

## Credit Access and Financial Performance of Micro, Small, and Medium Enterprises in Dagoretti North Sub County, Kenya

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### Abstract:

*The micro, small, and medium enterprises play a significant role in contributing towards the economic development of many countries of the world. It is the leading sector in the creation of job opportunities for millions of young people in the developing countries across the globe, and in Kenya in particular. Despite this significant contribution of this sector towards economic development, the sector faces a myriad of challenges when it comes to access to credit, financial transactions, and financial literacy influencing their performance (World Bank, 2025). The study's purpose was to assess the influence of access to credit on the financial performance of MSMEs in Dagoretti North Sub-County. The research was anchored on the Theory of Financial Inclusion, advanced by Morduch, Quantitative research methods were employed, while correlational research design was used. The target population was 5,112 licensed and registered MSMEs in Dagoretti North Sub-County, Nairobi City County. Based on Yamane's formula, the sample size of 371 MSME owners/managers was selected. Stratified random sampling and purposive techniques were used to select the sample size. The data was collected using questionnaires with close-ended questions. A pilot study was conducted to establish the validity and reliability of the questionnaire. The quantitative data was analyzed using SPSS. The Pearson correlation test was used to determine the existence of relationships, while regression analysis was used to determine the extent to which the study variables relate with each other. Results revealed a positive and significant relationship between financial performance and credit access ( $r = .35, p < .01$ ). Overall, the study showed that MSMEs in Dagoretti North benefit a lot from financial inclusion. The study underscored the importance of strengthening initiatives that support financial literacy, access to credit, and transaction convenience, as this has been shown to make MSME businesses thrive.*

**Keywords:** Credit Access, Loan Access, Financial Performance

### 1. Introduction and Background

A number of studies have been conducted across the globe to determine the influence of access to credit and financial performance of MSMEs. In Sri Lanka, Liyanage et al. (2023) investigated the influence of access to credit on the performance MSMEs. The study involved collecting data from three hundred eighty-five MSMEs where a survey strategy was adopted. The data was collected using structured questionnaires from the sample respondents. The study established that access to credit and financial support contributed to the performance of MSMEs in Sri Lanka. Whereas the study involved a reliable number of respondents, this study was conducted

in Sri Lanka, a country whose socio-economic structures is incomparable to that of Kenya hence the need to conduct the current study to fill the locale knowledge gap.

Akwo et al. (2024) conducted a similar study in Cameroon to determine the impact of access to credit facilities on the business growth and improvement of SMEs. The researchers adopted both quantitative and qualitative research techniques where one hundred eighty-five respondents were sampled using multistage sampling methodology. The secondary data was collected using interview guides while primary data was collected using questionnaires. The analysis of the data collected revealed that credit facilities boosted the performance of SMEs where the larger the credit the higher the performance. The sample size for this study was relatively small compared to the number of SMEs in Bamenda and the outcomes may not be representative to the Kenyan context. This gap was filled by the present study where a larger sample size was used.

In East Africa, Delphin & Awolusi (2023) conducted a study in Burundi to determine the impact of loan access on the performance of SMEs. The study adopted quantitative descriptive design where one hundred eighty-six respondents were selected to participate in this study. Structured questionnaires were used to collect data from the respondents. The data analysis revealed that the SMEs who were in a position to access loans from financial institutions performed better than those who did not. This study was conducted in Burundi, a country whose economy level is low compared to that for Kenya and thus access to credit may not be at a similar scale indicating the need to conduct this study in Dagoretti North, Subcounty, Kenya to bridge the knowledge gap.

David and Njogu (2023) conducted another similar study in Kenya to determine the impact of SME financing through credit facilities on their performance. The study adopted quantitative descriptive design where a total of four hundred sixty-eight SMEs were targeted within Thika Municipality. The researchers used questionnaires to collect data from the selected respondents. The outcomes from the data analysis revealed that access to credit greatly improved the performance of SMEs. The business environment in Thika Municipality is incomparable to that of Nairobi City which is mainly a cosmopolitan town hence the need to conduct the current study to bridge the knowledge gap.

In Nairobi, Maina (2022) investigated the impact of digital loan facilities on the performance of MSMEs. The research methodology adopted for this study was descriptive research design with a target population of five hundred thirty-seven MSMEs. Data was collected using structured questionnaires that were issued out by the researchers with the assistance of research assistance. Analysis of the data collected revealed that access to digital loan facilities positively influenced the performance of MSMEs and that loan security/collateral limited them from accessing loans. This study focused on digital loans borrowed via mobile devices which has limits on how much one can borrow because of insecurity. The present study investigated the impact of access to credit (both digital and non-digital loans) on the performance of MSMEs.

### 1.2 Purpose of the Study

The study's purpose was to assess the influence of access to credit on the financial performance of MSMEs in Dagoretti North Sub County

### 1.3 Conceptual Framework

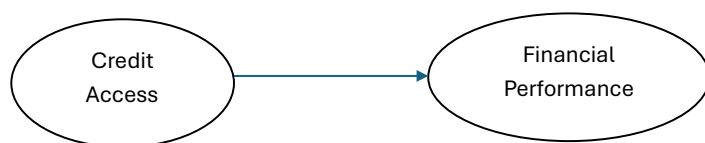


Figure 1: Conceptual Framework

## 2. Literature and Theoretical framework

### 2.1 Theoretical Review

#### Theory of Financial Inclusion

The Theory of Financial Inclusion, also developed under the movement by Morduch (1999) focuses on the need to increase access to formal financial services among unserved populations, especially the low-income or financially disadvantaged groups. The theory also emphasizes several key principles: (i) accessibility of financial services such as credit, savings and payments; (ii) availability, and affordability of financial services, or ensuring that financial products are available and affordable to users; (iii) usage, or ensuring that users make regular and purposely use of financial services; (iv) quality and appropriateness of financial services to the unique needs of different user groups and (v) financial capability, or the ability of users to use their financial services on an informed, regular, and purposive basis. Collectively, these aspects constitute a multidimensional concept of financial inclusion.

This theory closely aligns with the key dimensions of this study. For instance, access to credit is greatly influenced by availability and affordability of loans. This is so because financial inclusion stresses the need for businesses to access credit solutions at ease and repay favorable interest rates that facilitate their growth and day to day operations (Njagi, 2024). The transaction convenience on the other hand focuses on efficiency, availability, and ease of use of financial services that smoothens the completion of business transactions between customers and businesses as well as between business and suppliers. This helps the businesses to remain competitive. Financial literacy revolves around business owners/managers being equipped with adequate financial knowledge that aids sound financial decisions for the business as well as influence ive utilization of resources to sustain the growth of their business.

The Theory of Financial Inclusion applies to the proposed research because it offers a framework within which accessing credit, convenience of transaction and financial literacy can be associated with financial performance of MSMEs. The proponents of this theory move the thesis further to state that availability of credit, ease of doing business and sufficient knowledge of financial information is a factor that leads to the growth and performance of MSMEs (Kurniasari et al., 2025). The multidimensional character of the theory makes it clear that MSMEs have difficulties with obtaining credit and utilizing the available financial transaction resources, including digital payments. The theory is also consistent with the Kenya's national agenda of promoting financial inclusion as reflected in recent innovations to expand access to financial services among MSMEs, a good example being the Hustler Fund (FSD Kenya, 2022; Central Bank of Kenya, 2024). The objective of these innovations is to bring MSMEs into the formal financial system so as to advance the economic development of the country.

In this study, this theory directly informs the contribution that the availability of credit, convenience in transactions and financial literacy can bring to the performance of MSMEs. Access to inexpensive and readily available credit facilities can reduce liquidity constraints and enable small businesses in Dagoretti North to fund inventory, expand operations, and receive working capital. Urban areas are significant because transaction convenience, such as mobile banking and digital payments, are essential factors in MSMEs competitiveness because they depend on how fast, reliable, and affordable their operations are. Financial literacy equips entrepreneurs with skills to make sound financial decisions, manage debt and plan expansion. The national financial inclusion agenda in Kenya, and initiatives like Hustler Fund where MSMEs are integrated into the formal financial ecosystem are another factor that contributes to the relevance of this theory. Therefore, using the theory, there is a good platform to study the interrelationship between these financial inclusion dimensions to establish MSME financial performance in Dagoretti north Sub County.

Lastly, the Theory of Financial Inclusion further extends to formulate the concepts of credit access, convenience of transactions and financial literacy as relevant predictors of financial performance by MSMEs. It played a major role in carrying out the actualization of these three factors that influence development of MSMEs in Dagoretti North Sub County. In this respect, the study was able to determine nature of relationship between access to credit, convenience of transactions and financial literacy and financial performance of MSMEs.

## 2.2 Empirical Literature Review

### **Influence of access to credit on financial performance of MSMEs**

A number of studies have been conducted across the globe to determine the influence of access to credit and financial performance of MSMEs. In Sri Lanka, Liyanage et al. (2023) investigated the influence of access to credit on the performance MSMEs. The study involved collecting data from three hundred eighty-five MSMEs where a survey strategy was adopted. The data was collected using structured questionnaires from the sample respondents. The study established that access to credit and financial support contributed to the performance of MSMEs in Sri Lanka. Whereas the study involved a reliable number of respondents, this study was conducted in Sri Lanka, a country whose socio-economic structures is incomparable to that of Kenya hence the need to conduct the current study to fill the locale knowledge gap.

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institutions performed better than those who did not. This study was conducted in Burundi, a country whose economy level is low compared to that for Kenya and thus access to credit may not be at a similar scale indicating the need to conduct this study in Dagoretti North, Subcounty, Kenya to bridge the knowledge gap.

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### 3. Data Presentation, Analysis, and Discussion of Findings

#### 3.1 Results on Access to Credit

The respondents were asked to show how much they agreed with various statements concerning their access to credit. The results are presented in Table 1.

Table 1: Responses on Access to Credit

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD
It is easy for me to apply for loans from banks or microfinance institutions.	-	84 (23.1%)	139 (38.3%)	110 (30.3%)	30 (8.3%)	3.24	0.90
Financial institutions are willing to give loans to my business.	-	57 (15.7%)	105 (28.9%)	80 (22.0%)	121 (33.3%)	3.73	1.09
The interest rates on business loans are affordable for me.	-	1 (0.3%)	28 (7.7%)	73 (20.1%)	261 (71.9%)	4.64	0.64
The requirements for getting a loan are reasonable.	-	1 (0.3%)	13 (3.6%)	56 (15.4%)	293 (80.7%)	4.77	0.52
I know where to go when I need a business loan.	-	1 (0.3%)	91 (25.1%)	121 (33.3%)	150 (41.3%)	4.16	0.81
I have received loans that have helped grow my business.	-	-	23 (6.3%)	190 (52.3%)	150 (41.3%)	4.35	0.60
I can access loans quickly when my business needs money.	-	56 (15.4%)	98 (27.0%)	82 (22.6%)	127 (35.0%)	3.77	1.09

I am satisfied with the terms and conditions of the loans I get.	-	1 (0.3%)	28 (7.7%)	68 (18.7%)	266 (73.3%)	4.65	0.63
I feel confident approaching banks for financial help.	-	1 (0.3%)	11 (3.0%)	53 (14.6%)	298 (82.1%)	4.79	0.50
Lack of credit has been a problem for my business growth.	-	1 (0.3%)	89 (24.5%)	116 (32.0%)	157 (43.3%)	4.18	0.81

Source: Researcher (2025)

As seen from Table 1, for the statement “It is easy for me to apply for loans from banks or microfinance institutions,” none of the respondents strongly disagreed. A total of 84 (23.1%) disagreed, 139 (38.3%) were neutral, 110 (30.3%) agreed and 30 (8.3%) strongly agreed. The mean of 3.24 shows that views were mixed and leaned towards the neutral side. The standard deviation of 0.90 shows that responses were fairly close, but overall, many respondents did not find it easy to apply for loans. This suggests that even though MSMEs are aware of the credit options that are available to them, the ease of loan applications may still be impeded by bureaucratic processes and documentation requirements.

On “Financial institutions are willing to give loans to my business,” none strongly disagreed. A total of 57 (15.7%) disagreed and 105 (28.9%) were neutral. At the same time, 80 (22.0%) agreed and 121 (33.3%) strongly agreed. The mean was 3.73 with a standard deviation of 1.09, showing moderate agreement but also some variation. This means that while many members felt that financial institutions were willing to support their businesses, quite a number were unsure or had different experiences. The results indicate that although financial institutions are generally helpful, MSME owners may become uncertain due to inconsistent lending practices and perceived favouritism.

The statement “The interest rates on business loans are affordable for me” had no responses for strongly disagree or disagree. Only 1 (0.3%) was neutral, 28 (7.7%) agreed, and the majority 261 (71.9%) strongly agreed. The mean was very high at 4.64 with a standard deviation of 0.64. This shows that most respondents felt the interest rates were affordable, with little variation in opinion. Affordable loan interest rates have greatly increased the borrowing capacity and financial sustainability of MSMEs in the region, as evidenced by the high mean of 4.64.

For “The requirements for getting a loan are reasonable,” no one strongly disagreed, and only 1 (0.3%) disagreed. A small group of 13 (3.6%) were neutral, while 56 (15.4%) agreed and a very large majority of 293 (80.7%) strongly agreed. The mean was 4.77 with a standard deviation of 0.52, showing strong agreement and little difference in responses. Simplified and transparent lending conditions have increased MSMEs' confidence in obtaining credit and decreased obstacles to financial inclusion, as evidenced by the very strong agreement (mean 4.77). This indicates that most respondents found the requirements to be fair and manageable.

On “I know where to go when I need a business loan,” no one strongly disagreed. Only 1 (0.3%) disagreed, 91 (25.1%) were neutral, 121 (33.3%) agreed and 150 (41.3%) strongly agreed. The mean was 4.16 with a standard deviation of 0.81. As evidenced by the efficient distribution of financial information through banks and digital channels, the majority of MSMEs have a mean score of 4.16, indicating that they are financially aware and know where to get credit. This shows that most respondents knew where to access loans, though a few were less certain.

The statement “I have received loans that have helped grow my business” had no respondents who strongly disagreed or disagreed. Only 23 (6.3%) were neutral, while 190 (52.3%) agreed and 150 (41.3%) strongly agreed. The mean was 4.35 with a standard deviation of 0.60, showing high agreement with very little variation. The high mean of 4.35 indicates that MSMEs' expansion, improved working capital, and improved operational performance have all been facilitated by credit availability. This means that most respondents had directly benefited from loans in growing their businesses.

Regarding “I can access loans quickly when my business needs money,” no one strongly disagreed, but 56 (15.4%) disagreed and 98 (27.0%) were neutral. 82 (22.6%) agreed and 127 (35.0%) strongly agreed. The mean of 3.77 with a standard deviation of 1.09 shows moderate agreement with fairly wide variation. This suggests that some members felt they could access loans quickly, while others had challenges. According to the moderate mean, procedural delays and slow approval processes still limit timely access to funds during urgent business needs, despite the fact that MSMEs can obtain loans.

For “I am satisfied with the terms and conditions of the loans I get,” no one strongly disagreed. Only 1 (0.3%) disagreed, 28 (7.7%) were neutral, 68 (18.7%) agreed and the majority 266 (73.3%) strongly agreed. The mean of 4.65 with a standard deviation of 0.63 shows very strong satisfaction with little variation. Favourable repayment terms and flexible conditions have increased MSMEs' trust in formal financial institutions, as evidenced by the high satisfaction level.

On “I feel confident approaching banks for financial help,” none of the respondents strongly disagreed. Only 1 (0.3%) disagreed, 11 (3.0%) were neutral, 53 (14.6%) agreed and a very large 298 (82.1%) strongly agreed. The mean was 4.79 with a standard deviation of 0.50, which is very high and shows that most respondents felt comfortable going to banks for support. The remarkably high mean of 4.79 indicates that MSME owners are increasingly using formal credit systems for business support and have grown to have strong financial confidence.

Finally, for “Lack of credit has been a problem for my business growth,” no one strongly disagreed. Only 1 (0.3%) disagreed, while 89 (24.5%) were neutral. About 116 (32.0%) agreed and 157 (43.3%) strongly agreed. The mean was 4.18 with a standard deviation of 0.81. The mean of 4.18 indicates that financial exclusion and low credit ceilings still prevent many MSMEs from reaching their full growth potential, even in the face of expanded credit availability. This shows that many respondents saw lack of credit as a challenge to growth, although some were less sure.

Overall, the results show that respondents strongly agreed that interest rates were affordable, loan requirements were reasonable, and they felt confident approaching banks. They also reported satisfaction with loan terms and acknowledged receiving loans that supported business growth. However, responses were more divided on the ease of applying for loans, the speed of accessing them, and whether financial institutions were always willing to provide credit. This suggests that while MSMEs members generally had positive experiences with credit, some still faced challenges in certain areas such as application processes and timeliness.

Table 2 presents the descriptive statistics on access to credit, showing results such as the minimum, maximum, mean, and standard deviation for this variable.

Table 2: Descriptive Statistics on Access to Credit

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
B_Credit_Access	363	19.00	30.00	49.00	42.26	4.77	-.54	.13	-.69	.26
Valid N (listwise)	363									

Source: Researcher (2025)

The researcher looked at business credit access using descriptive statistics as shown in table 2. The lowest score was 30.00 and the highest was 49.00, giving a range of 19.00. The average score was 42.26, which shows that credit access was generally good. The standard deviation was 4.77, meaning most scores were close to the average, though there were still some differences. The skewness was -0.54, showing a small lean toward the lower scores, and the kurtosis was -0.685, meaning the scores were a bit more spread out rather than tightly grouped around the average.

### 3.2 Correlation Analysis

Table 3 presents the correlation results between access to credit and financial performance, showing the strength and direction of their relationship.

Table 3: Correlation between Access to Credit and Financial Performance

	Financial Performance	
Access to credit	Pearson Correlation	.35**
	Sig. (2-tailed)	.00
	N	363

Source: Researcher (2025)

The results in Table 3 show a moderate positive link between financial performance and credit access ( $r = .35$ ,  $p < .01$ ). This means that when credit access is higher, financial performance also tends to be better. The correlation is statistically significant at the .01 level, which means the relationship is not just by chance and points to a real connection between the two in this sample.

### 3.3 Regression Analysis

Table 4 gives the regression model summary on access to credit and government policy and explains how they contribute to changes in financial performance.

Table 4: Regression Model Summary for Access to Credit and Government Policy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.35 <sup>a</sup>	.12	.12	2.44
2	.54 <sup>b</sup>	.30	.29	2.19

a. Predictors: (Constant), Access Credit\_

b. Predictors: (Constant), Credit Access, Government Policy

Source: Researcher (2025)

Table 4 presents the model summary showing how credit access and government policy help predict financial performance. Credit access by itself explains 12% of the changes in financial performance ( $R^2 = .12$ ). When government policy is included, the model explains 30% ( $R^2 = .30$ ), which means the two factors together give a stronger prediction. The standard errors (2.44 and 2.19) show how far the predicted scores usually are from the actual scores.

Table 5 gives the regression coefficients, showing how access to credit and government policy each influence financial performance.

Table 5 Regression Coefficients for Access to Credit and Government Policy

Model	Unstandardized Coefficients		Standardized Coefficientst	Sig.
	B	Std. Error		
1 (Constant)	36.51	1.15		31.88 .00
1 Credit Access	.19	.03	.35	7.14 .00
2 (Constant)	20.78	1.97		10.58 .00
2 Credit Access	.14	.03	.25	5.46 .00
2 Government Policy	.42	.04	.43	9.39 .00

a. Dependent Variable: Financial Performance

Source: Researcher (2025)

The coefficients shown in Table 5 indicate how credit access and government policy affect financial performance. In the first model, credit access has a positive influence ( $B = 0.19$ ,  $p < .01$ ). This means that when credit access goes up by one-unit, financial performance goes up by 0.19 units. In the second model, both credit access ( $B = 0.14$ ,  $p < .01$ ) and government policy ( $B = 0.42$ ,  $p < .01$ ) have positive influence s, which shows that improvements in either one lead to better financial performance. All these influence s are statistically significant, meaning the results are not just by chance.

### 3.4 Discussion of the Results

The study found that access to credit had a positive influence on the financial performance of MSMEs in Dagoretti North Sub-County. The correlation results showed there was a moderate positive relationship between access to credit and financial performance. The regression analysis also showed that access to credit alone explained about 12% of the changes in financial performance ( $R^2 = 0.12$ ). This means that when people were able to get loans or credit, their businesses generally performed better but to a small extent. With credit, business owners could buy more stock, expand their shops, improve daily operations, or cover unexpected costs without being forced to close. Simply put, credit acted like a helping hand that gave MSMEs the chance to grow, remain steady, and compete better in the market. This agrees with the theory of financial intermediation, which explains that banks and other financial institutions help small businesses access money and improve their productivity (Gurley and Shaw, 1960; Allen and Santomero, 1998). It also links to the theory of financial

inclusion, which points out that affordable and available loans are important for small business growth (Morduch, 1999).

The study showed that access to credit has a clearly positive influence on the performance of small businesses. The results confirmed that when business owners could get loans or other financial support, their businesses tended to do better. Regression analysis showed that credit alone explained about 12.4 percent of the changes in performance. This is not a huge amount, but it still shows that credit matters. Many respondents said that interest rates were fair and that loan conditions were reasonable. They also said that loans had helped them grow their businesses and that they felt confident going to banks when they needed help. However, the score for how easy it was to apply for loans was lower. This shows that some business owners still find the process stressful or slow. So, credit is useful, but it does not always come easily.

## 4. Conclusion and Recommendations

### 4.1 Conclusion

From the findings, the study makes the following conclusions: Although loans can also help, they only work if they are cheap, easy to get, and used with good money skills. A loan by itself won't make the business succeed. Success comes from using all these factors together. Credit, easy transactions, money skills, and helpful policies all need to work together. One alone can help a bit but using them all gives much better and longer-lasting results.

### 5.2 Recommendations

The study makes the following recommendations with respect to access to credit: Business owners should only take loans when they know exactly how they will use the money and how they will pay it back. This way, the loan helps the business grow instead of causing problems. Financial institutions should use data-driven credit scoring systems that take MSME transaction histories into account, instead of depending only on collateral. To promote MSME formalization and credit access, the government should increase loan guarantee programmes and reduce business registration fees.

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