners across various sectors. Correlation analysis and ANOVA were employed to assess the data. The findings revealed that microfinance loans were crucial in financing business operations and increasing sales volumes. However, the study also highlighted that delayed loan disbursement and high default rates posed challenges to both MFIs and MSMEs. The study concluded that improving credit accessibility and introducing lower interest rates could promote the growth of MSMEs in Nigeria.

A study by Mkhize (2021) investigated the relationship between microfinance credit and MSME performance in Johannesburg, South Africa. The study collected data through semi-structured interviews and surveys with 100 entrepreneurs and analyzed the results using multiple regression analysis. The findings indicated that credit from MFIs had a direct positive impact on employment creation, profitability, and market penetration of MSMEs. However, the study found that inadequate financial education among business owners limited their ability to utilize loans effectively. The study concluded that while microfinance is pivotal in promoting entrepreneurship, capacity-building programs are essential to maximize its benefits.

A study by Uwizeyimana (2019) explored the impact of MFIs on the growth of MSMEs in Kigali, Rwanda. The researcher used questionnaires and focus group discussions to collect data from 150 entrepreneurs and employed descriptive and inferential statistics for data analysis. The findings revealed that microfinance credit contributed to business growth by improving access to raw materials and expanding

production capacity. However, the study also noted that entrepreneurs faced challenges related to high-interest rates and lack of loan diversity. The study concluded that microfinance services are vital for MSME growth in Rwanda, but MFIs need to offer more tailored financial products to address diverse business needs.

A study by Kato and Nsubuga (2020) examined how microfinance credit affects the development of MSMEs in Kampala, Uganda. The researchers collected data using structured questionnaires from 200 MSME operators and analyzed the data using Pearson's correlation and regression models. The study found that credit access from MFIs significantly increased business revenues and employment levels. However, it was also revealed that some entrepreneurs experienced difficulties in accessing sufficient funds due to stringent loan conditions. The study concluded that microfinance plays a crucial role in MSME development, but greater flexibility in loan terms could further enhance its impact.

1.1.3 Local Perspective of credit provision by microfinance institutions on growth of MSMES

A study by Kato and Nsubuga (2020) examined how microfinance credit affects the development of MSMEs in Kampala, Uganda. The researchers collected data using structured questionnaires from 200 MSME operators and analyzed the data using Pearson's correlation and regression models. The study found that credit access from MFIs significantly increased business revenues and employment levels. However, it was also revealed that some entrepreneurs experienced difficulties in accessing sufficient funds due to stringent loan conditions. The study concluded that microfinance plays a crucial role in MSME development, but greater flexibility in loan terms could further enhance its impact.

A study by Omollo (2018) analyzed the role of microfinance institutions in fostering the growth of MSMEs in Nairobi, Kenya. The study used surveys and interviews to collect data from 150 MSME owners and employed descriptive statistics and regression analysis to interpret the data. The findings showed that microfinance credit facilitated the expansion of business activities and improved profitability. However, the study noted that some entrepreneurs struggled with loan repayments due to fluctuating market conditions. It concluded that while microfinance is essential for business growth, MFIs should develop strategies to mitigate loan default risks and provide additional support during economic downturns.

In Kenya, MSMEs in Machakos County, like elsewhere in Kenya, serve as engines of economic development by promoting entrepreneurship, enhancing local competitiveness, and fostering inclusive growth (Garcia & Martinez 2019). They provide opportunities for income generation and wealth creation, particularly among marginalized populations such as women, youth, and rural communities. Additionally, MSMEs contribute to poverty reduction by providing livelihoods and economic opportunities to individuals and households. Moreover, MSMEs play a crucial role in promoting innovation and technological advancement, driving productivity improvements, and enhancing the resilience of the economy to external shocks. The impact of credit provision by Microfinance Institutions (MFIs) on the growth and development of Micro, Small, and Medium Enterprises (MSMEs) is a topic of significant interest and importance in both academic research and policy discourse (Johnson & Rogaly 2019).

1.2 Statement of the Problem

The provision of credit by Microfinance Institutions (MFIs) plays a crucial role in fostering the growth of Micro, Small, and Medium Enterprises (MSMEs), which are

key drivers of economic development and financial inclusion. MFIs aim to offer accessible credit to empower MSMEs to invest in resources, expand operations, and stimulate local economies. However, challenges such as high collateral requirements, prohibitive interest rates, and limited outreach often restrict MSMEs' access to financing. Additionally, over-indebtedness, regulatory constraints, and institutional weaknesses further hinder MSMEs from fully benefiting from MFI services, limiting their potential to thrive and contribute to broader economic development.

In Machakos County, Mwala Constituency, limited access to credit remains a significant challenge for MSMEs, stalling their growth and sustainability. According to the Kenya National Bureau of Statistics (KNBS, 2020), 70% of MSMEs in the region identify credit access as a major obstacle, while only 30% have successfully secured MFI loans (Microfinance Regulatory Authority, 2020). The gap between credit demand and availability limits innovation, reduces competitiveness, and impedes business operations. While studies such as Abdi et al. (2019) have shown that microcredit promotes asset investment and job creation, they highlight that urban-focused findings may not apply in rural areas like Mwala. Similarly, Waweru (2021) found that high-interest rates from MFIs often offset the benefits of credit. This study aims to bridge these gaps by investigating on credit provision by microfinance institutions on the growth of MSMEs.

1.3 Research Objectives

1.3.1 General Objective

The study sought to explore the credit provision by microfinance institutions on growth of MSMEs in Machakos County, Mwala Constituency.

1.3.2 Specific Objectives of the Study

- i. To determine the influence of access to credit on growth of MSMES in Machakos County, Mwala Constituency.
- ii. To investigate the influence of financial literacy on growth of MSMES in Machakos County, Mwala Constituency.
- iii. To assess the influence of financial inclusion on growth of MSMES in Machakos County, Mwala Constituency.

1.4 Research Questions

- i. What is the influence of access to credit on growth of MSMES in Machakos County, Mwala Constituency.?
- ii. What is the influence of financial literacy on growth of MSMES in Machakos County, Mwala Constituency.?
- iii. What is the influence of financial inclusion on growth of MSMES in Machakos County, Mwala Constituency.?

1.5 Justification of the Study

The study addresses a critical gap in understanding the effectiveness of microfinance interventions in supporting the growth and sustainability of MSMEs, particularly in regions like Machakos County, where financial constraints significantly impede entrepreneurial activities. By assessing the impact of credit provision by MFIs, the study aims to provide empirical evidence on the extent to which access to finance contributes to MSME development, job creation, and poverty alleviation. It seeks to evaluate not only the direct financial benefits of microloans such as increased capital for investment in equipment and inventory but also the broader socioeconomic outcomes, including improvements in household income and community well-being.

Furthermore, by investigating the interplay between credit access and factors such as financial literacy and business management skills among MSME owners, the research endeavors to illuminate the pathways through which microfinance can be leveraged to foster sustainable economic growth. Ultimately, the findings are expected to inform policymakers and stakeholders about the critical role of MFIs in enhancing the financial ecosystem for MSMEs, leading to tailored interventions that can maximize their potential impact on local economies.

Furthermore, the study benefits policymakers and development practitioners by informing evidence-based decision-making and program design aimed at promoting MSME development and fostering inclusive economic growth. By providing a comprehensive analysis of the impact of credit provision by microfinance institutions, the research highlights the specific barriers that MSMEs face in accessing financial services, including issues related to collateral requirements, interest rates, and the overall financial literacy of entrepreneurs. Insights gained from the research can guide the formulation of targeted policies and interventions to improve the regulatory environment, enhance access to finance, and strengthen support mechanisms for MSMEs. For instance, the study could reveal the necessity for tailored microfinance products that cater to the unique needs of different sectors within the MSME landscape, such as agriculture, manufacturing, or services. Additionally, it may underscore the importance of capacity-building programs that equip entrepreneurs with essential skills in financial management and business development. By addressing these critical areas, policymakers can unlock the full potential of MSMEs as engines of economic growth and poverty reduction, ultimately contributing to a more resilient and equitable economy.

Moreover, the study holds relevance for microfinance institutions (MFIs) themselves by offering valuable insights into the effectiveness of their credit delivery models, product offerings, and client outreach strategies. Understanding the impact of their interventions on MSME growth and development enables MFIs to evaluate the success of their existing programs and identify areas for improvement. For example, the research could reveal how specific loan structures such as flexible repayment terms or lower interest rates affect MSME sustainability and growth trajectories. This knowledge allows MFIs to refine their approaches and tailor their services to better meet the diverse needs of their clients, whether through innovative financial products, such as group lending or asset-based financing, or enhanced support services, including financial education and business training. Additionally, the findings can inform MFIs on how to optimize their social and financial performance, ultimately ensuring that they not only fulfill their mission of empowering marginalized communities but also achieve long-term financial viability. By leveraging these insights, MFIs can strengthen their impact, contribute to the resilience of the MSME sector, and foster a more inclusive economic landscape.

Additionally, the research benefits MSME owners and entrepreneurs in Machakos County by providing them with vital knowledge and awareness of available financing options, potential benefits, and the associated risks of borrowing from microfinance institutions (MFIs). By shedding light on the nuances of microfinance products such as interest rates, repayment terms, and eligibility criteria entrepreneurs can better navigate the often complex landscape of credit access. This information empowers MSME owners to make informed decisions regarding their financial management, allowing them to weigh the pros and cons of taking on debt against their specific business needs and growth ambitions. Moreover, the research

emphasizes the importance of financial literacy, equipping MSMEs with the tools to not only secure funding but also effectively manage cash flow, budget for repayments, and invest strategically in areas such as marketing, technology, and human resources. Ultimately, by fostering an environment of informed decision-making, the research encourages MSMEs to embrace opportunities for growth and innovation, enhancing their competitiveness in an increasingly dynamic market. This empowerment is essential for driving sustainable development and economic progress within the region, as more informed and capable entrepreneurs contribute to job creation and overall community prosperity.

1.6 Significance of the Study

1.6.1 MSMEs

The study on the impact of credit provision by Microfinance Institutions (MFIs) on the growth of MSMEs in Machakos County holds paramount significance for MSMEs in the region. Firstly, it provides empirical evidence and a comprehensive understanding of the multifaceted challenges faced by MSMEs in accessing credit from MFIs. These challenges often include stringent eligibility criteria that exclude many potential borrowers, high interest rates that can render loans unaffordable, and limited outreach from MFIs that fails to reach the most underserved populations. By delineating these barriers, the study equips MSMEs with critical insights into navigating the financial landscape effectively. Additionally, the research highlights the importance of understanding the specific financial products offered by MFIs and how they can align with the operational needs of MSMEs. Armed with this knowledge, MSMEs in Machakos County can not only strategize but also advocate for necessary policy changes that address their specific financial needs, such as

pushing for more flexible lending criteria, lower interest rates, and improved access to information about available financial services. This empowerment fosters an environment conducive to their growth and sustainability, enabling MSMEs to thrive, innovate, and ultimately contribute to the local economy's resilience and development.

1.6.2 Policymakers

Secondly, the study serves as a guiding framework for policymakers in Machakos County to formulate targeted interventions aimed at enhancing financial inclusion and fostering MSME development. By elucidating the impact of MFI credit provision on MSME growth, the research provides policymakers with invaluable insights into the efficacy of existing policies and highlights critical areas for improvement. This evidence-based approach enables policymakers to identify gaps in the current financial ecosystem that hinder MSMEs from accessing credit and achieving their growth potential. Moreover, the study empowers policymakers with practical recommendations to streamline regulatory frameworks, ensuring that they are conducive to the unique needs of MSMEs while also promoting transparency and accountability in MFI operations. Such measures can include simplifying application processes, reducing bureaucratic hurdles, and fostering partnerships between MFIs and local businesses. Additionally, by enhancing access to affordable credit for MSMEs, policymakers can create a more inclusive financial environment that supports diverse entrepreneurial ventures. In doing so, they can enact measures that catalyze economic growth, create sustainable employment opportunities, and drive overall prosperity in Machakos County, ultimately contributing to a more resilient and dynamic local economy that benefits all stakeholders involved.

1.6.3 Future Researchers

The study significantly contributes to the body of knowledge on microfinance and MSME development, serving as a valuable resource for future researchers interested in exploring similar topics or conducting comparative studies in other regions. By meticulously documenting the experiences of MSMEs in Machakos County and analyzing the nuanced impact of MFI credit provision on their growth trajectories, the research lays a robust foundation for further inquiry into various dynamics of microfinance in rural and semi-urban settings. This includes examining the effectiveness of financial literacy programs tailored to MSMEs, which are crucial for ensuring that borrowers can effectively manage their loans and make informed financial decisions. Furthermore, the study invites exploration into the role of technology in expanding access to credit, particularly how digital platforms and mobile banking can streamline lending processes and reach underserved populations. Future researchers can build upon the findings to delve deeper into specific aspects of MSME financing, such as the correlation between financial literacy and loan repayment rates, the impact of different loan structures on business sustainability, or the influence of regulatory changes on MFI operations. By fostering a richer understanding of these critical areas, the study contributes to advancing knowledge in the field of financial inclusion and economic development, ultimately supporting efforts to create more equitable financial systems that empower entrepreneurs and stimulate local economies.

1.7 Scope of the Study

The study sought to determine credit provision by microfinance institutions on growth of MSMEs in Machakos County, Mwala Constituency. The study specifically targeted registered MSMEs in Machakos County, Mwala Constituency, recognizing

their vital role in fostering inclusive economic growth and development. MSMEs serve as crucial drivers of employment generation, income creation, and poverty alleviation, particularly in emerging economies where formal employment opportunities may be limited. Despite their significance, access to finance remains a formidable barrier for many MSMEs, often hindering their ability to invest in productive activities, expand operations, and maximize their contributions to overall economic development. By examining how credit provision from Microfinance Institutions (MFIs) influences the growth trajectory, productivity, and sustainability of these small enterprises, the study aims to shed light on the effectiveness of alternative financing mechanisms tailored to meet the specific financial needs of MSMEs. The research was meticulously undertaken between April 2024 and September 2024, allowing for a comprehensive analysis of the current financial landscape and the challenges faced by MSMEs in accessing credit. This timeframe also enabled the researchers to capture real-time data and insights, ensuring that the findings reflect the prevailing conditions affecting MSMEs in the region. In this study, the target population consisted of 90 MSMEs in Machakos County, Mwala Constituency. This selection is based on the specific characteristics and relevance of these enterprises to the research objectives, aiming to gather comprehensive data that provide insights into the impact of credit provision by microfinance institutions on their growth and development.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section examines both theoretical and empirical research, thoroughly delving into the research gaps outlined in the paper. Subsequently, the paper proceeds to construct a conceptual framework.

2.2 Theoretical Review

2.2.1 Financial Intermediation Theory

Financial Intermediation Theory, established by Gurley and Shaw in 1957, is pivotal for understanding the role of microfinance institutions (MFIs) in supporting micro, small, and medium enterprises (MSMEs). This theory underscores the essential function of financial institutions as intermediaries between savers and borrowers, thereby facilitating economic activity by bridging critical gaps in financial access. In the context of MFIs, this theory becomes particularly relevant as these institutions cater specifically to the financial needs of MSMEs, which often encounter significant barriers such as inadequate collateral, limited credit histories, and a lack of formal documentation that frequently exclude them from traditional banking systems. MFIs not only provide microloans but also offer a range of services, including financial literacy training and business development support, which empower MSMEs to utilize funds effectively and sustainably. By efficiently channeling funds to these small enterprises, MFIs foster entrepreneurship, create employment opportunities, and stimulate local economies. This process illustrates the importance of financial

intermediation in enhancing financial inclusion and economic stability, as MFIs serve as a crucial link that transforms savings into productive investments, ultimately contributing to broader economic growth and poverty alleviation. Through this lens, the theory provides a foundational framework for evaluating the impact of MFIs on the entrepreneurial landscape, highlighting how access to finance can lead to tangible improvements in the lives of individuals and communities.

However, Financial Intermediation Theory is not without its limitations. Critics argue that it tends to oversimplify the complex issues surrounding credit provision, particularly in the context of microfinance and MSMEs. One significant concern is asymmetric information, which arises when lenders do not possess complete knowledge about borrowers' creditworthiness or their true financial condition. This lack of transparency can lead to inefficient lending decisions, where lenders may either under- or overestimate the risk associated with a borrower, potentially resulting in financial losses for both parties. Additionally, moral hazard is another critical issue; it occurs when borrowers take on excessive risks after securing a loan, believing that they will not face the full consequences of their actions, particularly if they believe that their lenders will bail them out in times of trouble. Similarly, adverse selection refers to the phenomenon where high-risk borrowers are more motivated to seek loans than low-risk borrowers, leading to a situation where lenders may inadvertently attract a pool of borrowers that is riskier than anticipated. These challenges complicate the financial landscape and highlight the necessity for financial intermediation to be complemented by additional strategies. Such strategies may include comprehensive borrower assessments, robust risk management practices, and the integration of financial literacy programs to better inform borrowers about the responsibilities associated with credit. By addressing these inherent risks, financial

institutions can enhance the effectiveness of their interventions and ensure a more sustainable approach to supporting MSME growth and development.

In the context of Machakos County, Financial Intermediation Theory offers a crucial framework for understanding how Microfinance Institutions (MFIs) can significantly influence the growth of Micro, Small, and Medium Enterprises (MSMEs) by providing essential access to capital. In areas where traditional banking services are scarce or inaccessible, MFIs serve as vital intermediaries, effectively bridging the financing gap that many local entrepreneurs face. This access to credit enables MSMEs to secure the necessary funds to expand their operations, invest in new technologies, hire additional staff, and enhance their production capacities. As a result, these businesses can not only thrive but also contribute to local economic development, creating employment opportunities and improving livelihoods within the community. Furthermore, the role of MFIs in facilitating financial inclusion is particularly important in Machakos County, where many individuals may lack the collateral or credit history typically required by conventional banks. While the Financial Intermediation Theory emphasizes the significance of MFIs in fostering regional growth, it also highlights the imperative for additional measures to mitigate the inherent risks associated with financial intermediation. For instance, implementing comprehensive risk assessment protocols, promoting financial literacy among borrowers, and fostering a regulatory environment that supports responsible lending practices are crucial steps that can enhance the effectiveness of credit delivery. By addressing these challenges, MFIs can ensure that their interventions not only support MSME growth but also promote long-term economic sustainability in Machakos County.

2.2.2 Agency Theory

Agency Theory, introduced by Jensen and Meckling in 1976, delves into the inherent conflicts of interest that arise between principals, such as shareholders, and agents, such as managers, due to misaligned incentives and information asymmetries. When this theory is applied to the relationship between Microfinance Institutions (MFIs) and Micro, Small, and Medium Enterprises (MSMEs), it reveals critical potential conflicts that may jeopardize the objectives of both parties. Specifically, MFIs act as principals, motivated by the need for timely loan repayments and the responsible utilization of funds, while MSME borrowers, as agents, may prioritize their immediate business needs or even personal expenses over repayment obligations. This divergence in priorities can give rise to moral hazard, where MSMEs may take on excessive risks knowing that the MFI bears the financial consequences, and adverse selection, where higher-risk borrowers may be more inclined to seek loans, skewing the risk profile of the lending portfolio. To address these conflicts effectively, it is essential to implement rigorous monitoring mechanisms that enable MFIs to oversee the utilization of funds more closely. Additionally, performance-based incentives can be structured to align the interests of MSMEs with those of MFIs, encouraging responsible borrowing and repayment behaviors. Clear contractual agreements that outline the expectations and responsibilities of both parties are also crucial in mitigating risks. By ensuring that the interests of MFIs and MSMEs are better aligned, Agency Theory underscores the importance of developing strategies that not only foster financial inclusivity but also promote sustainable and responsible credit use, ultimately enhancing the growth trajectory of MSMEs in Machakos County and similar regions.

Despite the valuable insights provided by Agency Theory, it is important to acknowledge its inherent limitations. Critics contend that the theory's primary focus on principal-agent conflicts may overshadow other critical factors that significantly influence borrower behavior and loan performance. For instance, socio-economic contexts can profoundly impact the financial decisions made by MSMEs; factors such as poverty levels, economic stability, and local market dynamics shape the capabilities and motivations of borrowers. Additionally, cultural influences can dictate attitudes toward debt and repayment, affecting how MSMEs prioritize their financial obligations. For example, in some cultures, social pressures or community ties may lead MSMEs to prioritize communal responsibilities over financial commitments to MFIs. Furthermore, external market conditions, including fluctuating demand, competition, and economic policies, can directly affect the financial health of MSMEs, thereby influencing their ability to repay loans. These external factors can undermine the effectiveness of internal mechanisms like monitoring and performance-based incentives that MFIs might implement. Therefore, while Agency Theory offers a framework for understanding the conflicts of interest inherent in credit provision, it is essential to adopt a more holistic perspective that incorporates the broader socio-economic and cultural environment in which MSMEs operate. Such a comprehensive understanding is crucial for developing effective strategies that enhance loan performance and support the sustainable growth of MSMEs.

In the context of Machakos County, Agency Theory emphasizes the critical need for MFIs to implement robust mechanisms that ensure effective lending practices and enhance borrower accountability. This theoretical framework highlights the necessity of aligning the interests of MFIs and MSME borrowers to mitigate common issues such as the misallocation of funds and the risks associated with loan

defaults. Effective communication and transparent agreements between MFIs and borrowers can play a significant role in achieving this alignment. However, to gain a comprehensive understanding of the impact of credit provision on the growth of MSMEs, it is vital to consider the socio-economic environment and prevailing market conditions that influence borrower behavior. For example, understanding local economic trends, cultural attitudes towards debt, and the specific challenges faced by MSMEs can provide MFIs with critical insights necessary for tailoring their financial products and services. By integrating the principles of Agency Theory with a nuanced understanding of external influences, MFIs can refine their credit provision strategies to not only enhance loan performance but also contribute to the sustainable economic development of Machakos County. This holistic approach fosters a more supportive ecosystem for MSMEs, enabling them to thrive and make meaningful contributions to the local economy.

2.2.3 Social Capital Theory

Social Capital Theory, as articulated by Coleman in 1993, underscores the significance of social networks, relationships, and trust in fostering cooperation and collective action within a community, particularly in the context of microfinance institutions (MFIs) and micro, small, and medium enterprises (MSMEs). When applied to these entities, the theory posits that MSMEs embedded within strong social networks are more likely to reap the benefits of not only financial assistance but also vital non-financial resources, such as mentorship, business advice, and collaborative opportunities. For instance, when MSMEs operate within a community characterized by trust and mutual support, they are more inclined to share best practices and pool resources, leading to enhanced business acumen and operational efficiency. The presence of social capital reduces the perceived risk associated with lending for MFIs;

thus, they may feel more comfortable extending credit with fewer formal safeguards. This dynamic fosters a sense of accountability among MSME borrowers, as they understand that their reputation and relationships within their community are at stake. Consequently, this interconnectedness cultivates a culture of higher repayment rates and responsible fund utilization, reinforcing the positive cycle of financial support and community development. By leveraging social capital, MFIs can create a more conducive environment for MSME growth, where the collective strength of the community bolsters individual business endeavors, ultimately driving broader economic advancement.

Despite its valuable insights, Social Capital Theory has several limitations that merit consideration. Critics argue that the theory may oversimplify social dynamics by positing that all social connections are inherently beneficial and inclusive. In reality, social networks can be fraught with power imbalances, exclusionary practices, and unequal access to resources, which can restrict the advantages of social capital for certain community members. For instance, individuals from marginalized backgrounds may find it challenging to integrate into existing networks that predominantly benefit more affluent or connected peers, thereby limiting their access to crucial financial resources and opportunities for collaboration. Moreover, the very nature of trust and reciprocity within networks can lead to groupthink or conformity, stifling innovation and limiting the diversity of ideas that are essential for economic growth. Consequently, while strong social networks and trust can enhance credit provision and repayment rates among MSMEs, it is essential to recognize that social capital is not uniformly beneficial. Addressing these complexities necessitates a nuanced understanding of the social fabric within communities to ensure that efforts to build social capital are equitable and inclusive, actively seeking to uplift

marginalized individuals and foster a more comprehensive approach to community development. This awareness can guide MFIs and policymakers in creating strategies that not only leverage social networks but also dismantle barriers that prevent equitable access to credit and resources for all MSMEs.

In the case of Machakos County, Social Capital Theory offers a compelling framework for understanding how MFIs can strategically leverage community networks to enhance credit provision to MSMEs. The theory underscores that MSMEs with strong social ties whether through familial relationships, local associations, or community organizations are often better equipped to manage credit effectively and honor repayment obligations. This effectiveness is largely attributed to the support and resources these networks provide, such as shared knowledge, mentorship, and collective problem-solving. Furthermore, MFIs are generally more inclined to extend credit to MSMEs that are well-integrated into trusted networks, as this social embeddedness significantly reduces perceived lending risks. When MFIs recognize the interconnectedness of local businesses and communities, they can create a more supportive environment for credit provision, which not only facilitates timely loan repayment but also encourages responsible utilization of funds. This ultimately leads to enhanced growth and development of MSMEs in Machakos County. By integrating these insights with a nuanced understanding of social dynamics including the recognition of marginalized groups and potential power imbalances MFIs can refine their strategies to harness the full potential of social capital. Such an approach not only promotes sustainable economic development but also fosters an inclusive financial ecosystem where all members of the community can thrive, thereby ensuring that the benefits of microfinance reach those who need them most.

2.3 Empirical Review

2.3.1 Access to credit and the growth of MSMEs

In the United Kingdom, a study by Fraser (2019) aimed to investigate the accessibility of credit for Micro, Small, and Medium Enterprises (MSMEs) and its impact on their growth. The study employed a mixed-method approach, utilizing both surveys and interviews with MSME owners and financial institutions. The data were analyzed using descriptive statistics and regression analysis. The findings revealed that despite various government initiatives aimed at improving access to finance for Micro, Small, and Medium Enterprises (MSMEs), many still encountered significant barriers due to stringent lending criteria and a lack of collateral. These barriers not only hindered the ability of MSMEs to secure necessary funding but also stifled their potential for growth and innovation. The study concluded that improving the financial literacy of MSME owners is crucial; equipping them with the knowledge and skills to navigate financial markets can empower them to make informed decisions regarding loans and investments. Additionally, enhancing the transparency of lending processes could demystify borrowing terms and conditions, enabling MSMEs to better understand their options. Together, these strategies could significantly improve access to credit and foster a more vibrant and resilient MSME sector in the UK, ultimately contributing to economic growth and job creation.

In the United States, Robb and Robinson (2021) conducted a study to understand the role of credit access in the growth of MSMEs. The purpose was to assess how different sources of finance affected the performance and expansion of small businesses. The researchers used a longitudinal dataset from the Kauffman Firm Survey, analyzing it through econometric modeling techniques. The study found that businesses with access to bank loans exhibited significantly higher growth rates

compared to those relying on personal savings or informal lending. This disparity underscores the vital role that formal credit markets play in enabling MSMEs to expand their operations, invest in new technologies, and hire additional staff. Without access to bank loans, many MSMEs are limited to self-funding or informal lending, which often comes with higher interest rates and less favorable terms, thereby restricting their ability to scale effectively. The study concluded that access to formal credit markets is crucial for the growth and sustainability of MSMEs in the USA. It highlighted that a robust financial infrastructure not only provides businesses with the necessary capital but also fosters an environment conducive to innovation and competitiveness. By strengthening access to formal financing, policymakers can support MSMEs in overcoming financial barriers, thereby enhancing their contribution to the overall economy and job creation.

In India, the study by Banerjee and Duflo (2018) focused on evaluating the impact of microcredit on the growth of MSMEs. The purpose was to assess whether microcredit can be a viable tool for promoting small business growth. Using randomized control trials (RCTs), data were collected from various MSMEs that received microcredit loans. The analysis employed statistical techniques to compare the growth metrics of businesses that received microcredit against those that did not. The findings indicated that while microcredit had a positive impact on the income levels and business activities of Micro, Small, and Medium Enterprises (MSMEs), the effect on long-term growth was modest. Although access to microcredit provided these businesses with the necessary capital to enhance their operations, expand product lines, and increase inventory, the benefits often plateaued over time. Many MSMEs faced ongoing challenges such as limited market access, inadequate business training, and lack of strategic planning, which microcredit alone could not address.

The study concluded that while microcredit can effectively improve short-term business operations and elevate income levels, it is not a panacea for long-term growth. Therefore, other support mechanisms, such as comprehensive business development services, mentorship programs, and improved access to larger financial resources, are essential to ensure sustained growth. By integrating these support systems with microcredit initiatives, stakeholders can create a more conducive environment for MSMEs to thrive, thereby enhancing their overall contribution to the economy.

A study by Johnson and Smith (2020) examined the influence of access to credit on the growth of Micro, Small, and Medium Enterprises (MSMEs) in the United States. The researchers employed surveys as their primary data collection instrument, targeting over 400 MSME owners across diverse industries. For data analysis, they utilized regression analysis to establish the relationship between credit access and various growth metrics, including revenue, employment, and market expansion. The study revealed that MSMEs with greater access to credit experienced substantial growth in both sales and workforce size compared to their counterparts with limited credit availability. This trend highlights the critical role that financial resources play in empowering small businesses to seize opportunities for expansion and innovation. With access to credit, MSMEs can invest in essential resources such as advanced technology, marketing initiatives, and skilled labor, all of which contribute to enhanced productivity and competitiveness. In contrast, those with restricted access often struggle to scale their operations, leaving them vulnerable to market fluctuations and unable to meet consumer demand. The conclusions drawn from the study emphasized that improving access to credit is not just a matter of financial assistance; it is critical for the growth and sustainability of MSMEs in the

United States. By enabling these businesses to capitalize on market opportunities effectively, policymakers and financial institutions can foster a more vibrant entrepreneurial ecosystem, ultimately driving economic growth and job creation at a national level.

In Canada, Lee and Thompson (2021) conducted a study investigating the impact of credit access on the growth of MSMEs, utilizing a mixed-methods approach for data collection. The researchers distributed structured questionnaires to 600 business owners and conducted in-depth interviews with 50 selected participants. The analysis included descriptive statistics for quantitative data and thematic analysis for qualitative insights. The findings indicated that businesses with diverse credit sources, such as loans, government grants, and angel investors, demonstrated significantly higher growth rates in terms of sales and employment. This diversity in funding not only provides MSMEs with the necessary capital to invest in various aspects of their operations, such as research and development, marketing, and talent acquisition, but also reduces reliance on any single source of financing, thereby mitigating risk. Companies that leverage multiple funding avenues are better positioned to navigate economic uncertainties and capitalize on new market opportunities, ultimately leading to enhanced resilience and innovation. The study concluded that facilitating better access to credit and financial support systems is vital for enhancing the competitiveness and growth potential of Canadian MSMEs in a rapidly evolving market. By fostering a more inclusive financial ecosystem that encourages varied funding sources, policymakers can empower MSMEs to thrive, driving sustainable economic development and job creation across Canada.

Gomez and Ramirez (2019) conducted a study in Mexico focusing on the influence of access to credit on the growth of MSMEs. The researchers employed

both surveys and focus group discussions as data collection instruments, targeting a sample of 300 MSME owners. Data analysis was performed using statistical techniques to evaluate the correlation between credit access and business growth indicators. The findings showed that many MSMEs faced significant barriers to accessing credit, resulting in stagnation and limited growth opportunities. These barriers included stringent lending criteria, a lack of collateral, and insufficient understanding of financial products, which collectively hindered the ability of small businesses to secure the necessary funding for expansion. As a result, many MSMEs remained trapped in a cycle of limited operational capacity and underperformance, unable to compete effectively in a dynamic market. The study concluded that addressing these barriers through improved lending policies such as more flexible requirements and tailored financial products alongside comprehensive financial literacy initiatives, is essential for fostering the growth of MSMEs in Mexico. By equipping business owners with the knowledge and skills to navigate the credit landscape, and by reforming lending practices to be more inclusive, stakeholders can significantly enhance the contribution of MSMEs to the economy, promoting innovation, job creation, and sustainable economic development.

A study by Pereira et al. (2020) explored the relationship between credit access and MSME growth in Brazil, particularly in rural areas. The researchers conducted structured interviews and distributed questionnaires to 250 MSME owners. Data analysis involved both quantitative and qualitative methods, including regression analysis to evaluate the impact of credit on business performance. The findings indicated that MSMEs that accessed microcredit and financial assistance from government programs experienced significant growth in production and income. This access not only allowed these businesses to scale their operations but also facilitated

investments in better technology, improved production methods, and enhanced marketing strategies, all of which contributed to increased competitiveness in the marketplace. Furthermore, the infusion of financial resources enabled MSMEs to hire additional labor, thereby generating employment opportunities in rural areas that often suffer from high unemployment rates. The study concluded that improving credit access for rural MSMEs is crucial for driving economic development and reducing poverty in Brazil, as it empowers these enterprises to become engines of growth within their communities. This underscores the need for targeted financial support initiatives, such as tailored microcredit programs and training on financial management, to ensure that rural MSMEs can fully leverage available resources and contribute effectively to national economic goals. By focusing on these areas, policymakers can create a more equitable economic landscape that fosters sustainable growth and alleviates poverty in underserved regions.

In Morocco, El-Baz and Haddad (2018) examined how access to credit influences MSME growth through a study involving structured interviews with 150 MSME owners. The researchers utilized descriptive statistics and correlation analysis for data interpretation. The findings revealed that a significant number of MSMEs struggled to access formal credit channels due to high-interest rates and stringent requirements, leading to a dependency on informal financing. This reliance on informal sources, while sometimes necessary, often comes with exorbitant interest rates and less favorable terms, which can trap businesses in a cycle of debt and limit their growth potential. Additionally, the lack of access to formal credit prevents MSMEs from investing in critical areas such as technology upgrades, employee training, and market expansion, all of which are essential for enhancing productivity and competitiveness. The study concluded that enhancing access to formal credit

institutions is critical for promoting sustainable growth in the Moroccan MSME sector. By reforming lending practices to be more inclusive and supportive, such as lowering interest rates and simplifying application processes, policymakers can create an environment where businesses can secure the funding they need to invest in growth and innovation. This shift not only empowers individual enterprises but also strengthens the overall economy by fostering a vibrant and dynamic MSME landscape capable of driving job creation and economic development in Morocco.

Santos and Oliveira (2019) explored the impact of credit access on MSME growth in Angola, focusing on the post-conflict economic environment. The researchers utilized qualitative methods, conducting in-depth interviews with 30 MSME owners in Luanda. The analysis involved content analysis to identify key themes and challenges related to credit access. The study found that despite improvements in the financial sector, many MSMEs faced persistent barriers to obtaining credit, including high-interest rates and inadequate collateral. These challenges often left small businesses vulnerable, stifling their ability to innovate, expand operations, and create jobs within their communities. The high cost of borrowing not only discouraged entrepreneurs from seeking loans but also forced them to rely on costly alternative financing options, which could jeopardize their long-term viability. The conclusions highlighted the necessity for policy interventions aimed at improving access to affordable credit, such as the establishment of government-backed loan guarantees and microfinance programs designed specifically for MSMEs. Furthermore, enhancing financial education initiatives is crucial, as it equips entrepreneurs with the knowledge to navigate financial markets and make informed decisions regarding their funding options. By addressing these barriers through targeted policies, Angola can create a more inclusive financial environment

that supports MSME growth, ultimately contributing to broader economic development and poverty alleviation in the country.

Moyo and Chikanga (2020) conducted a study in Mozambique examining the relationship between access to credit and MSME growth. The researchers employed surveys and case studies for data collection, analyzing responses from 200 MSME owners. Data analysis incorporated mixed methods, utilizing both qualitative insights and statistical analysis. The findings revealed that inadequate access to credit severely restricted the growth potential of MSMEs, particularly in rural regions where financial services are limited. In these areas, the lack of banking infrastructure and financial literacy further exacerbates the problem, leaving many entrepreneurs without the necessary tools to secure funding for their ventures. This scarcity of credit not only stifles innovation and operational expansion but also hampers job creation, perpetuating cycles of poverty and underdevelopment in these communities. The study concluded that policy measures aimed at improving credit access and enhancing financial inclusion are essential for fostering sustainable growth among MSMEs in Mozambique. Such measures could include the establishment of mobile banking solutions and community-based lending programs that cater to the unique needs of rural entrepreneurs. Additionally, promoting partnerships between government, financial institutions, and NGOs can create comprehensive support networks that provide training and resources, ensuring that MSMEs are better equipped to navigate the financial landscape. By prioritizing these initiatives, Mozambique can unlock the economic potential of its MSMEs, contributing to broader national development and poverty reduction efforts.

Abakar and Ndjiga (2021) assessed the impact of credit access on MSME growth in Chad through a study involving structured questionnaires distributed to 100

MSME owners. The analysis was performed using statistical methods to identify correlations between credit access and business performance metrics. The findings indicated that MSMEs with better access to credit exhibited higher growth in revenue and market presence compared to those with limited access. This correlation highlights the essential role that financial resources play in enabling small businesses to invest in critical areas such as inventory, technology, and marketing, all of which are vital for enhancing competitiveness and expanding market reach. Businesses that can secure financing are more likely to seize opportunities for innovation and diversification, allowing them to adapt to changing market demands and economic challenges. The study concluded that expanding access to credit facilities is crucial for stimulating MSME growth in Chad, particularly given the challenging economic landscape that many businesses face, characterized by high inflation, fluctuating demand, and limited market access. By improving credit availability through targeted financial programs, such as microloans and favorable lending terms, policymakers can empower MSMEs to thrive, driving economic development and creating jobs. Such initiatives would not only enhance the resilience of individual enterprises but also contribute to the overall stability and growth of Chad's economy, fostering a more vibrant and dynamic business environment.

In Nigeria, a study by Akingunola (2021) examined the impact of microfinance on the growth of MSMEs. The purpose was to understand how microfinance institutions (MFIs) influence MSME performance. Data were collected through structured questionnaires distributed to MSME operators and analyzed using descriptive statistics and regression analysis. The study found that access to microfinance significantly improved business performance by providing the necessary capital for expansion and operational activities. With the influx of funds, many

MSMEs were able to invest in critical areas such as upgrading equipment, expanding product lines, and enhancing marketing efforts, which directly contributed to increased revenue and market competitiveness. However, high interest rates and limited loan amounts emerged as significant constraints, often making it difficult for businesses to fully capitalize on the opportunities afforded by microfinance. These unfavorable terms can lead to a cycle of debt, where the cost of borrowing undermines the potential benefits of the initial investment. The study concluded that while microfinance has the potential to enhance MSME growth substantially, these institutions need to offer more favorable loan terms, such as lower interest rates and increased borrowing limits, to maximize their impact. By doing so, microfinance can become a more effective tool for empowering small businesses, facilitating sustainable economic development, and ultimately contributing to poverty alleviation in the communities they serve.

In South Africa, a study by Fatoki and Asah (2021) explored the challenges and impacts of accessing finance for MSMEs. The purpose was to identify the barriers to obtaining credit and its effects on business growth. Data were collected via surveys from MSME owners and financial institutions and analyzed using factor analysis and regression models. The findings indicated that lack of collateral, high-interest rates, and stringent lending policies were major obstacles to accessing credit for MSMEs. Many small business owners, especially those in emerging markets, find themselves unable to provide the necessary collateral, often due to insufficient assets or unstable income streams, which disqualifies them from traditional financing options. Moreover, high-interest rates can deter these enterprises from seeking loans, as the repayment burdens may outweigh potential gains from investment. The stringent lending policies employed by many financial institutions further exacerbate these

challenges, leaving MSMEs with few viable options for securing the funding they need to grow. The study concluded that to foster MSME growth, financial institutions must adopt more flexible lending practices that consider the unique circumstances of small businesses, such as incorporating alternative credit assessments that do not solely rely on collateral. Additionally, government intervention in the form of loan guarantees can significantly mitigate the risks faced by lenders, encouraging them to extend credit to MSMEs. Such measures not only enhance access to finance but also contribute to a more inclusive economic environment, where small businesses can thrive, innovate, and create jobs, ultimately driving economic growth and stability.

In Ghana, Abor and Quartey (2020) conducted a study to assess the effects of financial access on MSME growth. The purpose was to examine how access to various forms of credit, including bank loans and microfinance, influences business expansion. The study utilized surveys and interviews, with data analyzed through regression analysis. The findings highlighted that businesses with better access to bank credit experienced more significant growth in terms of sales and employment compared to those relying solely on informal credit sources. This disparity underscores the critical role that formal banking institutions play in providing not only the capital necessary for expansion but also the stability and reliability that comes with regulated financial support. Access to bank credit enables MSMEs to make strategic investments in technology, infrastructure, and workforce development, fostering an environment conducive to innovation and increased productivity. In contrast, those dependent on informal credit often face higher interest rates and less favorable repayment terms, which can limit their ability to reinvest in their businesses effectively. The study concluded that enhancing the availability of bank credit to MSMEs is essential for their growth and development in Ghana. This could involve

the implementation of policies that encourage banks to tailor their lending products to meet the specific needs of small businesses, as well as initiatives to improve financial literacy among entrepreneurs. By bridging the gap between MSMEs and formal financial institutions, Ghana can unlock the potential of its small business sector, driving economic growth, job creation, and overall prosperity in the region.

Mwita and Kihanda (2019) examined the influence of access to credit on MSME growth in Tanzania, employing a combination of surveys and interviews for data collection. The researchers analyzed the data using regression analysis to evaluate the effects of credit access on various growth indicators. The findings demonstrated that MSMEs that could secure loans and credit lines showed significantly higher growth rates in terms of sales and employment. This access to financing not only allowed these businesses to increase their operational capacity but also enabled them to invest in critical resources, such as skilled labor, advanced technologies, and effective marketing strategies. These investments are essential for enhancing productivity and competitiveness in a rapidly evolving market. Moreover, the ability to obtain credit instills a sense of confidence among business owners, empowering them to pursue new opportunities and expand their market presence. The study concluded that enhancing access to credit for MSMEs in Tanzania is vital for improving their growth prospects and contributing to the broader economic development of the country. This could involve initiatives aimed at reducing the barriers to credit access, such as implementing financial literacy programs, promoting partnerships between banks and small businesses, and creating government-backed loan schemes that mitigate risk for lenders. By fostering a more inclusive financial environment, Tanzania can unlock the potential of its MSMEs, driving economic resilience, job creation, and overall prosperity across the nation.

In Kenya, the study by Atieno (2019) aimed to explore the impact of credit access on the growth of MSMEs. The purpose was to identify the main sources of finance and their effectiveness in supporting business expansion. Data were collected using questionnaires administered to MSME owners and analyzed using descriptive statistics and multiple regression analysis. The findings indicated that access to both formal and informal credit sources positively influenced business growth, but formal credit had a more substantial impact due to its larger loan sizes and better terms. Formal credit institutions typically offer more favorable interest rates and repayment schedules, which enable MSMEs to invest in significant operational improvements, such as upgrading technology, expanding production capabilities, and enhancing workforce training. In contrast, informal credit sources, while more accessible, often come with higher interest rates and limited loan amounts that restrict the ability of businesses to scale effectively. The study concluded that improving access to formal credit could significantly enhance the growth prospects of MSMEs in Kenya. This could be achieved through various strategies, including fostering partnerships between financial institutions and small businesses, simplifying loan application processes, and implementing government policies that encourage lending to MSMEs.

2.3.2 Financial literacy and the growth of MSMEs

In Bangladesh, a study by Akhter and Sumi (2018) aimed to investigate the impact of financial literacy on the growth of Micro, Small, and Medium Enterprises (MSMEs). The purpose of the study was to assess whether financial literacy among MSME owners influences business performance and growth. Data were collected through structured questionnaires distributed to MSME owners across various sectors. The analysis involved both descriptive statistics and regression techniques to determine the relationship between financial literacy and business growth. The findings revealed

that higher levels of financial literacy were significantly associated with improved business practices, better financial management, and increased growth rates. Business owners who possess a solid understanding of financial principles are more adept at making informed decisions regarding budgeting, investment, and cash flow management, which are critical components of a successful enterprise. Furthermore, financially literate entrepreneurs are more likely to engage with formal financial institutions, seek appropriate credit options, and leverage financial tools that can enhance their operational efficiency. This knowledge not only empowers MSME owners to navigate financial challenges but also positions them to capitalize on growth opportunities and market trends. The study concluded that enhancing financial literacy among MSME owners is crucial for fostering sustainable business growth in Bangladesh.

In Finland, a study by Lusardi and Mitchell (2021) explored the relationship between financial literacy and the growth of MSMEs. The purpose was to understand how financial education affects the strategic decisions and growth trajectories of small businesses. The study utilized survey data from MSME owners, analyzed through both qualitative and quantitative methods, including regression analysis. The findings indicated that financial literacy was positively correlated with effective financial planning, investment decisions, and business expansion. Entrepreneurs who are well-versed in financial concepts are more capable of developing comprehensive business plans that not only outline their operational strategies but also incorporate financial forecasts and risk assessments. This deeper understanding allows them to make informed investment decisions that align with their long-term goals, facilitating more strategic allocation of resources and enhancing their ability to capitalize on emerging market opportunities. Additionally, financially literate business owners are better

equipped to identify and navigate potential financial pitfalls, ensuring that they can sustain growth even in challenging economic conditions. The study concluded that financial literacy is essential for the growth of MSMEs in Finland, highlighting the need for targeted financial education programs for business owners. These programs could include workshops, online courses, and mentorship initiatives that focus on practical financial skills, from budgeting and forecasting to understanding funding options and financial regulations.

A study by Dubois and Martin (2020) investigated the influence of financial literacy on the growth of Micro, Small, and Medium Enterprises (MSMEs) in France. The researchers employed a mixed-methods approach, utilizing surveys and interviews as their primary data collection instruments, reaching out to 300 MSME owners across various sectors. For data analysis, they used both descriptive statistics and thematic analysis to evaluate the impact of financial literacy on business performance indicators such as revenue growth, profit margins, and investment decisions. The findings revealed that MSME owners with higher levels of financial literacy were more likely to make informed financial decisions, resulting in better growth outcomes compared to their less financially literate counterparts. The study concluded that enhancing financial literacy among MSME owners is crucial for promoting sustainable growth and improving overall business performance in France, highlighting the need for targeted financial education programs.

In Germany, a study by Schmidt and Fischer (2019) explored the relationship between financial literacy and MSME growth. The researchers utilized structured questionnaires and focus group discussions as their data collection instruments, targeting a sample of 350 MSME owners. Data analysis involved both quantitative and qualitative methods, including regression analysis to assess the correlation

between financial literacy levels and growth metrics such as market expansion and employee numbers. The study found that MSMEs led by financially literate owners demonstrated significantly greater success in navigating financial challenges and seizing growth opportunities. The conclusions emphasized that increasing financial literacy is essential for fostering a robust MSME sector in Germany, suggesting that government and educational institutions should collaborate to create comprehensive financial education programs tailored to the needs of MSME owners.

A study by Rossi and Bianchi (2021) examined the impact of financial literacy on the growth of MSMEs in Italy, utilizing both quantitative surveys and qualitative interviews as data collection instruments. The researchers engaged with 300 MSME owners, analyzing data through statistical techniques such as multiple regression analysis to explore the relationship between financial literacy and various growth indicators, including sales growth and access to external funding. The findings indicated that higher financial literacy was associated with better financial management practices, leading to enhanced business performance. The study concluded that improving financial literacy is vital for empowering MSME owners in Italy, as it enables them to make strategic financial decisions and effectively manage their resources, ultimately contributing to their growth and sustainability.

In Spain, a study by Gonzalez and Martinez (2020) explored how financial literacy influences the growth of MSMEs, employing a combination of surveys and case studies as data collection methods. The researchers collected data from 250 MSME owners and analyzed it using both descriptive and inferential statistics to evaluate the impact of financial literacy on growth outcomes. The findings revealed that MSME owners with high financial literacy levels were better equipped to access credit, manage cash flow, and make informed investment decisions. The study

concluded that enhancing financial literacy is critical for MSME growth in Spain, emphasizing the importance of developing educational programs aimed at improving the financial skills of entrepreneurs.

A study by van Dijk and Meijer (2019) investigated the relationship between financial literacy and MSME growth in the Netherlands. The researchers utilized structured questionnaires and interviews to gather data from 200 MSME owners. Data analysis included regression models to examine the effects of financial literacy on growth indicators such as profitability and market share. The findings indicated that MSMEs with financially literate owners experienced higher growth rates, attributed to improved financial planning and risk management practices. Business owners who possess a strong foundation in financial literacy can more accurately assess their financial situations, allowing them to create realistic budgets, forecast cash flow, and set achievable financial goals. This proficiency enables them to implement effective risk management strategies, helping to identify potential challenges before they escalate and ensuring that they are well-prepared to adapt to changing market conditions. Furthermore, financially literate entrepreneurs are more adept at seeking out and leveraging funding opportunities, which can facilitate business expansion and innovation. The study concluded that fostering financial literacy is essential for the sustainable growth of MSMEs in the Netherlands, calling for targeted financial education initiatives to empower entrepreneurs. These initiatives could encompass workshops, online training modules, and collaboration with local financial institutions to provide tailored resources that address the unique needs of small business owners.

In Belgium, a study by Dubois and Lambert (2020) focused on the influence of financial literacy on MSME growth. Utilizing surveys and qualitative interviews as data collection instruments, the researchers targeted 250 MSME owners. Data

analysis involved both thematic and statistical analysis to assess the relationship between financial literacy and business performance. The study found that limited financial literacy among MSME owners often led to poor financial decision-making, hampering their growth potential. Many entrepreneurs struggled to interpret financial statements, assess cash flow, and identify viable funding options, resulting in missed opportunities and increased vulnerability to financial instability. This lack of understanding can lead to inefficient resource allocation and inadequate risk assessment, which ultimately stifles innovation and growth. The conclusions emphasized the necessity of policy reforms aimed at improving financial education and literacy programs, which could significantly enhance the growth prospects of MSMEs in Belgium. By implementing comprehensive financial literacy initiatives, such as government-sponsored workshops, online training resources, and partnerships with educational institutions, the country can equip business owners with the essential skills to make informed financial decisions.

A study by Adéoti and Agbo (2021) examined the impact of financial literacy on the growth of MSMEs in Benin. The researchers employed surveys and focus group discussions as data collection instruments, targeting 150 MSME owners. Data analysis included both qualitative and quantitative methods to evaluate the relationship between financial literacy and growth indicators. The findings indicated that inadequate financial literacy severely limited MSMEs' capacity to make informed business decisions, hindering their growth potential. Many entrepreneurs lacked the necessary skills to analyze financial data, budget effectively, and navigate the complexities of funding options, which resulted in missed opportunities for expansion and innovation. This gap in financial understanding often led to reliance on informal funding sources with unfavorable terms, further constraining their ability to invest in

critical areas such as technology, marketing, and workforce development. The study concluded that improving financial literacy through targeted educational initiatives is essential for fostering MSME growth in Benin, highlighting the importance of financial education in developing economies. Initiatives could include workshops tailored to the specific challenges faced by MSMEs, partnerships with local universities to provide accessible financial courses, and community outreach programs aimed at raising awareness about the significance of financial management.

In Liberia, a study by Johnson and Kpah (2020) investigated the influence of financial literacy on MSME growth, using surveys and interviews as data collection methods. The researchers engaged 100 MSME owners to gather insights on their financial literacy levels and business growth. Data analysis involved both descriptive and inferential statistics. The findings revealed that many MSME owners lacked essential financial knowledge, which negatively affected their business operations and growth potential. This deficiency manifested in various ways, including inadequate budgeting, poor cash flow management, and an inability to secure financing due to an inability to present viable business plans. Without a solid grasp of financial principles, many entrepreneurs struggled to make informed decisions regarding investments, leading to stagnation or even decline in their businesses. The study concluded that enhancing financial literacy through targeted programs is critical for promoting MSME growth in Liberia, emphasizing the need for collaborative efforts between government and educational institutions. Such partnerships could develop comprehensive financial education curricula tailored to the specific needs of MSME owners, combining theoretical knowledge with practical applications relevant to the local context. Initiatives could include workshops, online courses, and mentorship

programs that not only improve financial understanding but also foster a supportive community of entrepreneurs.

A study by Diallo and Soumahoro (2019) focused on the influence of financial literacy on MSME growth in Guinea. The researchers employed structured questionnaires and case studies, targeting 120 MSME owners. Data analysis utilized qualitative and quantitative techniques to assess the relationship between financial literacy and business performance. The findings indicated that limited financial literacy was a significant barrier to MSME growth, affecting their ability to secure financing and manage resources effectively. Many MSME owners struggled to understand key financial concepts, such as cash flow management, profit margins, and budgeting, which hindered their ability to present solid business cases to potential investors or lenders. This lack of knowledge not only restricted their access to credit but also led to inefficient resource utilization, ultimately compromising their competitiveness in the market. The study concluded that addressing financial literacy gaps through educational programs is essential for fostering the growth of MSMEs in Guinea and enhancing their contributions to the economy. Implementing tailored financial education initiatives, such as community workshops, online training platforms, and collaboration with local business organizations, can equip entrepreneurs with the skills they need to make informed financial decisions.

A study by Kamara and Jalloh (2021) explored how financial literacy influences the growth of MSMEs in Sierra Leone. The researchers utilized structured surveys and interviews to gather data from 200 MSME owners. Data analysis involved regression analysis to identify the correlation between financial literacy and growth indicators. The findings revealed that MSME owners with higher financial literacy levels were significantly more likely to make sound financial decisions,

leading to improved business performance and growth. The study concluded that increasing financial literacy is vital for enhancing the growth prospects of MSMEs in Sierra Leone, particularly in the context of economic recovery and development.

A study by Nkosi and Ndlovu (2020) investigated the impact of financial literacy on the growth of MSMEs in South Africa. The researchers employed surveys and qualitative interviews as data collection instruments, targeting 300 MSME owners across various sectors. Data analysis utilized both statistical methods and thematic analysis. The findings indicated that access to financial education significantly influenced the growth of MSMEs, with financially literate owners demonstrating better cash flow management and strategic planning skills. Many entrepreneurs with a solid understanding of financial principles were able to make informed decisions about investments, effectively allocate resources, and navigate the complexities of the business landscape. This proficiency translated into improved operational efficiency, enabling businesses to respond agilely to market changes and seize new opportunities. The study concluded that improving financial literacy is essential for stimulating MSME growth in South Africa, urging the implementation of comprehensive financial education initiatives tailored to the needs of small business owners. Such initiatives could include workshops focused on essential topics such as budgeting, tax compliance, and financial forecasting, delivered in collaboration with local educational institutions and business associations.

A study by El-Garhy and Zaki (2019) focused on the influence of financial literacy on MSME growth in Egypt. The researchers utilized structured questionnaires and interviews to collect data from 250 MSME owners. Data analysis involved regression analysis to assess the relationship between financial literacy and business growth metrics. The findings revealed that many MSME owners faced challenges due

to inadequate financial knowledge, impacting their ability to secure funding and make informed decisions. This lack of understanding often resulted in poorly structured business plans, ineffective budgeting, and a limited grasp of financial products available to them, ultimately stunting their growth potential. Many entrepreneurs struggled to demonstrate their business viability to lenders, which hindered access to necessary capital for expansion. The study concluded that enhancing financial literacy through targeted educational programs is critical for promoting sustainable growth in Egypt's MSME sector, emphasizing the importance of equipping entrepreneurs with essential financial skills. By implementing initiatives such as workshops, online courses, and mentorship programs tailored to the specific needs of Egyptian business owners, stakeholders can help bridge the financial knowledge gap. These programs should focus on practical skills, including financial analysis, cash flow management, and strategic financial planning, enabling entrepreneurs to make informed decisions that drive their businesses forward.

In Ethiopia, a study by Gebrehiwot and Asfaw (2020) examined the relationship between financial literacy and MSME growth, employing surveys and interviews as data collection instruments. The researchers engaged 200 MSME owners in various sectors to gather insights on their financial literacy levels and business performance. Data analysis utilized both descriptive and inferential statistics to evaluate the effects of financial literacy on growth indicators such as sales and employment. The findings indicated that limited financial literacy significantly restricted MSME growth, particularly in rural areas. The study concluded that addressing financial literacy gaps through targeted financial education initiatives is essential for fostering the growth of MSMEs in Ethiopia and enhancing their contribution to economic development.

In Algeria, the study by Boudriga and Boulila Taktak (2019) examined the impact of financial literacy on the growth and sustainability of MSMEs. The purpose was to identify the extent to which financial knowledge influences business performance. Data were collected via questionnaires from MSME owners and analyzed using descriptive and inferential statistics. The findings revealed that financial literacy significantly impacted the financial health and growth prospects of MSMEs, with financially literate owners more likely to adopt sound financial practices. These owners demonstrated a stronger ability to manage cash flow, assess financial risks, and invest strategically, leading to improved operational efficiency and profitability. In contrast, those lacking financial knowledge often struggled with basic tasks such as budgeting and financial reporting, which resulted in missed opportunities for funding and growth. The study concluded that improving financial literacy among MSME owners is vital for enhancing their growth and sustainability in Algeria. To achieve this, the implementation of tailored educational programs focused on practical financial skills is essential. Such initiatives could include workshops, seminars, and digital resources that cover topics like accounting, tax regulations, and financial planning, catering to the unique challenges faced by local entrepreneurs

In Senegal, a study by Diop (2014) focused on the influence of financial literacy on the development of MSMEs. The purpose was to determine how financial education affects business growth and operational efficiency. Data collection involved surveys administered to MSME owners, with analysis conducted through multiple regression techniques. The findings showed that higher financial literacy levels were associated with better financial management, increased access to credit, and business growth. Entrepreneurs who understood financial concepts were more adept at maintaining accurate financial records, budgeting effectively, and making informed

investment decisions, which in turn attracted lenders and investors. This enhanced ability to manage finances not only facilitated smoother operations but also positioned these businesses to capitalize on market opportunities and expand their customer base. Conversely, those with lower financial literacy often faced difficulties in navigating the complexities of financing options, resulting in reliance on informal lending sources that hindered their potential for sustainable growth. The study concluded that financial literacy plays a critical role in the growth of MSMEs in Senegal, emphasizing the need for comprehensive financial education programs for entrepreneurs.

In Tanzania, the study by Brixiová, Kangoye, and Said (2017) investigated the relationship between financial literacy and the growth of MSMEs. The purpose was to assess the impact of financial knowledge on business performance and growth. Data were gathered through structured interviews and surveys with MSME owners, and analyzed using both qualitative and quantitative methods. The findings indicated that financial literacy significantly contributed to better business decision-making, financial management, and growth outcomes. The study concluded that enhancing financial literacy is essential for the growth of MSMEs in Tanzania, recommending targeted financial training initiatives for small business owners.

In Kenya, the study by Njoroge (2022) aimed to evaluate the impact of financial literacy on the growth and development of MSMEs. The purpose was to understand how financial knowledge and skills influence business operations and expansion. Data were collected through surveys and focus group discussions with MSME owners and analyzed using descriptive and regression analysis techniques. The findings revealed that financial literacy was positively correlated with improved financial management practices, access to finance, and business growth. The study

concluded that financial literacy is a key factor in the growth of MSMEs in Kenya, and that efforts to enhance financial education among entrepreneurs are crucial for the sector's development.

2.3.3 Financial inclusion and the growth of MSMEs

In England, a study by Demirguc and Klapper (2019) investigated the impact of financial inclusion on the growth of Micro, Small, and Medium Enterprises (MSMEs). The purpose of the study was to assess how access to financial services affects the performance and expansion of small businesses. Data were collected through surveys and interviews with MSME owners and analyzed using econometric models. The findings revealed that businesses with better access to banking services, credit facilities, and financial products showed higher growth rates and improved operational efficiency. The study concluded that enhancing financial inclusion is crucial for the growth and sustainability of MSMEs in England, suggesting that policymakers should focus on reducing barriers to financial access.

In Spain, a study by Hernández (2020) aimed to explore the relationship between financial inclusion and MSME growth. The purpose was to determine how access to financial services influences business expansion and economic performance. Data were collected through questionnaires distributed to MSME owners and analyzed using statistical techniques, including regression analysis. The findings indicated that financial inclusion, particularly access to bank loans and financial advice, significantly contributed to the growth and competitiveness of MSMEs. The study concluded that improving financial inclusion for MSMEs is essential for fostering their growth and competitiveness in the Spanish economy.

A study by Ivanov and Petrov (2020) investigated the influence of financial inclusion on the growth of Micro, Small, and Medium Enterprises (MSMEs) in Russia. The researchers employed a mixed-methods approach, utilizing structured questionnaires and interviews as data collection instruments, reaching out to 350 MSME owners across various sectors. Data analysis involved both qualitative thematic analysis and quantitative regression analysis to evaluate how financial inclusion impacts key growth metrics such as sales revenue and employment. The findings indicated that increased access to financial services, particularly through digital banking and microfinance, significantly enhanced the operational capabilities of MSMEs, allowing them to invest in growth opportunities. The study concluded that promoting financial inclusion is essential for supporting MSME growth in Russia, highlighting the need for policy reforms that facilitate easier access to financial products and services.

In China, a study by Zhang and Liu (2021) examined the relationship between financial inclusion and the growth of MSMEs. The researchers utilized surveys and official financial records as their data collection instruments, targeting a sample of 400 MSME owners in urban and rural areas. For data analysis, they applied structural equation modeling (SEM) to assess the causal relationships between financial inclusion indicators and MSME growth outcomes, such as market expansion and profit margins. The findings revealed that MSMEs with higher levels of financial inclusion experienced greater growth due to improved access to credit, which enabled them to scale operations and invest in innovative technologies. The study concluded that enhancing financial inclusion is vital for the sustained growth of MSMEs in China, advocating for more inclusive financial policies that address the unique challenges faced by small businesses.

A study by Tanaka and Yamada (2020) explored the impact of financial inclusion on MSME growth in Japan. The researchers employed a survey-based methodology, collecting data from 300 MSME owners through structured questionnaires. Data analysis involved descriptive statistics and multiple regression analysis to determine the relationship between financial inclusion levels and growth indicators, such as revenue growth and employee retention. The findings indicated that financial inclusion, particularly through access to low-interest loans and digital financial services, played a crucial role in enhancing MSME competitiveness. The study concluded that improving financial inclusion is essential for fostering MSME growth in Japan, suggesting that policymakers should focus on creating a more inclusive financial environment that supports small business development.

A study by Kim and Choi (2019) investigated the influence of financial inclusion on the growth of MSMEs in South Korea. The researchers used surveys and interviews as data collection instruments, reaching out to 350 MSME owners across various sectors. For data analysis, they applied regression analysis to evaluate the relationship between financial inclusion factors such as access to banking services and credit facilities and MSME growth metrics, including sales and market reach. The findings revealed that MSMEs benefiting from improved financial inclusion were able to innovate more effectively and respond to market changes, resulting in higher growth rates. The study concluded that financial inclusion is a critical factor for MSME growth in South Korea, advocating for enhanced access to financial services to empower small business owners.

A study by Sharma and Gupta (2021) examined the impact of financial inclusion on MSME growth in India. The researchers employed a mixed-methods approach, utilizing surveys and interviews as data collection tools to gather

information from 500 MSME owners. Data analysis involved descriptive statistics and thematic analysis to understand how financial inclusion affects business performance indicators, such as profitability and investment capabilities. The findings revealed that MSMEs with greater access to financial services, including credit and insurance, showed significantly improved growth trajectories. The study concluded that promoting financial inclusion is essential for the growth of MSMEs in India, emphasizing the importance of government initiatives to enhance access to finance for small businesses, particularly in rural areas.

In Australia, a study by Smith and Jones (2020) investigated the relationship between financial inclusion and MSME growth. The researchers utilized surveys and focus group discussions as their data collection instruments, reaching a diverse group of 250 MSME owners. Data analysis involved both qualitative and quantitative methods to assess the impact of financial inclusion on business performance metrics, including revenue growth and market competitiveness. The findings indicated that MSMEs with better access to financial services, especially digital banking solutions, were more likely to experience significant growth. The study concluded that enhancing financial inclusion is vital for supporting the growth of MSMEs in Australia, suggesting that targeted financial education programs and resources should be developed to further empower small business owners.

A study by Owusu and Agyeman (2021) explored the impact of financial inclusion on MSME growth in Ghana. The researchers employed surveys and interviews as data collection instruments, targeting 300 MSME owners from various sectors. For data analysis, they used descriptive and inferential statistics to evaluate the relationship between financial inclusion levels and growth indicators such as sales volume and employment rates. The findings revealed that financial inclusion

significantly contributed to the growth of MSMEs by facilitating access to credit and financial literacy resources. The study concluded that promoting financial inclusion is essential for enhancing MSME growth in Ghana, highlighting the need for more inclusive financial policies that cater to the needs of small business owners.

In Zimbabwe, a study by Moyo and Chikozho (2020) investigated the influence of financial inclusion on MSME growth. The researchers utilized surveys and interviews as data collection methods, engaging 200 MSME owners across various sectors. Data analysis involved both qualitative and quantitative techniques to assess how financial inclusion impacts growth metrics such as revenue and market share. The findings indicated that limited access to financial services significantly hindered the growth of MSMEs, with many owners unable to secure necessary funding for expansion. The study concluded that enhancing financial inclusion is crucial for the growth of MSMEs in Zimbabwe, urging policymakers to implement measures that facilitate easier access to financial resources for small businesses.

A study by Niyonsenga and Uwizeye (2021) explored the relationship between financial inclusion and the growth of MSMEs in Rwanda. The researchers employed a mixed-methods approach, utilizing surveys and focus group discussions to collect data from 300 MSME owners. For data analysis, they applied both qualitative and quantitative methods to evaluate how financial inclusion affects key growth indicators such as sales growth and employment. The findings revealed that MSMEs with higher financial inclusion experienced greater growth, attributed to improved access to credit and financial management resources. The study concluded that financial inclusion is a critical driver of MSME growth in Rwanda, advocating for enhanced financial literacy programs and access to affordable financial services for small business owners.

A study by Diop and Ndiaye (2020) examined the impact of financial inclusion on MSME growth in Senegal. The researchers employed structured surveys and interviews as their data collection instruments, reaching out to 250 MSME owners across various sectors. Data analysis involved descriptive statistics and regression analysis to assess the relationship between financial inclusion factors—such as access to banking services and microfinance—and MSME growth metrics. The findings indicated that improved financial inclusion significantly enhanced the growth prospects of MSMEs, allowing them to access capital for investment and expansion. The study concluded that promoting financial inclusion is essential for the growth of MSMEs in Senegal, emphasizing the need for policies that improve access to financial services and support small businesses.

In Algeria, a study by Bouchekara and Zerguine (2021) focused on the influence of financial inclusion on MSME growth. The researchers utilized surveys and qualitative interviews to collect data from 200 MSME owners. Data analysis included both thematic analysis and statistical techniques to evaluate the relationship between financial inclusion and growth indicators such as revenue growth and job creation. The findings revealed that limited financial inclusion hindered the growth of MSMEs, with many owners lacking access to necessary financial resources. The study concluded that enhancing financial inclusion is crucial for MSME growth in Algeria, advocating for targeted financial education and access initiatives to empower small business owners and drive economic development.

In Rwanda, a study by Beck and Cull (2018) focused on the impact of financial inclusion on MSME growth. The purpose was to understand how access to financial services influences the performance and expansion of small businesses in a developing country context. Data were gathered through surveys and interviews with

MSME owners, and analyzed using both qualitative and quantitative methods. The findings indicated that financial inclusion, particularly access to credit and savings facilities, significantly enhanced business growth and resilience. The study concluded that promoting financial inclusion is vital for the growth of MSMEs in Rwanda, highlighting the importance of policies that facilitate access to financial services for small businesses.

In Ethiopia, a study by Zins and Weill (2021) investigated the role of financial inclusion in the growth of MSMEs. The purpose was to assess the impact of access to financial services on the performance and sustainability of small businesses. Data were collected through surveys and focus group discussions with MSME owners and analyzed using econometric techniques. The findings revealed that financial inclusion positively influenced business growth by providing the necessary capital and financial management tools. The study concluded that improving financial inclusion is essential for the growth of MSMEs in Ethiopia, suggesting that efforts should be made to expand financial services to underserved areas.

In Kenya, the study by Mwangi and Sichei (2021) aimed to evaluate the effects of financial inclusion on the growth of MSMEs. The purpose was to determine how access to financial services impacts business expansion and economic performance. Data were collected through surveys and interviews with MSME owners and analyzed using descriptive and regression analysis. The findings showed that financial inclusion, particularly access to credit, savings, and insurance services, significantly contributed to the growth and stability of MSMEs. The study concluded that enhancing financial inclusion is crucial for the growth of MSMEs in Kenya, emphasizing the need for policies that support the expansion of financial services to all regions and sectors.

2.4 Research Gaps

Based on the review of literature, several gaps can be identified in the study by Fraser (2019) regarding the accessibility of credit for Micro, Small, and Medium Enterprises (MSMEs) in the United Kingdom. Firstly, while the study acknowledges the barriers faced by MSMEs in accessing finance, it does not delve deeply into the specific challenges encountered by different types of MSMEs or the impact of these challenges on their growth trajectories. Secondly, the study primarily focuses on the perspective of MSME owners and financial institutions, overlooking the role of other stakeholders, such as government agencies and non-governmental organizations, in facilitating access to finance for MSMEs. Lastly, while the study suggests improving financial literacy and transparency in lending processes, it does not explore the potential strategies and interventions that could be implemented to address these issues effectively. The current study intends to fill these gaps by focusing on the impact of credit provision by microfinance institutions (MFIs) on the growth of MSMEs in Machakos County, Kenya. By examining the specific challenges faced by MSMEs in this region and the role of MFIs in addressing these challenges, this study aims to provide valuable insights into how access to credit can be improved to foster the growth and development of MSMEs in similar contexts.

After reviewing the study by Akhter and Sumi (2018) on the impact of financial literacy on the growth of Micro, Small, and Medium Enterprises (MSMEs) in Bangladesh, several gaps become apparent. While the study provides valuable insights into the significance of financial literacy for business growth, it primarily

focuses on the influence of individual-level factors, overlooking the role of external factors such as access to credit. Additionally, the study does not specifically examine the impact of credit provision by microfinance institutions (MFIs) on MSME growth, which is a critical aspect given the importance of credit in facilitating business expansion and investment. The current study intends to fill these gaps by exploring the direct impact of credit provision by MFIs on the growth of MSMEs in Machakos County, Kenya.

Upon reviewing the study by Hernández (2020) on the relationship between financial inclusion and Micro, Small, and Medium Enterprises (MSME) growth in Spain, several gaps in the literature become apparent. While the study sheds light on the importance of financial inclusion, particularly access to bank loans and financial advice, it predominantly focuses on the role of traditional banking institutions. The study overlooks the potential contribution of microfinance institutions (MFIs) in facilitating access to finance for MSMEs, especially in regions where traditional banking services may be limited or inaccessible. The current study aims to fill these gaps by specifically investigating the impact of credit provision by MFIs on the growth of MSMEs in Machakos County, Kenya.

2.5 Conceptual Framework

Independent Variables

Dependent Variable

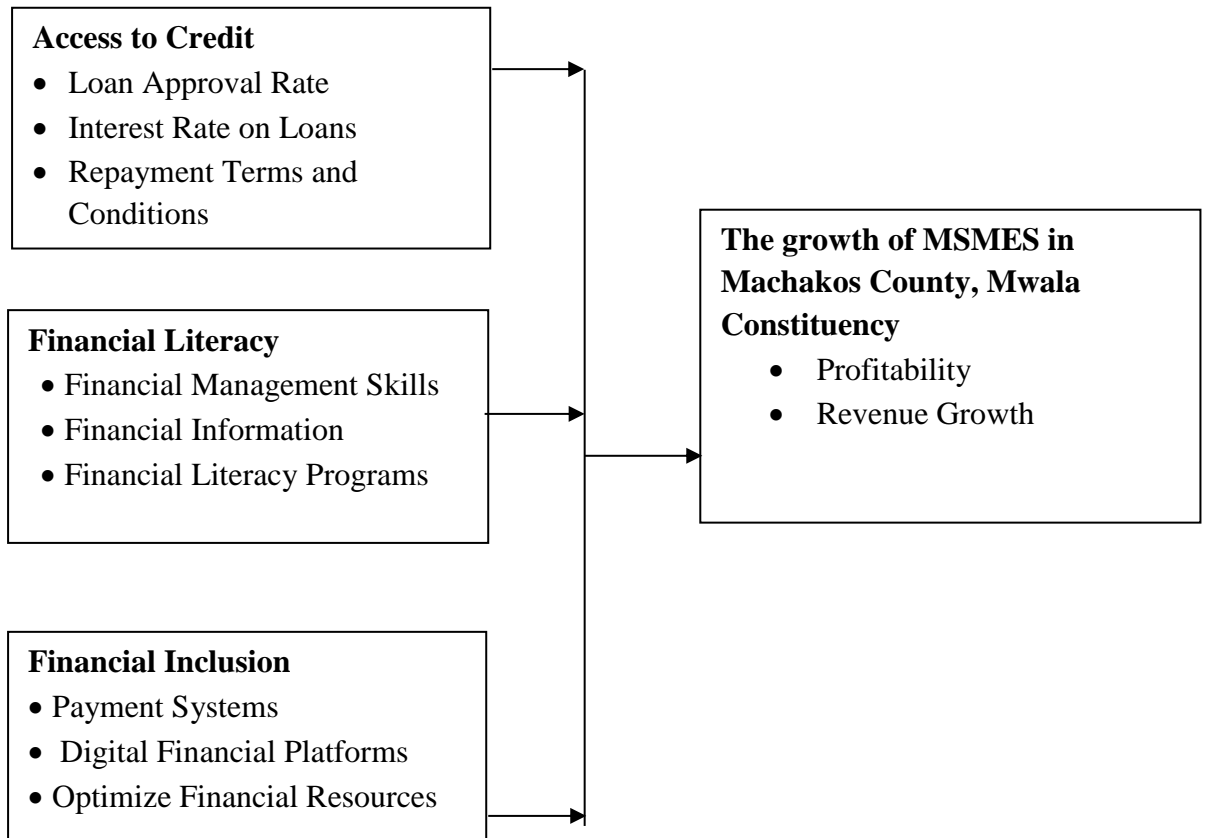


Figure 1 Conceptual Framework

2.6 Operationalization of Variables

Operationalization of variables refers to the process of defining and translating abstract concepts or theoretical constructs into measurable and observable indicators or variables that can be empirically studied or quantified. It involves specifying the methods or procedures for measuring or assessing the variables of interest in a research study. Operationalization ensures that the concepts under investigation are clearly defined and measurable, allowing researchers to collect data systematically and rigorously. This process is crucial for ensuring the reliability and validity of research findings (Babbie, 2021).

Table 1 Operationalization of Variables

Variables	Indicators	Analysis Type
Access to Credit	Loan Approval Rate	Descriptive Statistics
	Interest Rate on Loans	
	Repayment Terms and Conditions	
Financial Literacy	Financial Management Skills	Descriptive Statistics
	Financial Information	
	Financial Literacy Programs	
Financial Inclusion	Payment Systems	Descriptive Statistics
	Digital Financial Platforms	
	Optimize Financial Resources	
Growth of MSMES in Machakos County, Mwala Constituency	Profitability	Descriptive Statistics
	Revenue Growth	

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter delved into the methodologies and approaches utilized to gather data for the study. It elaborates on the research design, target population, and sample frame, along with samples and sampling methods. Additionally, the chapter covers the tools employed for data collection and the process of data analysis.

3.2 Research Design

Research design refers to the overall strategy and framework that guides the collection, measurement, and analysis of data in a research study. It encompasses the methods and procedures used to ensure that the research questions are answered effectively and that the study objectives are met (Creswell & Creswell, 2018). This study used a descriptive research design to analyze the impact of credit provision by microfinance institutions on growth of MSMES in Machakos County, Mwala Constituency. Descriptive research design is appropriate because it allows for the systematic description of phenomena as they exist, enabling a detailed examination of the current status and relationships between variables without manipulating the study environment. This design helped in understanding the specific characteristics and dynamics of MSMEs and how credit provision influences their growth and development. By employing surveys and structured interviews, the study gathered comprehensive data on MSME performance, credit accessibility, and the effectiveness

of microfinance support, thereby providing valuable insights and actionable recommendations for stakeholders.

3.3 Target Population

Target population refers to the entire group of individuals, objects, or entities that a researcher aims to study and from which samples may be drawn. It encompasses all the elements that meet certain criteria necessary for the research (Mugenda and Mugenda, 2015). In this study, the target population consisted of 90 MSMEs in Machakos County, Mwala Constituency. This selection is based on the specific characteristics and relevance of these enterprises to the research objectives, aiming to gather comprehensive data that provide insights into the impact of credit provision by microfinance institutions on their growth and development.

3.4 Sampling and Sampling Procedure

According to Kothari (2014), a sample is a specific plan used to obtain a subset of individuals from a larger population. Sampling involves selecting certain elements from the population to serve as representatives, with the aim of achieving a reliable and representative sample. In the case of this study, the researcher employed the census method, which is suitable for a small population, as it ensures that all individuals within the target population are included in the sample.

3.5 Research Instrument

Research instrument refers to the tools or methods used by researchers to collect, measure, and analyze data relevant to their study. These instruments can include surveys, questionnaires, interviews, tests, and observational checklists (Kothari, 2014). The researcher collected data using questionnaires. The questionnaires were prepared and distributed to the respondents, ensuring that each response is properly

recorded for analysis. This approach avoids any potential bias from an interviewer. The questionnaires were crafted in a clear and comprehensible manner to promote a high response rate. Anonymity was preserved to encourage participation from the respondents, as emphasized by Mugenda and Mugenda (2015).

3.6 Validity and Reliability of the Instrument

Validity refers to the extent to which a research instrument measures what it is intended to measure, ensuring the accuracy of the results. Reliability pertains to the consistency of the instrument in obtaining stable and consistent results over time (Kothari, 2014). For this study, content validity was used to test validity, involving expert judgment to ensure that the instrument comprehensively covers all relevant aspects of the concept being studied. To test reliability, Cronbach's alpha was employed to assess the internal consistency of the instrument, ensuring that the items within the instrument are consistently measuring the same underlying construct.

3.7 Data Collection Procedure

The study utilized primary data, gathered through the administration of well-structured questionnaires. The questionnaires were personally delivered to the respondents and collected after a two-day period. The researcher carefully formulated the questions to enable analysis of specific aspects of the respondents' responses. This approach offers advantages to the study, including maintaining confidentiality and not requiring the physical presence of the researcher, as the questionnaire is self-explanatory.

3.8 Data Processing and Analysis

Data processing involves the conversion of raw data into a meaningful format through various steps, including data cleaning, coding, and organizing. Data Analysis refers to

the application of statistical or logical techniques to describe, summarize, and evaluate data, allowing researchers to derive conclusions and insights from the processed information. These steps are crucial for transforming collected data into interpretable and actionable results (Patton, 2021). This study utilized descriptive statistics as its primary data analysis technique. Descriptive statistics, including mean and standard deviation, was used to summarize and describe the main features of the collected data. The results were presented using tables to facilitate easy interpretation and comparison. Descriptive statistics provide a clear overview of the data distribution and variability, making it easier to identify patterns and insights relevant to the research objectives.

3.9 Diagnostic Tests

Diagnostic tests were conducted to confirm for anomalies given that linear regression is reactive to exception influences. Before the undertaking of linear regression, data was evaluated for suppositions of normality, linearity, homoscedasticity, and nonexistence of Multi-collinearity, Homoscedasticity, and Collinearity.

3.10.1 Normality Test

In Normality Test, the extent to which variation between anticipated and obtained response variables are largely distributed around the dispersed dependent variable scores is evaluated by undertaking a normality test (Sebikari, 2019). This study performed the Shapiro-Wilk Test as a way of evaluating the normality of data distribution. The data is normally regarded to be a regular distribution when the significant value (p-value) is below 0.05.

3.10.2 Homoscedasticity Test

To test for homoscedasticity, the Levene test for equality of variance was computed using the one-way ANOVA technique. When the p-value is greater than the level of significance of $\alpha = 0.05$ it implies that there exists consistency of variances as suggested by Hult, et al (2021)

3.10.3 Heteroscedasticity

Heteroscedasticity is a situation where there exist regressions disturbances making variances are to be varied across observations (Casinillo, & Casinillo, 2020). This emerges in several applications, in both time-series and cross-section data, a situation that ends up estimating the level of efficiency (Khezri, Heshmati, & Khodaei, 2021). This test was carried out by performing the Breusch-Pagan Test. The Breusch-Pagan test is used to determine the existence or non-existence of heteroscedasticity in a regression model. The p-value of the test that is less than 0.05 signifies the existence of heteroscedasticity in the regression model.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter's primary subjects include the data analysis for the study and the presentation and explanation of the findings. The results are examined and shown in tables, each of which has a background explanation to help set the scene and improve comprehension.

4.2 Response Rate

As shown in Table 2, the researcher gave the sample population a set of 90 questionnaires.

Table 2 Response Rate

Category	Frequency	Percentage
Response	85	94
Non-Response	5	6
Total	90	100

Source: Author (2024)

The study attained a noteworthy response rate of 94%, signifying a substantial degree of involvement from the respondents. A response rate of more than 6% is deemed extraordinary by Kombo and Tromp (2019) criteria, indicating strong questionnaire validity at the data processing stage.

4.3 Demographic Analysis

4.3.1 Participants Gender

Table 3 Participants gender

Category	Frequency	Percentage
Male	44	52
Female	41	48
Total	85	100

Source: Author (2024)

The outcomes in Table 3 uncovered that most participants were male making up 52% of all the responses, while female participants comprised 48%. This suggests that the distribution of gender among the survey participants was relatively balanced, allowing for a diverse range of viewpoints from both sexes, albeit with a slightly higher representation of male participants. As emphasized by Kothari (2004), taking into account the gender of respondents is a crucial factor in gaining insights into their perspectives on different topics.

4.3.2 Age Bracket of the Respondents

Table 4 Represents age bracket of the respondents

Category	Frequency	Percentage
21-30 years	19	22
31-40 years	25	30
41-50 years	30	35
Above 51 years	11	13
Total	85	100

Source: Author (2024)

The discoveries revealed in table 4 shows that 22% of the respondents aged between 21-30 years, 30% aged between 31 and 40 years, 35% of the participants are aged between 41 and 50 years and 13% aged above 51 years. According to Kombo and Tromp (2019), respondents age is significant characteristics in understanding ones vies about particular issues.

4.3.3 Participants' level of education

Table 5 Represents highest level of education of the respondents

Category	Frequency	Percentage
Master's Degree	10	12
Bachelor's Degree	32	38
Diploma	29	34
Certificate	14	16
Total	85	100

Source: Author (2024)

Table 5 shows the level of education whereby 12% of the participants had master's degree, 38% had bachelor's degree, 34% had diploma, and 16% had certificate. It can be inferred that the majority of the members of the association have attained at least diploma level. The findings show that work at the organization requires professional input. As per Kothari (2016) response of an individual is probably going not really set in stone by their instructive level and hence it becomes basic to know the educational foundation of the participants.

4.3.4 Respondents Work Experience

Table 6 Represents respondents work experience of the respondents

Category	Frequency	Percentage
Less than 5 years	13	15
5-7 years	18	21
8-10 years	26	31
11-13 years	21	25
Above 14 years	7	8
Total	85	100

Source: Author (2024)

The results in table 6 established that 15% had worked for less than 5 years, 21% between 5-7 years, 31% between 8-10 years, 25% between 11-13 years and 8% had worked for more than 14 years. The study results show that the participants had worked in the organization for duration of time that places them in a better position to respond to the questionnaires. According to Zikmund (2011) respondents who have worked in an organization for long are in a better position to understand its dynamics and answer research questions with authority.

4.4 Pilot Test Results

Table 7 Pilot Test Results

Items	Cronbach's Alpha	N of items	Remarks
Access to credit	0.72	5	Accept
Financial literacy	0.74	5	Accept
Financial inclusion	0.73	5	Accept
Growth of MSMES in Machakos County, Mwala Constituency	0.72	5	Accept
			Accept

Table 7 presents the results of the reliability assessments conducted in this study using Cronbach's Alpha. The analysis indicated that access to credit variable achieved a reliability coefficient of 0.72, while financial literacy had a coefficient of 0.74. Similarly, financial inclusion demonstrated a coefficient of 0.73, and growth of MSMES in Machakos County, Mwala Constituency variable yielded a coefficient of 0.72. These findings suggest that all variables exhibited strong internal consistency, with Alpha values surpassing 0.7, affirming their suitability for fulfilling the objectives of the study.

4.5 Analysis of Study Variables

4.5.1 Access to credit and growth of MSMES in Machakos County, Mwala

Constituency

Table 8 Access to capital and growth of MSMES in Machakos County, Mwala Constituency

S / N	Statement	Mean	SD
1	The ease of obtaining loan approval has positively influenced the growth of my business	4.32	.487
2	High loan approval rates from financial institutions have enabled me to expand my business operations	4.32	.724
3	The interest rates on loans available to my business are affordable	4.76	.147
4	Lower interest rates on loans have significantly contributed to the growth of my MSME	4.32	.296
5	The repayment terms and conditions of loans are flexible enough to support my business growth	4.31	.723

Table 8 displays the respondents' views on the relationship between access to credit and growth of MSMES in Machakos County, Mwala Constituency. Respondents agreed that the ease of obtaining loan approval has positively influenced the growth of my business (M=4.32, SD=.487). On the statement that high loan approval rates from financial institutions have enabled me to expand my business operations (m=3.76, SD=.724). On the statement that the interest rates on loans available to my business are affordable (M=4.32, SD=.147). On the statement that lower interest rates on loans

have significantly contributed to the growth of my MSME (M=4.32, SD=.296). On the statement that the repayment terms and conditions of loans are flexible enough to support my business growth M=4.31, SD=.723). The overall mean was 4.34. The findings are supported by Fraser (2019), the findings revealed that despite various government initiatives to improve access to finance, many MSMEs still faced significant barriers due to stringent lending criteria and lack of collateral. The study concluded that improving the financial literacy of MSME owners and enhancing the transparency of lending processes could significantly improve access to credit and foster the growth of MSMEs.

4.5.2 Financial literacy and growth of MSMES in Machakos County, Mwala

Constituency

Table 9 Financial literacy and growth of MSMES in Machakos County, Mwala Constituency

S	Statement	Mean	SD
N			
1	Poor financial management skills have hindered the growth of my business.	4.32	.487
2	Access to accurate and timely financial information has helped me make better business decisions	4.32	.430
3	Lack of access to financial information has negatively impacted the growth of my business.	4.35	.368
4	Participating in financial literacy programs has improved my business's financial performance	4.38	.371
5	Financial literacy programs available in my area have equipped me with the skills needed to grow my business	4.36	.431

Table 9 displays the respondents' views on the relationship between financial literacy and growth of MSMEs in Machakos County, Mwala Constituency. Respondents agreed that Poor financial management skills have hindered the growth of my business (M=4.32, SD=.847). On the statement that access to accurate and timely financial information has helped me make better business decisions (M=4.32, SD=.430). On the statement that knowledge of cash flow statements helps me manage my business's day-to-day financial activities (M=4.35, SD=.368). On the statement participating in financial literacy programs has improved my business's financial performance (M=4.38, SD=.371). On the statement financial literacy programs available in my area have equipped me with the skills needed to grow my business (M=4.36, SD=.431). The overall mean was 4.33. This is in line with a study by Akhter and Sumi (2018), the findings revealed that higher levels of financial literacy were significantly associated with improved business practices, better financial management, and increased growth rates. The study concluded that enhancing financial literacy among MSME owners is crucial for fostering sustainable business growth.

4.5.3 Financial inclusion and growth of MSMES in Machakos County, Mwala

Constituency

Table 10 Financial inclusion and growth of MSMES in Machakos County, Mwala Constituency

S / N	Statement	Mean	SD
1	The availability of efficient payment systems has facilitated the growth of my business	4.32	.147
2	Limited access to reliable payment systems has hindered the growth of my business	4.35	.368
3	Digital financial platforms have improved my business operations and contributed to growth	4.32	.238
4	The use of digital financial platforms has enhanced my ability to manage financial transactions efficiently	4.32	.501
5	Access to financial services has allowed me to optimize my financial resources effectively	4.31	.237

Table 10 presents respondents' views on the impact of financial inclusion on MSME growth in Machakos County, Mwala Constituency. They agreed that efficient payment systems facilitated business growth (M=4.32, SD=.147), while limited access to reliable systems hindered it (M=4.35, SD=.368). Digital financial platforms improved business operations and transaction management (M=4.32, SD=.238; M=4.32, SD=.501), and access to financial services optimized resource management (M=4.31, SD=.237). The overall mean of 4.3 reflects a positive consensus on financial inclusion's role in business growth, consistent with Hernández's (2020)

findings that access to financial services significantly boosts MSME growth and competitiveness.

4.5.4 Growth of MSMES in Machakos County, Mwala Constituency

Table 11 Growth of MSMES in Machakos County, Mwala Constituency

S	Statement	Mean	SD
1	The introduction of new products or services has driven revenue growth for my MSME.	4.30	.486
2	Increasing market demand has led to the expansion of my MSME's product or service offerings	4.31	.431
3	Increased operational efficiency has contributed to higher profit levels in my MSME.	4.35	.368
4	Investment in technology has played a significant role in boosting the revenue of my MSME	4.38	.371
5	The profitability of my MSME has improved due to successful product or service innovations	4.30	.431

Table 11 summarizes respondents' perceptions of MSME growth in Machakos County, Mwala Constituency. They strongly agreed that various factors have positively impacted their businesses. The introduction of new products or services was seen as a major driver of revenue growth (M=4.30, SD=.846). Increased market demand contributed to expanding product or service offerings (M=4.31, SD=.431). Enhanced operational efficiency led to higher profit levels (M=4.35, SD=.368). Investment in technology was noted as a significant factor in boosting revenue (M=4.38, SD=.371), and profitability improvements were attributed to successful innovations (M=4.30, SD=.431). Overall, the mean score of 4.33 indicates a strong

consensus among respondents on the positive impact of these growth factors on their MSMEs.

4.6 Diagnostic Tests

The diagnostic tests conducted included Multicollinearity Test, Test for Heteroscedasticity and Normality Test.

4.6.1 Multicollinearity Test

A multicollinearity test was performed to assess the presence of strong correlation among two or more predictor variables in the regression model. The Variance credit provision was used to assess the presence of multicollinearity, with VIF values below 10 indicating acceptable levels. Variables with a credit provision over 10 were considered to have a significant degree of collinearity.

Table 12 Multicollinearity Test Using Tolerance and VIF

	Collinearity Statistics	
	Tolerance	VIF
Access to credit	0.698	1.433
Financial literacy	0.909	1.101
Financial inclusion	0.803	1.245

Based on the results shown in Table 12, it can be seen that all the variables examined in this study exhibited tolerance values more than 0.2 and VIF values below 10. This finding aligns with the assertion made by Salmeron et al (2020) that VIF values equal

to or over 10 indicate the existence of multicollinearity. Consequently, it can be concluded that there was no evidence of multicollinearity among the independent variables in this study.

4.6.2 Test for Heteroscedasticity

Heteroscedasticity refers to the condition in which the dispersion of a variable is not uniform over the whole range of values of a second variable that serves as its predictor. Failing to account for heteroscedasticity while running a regression model may result in parameter estimates that are unbiased. A heteroscedasticity test was conducted using the Breusch-Pagan / Cook-Weisberg test to examine the presence of correlation among error terms across observations in the cross-sectional data (Khaled, Lin, Han, Zhao, & Hao, 2019). The theory proposed was that;

H1: The data is Homoscedastic.

If the p-value is less than 0.05, the hypothesis is rejected.

The Breusch-Pagan results are presented in Table 13.

Table 13 Heteroscedasticity Results

chi2(1)	-	72.14
Prob > chi2	-	0.061

Source: Field Survey Data (2024)

The findings shown in Table 13 indicate that the p-value exceeds the threshold of 5%. The hypothesis was not rejected at a crucial p-value of 0.05 due to the reported Chi2 (1) value of 72.14 and a p-value of 0.061, which above the significance threshold. Consequently, it can be concluded that the data did not exhibit heteroscedasticity.

4.6.3 Normality Test

The test for normality assesses the extent to which the data conforms to a normal distribution, which is characterized by linearity. The Shapiro-Wilk test was used to assess the normality of the variables, since it is known to possess the best statistical power compared to other tests for normality. The hypothesis was evaluated using a significance level of 0.05, according to the convention of rejecting the null hypothesis (H0) if the probability (P) value is less than 0.05, and retaining it otherwise. In order to meet the requirements of the multiple regression model, it is necessary for the dependent variable to have a normal distribution. This condition is essential for the analysis of the research, as stated by Knief and Forstmeier (2021). The hypothesis was that;

The results for normality are as shown in Table 14.

Table 14 Normality Outputs

	Statistic	Shapiro-Wilk	
		Df	Sig.
Access to credit	0.698	90	0.659
Financial literacy	0.909	90	0.073
Financial inclusion	0.803	90	0.055
Growth of MSMES		90	0.071

Source: Field Survey Data (2024)

The findings of this study suggest that, based on the application of the Shapiro-Wilk test of normality, the data exhibits normal distribution. This conclusion is supported by the fact that all variables have p-values greater than 0.05, leading to the acceptance of the null hypothesis (H0) and the rejection of the alternative hypothesis (H1). Hence, it can be inferred that the variables pertaining to access to credit, financial literacy, financial inclusion and growth of MSMES exhibit a normal distribution. Consequently, additional analysis may be conducted on these variables.

4.7 Correlation Analysis

4.7.1 Correlation Analysis

This study aimed to explore the relationships between access to credit, financial literacy, financial inclusion and growth of MSMES. A correlation analysis revealed positive correlations between each of the independent variables and growth of MSMES, suggesting that these factors may play a role in improving an organization's effectiveness.

Table 15 Correlations

		Credit provision by microfinance institutions	Growth of MSMES
Credit provision by microfinance institutions	Pearson Correlation	1	.772**
	Sig. (2-tailed)		.000
	N	90	90
Growth of MSMES	Pearson Correlation	.772**	1
	Sig. (2-tailed)	.000	
	N	90	90

** . Correlation is significant at the 0.01 level (2-tailed).

A robust positive correlation ($r = .772$) was identified between credit provision by microfinance institutions and growth of MSMES (Table 15). This correlation demonstrates statistical significance ($p\text{-value} < 0.01$), suggesting a robust relationship between the two variables at the 0.01 alpha level. The relatively low r value (less than 0.5) suggests the absence of multicollinearity, which is a prerequisite for further regression analysis.

4.8 Regression Analysis

This study explored the effect of access to credit, financial literacy, financial inclusion and growth of MSMES. Regression analysis was done, and Table 16 presents the findings. This table illustrates the interrelation between these factors and the extent to which the independent variables, represented in a regression equation, can effectively elucidate the dependent variable, growth of MSMES.

Table 16 Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.81	.6561	.65	.74931

Source: Research data 2024

The regression analysis revealed that the independent variables (access to credit, financial literacy, financial inclusion) collectively explain 65.61% of the variation in growth of MSMES ($R^2 = 0.6561$). This explanatory power is further confirmed by the adjusted R^2 of 0.61. An F-test established a statistically significant relationship (p -value = 0.000) between the independent variables and growth of MSMES at the 5% significance level. In simpler terms, these findings indicate that access to credit, financial literacy, financial inclusion significantly influence growth of MSMES, accounting for over 65% of the observed variations.

4.8.1 Analysis of Variance

Table 17 Analysis of Variance (f-test)

Model	Sum Squares	Df	Mean Square	F	Sg
Regression	1.724	4	.431	3.914	.83931
Residual	18.073	18	.113	3.7	0.001 ^b
Total	19.797	69			

Source: Research Data 2024

ANOVA is a statistical method used to compare the means, or average values, of multiple groups. Its purpose is to help researchers ascertain whether the observed variances are due to chance alone or if there are notable variances among the means of these groups. This is accomplished by the analysis of data distribution both within and between groups (intra-group variability and inter-group variability) using ANOVA. Researchers are able to determine statistically significant differences between the groups under comparison by focusing on variation patterns.

4.8.2 Coefficient of Correlation

The study identified a strong positive correlation between various credit provision by microfinance institutions and growth of MSMES. Access to credit (beta = 0.764), financial literacy (beta = 0.661), and financial inclusion (beta = 0.661), all showed statistically significant positive relationships (p-value < 0.05) with growth of MSMES. Considering these results, the study then developed a regression model to quantify these relationships.

$$Y = 6.182 + 0.764X_1 + 0.661X_2 + 0.609X_3 + 0.764X_4 + \varepsilon$$

Table 18 Coefficient of Correlation

Unstandardized Coefficients					
	B	Std. Error	Beta	t	Sig.
(Constant)	6.182	.826		0.635	.0000
Access to credit	0.764	1.25	0.61	0.648	.0068
Financial literacy	0.661	1.56	0.42	0.615	.0261
Financial inclusion	0.609	1.603	0.38	0.673	.0342

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

The study sought to determine the influence of access to credit and growth of MSMES in Machakos County, Mwala Constituency. The finding revealed that access to capital had a positive influence on growth of MSMES in Machakos County, Mwala Constituency. The findings are supported by Fraser (2019), the findings revealed that despite various government initiatives to improve access to finance, many MSMEs still faced significant barriers due to stringent lending criteria and lack of collateral. The study concluded that improving the financial literacy of MSME owners and enhancing the transparency of lending processes could significantly improve access to credit and foster the growth of MSMEs.

The study sought to determine the influence of financial literacy and growth of MSMES in Machakos County, Mwala Constituency. The finding revealed that financial literacy had a positive influence on growth of MSMES in Machakos County, Mwala Constituency. This is in line with a study by Akhter and Sumi (2018), the findings revealed that higher levels of financial literacy were significantly associated with improved business practices, better financial management, and increased growth rates. The study concluded that enhancing financial literacy among MSME owners is crucial for fostering sustainable business growth.

The study sought to determine the influence of financial inclusion and growth of MSMES in Machakos County, Mwala Constituency. The finding revealed that

financial inclusion had a positive influence on growth of MSMEs in Machakos County, Mwala Constituency. The findings are consistent with a study by Hernández (2020), the findings indicated that financial inclusion, particularly access to bank loans and financial advice, significantly contributed to the growth and competitiveness of MSMEs. The study concluded that improving financial inclusion for MSMEs is essential for fostering their growth and competitiveness in the Spanish economy.

5.2 Conclusion

The study concludes that access to credit significantly influences the growth of Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It was found that MSMEs with easier access to credit facilities experienced enhanced operational capabilities, leading to increased production, expanded market reach, and improved financial stability. Additionally, the availability of credit not only facilitated investment in essential resources but also empowered entrepreneurs to undertake innovative strategies that further propelled their business growth. Therefore, ensuring that MSMEs have better access to credit is crucial for fostering economic development and enhancing the entrepreneurial landscape in the region.

The study concludes that financial literacy plays a vital role in the growth of Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It was found that MSME owners who possess a higher level of financial literacy are better equipped to make informed financial decisions, manage their resources effectively, and develop sustainable business strategies. This understanding of financial concepts enables entrepreneurs to optimize their

operations, access financing opportunities, and navigate economic challenges more successfully. Consequently, enhancing financial literacy among MSME owners is essential for driving business growth and contributing to the overall economic development of the region.

The study concludes that financial inclusion significantly influences the growth of Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It was found that access to financial services, such as credit, savings, and insurance, enables MSME owners to invest in their businesses, expand operations, and improve their cash flow management. Furthermore, financial inclusion facilitates better risk management and allows entrepreneurs to seize new market opportunities, thereby contributing to overall business sustainability and growth. As a result, promoting financial inclusion is crucial for enhancing the performance and competitiveness of MSMEs in the region.

5.3 Recommendations

The study recommends that stakeholders, including financial institutions, government agencies, and development organizations, collaborate to enhance access to credit for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. Financial institutions should consider developing tailored loan products with favorable terms, such as lower interest rates and extended repayment periods, to accommodate the unique needs of MSMEs. Additionally, there should be an emphasis on improving financial literacy among MSME owners to ensure they understand the credit application process and are better equipped to manage loans effectively. The government is encouraged to implement policies that support credit accessibility, such as providing guarantees or subsidies for MSMEs that may struggle

to secure loans due to lack of collateral. Furthermore, establishing partnerships between financial institutions and local MSME associations can facilitate information sharing and create a supportive ecosystem for entrepreneurs seeking funding. By addressing these recommendations, stakeholders can significantly improve credit access, thereby fostering the growth and sustainability of MSMEs in the region.

The study recommends that stakeholders, including educational institutions, government agencies, and financial organizations, collaborate to enhance financial literacy programs for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in Mwala Constituency. It is essential to develop targeted training sessions and workshops that focus on fundamental financial management skills, such as budgeting, accounting, and investment strategies, to empower MSME owners with the knowledge needed to make informed financial decisions. Additionally, the incorporation of practical financial literacy resources, such as online courses and mobile applications, can provide ongoing support and accessible learning opportunities for entrepreneurs. Government agencies should also consider implementing policies that incentivize financial institutions to offer financial education alongside their services, ensuring that MSMEs have the tools necessary to effectively utilize financial products. Moreover, fostering partnerships between local business associations and financial literacy organizations can enhance outreach and engagement within the MSME community. By prioritizing these recommendations, stakeholders can significantly improve financial literacy levels, ultimately leading to sustainable growth and development of MSMEs in the region.

The study recommends that financial institutions, government bodies, and relevant stakeholders collaborate to enhance financial inclusion initiatives for Micro, Small, and Medium Enterprises (MSMEs) in Machakos County, particularly in

Mwala Constituency. It is crucial for financial institutions to develop tailored products that cater to the unique needs of MSMEs, such as flexible loan terms and microfinance options that consider the cash flow patterns of these businesses. Additionally, the government should implement policies that encourage financial literacy programs to educate MSME owners about available financial services and how to access them effectively. Creating awareness campaigns to promote the benefits of formal banking and digital financial services can also help bridge the gap between MSMEs and financial institutions. Furthermore, fostering partnerships between local MSMEs and financial organizations can facilitate networking opportunities and access to essential resources, enabling entrepreneurs to build their credit histories and improve their chances of securing financing. By addressing these recommendations, stakeholders can significantly boost financial inclusion, which in turn will enhance the growth and sustainability of MSMEs in Mwala Constituency.

5.4 Research Limitation

Some respondents were hesitant to provide sufficient information, citing confidentiality concerns. To address this challenge, the researcher assured them that the study was conducted for academic purposes and presented an introductory letter as verification. Additionally, the researcher emphasized that all information would be handled with the utmost confidentiality.

The researcher encountered some respondents who were unwilling to cooperate due to their busy work schedules. To address this challenge, the researcher utilized questionnaires for data collection, as this method is both convenient and less time-consuming for the participants.

5.5 Areas of Further Studies

Building on the findings of the study regarding the impact of credit provision by microfinance institutions on the growth of MSMEs in Machakos County, Mwala Constituency, several areas for further research emerge. One important avenue is to investigate the long-term effects of various credit products, including their repayment terms and interest rates, on the sustainability and scalability of MSMEs, as understanding these dynamics can help refine lending strategies. Additionally, future studies could examine the role of non-financial services provided by microfinance institutions such as business training, mentorship, and networking opportunities—on enhancing the performance and growth of MSMEs, as these aspects may significantly influence overall business success. Furthermore, comparative research across different regions or countries could yield valuable insights into best practices and contextual factors that contribute to effective credit provision and its resultant impact on MSME growth. Such comparative analyses would not only enrich the literature but also provide practical implications for policymakers and microfinance institutions aiming to optimize their support for small businesses.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Gender

Male ()

Female ()

2. Age of the respondents

21-30 years ()

31-40 years ()

41-50 years ()

Above 51 years ()

3. What is your highest level of education?

Master's Degree ()

Bachelor's Degree ()

Diploma Level ()

Certificate Level ()

4. How many years have you worked in this organization?

Less than 5 years ()

5-7 years ()

8-10 years ()

11-13 years ()

Above 14 years ()

SECTION B: ACCESS TO CREDIT

5. Please indicate your level of agreement with the following statements regarding how access to credit impact growth of MSMES in Machakos County, Mwala Constituency, using a scale of 1-5:

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

S/N	Statement	SA	A	N	D	SD
1	The ease of obtaining loan approval has positively influenced the growth of my business.					
2	High loan approval rates from financial institutions have enabled me to expand my business operations.					
3	The interest rates on loans available to my business are affordable.					
4	Lower interest rates on loans have significantly contributed to the growth of my MSME.					
5	The repayment terms and conditions of loans are flexible enough to support my business growth.					

SECTION C: FINANCIAL LITERACY

6. Please indicate your level of agreement with the following statements regarding how financial literacy impacts growth of MSMES in Machakos County, Mwala Constituency, using a scale of 1-5:

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

No.	Statement	SA	A	N	D	SD
1	Poor financial management skills have hindered the growth of my business.					
2	Access to accurate and timely financial information has helped me make better business decisions.					
3	Lack of access to financial information has negatively impacted the growth of my business.					
4	Participating in financial literacy programs has improved my business's financial performance.					
5	Financial literacy programs available in my area have equipped me with the skills needed to grow my business.					

SECTION D: FINANCIAL INCLUSION

7. Please indicate your personal level of agreement with the following statements regarding the impact of financial inclusion on growth of MSMES in Machakos County, Mwala Constituency, using a scale of 1-5:

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

S/N	Statement	SA	A	N	D	SD
1	The availability of efficient payment systems has facilitated the growth of my business.					
2	Limited access to reliable payment systems has hindered the growth of my business.					
3	Digital financial platforms have improved my business operations and contributed to growth.					
4	The use of digital financial platforms has enhanced my ability to manage financial transactions efficiently.					
5	Access to financial services has allowed me to optimize my financial resources effectively.					

SECTION E: GROWTH OF MSMES IN MACHAKOS COUNTY, MWALA
CONSTITUENCY

8. Please indicate your personal level of agreement with the following statements regarding growth of MSMES in Machakos County, Mwala Constituency, using a scale of 1-5:

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

S/N	Statement	SA	A	N	D	SD
1	The introduction of new products or services has driven revenue growth for my MSME.					
2	Increasing market demand has led to the expansion of my MSME's product or service offerings.					
3	Increased operational efficiency has contributed to higher profit levels in my MSME.					
4	Investment in technology has played a significant role in boosting the revenue of my MSME.					
5	The profitability of my MSME has improved due to successful product or service innovations.					

THANK YOU FOR YOUR TIME AND PARTICIPATION