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*Access to Finance, Micro financing, Financial Literacy
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Critical Review of Literature*

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Access to Finance, Micro financing, Financial Literacy and Growth of Small and Medium Sized Enterprises: A Critical Review of Literature

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Abstract

Access to finance, micro financing, and financial literacy are critical drivers of SME growth, enabling investment, innovation, and effective financial management. This study reviews theoretical and empirical literature to examine how access to finance influences SME growth, focusing on the mediating role of micro financing and the moderating effect of financial literacy. It also compares their relative impact on this relationship. The findings aim to guide SME owners and managers in understanding barriers to financing and the value of microfinance in meeting their funding needs, while offering scholars insights to expand research on finance accessibility and SME development. Grounded in credit rationing theory, supported by financial growth life cycle theory, resource-based view, and stages of growth theory, the study addresses gaps in existing research, which often overlooks the combined effects of mediators and moderators. The results underscore that microfinance strengthens the finance–growth link, and financial literacy enhances it, emphasizing the importance of education initiatives that empower entrepreneurs.

Keywords: *Access to Finance, Micro Financing, Financial Literacy, SME Growth and Credit Rationing Theory, Small and Medium Enterprises (SMEs)*

Introduction

Improving financial accessibility for small and medium-sized enterprises (SMEs) is widely acknowledged as essential for their growth and sustainability across the world (Amadasun & Mutezo, 2022). SMEs remain central to economic development yet face persistent barriers in securing funding, largely due to strict lending criteria and high-risk perceptions from traditional financial institutions (Chilembo, 2021). Micro financing has become an important alternative by providing small, flexible loans to underserved entrepreneurs who cannot access conventional banking (Moussa, 2020). However, low levels of financial literacy continue to hinder many business owners from understanding financing requirements or presenting strong proposals to lenders.

Several theories underscore the importance of financial accessibility for SME development. Credit rationing theory explains why lenders may limit credit availability even when borrowers are willing to pay higher interest rates (Stiglitz & Weiss, 1981). The financial growth life cycle theory

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highlights how microfinance provides tailored financial support crucial for different stages of SME development (Berger & Udell, 1998). The resource-based view (RBV) positions financial literacy as a valuable intangible asset that enhances an entrepreneur's capacity to manage resources effectively (Barney, 1991). Additionally, the stage of growth theory asserts that SMEs move through distinct developmental phases, each with unique financial challenges (Greiner, 1997).

Globally, SMEs make up over 90% of businesses and significantly contribute to employment and GDP, particularly in emerging economies where they provide roughly 50% of jobs and 40% of GDP (Pillay, 2024). Their role is even more pronounced in Africa, where SMEs account for about 80% of employment and 50% of GDP. In Kenya specifically, SMEs represent 98% of all businesses, contribute 30% of annual job creation, and account for 20% of GDP (KPSA, 2023). Given their substantial economic importance, strengthening SME growth is crucial for both developed and developing countries (World Bank, 2023).

Access to finance, micro financing, and financial literacy collectively shape SME growth by influencing their ability to secure capital, innovate, and expand. Access to finance is determined by lending criteria, interest rates, and loan processing timelines, all of which affect SMEs' ability to seize market opportunities (Bollaert et al., 2021; Amadasun & Mutezo, 2022). Microfinance fills critical gaps by offering affordable credit, training, and support to businesses often excluded from formal banking (Chikwira et al., 2022; Cull & Hartarska, 2023). Financial literacy further enhances SME performance through improved budgeting, financial analysis, and decision-making (Lusardi & Mitchell, 2023; Owusu et al., 2019). Together, these factors form the foundation for sustainable SME growth, operational efficiency, and long-term competitiveness.

Research Problem

In many developing countries, the rapid growth and competitiveness of small and medium-sized enterprises (SMEs) are significantly constrained by limited access to financing (Brixiova et al., 2020). Although SMEs play a vital role in driving innovation, job creation, and overall economic development, obtaining formal credit from traditional banks remains a major challenge. As a result, entrepreneurs often turn to informal and unreliable funding sources, which restricts their capacity to start, sustain, or scale their businesses (Njagi, 2023). These persistent financing barriers

weaken SME performance and heighten economic vulnerability, contributing to the alarming failure rate of nearly 70% of new small businesses within their first two years. Addressing these financial constraints is therefore essential for supporting sustainable SME growth (Amutabi & Wambugu, 2020).

Existing research has examined the relationship between access to finance and SME growth but has produced mixed and sometimes contradictory findings. Karimi (2023) observed that high interest rates and stringent collateral requirements severely restrict SMEs from securing formal financing. In contrast, studies by Claude (2020), Chilembo (2021), Kolakovic et al. (2020), and Amadasun and Mutezo (2022) demonstrate that access to finance positively influences SME expansion and long-term viability. Despite these insights, the literature lacks an integrated framework that explains how microfinancing and financial literacy shape or strengthen the link between financial access and SME growth. This gap underscores the need for deeper empirical investigation.

This study intends to address the contextual, conceptual, and methodological gaps by examining the dynamic relationships among access to finance, microfinancing, financial literacy, and SME growth. Specifically, it will determine whether financial literacy enhances SMEs' ability to obtain financing and whether it moderates the impact of financial access on growth. By illustrating how financially literate entrepreneurs more effectively navigate lending systems and optimize financing opportunities, the study aims to inform policy interventions that promote financial education and guide SME managers in adopting financial literacy initiatives that support sustainable business development.

Research Objectives

The main objective of this study was to examine the influence of access to finance, micro financing, financial literacy and growth of SMEs.

Specifically, the study sought to:

- a) Examine the relationship between access to finance and growth of small and medium enterprises.

- b) Establish the mediating effect of micro financing on the relationship between access to finance and growth of small and medium enterprises.
- c) Determine the moderating effect of financial literacy on the relationship between access to finance and growth of small and medium enterprises.
- d) Determine the joint effects of access to finance, micro financing and financial literacy on the growth of small and medium enterprises.

Literature Review

Theoretical Review

This study is anchored on four key theories that collectively explain the relationships among access to finance, micro financing, financial literacy, and the growth of SMEs. The Credit Rationing Theory (Stiglitz & Weiss, 1981) provides the basis for understanding barriers in accessing finance. It argues that information asymmetry leads banks to restrict credit to SMEs (Kundid & Ercegovac, 2011), limiting their ability to secure affordable financing and ultimately constraining growth (Kremp & Sevestre, 2013). This theory supports the study's examination of how restricted financial access affects SME performance.

The Financial Growth Life Cycle Theory by Berger and Udell (1998) explains how financing needs evolve as firms' progress through different growth stages. Early-stage SMEs often face difficulty obtaining formal credit, making microfinance institutions critical providers of flexible funding (Huyghebaert & Gucht, 2007; Zeller & Meyer, 2002). This theory underpins the study's focus on the mediating role of microfinancing in bridging financing gaps left by traditional lenders.

The Resource-Based View (RBV) by Barney (1991) positions financial literacy as a vital intangible resource that strengthens SME competitiveness. Financially literate owners make better investment decisions, communicate effectively with lenders, and enhance their access to finance (Hussain et al., 2018; Lusardi & Mitchell, 2014). RBV therefore informs the study's exploration of the moderating effect of financial literacy on the relationship between access to finance and SME growth.

Finally, the Stages of Growth Theory by Greiner (1997) emphasizes that SMEs move through sequential development stages, each requiring different financial resources. As firms grow, their financing needs expand, making continuous access to appropriate financial products essential for sustainability (Morris et al., 2005). This theory supports the combined analysis of how financial access, microfinance, and financial literacy influence SME growth across different stages.

Together, these theories build a comprehensive framework that links the study variables: credit rationing explains financing barriers; growth life cycle theory justifies the role of microfinance; RBV highlights the strategic importance of financial literacy; and growth stage theory situates these factors within the broader SME development process.

Empirical Review

This section reviews and synthesizes existing empirical research on how financial distress and financial constraints influence firm performance. A literature review entails systematically identifying, categorizing, and evaluating scholarly documents related to the research problem. Sources often include academic journals, books, and other publications relevant to the study variables. This section also examines the hypothesized relationships among the variables under investigation.

Access to finance and growth of SMEs

Kolakovic et al. (2020) assessed access to finance among SMEs in Croatia using questionnaire data from 1,000 randomly selected enterprises. The study established that financing remains a major obstacle for SMEs, with challenges linked to firm size, financial stability, and bank risk assessments. Their findings revealed a strong positive association between access to finance and SME performance, demonstrating that firms with adequate financial resources experience superior growth, innovation, and sustainability.

Amadasun and Mutezo (2022) evaluated the effect of financial access on the competitive growth of SMEs in Lesotho. Using a descriptive-correlational design, they surveyed 400 SMEs across four districts through stratified random sampling and analyzed the data with regression techniques. Results showed that access to financial information, banking support, structural challenges in

banking, and collateral requirements significantly influence SME growth, confirming the importance of financial access for competitiveness.

In Zambia, Chilembo (2021) examined key determinants affecting SMEs' ability to secure financial support. Adopting a mixed-methods approach, the study sampled 300 SMEs from a registry of 2,793 using systematic sampling and collected data through questionnaires. Findings indicated a positive correlation between collateral availability and credit access, and highlighted the impact of interest rates on SMEs' financing constraints.

Claude (2020) investigated the influence of access to finance on SME performance in Rwanda using an explanatory design. Out of 246 registered SMEs in Muhanga District, 152 were sampled using Yamane's formula and multistage sampling. Data collected through self-administered questionnaires were analyzed using SPSS. Multiple regression analysis confirmed a strong, statistically significant positive relationship between financial access and SME performance.

In Kenya, Karimi (2023) explored factors influencing financial access among small and micro enterprises in Kirinyaga County. Through stratified random sampling, 136 SMEs were selected from a population of 206. Using questionnaires and descriptive analysis, the study found that high interest rates and strict collateral demands limited access to finance. Conversely, strong credit profiles and good firm performance improved access, underscoring the need for strengthened creditworthiness.

Access to finance, micro financing and growth of SMEs

In the Philippines, Angeles et al. (2021) analyzed the mediating role of microfinancing between financial access and microenterprise growth using a quantitative causal design and survey data from 582 microenterprises. The results demonstrated a strong positive relationship between financial access and SME growth, with microfinance serving as a key mediating factor that enhances development outcomes.

Idrees et al. (2022) assessed the effect of microfinance on SME growth in Pakistan, using questionnaires with Likert-scale items administered to 50 randomly selected finance personnel.

Results showed a significant positive relationship between microfinance accessibility and SME expansion, emphasizing its role in boosting competitiveness.

Sarfo et al. (2024) investigated the benefits of microfinance and its influence on SME performance in Ghana using PLS-SEM on survey data from 581 SMEs. The findings supported all hypotheses and showed that microfinance enhances exploratory innovation while moderating the relationship between financial access and SME growth.

In Ethiopia, Semegn and Bishnoi (2021) evaluated the impact of microfinance on the operational efficiency of MSEs in Amhara National Regional State. Using survey data from 340 randomly selected enterprises, they found that loan size, savings, and training significantly improved performance. Their results highlighted the need to revise financing policies to strengthen MSE growth.

In Kenya, Munyao (2021) investigated how microfinance services influence SME growth in the NCBD region using a causal design. A stratified sample of 395 SMEs was drawn from 37,101 enterprises. Analysis conducted with SPSS revealed that insufficient collateral led SMEs to accept smaller loans, limiting growth. However, micro-savings and micro-insurance positively contributed to SME expansion.

Access to finance, financial literacy and growth of SMEs

Kalaipriya (2022) studied how financial literacy moderates the relationship between access to finance and SME growth in Sri Lanka's Northern Province. Using a descriptive design and a sample of 231 SMEs, the study found a significant positive link between financial access and SME growth, with financial literacy acting as a vital moderator that supports sustainable development.

In Indonesia, Marcellia (2020) examined the effects of financial literacy on SME development in West Java. Using SEM and survey data from SME owners and managers, the study revealed significant associations among financial literacy, financing access, and SME growth. The findings indicated that financial literacy enhances access to finance, which subsequently promotes growth.

Fatoki (2021) analyzed the moderating role of financial literacy on the relationship between financial access and SMME performance in South Africa. Using a cross-sectional survey and hierarchical regression, the study found a significant relationship between financial access and financial literacy, confirming its moderating influence on performance outcomes.

Owusu et al. (2019) explored how financial literacy moderates the link between financial resource availability and SME growth in Ghana. Using multi-stage cluster sampling and 500 questionnaires, results showed that financial literacy significantly strengthens the relationship between financial access and SME development.

Okello et al. (2021) examined the moderating role of financial literacy on the access–growth relationship among SMEs in Uganda using a cross-sectional design and ModGraph analysis on data from 169 SMEs. The findings revealed that financial literacy enhances the positive relationship between access to finance and SME growth, with recommendations for extending research to other developing countries.

Access to finance, micro financing, financial literacy and growth of SMEs

Rajamani et al. (2022) analyzed financial accessibility challenges faced by MSMEs in India using surveys from 400 enterprises selected through quota sampling. Using SEM, the study found that firm characteristics, funding sources, and growth stages significantly improve access to finance, while financial barriers hinder SME development and national economic progress.

Assifuah (2023) explored the combined effects of financial access and financial literacy on SME sustainability using a descriptive quantitative approach. Findings showed that financial access significantly influences sustainability, and financial literacy not only improves sustainable performance but also moderates the relationship between financial access and sustainability.

Mveku et al. (2023) examined how microfinance institutions contribute to SME growth in Zimbabwe, surveying 94 business owners across multiple sectors. Pearson correlation and

regression analysis indicated a strong positive relationship between microfinance loans and SME sales growth.

Overall, access to finance, micro financing, and financial literacy remain essential components of a healthy SME ecosystem. SMEs' ability to secure loans is often linked to their demonstrated creditworthiness (Kolakovic et al., 2020). Traditional lenders frequently impose stringent requirements, creating barriers to financial access. Microfinance provides an alternative pathway for financing innovation, while financial literacy enhances entrepreneurs' ability to secure and effectively utilize financial resources (Angeles et al., 2021; Marcellia, 2020).

Conceptual Frame work

This proposed study conceptualizes that growth of SMEs is influenced either solely or jointly by access to finance micro financing and financial literacy.

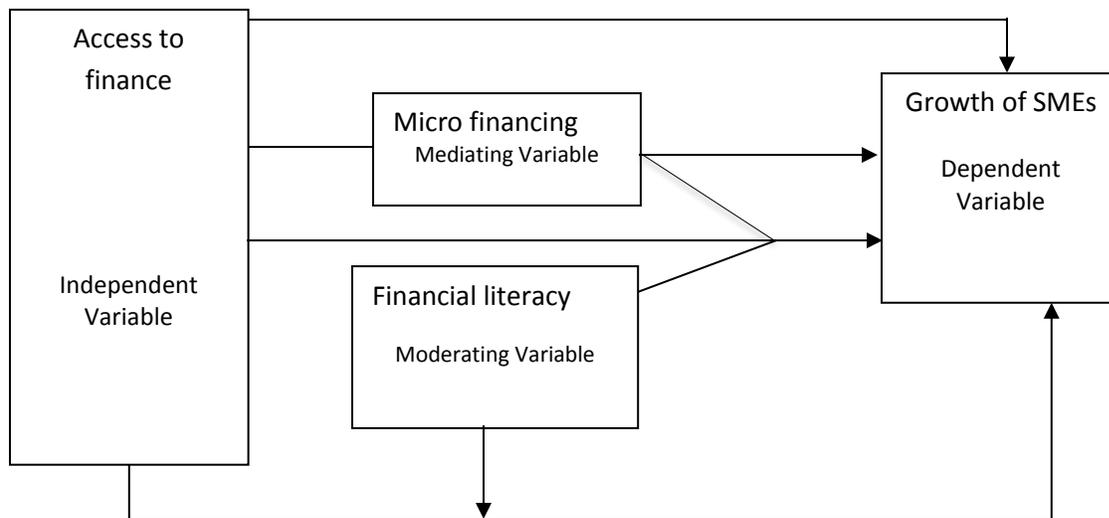


Figure 1: Conceptual framework

Summary, Conclusions and Knowledge Gaps

Summary

This study examines how access to finance, micro financing, and financial literacy collectively influence SME growth. It clearly articulates its objectives, relevance, and contribution through a structured review of existing literature. The empirical studies reviewed reveal mixed and often

inconclusive findings, reflecting diverse methods and contexts. The chapter further highlights the various theoretical perspectives that explain the finance–SME growth relationship. Notably, most studies evaluate moderating and mediating variables in isolation, rather than examining their combined or interactive effects, thereby justifying the need for a more integrated analysis.

Conclusions

The review of empirical literature demonstrates that numerous studies have investigated the variables central to this research. However, many have examined each variable independently, particularly in relation to SME growth—the dependent variable—without adequately considering how mediating and moderating factors interact simultaneously. This shortcoming, coupled with inconsistencies in findings (positive or negative effects), is often attributable to variations in constructs, methodologies, and study settings. Moreover, much of the previous research has concentrated on microenterprises and MSMEs, leaving a gap in the literature concerning SMEs specifically. This gap reinforces the need to explore how access to finance, micro financing, and financial literacy jointly influence SME growth.

SMEs' capacity to secure funding largely depends on their financial strength, operational size, and perceived risk of default. Firms that demonstrate financial stability are more capable of attracting investment, stimulating growth and innovation. Evidence consistently shows that enterprises with improved access to finance perform better and engage more in innovation than those with restricted access—highlighting finance as a foundational driver of SME growth and longevity.

Micro financing emerges as a vital alternative for SMEs that struggle to access formal bank credit. Microfinance institutions not only offer flexible lending conditions—such as lower interest rates and more adaptable repayment schedules—but also provide capacity-building support, including training in entrepreneurship, savings, and financial management. Such holistic support reduces financial strain and fosters sustainable SME development.

Financial literacy significantly determines business success and access to external financing. SME owners lacking fundamental financial skills—budgeting, record-keeping, and interpreting financial statements—tend to underperform compared to their financially literate peers. Financial

literacy therefore acts as a strategic resource, strengthening entrepreneurs' ability to manage finances and access credit. The literature shows a strong relationship between access to finance and SME growth, with micro financing serving as a mediating mechanism, while financial literacy enhances (moderates) this relationship, emphasizing the importance of targeted financial education initiatives.

Knowledge Gaps Identified

This study responds to several gaps in existing literature regarding access to finance and its role in SME development. Much of the previous research has focused on microenterprises and MMSEs, providing limited insight into SMEs' financial challenges and growth dynamics. Additionally, inconsistencies in theoretical foundations and financial access indicators have contributed to divergent findings. As such, a comprehensive empirical review of how access to finance affects SME growth remains necessary. This study aims to clarify these relationships and address limitations observed in prior research.

A significant conceptual gap exists concerning how different variables jointly influence the finance–growth relationship. Earlier studies have frequently overlooked the role of micro financing as a potential mediating variable, which may indirectly shape SME growth. Similarly, financial literacy, which affects both access to finance and business performance, has not been sufficiently explored as a moderating variable. This warrants more integrated studies examining these interactions.

Methodological gaps are also evident. Previous investigations have used varied methods—some relying mainly on literature reviews and others conducting empirical analyses. The diversity in research approaches has yielded inconsistent and often inconclusive findings, making it difficult to formulate an effective model for improving SMEs' financial access. These contrasting perspectives highlight the need for further research to explore the full impact of access to finance on SME growth.

Recommendations for Further Research

Future research should prioritize the interaction between micro financing and SME growth. Scholars should examine the effectiveness of different microfinance models—such as group lending, individual loans, and digital microfinance (e.g., mobile banking)—in expanding SME access to funding. Evaluating how these models influence financial behavior, repayment performance, and business expansion will help develop tailored financial solutions that align with SMEs' needs while reducing lender risk and supporting sustainable growth.

Further research is needed to assess the effectiveness of financial literacy programs in promoting sound financial management among SME owners. Studies should analyze how varying levels of financial education influence access to capital, specifically entrepreneurs' capacity to prepare strong funding proposals, understand loan terms, and negotiate with lenders. Such research should also review existing financial literacy initiatives and their success in empowering managers to make informed financing decisions. Evidence demonstrating the link between financial literacy and improved borrowing behavior would justify stronger educational interventions.

Lastly, researchers should explore the combined influence of micro financing and financial literacy. Investigating how financial education integrated with personalized microfinance products affects SME performance will help identify synergistic development strategies. Findings could strengthen SMEs' operational capacity, enhance their financial decision-making, promote resilience, stimulate innovation, and generate employment—contributing to broader, sustainable economic development.

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