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Effect of Access to Financial Services on the Financial Performance of Micro, Small and Medium Enterprises (MSMEs) in Nandi County, Kenya

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Abstract

Purpose: Micro, Small and Medium Enterprises (MSMEs) are critical to employment creation, income generation, and economic growth in Kenya. However, many MSMEs continue to experience poor financial performance due to limited access to formal financial services, particularly in rural areas. This study examined the effect of access to financial services on the financial performance of MSMEs in Nandi County, Kenya.

Methodology: Guided by Financial Intermediation Theory, the study adopted an explanatory research design. A sample of 378 MSME owners and managers was selected from a target population of 6,820 registered enterprises using a multistage sampling technique. Primary data were collected through a structured questionnaire and analyzed using descriptive statistics, Pearson correlation, and multiple regression analysis.

Findings: The findings revealed a positive and statistically significant relationship between access to financial services and financial performance. MSMEs with better access to bank accounts, mobile banking, agency banking, and credit facilities reported higher profitability, revenue growth, liquidity, and return on investment. Regression analysis further established that access to financial services was a significant predictor of financial performance, leading to the rejection of the null hypothesis.

Unique Contribution to Theory, Practice and Policy: Improving access to affordable and reliable financial services enhances the financial sustainability and growth of MSMEs. It recommends strengthening financial infrastructure, expanding digital financial services, simplifying lending procedures, and promoting inclusive financial products to improve MSME performance, particularly in rural Kenya.

Keywords: *Access to Financial Services, Financial Performance, Micro, Small and Medium Enterprises (MSMEs), Financial Inclusion, Financial Intermediation*

JEL Classification: *G21, L25, L26, O16*

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are widely recognized as important drivers of economic growth, employment creation, poverty reduction, and innovation in both developed and developing economies. According to Oruo (2013), MSMEs generate a substantial proportion of new employment opportunities globally, making them important contributors to sustainable economic development. Their role is particularly significant in developing economies, where they provide livelihoods and income-generating opportunities to populations that may have limited access to formal employment. Despite their economic importance, however, MSMEs frequently experience financial constraints that limit business expansion, productivity, profitability, and long-term sustainability. These challenges have increased scholarly and policy attention to financial inclusion and, particularly, the ability of enterprises to access appropriate financial services (Nurwulandari, 2022; World Bank, 2021).

Financial inclusion has emerged as an important mechanism for strengthening enterprise performance by enabling businesses to obtain affordable, timely, and appropriate financial products and services. Hossain and Hammed (2021) define financial inclusion in terms of the ability of individuals and enterprises to obtain formal financial services conveniently and at affordable costs. Financial inclusion encompasses services such as savings, credit, insurance, payments, and other financial products that can enable enterprises to invest, manage cash flows, respond to financial shocks, and pursue business opportunities (Demirgüç-Kunt & Klapper, 2012). An inclusive financial system can therefore reduce barriers that prevent MSMEs from participating effectively in the formal financial sector and mobilizing resources necessary for growth and improved financial performance (Hannig & Jansen, 2010; World Bank, 2017).

Access to financial services is a fundamental dimension of financial inclusion and constitutes the focus of the present study. It refers to the extent to which MSMEs can obtain and conveniently utilize financial services through channels such as commercial banks, microfinance institutions, Savings and Credit Cooperative Organizations (SACCOs), mobile banking, agency banking, savings facilities, and credit providers. Financial access extends beyond the physical availability of financial institutions and includes factors such as proximity, affordability, convenience, eligibility requirements, and availability of alternative delivery channels (Sarma, 2008). Where such services are accessible, MSMEs may be better positioned to finance working capital, acquire productive assets, manage liquidity, respond to unexpected financial requirements, and exploit emerging business opportunities. Conversely, inadequate access can constrain investment and limit the ability of enterprises to improve their financial outcomes.

The relationship between access to financial services and enterprise financial performance can be explained through Financial Intermediation Theory, initially advanced by Gurley and Shaw (1960) and subsequently developed by Diamond (1984). The theory explains the role of financial intermediaries in mobilizing financial resources and facilitating their allocation between surplus and deficit economic units. Financial intermediaries can reduce transaction costs and information asymmetries through mechanisms such as borrower screening, monitoring, and risk assessment. Within the MSME sector, this intermediation role is important because smaller enterprises frequently encounter difficulties obtaining finance through conventional markets. Effective financial intermediation may consequently improve their access to capital for working capital, investment, innovation, and business expansion. Financial Intermediation Theory therefore provides a relevant foundation for examining whether differences in access to financial services are associated with differences in MSME financial performance.

Globally and within Kenya, expansion of formal and digital financial systems has created new channels through which MSMEs can obtain financial services. Mobile money, digital banking, agency banking, microfinance, SACCOs, and technology-enabled credit services have increasingly complemented conventional branch-based banking. These developments are particularly important for MSMEs because they can reduce geographical and transaction-related barriers to financial services. Nevertheless, availability of financial channels does not necessarily imply that all enterprises enjoy comparable access. Affordability of credit, collateral requirements, eligibility conditions, distance to service points, digital capability, financial literacy, and differences in enterprise characteristics may influence the extent to which MSMEs benefit from available financial infrastructure. Consequently, the relationship between financial access and enterprise performance remains an empirical question that requires investigation within specific geographical and economic contexts.

Kenya provides an important context for examining this relationship because of the country's substantial expansion of mobile money, agency banking, microfinance, SACCOs, and other financial delivery channels. However, financial access remains uneven across enterprises and geographical areas. This issue is especially relevant outside the country's largest metropolitan centres, where MSMEs may operate under different financial, infrastructural, and market conditions. Financial constraints can affect enterprises' ability to obtain working capital, purchase productive assets, maintain liquidity, and withstand fluctuations in business income. Understanding whether access to financial services translates into better financial outcomes is therefore important for designing financial inclusion interventions that respond to the circumstances of MSMEs rather than assuming that expansion in financial infrastructure automatically produces improved enterprise performance.

Nandi County provides an appropriate setting for such an investigation because it contains diverse rural, peri-urban, and urban commercial environments. Although a substantial proportion of economic activity in the county is associated with rural and agricultural settings, commercial centres such as Kapsabet and Nandi Hills provide relatively concentrated business activity and financial service infrastructure. Other enterprises operate in smaller trading centres and more dispersed rural locations where the proximity and range of financial services may differ. Consequently, MSMEs across Nandi County cannot be treated as operating within a uniformly rural financial environment. Differences in settlement patterns, market concentration, transport connectivity, financial service points, and digital infrastructure may produce variations in financial accessibility among enterprises. This spatial diversity makes Nandi County particularly relevant for examining the relationship between access to financial services and MSME financial performance.

Statement of the Problem

Despite the continued expansion of Kenya's financial sector, an important empirical gap remains regarding the extent to which access to financial services contributes to the financial performance of MSMEs within such heterogeneous county settings. Previous research has generated useful evidence on financial inclusion, mobile banking, agency banking, credit access, and financial literacy, but findings have varied according to the financial service examined, enterprise characteristics, and study setting. Furthermore, broad measures of financial inclusion may obscure the specific contribution of financial accessibility to enterprise outcomes. There is therefore a need to establish whether MSMEs that have better access to bank accounts, mobile and agency banking services, savings facilities, and credit demonstrate stronger financial outcomes in terms of profitability, revenue growth, liquidity, and return on investment.

Accordingly, this study examined the effect of access to financial services on the financial performance of MSMEs in Nandi County, Kenya. By focusing specifically on financial accessibility and recognizing the diversity of rural, peri-urban, and urban business environments within the county, the study provides context-specific evidence on how access to financial services relates to MSME financial performance. The findings are expected to contribute to the financial inclusion and MSME literature while providing evidence relevant to financial institutions, policymakers, county-level enterprise development programmes, and other stakeholders seeking to strengthen the sustainability and financial performance of MSMEs in Kenya.

LITERATURE REVIEW

Access to financial services is a multidimensional concept encompassing the ability of enterprises to reach, afford, obtain, and effectively use financial products that support their business activities. For MSMEs, access extends beyond simply owning a bank account or having a financial institution nearby. It incorporates physical and digital accessibility, affordability and cost, and the availability and suitability of financial products such as credit and savings facilities. These dimensions can influence firm-level outcomes by determining whether enterprises have sufficient working capital, can undertake productive investment, manage liquidity, respond to financial shocks, and sustain business operations. The literature on access to financial services and MSME financial performance can therefore be examined through three closely related areas: credit access, physical and digital financial accessibility, and access to affordable and suitable savings and other financial products.

Credit Access, Affordability and MSME Financial Performance

Access to credit is a major component of financial accessibility because MSMEs frequently depend on external finance to supplement internally generated funds. Credit enables enterprises to purchase inventory, acquire productive assets, meet short-term obligations, expand business operations, and exploit investment opportunities. However, effective credit access is determined not only by the availability of lenders but also by interest rates, collateral requirements, repayment periods, loan-processing procedures, transaction costs, and the suitability of credit products to the cash-flow characteristics of MSMEs.

Amadasun and Mutezo (2022) established that access to formal credit and related financial services contributed positively to the growth of small enterprises in Lesotho. Improved financial access enabled businesses to mobilize resources necessary for their operations and expansion. However, collateral requirements, borrowing costs, and other institutional barriers continued to restrict the ability of smaller enterprises to benefit fully from formal financial services. These findings demonstrate that the physical presence of credit providers does not necessarily constitute effective financial access when enterprises cannot meet lending conditions or afford the associated costs.

Similarly, evidence from developing economies indicates that financial constraints can restrict firm-level productivity, investment, and sales growth. The International Monetary Fund (2024) reported that inadequate access to finance constrained the performance of SMEs, with enterprises in geographically disadvantaged areas facing particularly significant financing difficulties. Limited credit availability can prevent MSMEs from maintaining adequate working capital, increasing inventories, adopting new technologies, and responding to market opportunities. Conversely, appropriately structured credit can improve enterprise liquidity and productive capacity and consequently contribute to revenue growth and profitability.

The cost of credit is particularly important when evaluating its contribution to financial performance. High interest rates and related borrowing charges increase financing expenses and can reduce the portion of enterprise income available for reinvestment. Loan products characterized by short repayment periods or repayment schedules that do not correspond with business cash flows may similarly create liquidity pressure. Product suitability is therefore as important as availability. Credit facilities offering reasonable interest rates, appropriate repayment periods, flexible collateral arrangements, and loan sizes aligned with enterprise needs are more likely to support improvements in profitability, revenue growth, liquidity, and return on investment than financial products that are technically available but commercially unsuitable.

Physical and Digital Accessibility and MSME Financial Performance

Physical accessibility concerns the ease with which MSMEs can reach financial service providers, including commercial bank branches, microfinance institutions, SACCOs, banking agents, and other service points. Distance to financial institutions can impose both direct and indirect costs on enterprises through transport expenditure, time away from business operations, and delays in accessing financial services. Such barriers may be more pronounced among enterprises operating in geographically dispersed areas. Consequently, proximity to financial service points can influence the frequency and convenience with which MSMEs deposit business income, make payments, seek credit, and undertake other financial transactions.

The expansion of agency banking has sought to reduce these geographical barriers by bringing selected banking services closer to communities and enterprises that may not be adequately served by conventional branches. However, the effect of agency banking on financial performance is not necessarily uniform. Ondieki (2015), for instance, found no significant direct relationship between agency banking and financial performance within the particular institutional setting examined. Such findings suggest that increased physical proximity alone may not improve enterprise outcomes unless the services available through agents are reliable, sufficiently diverse, affordable, and appropriate for enterprise requirements.

Digital financial services have further transformed the meaning of financial accessibility by reducing dependence on physical branches. Mobile money, mobile banking, internet banking, digital lending, and technology-enabled payment platforms enable enterprises to conduct financial transactions remotely. Digital channels can reduce travel and transaction time, facilitate payments to suppliers and customers, improve cash-flow management, and provide businesses with faster access to financial information and services. However, digital accessibility depends on supporting conditions such as mobile network coverage, device ownership, digital literacy, system reliability, and the costs associated with digital transactions.

Óskarsdóttir et al. (2020) demonstrated the potential of smartphone-based credit assessment systems to expand financial access by improving lending decisions among previously underserved borrowers. Technology-based assessment can reduce some information barriers between financial institutions and borrowers, thereby expanding opportunities for enterprises that may lack conventional collateral or extensive formal credit histories. At the firm level, such innovations can improve the availability and speed of financing needed for inventory acquisition, working capital, and other productive activities.

Evidence from Kenya similarly indicates that mobile financial services can influence enterprise performance by reducing transaction costs and increasing financial convenience. Mwaniki (2014) reported a positive relationship between mobile banking and financial performance, whereas Mutua (2010) identified only a weak positive relationship. The divergent findings demonstrate that access to digital platforms does not automatically translate into superior financial performance. The benefits may depend on the intensity and purpose of use, transaction charges, network availability, financial capability of enterprise owners, and integration of digital services into business operations. Therefore, this study conceptualizes digital accessibility not simply as the availability of mobile financial platforms but also in terms of the convenience and practical ability of MSMEs to use such platforms for business transactions.

Savings Facilities, Product Availability and MSME Financial Performance

Access to savings facilities represents another important dimension of financial accessibility. MSMEs require mechanisms through which they can securely accumulate financial resources, separate business finances from household expenditure, maintain liquidity reserves, and prepare for future investment. Formal savings facilities may also contribute indirectly to credit access by creating financial transaction records and establishing relationships between enterprises and financial institutions. Regular savings can therefore strengthen an enterprise's ability to withstand temporary revenue fluctuations and unexpected financial shocks.

Amadasun and Mutezo (2022) found that access to savings services, alongside other formal financial services, was associated with improved small-enterprise outcomes. For MSMEs, savings provide internally accumulated resources that can be used to purchase inventory, finance small investments, and meet short-term obligations without necessarily relying on expensive external borrowing. The ability to accumulate and conveniently withdraw savings may consequently improve enterprise liquidity and financial resilience.

Nevertheless, access to savings should also be evaluated in terms of affordability and product suitability. Account maintenance charges, minimum balance requirements, withdrawal fees, low savings returns, and inconvenient account conditions may discourage small enterprises from using formal savings products. Financial products designed around the irregular cash flows characteristic of many MSMEs may be more useful than standardized products developed for salaried customers or larger firms. Product availability must therefore be accompanied by flexibility, affordability, convenience, and alignment with enterprise financial requirements.

More broadly, Tambunan (2023) found that improved access to private-sector finance could strengthen SME resilience and financial performance, although the effects of financial expansion depended on the conditions under which financing was provided. This highlights the importance of examining financial access from the perspective of the enterprise rather than merely measuring the number of financial products or institutions available. For an MSME, a financial service is effectively accessible when it can be obtained at a reasonable cost, under appropriate conditions, and used to support productive business activities.

Access to Financial Services and Firm-Level Financial Outcomes

The reviewed literature indicates several mechanisms through which access to financial services may influence MSME financial performance. First, improved credit access can increase working capital and investment capacity, potentially contributing to higher sales and profitability. Second, convenient physical and digital financial channels can reduce transaction costs and improve the efficiency with which enterprises receive payments, pay suppliers, deposit revenues, and manage cash flows. Third, access to appropriate savings products can strengthen liquidity and resilience by enabling enterprises to accumulate financial reserves. Collectively, these mechanisms can influence firm-level outcomes such as profitability, revenue growth, liquidity, and return on investment.

However, the evidence also demonstrates that access is conditional rather than automatic. An MSME may operate near a bank or agent but remain financially constrained because of high interest rates, collateral requirements, account charges, unsuitable loan terms, or restrictive eligibility requirements. Similarly, an enterprise may have access to mobile financial platforms but obtain limited performance benefits where transaction charges are high, network connectivity is unreliable, or available digital products do not correspond to business needs. Access to financial services should therefore be understood as the interaction between physical and digital accessibility, affordability and cost, and product availability and suitability, rather than as a single undifferentiated construct.

Empirical Gap

Although existing studies generally demonstrate that financial services can contribute to enterprise performance, important empirical gaps remain. First, previous studies have frequently examined individual financial products, such as mobile banking, agency banking, or credit, without integrating the underlying dimensions that determine whether financial services are genuinely accessible to MSMEs. Consequently, the literature provides limited understanding of how physical and digital accessibility, affordability and cost, and product suitability and availability collectively shape firm-level financial outcomes.

Second, empirical findings remain inconsistent. While some studies report positive relationships between financial access and enterprise performance, others find weak or statistically insignificant effects. These variations may arise from differences in enterprise characteristics, financial products, institutional settings, geographical accessibility, and measurement of both financial access and performance. Third, much of the available empirical evidence has been generated outside the specific economic and geographical context of Nandi County. Even within Kenya, studies have commonly examined particular financial channels or different institutional and geographical settings.

Nandi County presents a relevant setting because MSMEs operate across rural, peri-urban, and urban commercial environments characterized by potentially different levels of financial infrastructure, digital connectivity, proximity to financial service points, and financing opportunities. Limited empirical evidence establishes whether these differences in financial accessibility translate into measurable differences in MSME financial performance. This study addressed this gap by examining the effect of access to financial services on financial performance, measured through profitability, revenue growth, liquidity, and return on investment, among MSMEs in Nandi County, Kenya.

Theoretical Foundation

This study is anchored on a multi-theoretical framework comprising Financial Intermediation Theory and the Technology Acceptance Model (TAM). Financial Intermediation Theory explains how formal and semi-formal financial institutions facilitate MSMEs' access to financial resources, while TAM explains the adoption and utilization of technology-enabled financial services such as mobile money, mobile banking, agency-supported digital transactions, and digital credit platforms. Combining the two theories provides a broader explanation of access to financial services because the availability of financial products alone does not guarantee their use. MSMEs must be able to access appropriate financial intermediaries while also perceiving digital financial channels as useful and sufficiently easy to use. The complementary application of the two theories is therefore appropriate for examining access to financial services and its effect on the financial performance of MSMEs in Nandi County, Kenya.

Financial Intermediation Theory

Financial Intermediation Theory was initially developed by Gurley and Shaw (1960) and subsequently advanced by Diamond and Dybvig (1983) and Diamond (1984). The theory explains the role of financial intermediaries in facilitating the efficient movement of financial resources between surplus units, such as savers, and deficit units, such as individuals and enterprises requiring capital. Financial intermediaries include commercial banks, microfinance institutions, Savings and Credit Cooperative Organizations (SACCOs), and other institutions that mobilize savings and provide credit and related financial services.

The theory is based on the proposition that financial markets are characterized by imperfections, particularly information asymmetry and transaction costs. Borrowers typically possess more information about their financial circumstances, business prospects, and ability or willingness to repay than lenders. This information imbalance may increase lending risk and make financial institutions reluctant to provide credit, particularly to smaller enterprises that may lack formal financial records, collateral, or established credit histories. Financial intermediaries help address these constraints through borrower screening, credit assessment, monitoring, risk diversification, and the development of financial relationships with customers (Diamond, 1984).

Financial intermediaries may also reduce the costs associated with mobilizing and allocating financial resources. Instead of individual savers identifying and evaluating potential borrowers independently, financial institutions perform these functions collectively and benefit from specialization and economies of scale. They can consequently offer services such as savings accounts, credit facilities, payment services, and other financial products that facilitate financial transactions and investment. From an MSME perspective, efficient intermediation can improve access to working capital, facilitate acquisition of productive assets, support business expansion, and strengthen liquidity management.

Financial Intermediation Theory is therefore relevant to the credit, savings, affordability, and product-availability dimensions of access to financial services examined in this study. MSMEs that can conveniently access banks, SACCOs, microfinance institutions, agents, and other financial providers may have greater opportunities to obtain capital and use formal savings and payment facilities. However, effective intermediation also depends on the affordability and suitability of the services provided. High interest rates, transaction costs, restrictive collateral requirements, unsuitable repayment terms, and complex lending procedures may prevent MSMEs from benefiting from financial products even where financial institutions are physically available.

In relation to financial performance, the theory suggests that effective financial intermediation can reduce financing constraints and facilitate productive allocation of resources. Access to affordable and suitable credit can enable MSMEs to finance inventories and investment, while accessible savings facilities can strengthen liquidity and provide financial reserves for business operations. These mechanisms may subsequently contribute to improvements in profitability, revenue growth, liquidity, and return on investment. Financial Intermediation Theory therefore provides the institutional and financing explanation for the relationship between access to financial services and MSME financial performance.

Nevertheless, Financial Intermediation Theory has limitations when applied independently to contemporary financial access in Kenya. The theory was primarily developed around conventional financial intermediaries and does not sufficiently explain why individuals and enterprises adopt or reject technology-enabled financial services. The rapid development of mobile money, mobile banking, digital lending, and other financial technology platforms means that financial access increasingly depends not only on the presence of financial institutions but also on enterprise owners' willingness and ability to use digital channels. To address this theoretical limitation, the study incorporates the Technology Acceptance Model.

Technology Acceptance Model

The Technology Acceptance Model (TAM) was developed by Davis (1989) to explain individuals' acceptance and use of information technologies. The model proposes that technology adoption is primarily influenced by two constructs: perceived usefulness and perceived ease of use. Perceived usefulness refers to the extent to which an individual believes that using a particular technology will improve performance, while perceived ease of use concerns the extent to which the technology is considered uncomplicated and requires minimal effort to operate (Davis, 1989). These perceptions influence attitudes toward technology and, consequently, the intention and actual decision to use it.

TAM is particularly relevant to contemporary financial accessibility because financial technology has substantially changed how businesses interact with financial institutions and undertake transactions. MSMEs increasingly use mobile money, mobile banking, digital payments, digital credit, and other technology-enabled financial platforms to receive customer payments, pay suppliers, transfer funds, save money, obtain short-term financing, and monitor business transactions. These platforms can reduce dependence on conventional bank branches and may be especially important for enterprises operating some distance from physical financial service points.

In the Kenyan context, the relevance of TAM is strengthened by the widespread use of mobile and digital financial platforms. Services such as M-Pesa, mobile banking applications, digital savings and credit services such as M-Shwari, and government-supported digital credit initiatives such as the Financial Inclusion Fund (Hustler Fund) have expanded the channels through which individuals and MSMEs can undertake financial transactions. However, availability of these technologies does not automatically imply effective adoption. MSME owners may differ in their perceptions of convenience, usefulness, transaction costs, security,

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reliability, complexity, and the extent to which digital platforms satisfy their business requirements.

For an MSME owner, perceived usefulness may arise where mobile or digital financial services reduce transaction time, facilitate rapid receipt of customer payments, provide convenient access to account information, support payments to suppliers, or improve access to credit. Perceived ease of use may arise where platforms are simple to navigate, readily available through mobile devices, and require limited technical knowledge. Where these conditions are satisfied, MSME owners may be more likely to integrate digital financial services into routine business activities.

TAM therefore complements Financial Intermediation Theory by explaining the digital accessibility dimension of financial access. Whereas Financial Intermediation Theory primarily explains how financial institutions mobilize and allocate financial resources, TAM explains why MSME owners choose to adopt and use digital channels through which an increasing proportion of those resources and financial services are accessed. Effective digital adoption can reduce geographical barriers, lower some transaction costs, accelerate financial transactions, and improve the management of business cash flows. These benefits may contribute to stronger liquidity, revenue management, profitability, and overall financial performance.

A limitation of TAM is that it emphasizes individual perceptions of technology and may give less attention to structural barriers such as inadequate network coverage, financing costs, collateral requirements, financial regulation, and availability of suitable financial products. Moreover, perceived usefulness and ease of use alone may not capture all social, institutional, and infrastructural factors affecting digital financial access. These limitations reinforce the need to combine TAM with Financial Intermediation Theory rather than applying it as a standalone explanation of MSME financial access.

Integration of Financial Intermediation Theory and TAM

Financial Intermediation Theory and TAM provide complementary perspectives for understanding how access to financial services affects MSME financial performance. Financial Intermediation Theory addresses the supply and institutional side of financial access, explaining how banks, SACCOs, microfinance institutions, and other financial intermediaries mobilize resources, reduce information asymmetry, manage lending risks, and provide savings and credit products. TAM addresses the technology adoption and utilization side, explaining why MSME owners accept and use digital financial channels based particularly on their perceived usefulness and ease of use.

The integration of the theories is particularly relevant to Nandi County because MSMEs operate across rural, peri-urban, and urban commercial environments where the nature and density of financial infrastructure may vary. Enterprises located close to commercial centres may have relatively convenient access to conventional branches and financial service points, whereas enterprises operating in more geographically dispersed locations may increasingly depend on mobile and agency-supported financial channels. Consequently, financial accessibility may be determined simultaneously by institutional availability, affordability and product suitability, as well as the accessibility and acceptance of digital financial technologies.

The integrated theoretical framework proposes that MSME financial performance can improve where enterprises have access to appropriate financial intermediaries and can effectively utilize

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available digital financial channels. Formal and semi-formal intermediaries provide savings, credit, and payment products, while digital technologies extend the reach and convenience through which some of these services can be accessed and utilized. Improved access may reduce liquidity constraints, facilitate working-capital financing, lower transaction-related barriers, support investment, and improve cash-flow management. These mechanisms are expected to contribute to stronger firm-level outcomes measured through profitability, revenue growth, liquidity, and return on investment.

Accordingly, Financial Intermediation Theory provides the primary theoretical foundation for institutional and credit access, while the Technology Acceptance Model provides the complementary foundation for digital financial accessibility and utilization. Their integration overcomes the limitations associated with relying on a single institutional theory and provides a more comprehensive theoretical explanation of the effect of access to financial services on the financial performance of MSMEs in Nandi County, Kenya.

METHODOLOGY

This study adopted an explanatory research design to examine the effect of access to financial services on the financial performance of Micro, Small and Medium Enterprises (MSMEs) in Nandi County, Kenya. The explanatory design was appropriate because it enabled the researcher to establish the causal relationship between access to financial services and enterprise financial performance using quantitative data. The target population comprised 6,820 registered MSME owners and managers operating across various sectors in Nandi County. A multistage sampling technique was employed to select a representative sample of 378 respondents, ensuring adequate representation of the different categories of MSMEs within the county. Primary data were collected using a structured questionnaire administered to the sampled MSME owners and managers. The questionnaire contained closed-ended items measuring access to financial services and financial performance using a five-point Likert scale. Access to financial services was operationalized using indicators such as access to bank accounts, mobile banking, agency banking, proximity to financial institutions, and the availability of credit facilities, while financial performance was measured using indicators including revenue growth, return on investment, liquidity, profitability, and business sustainability. Prior to the main survey, a pilot study was conducted to assess the validity and reliability of the research instrument. Content validity was established through expert review, while internal consistency was assessed using Cronbach's alpha coefficients, which confirmed that the instrument was reliable for data collection. Data were analyzed using Statistical Package for the Social Sciences (SPSS). Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' characteristics and the level of access to financial services. Pearson's correlation analysis was conducted to determine the strength and direction of the relationship between access to financial services and financial performance. Multiple linear regression analysis was subsequently employed to establish the effect of access to financial services on MSME financial performance. Prior to regression analysis, the assumptions of normality, linearity, multicollinearity, heteroscedasticity, and autocorrelation were tested and satisfied to ensure the validity of the regression estimates. Statistical significance was evaluated at the 5% significance level ($p < 0.05$). Ethical approval was obtained from the relevant institutional authorities before data collection commenced, and participation was voluntary, with respondents assured of confidentiality and anonymity throughout the study.

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RESULTS

Descriptive Statistics

Access to Financial Services

The study examined respondents' perceptions regarding access to financial services among MSMEs in Nandi County. The findings indicate that the majority of respondents agreed that financial services were readily accessible through commercial banks, mobile banking, agency banking, and credit facilities. Most respondents also indicated that opening and operating financial accounts was affordable and convenient. The composite mean scores ranged from 3.84 to 4.10, suggesting a generally high level of financial accessibility among the surveyed enterprises. These findings imply that improvements in Kenya's financial infrastructure have enhanced access to formal financial services among MSMEs in Nandi County.

Table 1: Access to Financial Services

Statement	Mean	SD
Commercial banking services are easily accessible.	4.10	0.63
Mobile banking services are easily accessible.	4.06	0.66
Agency banking services are conveniently available.	4.02	0.69
Credit facilities are available whenever needed.	3.98	0.74
Opening and operating financial accounts is affordable.	3.92	0.78
Financial institutions are located within convenient reach.	3.84	0.81

Correlation Analysis

Pearson's Product Moment Correlation analysis was performed to establish the relationship between access to financial services and the financial performance of MSMEs. The findings revealed a strong positive and statistically significant relationship between the two variables ($r = 0.682$, $p < 0.01$). This indicates that enterprises with greater access to financial services reported better financial performance in terms of profitability, revenue growth, liquidity, return on investment, and business sustainability. The positive relationship suggests that improvements in financial accessibility are associated with improved financial outcomes among MSMEs in Nandi County.

Table 2: Correlation between Access to Financial Services and Financial Performance

Variables	Financial Performance	Access to Financial Services
Financial Performance	1.000	
Access to Financial Services	0.682**	1.000

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

Regression Analysis

Simple regression analysis was conducted to determine the effect of access to financial services on the financial performance of MSMEs. The results indicate that access to financial services exerted a positive and statistically significant effect on financial performance ($\beta = 0.321$, $t = 8.170$, $p < 0.001$). The findings demonstrate that a unit improvement in access to financial services significantly enhances MSME financial performance. Among all dimensions of financial inclusion examined in the broader study, access to financial services emerged as the strongest predictor of enterprise financial performance. Consequently, the null hypothesis was rejected.

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Table 3: Regression Coefficients

Variable	Standardized β	t-value	p-value	Decision
Access to Financial Services	0.321	8.170	<0.001	Significant

Dependent Variable: Financial Performance

Hypothesis Testing

The study tested the following null hypothesis:

H_0: Access to financial services has no significant effect on the financial performance of MSMEs in Nandi County, Kenya.

The regression results revealed a statistically significant positive effect of access to financial services on financial performance ($\beta = 0.321$, $t = 8.170$, $p < 0.001$). Since the p-value was less than the significance level of 0.05, the null hypothesis was rejected. The study therefore concludes that access to financial services significantly improves the financial performance of MSMEs in Nandi County.

Table 4: Summary of Hypothesis Testing

Hypothesis	β	t	p-value
H_0: Access to financial services has no significant effect on MSME financial performance.	0.321	8.170	<0.001

Discussion

The findings demonstrate that access to financial services significantly improves the financial performance of MSMEs in Nandi County. Enterprises with easier access to commercial banking services, mobile banking, agency banking, savings facilities, and formal credit reported better profitability, revenue growth, liquidity, and business sustainability than enterprises with limited financial access. These findings support Financial Intermediation Theory, which posits that financial intermediaries improve enterprise performance by mobilizing savings, reducing information asymmetry, lowering transaction costs, and facilitating efficient allocation of financial resources (Diamond, 1984; Gurley & Shaw, 1960). The significant positive regression coefficient ($\beta = 0.321$) indicates that financial accessibility remains the strongest predictor of financial performance among the financial inclusion dimensions examined.

The findings are consistent with those reported by Waweru et al. (2025), who established that enterprises with greater access to digital financial services and formal credit experienced higher profitability, improved liquidity, and stronger resilience during economic shocks. Similarly, Awino and Mutunga (2023) found that access to mobile banking and microfinance services significantly enhanced working capital management and financial performance among MSMEs in Mombasa County. These studies reinforce the present findings by demonstrating that financial accessibility increases investment opportunities, strengthens liquidity management, and enhances long-term enterprise sustainability.

The present findings also corroborate international evidence on financial accessibility and enterprise performance. Amadasun and Mutezo (2022) reported that access to savings services, business advisory support, and affordable credit significantly enhanced SME growth in Lesotho, although collateral requirements and borrowing costs remained major constraints. Similarly, the International Monetary Fund (2024) found that improved access to finance increased enterprise productivity and sales growth by easing liquidity constraints and facilitating investment. Collectively, these findings suggest that expanding affordable financial services enables MSMEs to strengthen profitability, improve operational efficiency, and achieve sustainable business growth.

Although access to financial services significantly improved financial performance, the findings suggest that financial accessibility alone may not guarantee optimal enterprise performance. Persistent challenges such as high lending costs, collateral requirements, and limited financial capability may reduce the benefits derived from available financial services. Therefore, policymakers and financial institutions should complement expanded financial access with affordable credit policies, simplified lending procedures, strengthened digital financial infrastructure, and financial capability programmes that enable entrepreneurs to maximize the benefits associated with formal financial services.

Conclusion

This study examined the effect of access to financial services on the financial performance of Micro, Small and Medium Enterprises (MSMEs) in Nandi County, Kenya. The findings demonstrate that access to financial services has a positive and statistically significant effect on MSME financial performance. Enterprises with greater access to commercial banking services, mobile banking, agency banking, savings facilities, and formal credit reported higher profitability, improved revenue growth, better liquidity management, and stronger business sustainability. The regression results identified access to financial services as the strongest predictor of financial performance among the financial inclusion dimensions investigated, leading to the rejection of the null hypothesis.

The findings provide empirical support for Financial Intermediation Theory, which posits that efficient financial institutions improve enterprise performance by mobilizing financial resources, reducing transaction costs, minimizing information asymmetry, and facilitating access to productive capital. The study therefore concludes that expanding access to affordable and reliable financial services can substantially improve the financial performance and long-term sustainability of MSMEs operating in rural counties such as Nandi. Strengthening financial accessibility remains an important strategy for promoting enterprise growth, employment creation, and inclusive economic development.

Practical and Policy Implications

The findings have important implications for policymakers, financial institutions, county governments, and MSME support agencies. First, financial institutions should expand access to affordable financial services by increasing the availability of mobile banking, agency banking, digital banking platforms, and SME-friendly credit products. Simplified loan application procedures, flexible collateral requirements, and competitively priced financial products would enable more MSMEs to access formal financing and improve business performance.

Second, national and county governments should continue investing in policies that strengthen financial inclusion, particularly in rural and underserved areas. This includes improving financial infrastructure, supporting digital financial ecosystems, encouraging partnerships between commercial banks, SACCOs, and microfinance institutions, and developing regulatory frameworks that promote affordable access to credit for small enterprises. Such interventions would reduce financial exclusion and stimulate enterprise growth.

Third, MSME development agencies should complement financial access initiatives with programmes that strengthen entrepreneurs' capacity to utilize available financial services effectively. Although access to finance is essential, enterprise owners also require adequate knowledge to evaluate financing options, manage credit responsibly, maintain healthy cash flows, and make sound investment decisions. Integrating financial capability programmes with financial inclusion initiatives is therefore likely to maximize the benefits derived from improved financial accessibility.

Limitations

This study has several limitations that should be considered when interpreting the findings. First, the study was conducted exclusively among registered MSMEs operating in Nandi County. Consequently, the findings may not be fully generalizable to enterprises operating in other counties or regions with different socio-economic, institutional, and financial environments.

Second, the study employed a cross-sectional research design, which captured respondents' perceptions at a single point in time. Although significant relationships were established, the design does not permit observation of changes in enterprise financial performance over time. Future studies may adopt longitudinal designs to examine how improvements in financial accessibility influence enterprise performance over extended periods.

Finally, the study relied primarily on self-reported data collected through structured questionnaires. Although appropriate measures were undertaken to ensure validity and reliability, responses may have been influenced by recall errors or social desirability bias. Future research could complement survey data with audited financial statements, administrative financial records, or mixed-methods approaches to provide more objective and comprehensive evidence on the relationship between access to financial services and MSME financial performance.

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