

Financial Literacy on SMEs Growth in Nairobi City County

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Abstract: This study examines the influence of financial literacy on the growth of Small and Medium Enterprises (SMEs) in Nairobi City County, where limited financial knowledge and constrained access to financial services continue to hinder business performance and sustainability. Adopting a cross-sectional explanatory design, primary data were collected from 384 SMEs using structured questionnaires and analyzed through descriptive, correlation, and multiple regression techniques. The findings reveal that financial literacy significantly and positively influences SME growth, with financial product knowledge emerging as the most influential predictor, followed by budgeting skills and debt and liability management. These results indicate that financially literate SMEs are better equipped to make informed decisions, efficiently allocate resources, and sustain long-term growth. The study concludes that financial literacy is a critical strategic capability for enhancing SME competitiveness. It recommends strengthening financial education programs, promoting access to tailored financial products, and supporting SME capacity-building initiatives, while future research should adopt longitudinal designs and advanced analytical models.

Keywords: Budgeting Skills; Debt Management; Financial Literacy; Financial Product Knowledge; Nairobi City County; SME Growth.

I. INTRODUCTION

Financial literacy has risen as a crucial element in developing and supporting the growth of Small and Medium Enterprises (SMEs), especially in the developing economies. It is distinctly associated with the larger notion of financial inclusion, or the accessibility and availability of financial services like credit, savings, insurance, and payment systems to individuals and businesses in a sustainable way [1]. Financial inclusion will make sure that the enterprises will be able to have the financial resources that they need to effectively run their works and grow their operations. Singh [2] define financial inclusion as the process of ensuring that people and the business organisations possess sufficient access to formal financial services, thus enhancing their financial capabilities and performance in the business.

Financial inclusion has been identified as an important economic growth and poverty alleviation tool in the world. The United States has had its efforts in combating discriminatory lending by the community through such initiatives as the Community Reinvestment Act (CRA) of 1977 that has helped in improving access to financial services among the low and middle-income groups in the United States [3]. Also, the emergence of Community Development Financial Institutions (CDFIs) and credit unions has also boosted financial access and literacy among underserved communities [4]. Such programs show that financial literacy is relevant in empowering companies to efficiently use the financial capital at their disposal.

Financial inclusion in Europe has been encompassed in the social and economic policy frameworks to eliminate inequality and enhance social cohesion. Microfinance has been highlighted as a means of social inclusion and SME development by institutions like the European Investment Fund (EIF) and networks like European Microfinance Network (EMN) [5]. Nevertheless, as these efforts have improved access to financial services, the research has shown that the direct correlation between the level of financial literacy and SME growth is not well studied.

Various economic environments and financial development levels have influenced financial inclusion strategies in Asia. India can serve as an example of the implementation of the policy of providing each family with access to banking services and formal financial systems to achieve this goal through the program of Jan Dhan Yojana [6]. These initiatives underscore the importance of financial awareness and literacy in allowing SMEs to effectively engage in formal financial systems and enhance their growth opportunities.

Technological innovations especially mobile financial services have greatly contributed to the increase in financial inclusion in Africa. One of the world leaders in this field is Kenya because the country has launched mobile money systems like M-Pesa that has revolutionized the means of accessing financial services [7]. These innovations have facilitated SMEs to transact, borrow credit and maintain finances more effectively. M-Pesa has also succeeded, which has spurred the creation of similar financial technologies in Africa and other places [8]. Also, the efforts of financial inclusion have been enhanced by activities like the Financial Sector Deepening (FSD) program and policy frameworks that are facilitated by agencies like the Alliance for Financial Inclusion (AFI).

Regardless of these developments, availability of financial services does not suffice in ensuring better performance of SMEs. Financial literacy is essential in making sure that the entrepreneur is able to make wise use of the financial resources, make wise investment choices, and risk management. The current literature has concentrated on financial inclusion policies and access to financial services to a considerable extent but little on how financial literacy has a particular impact on the growth of SMEs. This continues to be a gap especially in emerging urban settings like the Nairobi City County.

SMEs in Kenya are an essential source of economic growth, job creation and innovation. Nevertheless, issues with poor financial management and lack of financial planning skills and knowledge on financial products still persist in many SMEs. Despite the fact that digital financial services have enhanced financial inclusion, there is still a lack of knowledge on the role of financial literacy in driving SME growth. This research will, therefore, aim to analyse how financial literacy affects the development of SMEs in the Nairobi City County with the view of coming up with insights that can be used to inform policy and improve the performance of SMEs.

A. Role of Finance on Growth of SMEs in Kenya

Financial literacy is one of the most important factors in boosting the growth of SMEs within the Nairobi City County as it empowers entrepreneurs to easily obtain, comprehend and use financial services. Financial inclusion offers opportunities via credit, payments, and insurance, which is usually limited by the high transaction costs, a rigid set of requirements and limited financial literacy of the SMEs [9]-[10]. Better financial literacy will increase the capacity of SMEs to make sound financial choices, resource management, and capitalize on available financing products to grow.

Not only does access to a variety of and affordable financial services enhance short-term financial performance but also increases long-term sustainability [11]. Nevertheless, a significant obstacle to profitability and growth of SMEs in Kenya is low financial accessibility. Both demand- and supply-side gaps can be overcome through strengthening financial literacy to enhance financial capability and better utilization of financial products. Therefore, financially literate SMEs will have high chances of attaining market growth, innovation, and competitiveness, which are major factors of sustainable growth in the dynamic business environment of Nairobi.

B. Contribution

This research is knowledge-based as it aims to solve the long-standing dilemma of SMEs in the Nairobi City County, especially the high rates of businesses failing due to restricted access to financial services, expensive lending rates, collateral, and poor financial literacy [12]. Although it is increasingly acknowledged that SMEs play a significant role in economic development and job creation, the extant literature has been mostly preoccupied with financial institutions, market information, and the generalized financial literacy without specific attention to the impact of financial literacy on SME growth in the Nairobi context. The paper thus bridges this contextual and empirical gap by presenting evidence on the importance of financial literacy in boosting the growth of SMEs. It also plays a role to the extent that it identifies demand-side limitations, including low financial ability, as well as supply-side limitations, including restricted access to personalized financial products. Finally, the paper suggests policy-specific options to enhance financial literacy, financial inclusion, and SME sustainability, which helps inform policy and promote economic growth in Nairobi City County.

II. RELATED WORKS

A. Theoretical Review

The initial theory that has a solid theoretical basis on explaining how firms attain and maintain competitive advantage in dynamic and uncertain environments is the Dynamic Capabilities Theory which was initially advanced by [13]. The theory is based on three interconnected micro-foundations of sensing, seizing and transforming where the combination of these three micro-foundations explains how firms discover opportunities, mobilize resources and continually re-configure their capabilities to stay competitive [13]. Sensing is the possibility to notice and analyse the external environment that, in the framework of the present investigation, is intimately associated with financial literacy because it provides SMEs with the knowledge necessary to comprehend financial products, technological advances, and business opportunities. Seizing is the ability of the firm to capitalize on the opportunities identified by it with the help of strategic investment and resource allocation, in which financial literacy can boost the capacity of SMEs to access and make good use of financial services like credit and insurance. Transforming involves the cyclic renewal and redefine organizational resources and processes to maintain growth, which fits the model of how SMEs use financial knowledge and financial resources to enhance operations, innovate, and explore new markets.

The theory, originally used in large, technology-intensive companies, has been increasingly adjusted to apply to organizational learning, management skills and adaptive routines, thus making it ever more applicable to SMEs within a resource-sensitive and volatile setting. Modern uses are focusing on the contribution of knowledge-based abilities such as financial literacy as pivotal determinants of firm performance and sustainability over the long term. In the setting of the Nairobi City County, financial literacy may thus be theorized as an active ability that improves the sense of financial opportunities by SMEs, to capitalize on them with informed decisions and to redesign their business models to grow in the long term.

Nevertheless, though analytically powerful, the theory has been criticized as being abstract and difficult to empirically operationalize, especially in the developing economies where institutional limits, high transaction costs and access to financial services remain limited. However, the theory is still very pertinent to the study because it offers a holistic approach to the concept of how financial literacy may empower SMEs adapt, innovate and grow sustainably in the competitive and dynamic business environment.

B. Empirical Review

The empirical studies anchors connection between financial literacy and SME performance have received growing academic interest particularly in the developing economies. As an example, [14] have performed a quantitative evaluation of monetary determinants amid SMEs in the Kenyan leather sector and determined that monetary literacy would greatly improve the firm performance. Although this research offers valuable sector-specific data, the methodological constraints of the research, specifically, the use of a relatively small sample size ($n = 100$) and the focus on one industry only, limit the external validity and generalizability of the results to the diverse SME environment in Nairobi City County. Also, the descriptive analytical approach in the study restricts the capacity to form causal relationships, which is also an issue raised by [15]. As a result, further, multi-sectoral research that uses stronger inferential methods to determine the causal role of financial literacy in the growth of SMEs is necessary.

Owuor [16] conducted a study on the correlation between financial literacy and the performance of SMEs in Kajiado County through a quantitative approach. Their result showed that there was a positive relationship between the level of financial literacy and the performance of firms, which supports the argument that financial knowledge is a key factor that determines business success. Nevertheless, the geographical scope of the study (one county) limits the applicability of the study to more complex and economically heterogeneous urban areas like Nairobi City County. The small scale of the study restricts its ability to encompass sectoral differences, as well as dynamic financial ecosystems, which are typical of metropolitan areas. Thus, there is a strong incentive in order to generalize such analyses to larger urban settings in order to increase generalizability and policy implications.

Yakob [17] investigated the interconnection between financial literacy and SME performance on the basis of a quantitative model and also achieved similar results and found a positive correlation between financial knowledge and firm performance. Although the research is a contribution to the now accumulating literature on the need to understand the relevance of

financial literacy, it is not contextualized especially when considering the urban economies in Africa. Additionally, lack of rigorous causal modelling methods like multivariate regression and mixed approaches restricts the richness of inference about the processes by which financial literacy can affect SME growth.

All these studies, summarized in Table I, together highlight the positive correlation between financial literacy and SME performance and indicate that there is a major methodological and contextual gap. It is worth noting that there is a dearth of empirical research that combines multi-sectoral analysis, city-specific dynamics, and sound methods of causal inference to the Nairobi context. By filling these gaps, the current research takes a holistic viewpoint by investigating SMEs in various industries in Nairobi City County using a mixed-methodology and improved analytical rigor to come up with a more detailed and generalizable interpretation of the role of financial literacy in the growth of SMEs.

TABLE I: SUMMARY OF EMPIRICAL REVIEW

Author(s)	Study Variables	Findings	Research Gap	Critique
Benedict [14]	Financial literacy, financial determinants, SME performance	Financial literacy positively influences SME performance in leather industry	Limited to single industry; lacks multi-sectoral analysis in Nairobi	Small sample (n=100); descriptive analysis limits causal inference; low generalizability
Owuor [16]	Financial literacy, SME performance	Positive relationship between financial literacy and SME performance	Geographically limited to Kajiado County; lacks urban complexity	Context-specific findings not generalizable; lacks sectoral diversity
Yakob [17]	Financial literacy, SME performance	Positive correlation between financial literacy and SME performance	Lacks Nairobi-specific, multi-sectoral, and causal analysis	Generalized approach; weak methodological rigor (limited causal modeling)

C. Conceptual Framework

The conceptual framework, presented in Fig 1 used in this study is based on the assumption that financial literacy is a multidimensional phenomenon that plays a major role in the development of SMEs in Nairobi City County. Based on the Dynamic Capabilities Theory, the framework theorizes financial literacy as a strategic ability that helps SMEs to detect financial opportunity, capture it by making informed decisions, and innovate its operations to attain sustainable growth

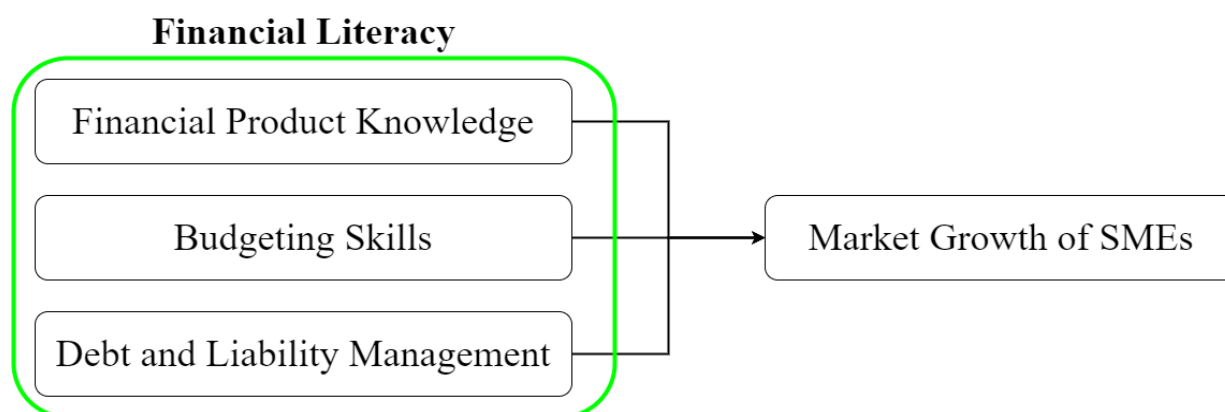


Fig. 1: Conceptual framework for the study

The framework determines financial literacy as an independent variable, which is operationalized based on such key dimensions as knowledge of financial products, financial management, financial planning, and financial decision-making ability. As shown in the framework, the financial product knowledge is a key element, which shows how much SME owners are aware of financial products, including credit facilities, insurance products, savings schemes, and digital financial services. This understanding also increases their capability of choosing the right financial products to meet the business requirements and hence increases financial efficiency and minimizes risk exposure. All these dimensions will affect the dependent variable, which is the growth of SME, quantified by the growth in market, revenue growth, customer base growth,

and product diversification. Growth in a competitive world, like that of Nairobi City County, is not just measured by financial performance but also improvement in the capacity of the firm to be innovative, geographically expanded and changing with market conditions.

The framework also presupposes that financially literate SMEs are in a better position to face both demand-side limitations (low financial awareness and poor financial decision-making) and supply-side limitations (poor access to customized financial products). Through better financial knowledge and capabilities, the SMEs can easily access the available financial services, better resource allocation and greater strategic positioning in the market. Besides, the framework also recognizes the existence of intervening or moderating variables, including access to financial institutions, technology utilization, and regulatory environment, which might affect the strength and direction of the relationship between financial literacy and SME growth. These considerations especially apply in the Nairobi City County, where digital financial ecosystems and policy frameworks are highly influential in defining the outcome of businesses.

III. RESEARCH METHODOLOGY

A. Research Design

This research paper was based on a cross-sectional explanatory research design to investigate the role of financial literacy on the development of SMEs in Nairobi City County. The design is suitable to build relationships and to test hypotheses in a complex and heterogeneous environment of SMEs and allow generalizable inferences between sectors. It combines both descriptive and inferential methods to offer a holistic approach to understanding the underlying financial dynamics that influence SME performance.

B. Target Population and Sampling Design

The population targeted, presented in Table II included 20,981 registered SMEs that managed business in manufacturing, services, production, and merchandise in Nairobi City County. A stratified random sampling method was used to make the sample representative, where the proportionate inclusion of SMEs in each sector was considered and the sampling bias was reduced to the minimum. At the level of Cochran formula (1): sample size = 384 SMEs is statistically sufficient at the level of 95 percent confidence and margin of error = 5 percent.

$$n = \frac{z^2 p(1-p)}{e^2} \quad (1)$$

TABLE II: TARGET POPULATION

Sector	Population
Manufacturing	640
Services	8,436
Merchandise	7,960
Total	20,981

Source: Researcher (2026)

C. Data Collection Methods and Instruments

A structured questionnaire that was administered to the SME owners and managers was the primary data collection method. The instrument was constructed to capture key dimensions of financial literacy, such as financial knowledge, financial planning and decision-making abilities as well as indicators of SME growth such as market expansion and revenue performance. The structured questionnaires used allowed standardization, comparability, and efficiency in data collection in a large and diverse sample.

D. Validity and Reliability of Instruments

To assure the accuracy of measurements, the study performed a pilot test on a small sample of SMEs to work out the questionnaire and eliminate ambiguity. Expert review and congruency with existing literature was used to improve construct validity and reliability was evaluated using Cronbachs alpha coefficient with $\alpha \geq 0.7$ being the acceptable level of internal consistency.

E. Data Analysis Techniques

The analysis of data was completed with the help of the Statistical Package of Social Sciences (SPSS version 24). The data were summarized using descriptive statistics (means, frequencies and standard deviations) and inferential statistics (correlation and multiple regression analysis) were utilized to test the hypotheses of the study and establish the strength and significance of the relationship between variables. The empirical model was specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \quad (2)$$

where Y represents SME growth, X_1 financial product knowledge, X_2 is budgeting skills and X_3 is debt and liability management.

F. Ethical Consideration

The study was carried out with strict ethical standards. Respondents were not forced to participate and informed consent was given by all participants. To preserve the identities of respondents, confidentiality and anonymity were ensured, and data were not utilized in any other way than academic purposes.

IV. RESULTS AND DISCUSSION

A. Results

1) Questionnaire Return Rate

A high response rate of 92.7% (356 out of 384 questionnaires returned) demonstrated the high participation and reliability of the data used in the study. This is greater than the recommended 80 percent requirement of survey research, which guarantees adequate representation and less non-response bias (Saunders et al., 2016). The response rate was high as the follow-up phone calls and physical visits by trained research assistants helped in increasing the level of engagement of respondents. The sample is representative enough, considering that manufacturing, services, and trade are the main sectors with 20,981 SMEs in Nairobi City County alone (KNBS, 2020). It makes the results more valid and generalizable and offers a solid foundation to examine the impact of financial literacy on SME development.

2) Reliability Test

The results of reliability analysis show a Cronbachs alpha coefficient of 0.83, which is quite high compared to the recommended alpha of 0.70, meaning that internal consistency among the six measurement items is high. This implies that the constructs of the items that are used to measure the financial product knowledge are highly correlated and they are reliable to measure the underlying construct, and hence, increases the credibility and strength of the measurement scale.

3) Descriptive Analysis

Table III shows that financial literacy among SMEs in Nairobi City County is high with mean scores of 4.0 to 4.6 indicating a high level of agreement to all the statements. Respondents also showed high levels of knowledge of the basic financial terms (Mean = 4.3, SD = 0.75) and they recognized the importance of the financial knowledge in making informed business decisions (Mean = 4.4, SD = 0.67). Also, financial literacy was discovered to improve effective resource management (Mean = 4.2, SD = 0.81) and ensure debt and liability management (Mean = 4.1, SD = 0.88).

The mean score was highest in maintaining accurate financial records (Mean = 4.6, SD = 0.54) which means that there is a high level of basic accounting practices among SMEs. Nevertheless, the comparatively smaller mean in terms of the utilization of financial analytics in growth planning (Mean = 4.0, SD = 0.92) indicates the relative lack of using high-order financial instruments in making strategic decisions. This result supports the results of Yakob et al. (2021) who found that the same trends occur in the financial practices of SMEs. The results suggest that although there is good financial literacy, there is a deficit in the use of advanced financial skills, especially in strategic planning. Interview insights also indicated that SMEs that have formal financial training have better decision-making skills, which support propositions of Human Capital Theory that knowledge can improve firm performance and growth.

TABLE III: DESCRIPTIVE STATISTICS FOR FINANCIAL LITERACY

Statement	Mean	Standard Deviation
I understand fundamental financial terms and concepts.	4.3	0.75
Financial knowledge aids wise business decisions.	4.4	0.67
I manage resources effectively due to financial literacy.	4.2	0.81
Financial knowledge supports debt and liability management.	4.1	0.88
I use financial analytics for SME growth planning.	4.0	0.92
Keeping accurate financial records is critical for my SME.	4.6	0.54

4) Correlation Analysis

The results presented in Table IV indicate strong and statistically significant positive relationships between the dimensions of financial literacy and SME growth in Nairobi City County. Specifically, financial product knowledge (FPK) exhibits the strongest correlation with SME growth ($r = 0.72$, $p < 0.01$), suggesting that SMEs with a better understanding of financial products, services, and concepts are more likely to achieve higher levels of growth. This underscores the importance of financial awareness in enabling informed investment decisions and effective utilization of financial resources.

TABLE IV: Correlation Analysis

Variable	SME Growth
Financial Product Knowledge (FPK)	0.72**
Budgeting Skills (BS)	0.68**
Debt & Liability Management (DLM)	0.65**

The results presented in Table 4.X indicate strong and statistically significant positive relationships between the dimensions of financial literacy and SME growth in Nairobi City County. Specifically, financial product knowledge (FPK) exhibits the strongest correlation with SME growth ($r = 0.72$, $p < 0.01$), suggesting that SMEs with a better understanding of financial products, services, and concepts are more likely to achieve higher levels of growth. This underscores the importance of financial awareness in enabling informed investment decisions and effective utilization of financial resources. Budgeting skills (BS) demonstrate a strong positive correlation with SME growth ($r = 0.68$, $p < 0.01$), indicating that SMEs with effective financial planning and resource allocation capabilities tend to perform better and expand sustainably. This finding highlights the role of budgeting as a critical managerial tool for controlling costs and optimizing financial performance. In addition, debt and liability management (DLM) is positively and significantly associated with SME growth ($r = 0.65$, $p < 0.01$), implying that SMEs that effectively manage their financial obligations are better positioned to maintain financial stability and support long-term expansion.

5) Regression Analysis

Table V presents the multiple regression results examining the effect of financial literacy dimensions, financial product knowledge, budgeting skills, and debt and liability management, on SME growth in Nairobi City County. The model indicates that all the independent variables have positive and statistically significant effects on SME growth, suggesting that financial literacy is a key determinant of business performance.

TABLE V: Multiple Regression analysis

Variable	Beta (β)	Std. Error	t-value	p-value
Constant	0.497	0.203	2.45	0.015
Financial Product Knowledge	0.401	0.068	5.90	0.000***
Budgeting Skills	0.318	0.074	4.30	0.000***
Debt & Liability Management	0.276	0.071	3.89	0.000***

Specifically, financial product knowledge exhibits the strongest influence on SME growth ($\beta = 0.401$, $t = 5.90$, $p < 0.001$), indicating that a unit increase in financial knowledge significantly enhances SME growth outcomes. This finding underscores the critical role of understanding financial products and services in enabling SMEs to make informed investment decisions and effectively utilize financial opportunities.

Similarly, budgeting skills show a positive and significant effect ($\beta = 0.318$, $t = 4.30$, $p < 0.001$), suggesting that SMEs with strong financial planning and resource allocation capabilities are more likely to achieve improved growth performance. This highlights budgeting as an essential managerial function that supports financial discipline and operational efficiency. Debt and liability management is also a significant predictor of SME growth ($\beta = 0.276$, $t = 3.89$, $p < 0.001$), implying that effective management of financial obligations contributes to business stability and sustainable expansion. The constant term ($\beta = 0.497$, $p = 0.015$) is also statistically significant, indicating that SME growth is influenced by other factors beyond the model. Overall, the results confirm that all dimensions of financial literacy significantly contribute to SME growth, with financial product knowledge emerging as the most influential predictor.

$$Y = 0.497 + 0.401X_1 + 0.318X_2 + 0.276X_3 \quad (3)$$

The constant term in Equation (3) (0.497) indicates the baseline level of SME growth when all explanatory variables are held constant. Although this scenario is theoretical, it suggests that factors outside the model also contribute to SME performance. The coefficient for financial product knowledge ($\beta = 0.401$) implies that a one-unit increase in financial product knowledge leads to a 0.401 increase in SME growth, holding other factors constant. This confirms that understanding financial products and services is the most influential driver of SME growth, as it enhances access to appropriate financial solutions and informed decision-making. Similarly, budgeting skills ($\beta = 0.318$) indicate that improved financial planning and resource allocation significantly contribute to SME growth. SMEs that effectively manage their budgets are better able to control costs, optimize resource use, and sustain expansion. The coefficient for debt and liability management ($\beta = 0.276$) shows that prudent handling of financial obligations positively impacts SME growth, albeit to a slightly lesser extent compared to the other variables. Effective debt management reduces financial risk and supports long-term stability. The model demonstrates that all financial literacy dimensions positively and significantly influence SME growth, with financial product knowledge having the greatest impact, followed by budgeting skills and debt management. This reinforces the critical role of financial literacy as a driver of sustainable SME development.

B. Discussion

The findings of this study provide strong empirical evidence that financial literacy significantly influences SME growth in Nairobi City County. The results from both correlation and regression analyses consistently demonstrate that financial product knowledge, budgeting skills, and debt and liability management are critical determinants of firm performance. Notably, financial product knowledge emerged as the most influential predictor of SME growth ($\beta = 0.401$, $p < 0.001$), indicating that SMEs with a deeper understanding of financial instruments and services are better positioned to access appropriate financing, optimize investment decisions, and exploit market opportunities. This aligns with the propositions of Dynamic Capabilities Theory, which emphasizes the role of knowledge in enabling firms to sense and seize opportunities in dynamic environments.

Similarly, budgeting skills exhibited a strong and statistically significant effect ($\beta = 0.318$, $p < 0.001$), highlighting the importance of financial planning and disciplined resource allocation in enhancing operational efficiency and sustaining business expansion. SMEs that adopt structured budgeting practices are better equipped to manage cash flows, control costs, and respond to market uncertainties. Furthermore, debt and liability management were also found to significantly influence SME growth ($\beta = 0.276$, $p < 0.001$), suggesting that prudent financial obligation management enhances financial stability and reduces risk exposure, thereby supporting long-term sustainability.

The high explanatory power of the model reinforces the argument that financial literacy is not merely a supporting factor but a strategic capability that drives SME competitiveness. These findings are consistent with existing literature, which identifies financial literacy as a key enabler of business growth in developing economies. However, the relatively lower coefficient for debt management compared to other variables suggests that SMEs may still face structural constraints such as limited access to affordable credit and financial products. The study confirms that enhancing financial literacy can significantly improve SME growth outcomes by strengthening decision-making, resource utilization, and strategic adaptability.

V. CONCLUSION

This study examined the influence of financial literacy on SME growth in Nairobi City County, recognizing SMEs as key drivers of economic development, employment creation, and innovation. Despite their importance, SMEs continue to face persistent challenges, including poor financial management, limited financial knowledge, and constrained access to

appropriate financial services, which hinder their growth and sustainability. The findings revealed that financial literacy, particularly financial product knowledge, budgeting skills, and debt and liability management, has a positive and statistically significant effect on SME growth. Financial product knowledge emerged as the most influential factor, followed by budgeting skills and debt management, indicating that SMEs with strong financial capabilities are better positioned to make informed decisions, optimize resource use, and achieve sustainable growth.

Financial literacy constitutes a critical strategic capability that enhances SME performance and resilience in a competitive business environment. From a policy perspective, there is a need to strengthen financial education programs, promote access to tailored financial products, and support SME capacity-building initiatives. Future research should explore longitudinal and sector-specific dynamics, as well as integrate advanced analytical models to further deepen understanding of the financial literacy–SME growth nexus.

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