FINANCIAL INCLUSION AND WOMEN'S ECONOMIC EMPOWERMENT THROUGH MICRO-FINANCE BANKS IN KISUMU COUNTY, KENYA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 23rd September 2026

Published: 1st October 2026

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v6_i1_66_77.pdf

Citation: Omolo, P., Njoka, C. (2026). Financial inclusion and women's economic empowerment through micro-finance banks in Kisumu County, Kenya. *International Academic Journal of Economics and Finance, 6*(1), 66-77.

ABSTRACT

This study examined how financial literacy as a dimension of financial inclusion influences Women Economic Empowerment (WEE) through Microfinance Banks in Kisumu County, Kenya.A descriptive correlational design was adopted. The target population was 13,800 women entrepreneurs with active accounts of 3 years and in KWFT, SMEP, Faulu and Rafiki MFBs. Stratified random sampling yielded 100 respondents, with 70% response rate. Data were analyzed using descriptive statistics and simple linear regression via SPSS v26.There was a strong positive correlation between financial inclusion and WEE ($r = 0.820$, $p < 0.001$). Financial literacy explained 67.2% of variation in WEE ($R^2 = 0.672$). Regression showed financial literacy had a significant positive effect on WEE ($\beta = 0.602$, $t = 4.531$, $p = 0.000 < 0.05$). Financial literacy significantly influences WEE. MFBs and policymakers should prioritize targeted financial education, budgeting, bookkeeping and credit management for women.

Key words: Financial Literacy, Women Economic Empowerment, Financial Inclusion, Microfinance Banks[MFBs].

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INTRODUCTION

Background of the Study

There is a rising concern for economies to embrace frameworks that can address escalating inequality and poverty in the global arena. Women economic empowerment is a core developmental process for all effective economies to meet their objectives, considering its capability to promote household welfare and national growth. Manoj, Lakshmi, and Sebastian (2023) establish that women economic empowerment involves granting women access to and control over productive resources, as well as a degree of financial autonomy. Thathsarani et al. (2021) also defined women economic empowerment as a framework through which women can participate equally in economic opportunities and benefit from resources that show the degree of achievement of projected development goals. Undeniably, financial inclusion is a critical aspect in fulfilling women's looked-for economic independence and agency.

Financial Inclusion

Financial inclusion is hypothesised as providing people and enterprises, especially underserved groups like women and low-income households, with affordable opportunities to enjoy financial

products that would satisfy the individualized expectations of people (Siddik, 2017; Hess & Klapper, 2021). Researches show that increasing financial inclusion is a significant approach for enabling and getting at Sustainable Development Goals (SDGs). Access to finance, including credit, savings, and insurance, empowers eligible women entrepreneurs by enabling them to secure necessary funding (Bongomin *et al*., 2017). Literature indicates that financial inclusion is a crucial element in achieving economic empowerment for women. Financial inclusion can act as a critical impetus for the economic empowerment of women (Jedi, 2022). Regrettably, literature on financial inclusion and women's empowerment is rare, especially in the context of an emerging nation such as Kenya (Anyanwu et al., 2018).

Women's Economic Empowerment

The economic empowerment of women involves their access to and control over productive resources, as well as a degree of financial autonomy (Eton et al., 2018). The capacity of women to engage in economic activities, as reflected by their economic empowerment, is a critical criterion for assessing societal progress and advancement (Bhatia & Singh, 2019). This is particularly true in the context of sustainable development goals. The empowerment of women and the enhancement of their status must be national priority. Economically empowered women may manage and benefit from resources, assets, and income (Kumari, 2022). Governments, corporations, communities, and other entities may benefit from implementing initiatives and policies that promote female empowerment. Achieving economic empowerment requires women to be provided access to educational and vocational resources, hence enhancing prospects for professional advancement (Hendriks, 2019). This empowerment allows women to participate in economic pursuits, access funds, and exercise control over their income and productive assets, such as enterprises, land, and industries (Eton et al., 2018).

Women economic empowerment is the ultimate outcome of development that enables women to manage and benefit from resources, assets, and income. However, there are several conceptualizations of empowerment in development studies. Eton et al. (2018) indicate that women economic empowerment entails diverse factors and indicators that demonstrate a woman’s overall capability, decision-making power, and control over resources. Bhatia and Singh (2019) indicate that women economic empowerment can be examined by determining what enables women to engage in economic activities, access funds, and exercise control over productive assets. Women economic empowerment is also measured in terms of a woman’s potential to fulfill her economic goals and by maximizing available financial resources effectively and efficiently.

Financial literacy is the potential of individuals to effectively understand and use financial information to make informed decisions for their economic sustainability (Morgan & Trinh, 2019). Arofah et al. (2018) and Hussaini and Chibuzo (2018) explain financial literacy as the ability to understand basic financial concepts and apply them to budgeting, saving, borrowing, and investment decisions while consistently managing household and business finances within some

dynamic economic contexts. Egbo et al. (2020) consider financial literacy as an approach to synchronizing women's knowledge with their general economic responsibility and accountability, such as managing enterprises, accessing credit, and controlling income, to implement their empowerment objectives.

Hendriks (2019) has stressed the importance of financial literacy emphasizing that women should be equipped with educational and vocational resources to enhance financial decision-making which is also applicable in microfinance contexts. Financial literacy equips women to make informed decisions that support financial stability and poverty reduction. In Nigeria, Egbo et al. (2020) determined that financial knowledge significantly aids women entrepreneurs in expanding their businesses. Studies highlight that improved financial literacy can facilitate access to loans and credits, and other financial options, making it an essential component of women economic empowerment.

Financial inclusion serves as an avenue for economic empowerment, allowing transactions, savings, borrowing, insurance and pensions all fueling growth. Governments and institutions thus play vital roles by championing inclusion to advance women's empowerment. Microfinance institutions have been pivotal in disseminating inclusion among women (Esther, 2022; Hedayat, 2020). Such institutions engage communities through literacy and products like table banking where groups collaboratively save and access favorable loans (Taylor & Pereznieto, 2019). By founding grassroots micro lenders, they cater to women's needs through loans and education. Examples include the Kenya Women Finance Trust, SMEP and Faulu actively bolstering empowerment.

Kisumu County is an ideal location for this study because it has a large number of financial institutions, a competitive banking market and a good population of customers. Kisumu has a population of 1,155,672 of which 556,941 are males and 594,509 are females, thus having great economic potential (Taylor & Pereznieto, 2014). It is located along the shores of Lake Victoria and is a major fishing station and agriculture is also well developed. In this economic context, the evaluation of financial literacy in this fast-growing microfinance market is set against a wide range of economic activities and intense competition in the seven sub-counties of Kisumu.

This study therefore assesses the impact of financial literacy, as an aspect of financial inclusion, on women economic empowerment centered on microfinance banks in Kisumu County.

Statement of the Problem

Women Economic Empowerment (WEE) is central to achieving SDG 5 and Kenya's Vision 2030, yet only 29% of Kenyan women aged 15-29 are financially empowered, with rural women at 22% compared to 40% in urban areas (Miled et al., 2022). In Kisumu County, this gap is acute: unemployment exceeds 50%, dependency ratio is 87%, and only 1% of land titles are held by

women, despite the presence of four major Microfinance Banks - KWFT, SMEP, Faulu and Rafiki.(MFBs).

While MFBs have expanded access through products like table banking, access alone has not translated into tangible empowerment outcomes such as increased income, asset ownership and decision-making power (Anyanwu et al., 2018; World Bank, 2022). Evidence shows women-led businesses are 11% less productive than male-led ones, characterized by loan defaults, poor savings culture and underutilization of financial services. The missing link is financial literacy - the ability to budget, keep records, calculate profit, cost of credit and manage debt (Morgan & Trinh, 2019; Egbo et al., 2020, Esther, 2022, Mulili, 2020)

Although studies in Sri Lanka (Kumari et al., 2020), Bangladesh and South Mugirango confirm the role of financial literacy in WEE, they are contextually and institutionally different from MFBs in Kisumu. There is limited empirical evidence on how financial literacy as a dimension of financial inclusion influences WEE specifically through MFBs in Kisumu County. This study fills that gap. (Andriamahery,2022, Nyamagwa,2021)

General Objective of the Study

The study aimed to establish how financial literacy affects WEE in micro-finance bank Kisumu County, Kenya.

Research Hypotheses

H02: Financial Literacy has insignificant effect on WEE in Microfinance Banks in Kisumu County Kenya.

Theoretical Review

Basic Accounting Theory (BAT)

While there isn't a single person credited with "developing" accounting theory, the American Accounting Association (AAA) is widely recognized for its 1966 Statement of Basic Accounting Theory (BAT), marking a pivotal shift towards a decision-usefulness orientation. The accounting theory seeks to elucidate the accounting process as a framework for delivering the most pertinent information to decision-makers. The theory is fundamentally based on logic. This establishes a systematic approach enabling individuals or entrepreneurs to make judicious judgments based on specific subjective probabilities. This study is relevant as it illustrates SME owners as the principal decision-makers. Their decisions dictate the profitability of the business and the sales turnover (Clelland, 1961). Godfrey et al. (2010) elucidate the mechanisms by which entrepreneurs achieve success in their enterprises. He asserts that high-performing entrepreneurs regard returns as a crucial measure of their business acumen and success. The entrepreneurs set SMART goals for their businesses and measure their progress. They consequently monitor each transaction and are thus able to discover losses. The accounting theory suggest that the financial inclusion and empowerment of the entrepreneurs will be achieved if they learn the skills involved in bookkeeping, debt management, cash flow management, and budgeting.

Empirical Review

Kumari, Ferdous & Siti (2020) investigated how financial literacy promotes WEE in the rural contexts of Sri Lanka, with limited resources. They distributed 426 questionnaires, receiving 386 completed responses, and measured WEE through five dimensions: decision-making potential, control over income, leadership, time allocation dynamics, and financial status. Financial literacy was assessed across four factors: awareness, knowledge, skills, and attitudes. However, it also identified that financial well-being and time control were notably impacted by financial literacy. The research determined that financial literacy is core for empowering women economically in Sri Lanka. While both studies focus on financial literacy and empowerment, the present study would be in Kenya, employing SPSS 26 for analysis, thus revealing contextual, conceptual, and methodological gaps.

Andriamahery (2022) explored the availability of funds to women, technical know-how, and financial knowledge influence WEE in Bangladesh, focusing on how more women are becoming entrepreneurs. The study surveyed 795 valid responses from women that either run or owned SMEs. The results showed that there was a statistically substantial favourable connection between access to funds, technical skills and knowledge, and financial literacy for WEE. This research highlighted the importance of creating policies that encourage financial access and awareness to support women entrepreneurs. Although both studies have a common theme of financial literacy, the situation in Bangladesh is quite different compared to Kenya and calls into question the applicability of the results. This highlights a gap that the current research intends to bridge by examining similar constructs within the Kenyan context.

Ahmad and Yahya (2024) researched the influence of financial literacy on women's economic empowerment, namely via digital financial services. It explores the potential of enhancing financial knowledge to raise women's engagement with digital financial services and consequently their economic participation. This study aims to investigate the interrelationships between financial literacy, digital financial service, and economic empowerment among women using data from a quantitative study with a structural equation modeling technique in Smart PLS 4, which is an extension of the ‘TAM' and ‘Theory of Planned Behavior (TPB)' models. Financial education is found to have a significant impact on the benefits of digital financial services in the quest for women's economic empowerment. There is favorable correlation between financial literacy and the use of digital financial services, and this is linked to boosted economic empowerment of women. These insights highlight the relevance of incorporating financial education into digital financial services, which may help to complement women's economic engagement and boost gender equality. The results suggest a need to focus on financial literacy interventions through digital platforms to make them more effective for policy makers and practitioners. Further research should concentrate on determining optimal techniques for the implementation of financial literacy programs and assessing their long-term effects on women's economic results. This research

enhances the broader conversation on women's empowerment and economic progress by drawing connections that underscore the need for specialized initiatives to promote financial literacy.

Nyamagwa (2021) studied the impact of financial knowledge on the development of women SMEs traders in South Mugirango sub-county, Kenya. The research aimed to evaluate the impact of financial literacy on the success of women traders and also explore the issues regarding women traders in terms of budgeting, bookkeeping and credit management and the lack of access to financial literacy training. The research employed a descriptive survey design and concentrated on registered women traders who are part of the Equity Group Foundation project with a sample of 34% of both trained and untrained traders who were randomly selected. Survey data and interviews were gathered and analyzed using quantitative methods such as frequency distribution, ANOVA. The results suggest that SMEs' success rate significantly improved due to financial literacy training for women. It is worth noting though, that the constructs and organizations' that were used in this study were different from the current study because the Equity Group Foundation is a fully-fledged bank while the SMEP is a microfinance institution, which means there is a gap with respect to context in the findings.

RESEARCH METHODOLOGY

This study utilized an exploratory research design, as it aimed to understand the interrelationships among various variables and to provide a comprehensive view of these variables within a specific context. This design helped minimize potential biases in the study. By employing this approach, the researcher obtained conclusive insights regarding the research variables.

The target population was 13,800 women entrepreneurs in the four microfinance banks in the County. The research focused on women entrepreneurs who have maintained accounts for three years or longer from the KWFT, SMEP, Rafiki, and Faulu Microfinance Banks in Kisumu County, with a sample drawn from each bank .Random sampling was adopted to choose responders within the bank. The aim of utilizing stratified random sampling was to allow adequate representation of the participants from each bank in the sample. This method allowed subjects to be selected so that the existing strata within the population are fairly represented. The study resulted in an aggregate sample size of 100 respondents, which constituted the study's sample. Seventy questionnaires were completed, reflecting a 70% response rate (70 respondents) which was deemed great.

Descriptive statistics and multiple regression analysis were adopted to analyze the acquired data. The data was displayed in the form of tables and graphs. The study guaranteed informed consent, voluntary participation, anonymity, and compliance with all other ethical standards. Descriptive statistics and multiple linear regression analysis were adopted to analyze the data. The research results suggested that there is a robust favorable connection (r=0.820) between financial inclusion and women economic empowerment.

The findings suggested that financial literacy (β = 0.62, p = 0.000< 0.05), was significant thus rejecting the hypotheses. Financial literacy had the largest coefficient implying that it had a significant effect on women economic empowerment through microfinance banks in Kisumu County. The research therefore concluded that financial literacy has a positive influence on women economic empowerment.

The study modified the model to fit the current study

The model that was adopted for this work;

$Y = \alpha + \beta_1 X_1 + \varepsilon$

Whereby;

Y = Dependent variable (WEE)

X_1 = Financial Literacy

ε = Error term

α = Constant

Descriptive Statistics

Analysis Based on Financial Literacy

The second goal was to establish how financial literacy affects women economic empowerment through MFBs Kisumu County, Kenya. The findings are exhibited in Table 4.1.

Table 4.1 Financial Literacy

Statements	Mean	Std Dev
Record keeping for the business	4.231	1.009
Knowledge in calculation of business profit.	4.100	1.122
Knowledge in calculation of the cost of credit.	3.821	.918
Setting credit limit for customers	3.676	.886
Payment of debts on time	3.864	.798
Proper use of loans granted in the business.	4.121	1.232
Preparation of annual and monthly budgets for my business	3.332	.955
Prioritization of budget items according to their strategic importance	3.696	1.122
Knowledge of basic accounting for their business	4.322	.898
Maintenance of daily account of business spending	3.665	.789
Aggregate Mean	3.883	.973

Source: Survey Data (2025)

The results indicated the respondent agreed to a great extent that record keeping for the business is crucial in their day-to-day operations (M=4.231, SD=1.009). The research suggested that the knowledge in calculation of business profit has enabled them run their businesses well (M=4.100, SD=1.122), knowledge in calculation of the cost of credit has enabled them manage their costs. (M=3.821, SD=0.918) and that setting credit limit for customers has enabled them manage their credits (M=3.676, SD=.886). most of responders concurred that payment of debts on time has enhanced their access to funds (M=3.864, SD=.798). Further, the proper use of the loans granted by the MFB's have led to business growth (M=4.121, SD=1.232). The results indicated that preparation of annual and monthly budget for the businesses have enabled them to manage their cash flow better (M=3.332, SD=.955). Most of the responders concurred that prioritization of budget items according to their strategic importance has enabled them to put to proper use their limited resources (M=3.696, SD=1.122). Further, Knowledge of basic accounting for their business has enabled them to run their businesses professionally (M=4.322, SD=.898). The results indicated that maintenance of daily account of business spending has helped them in managing their spending (M=3.665, SD=.789).

The cumulative mean of 3.883 indicated that financial literacy through microfinance affect women economic empowerment in Kisumu County. Kumari, *et al* (2020) investigated how financial literacy promote WEE in the rural contexts of Sri Lanka, with limited resources. The research determined that financial literacy is core for empowering women economically in Sri Lanka. Ahmad and Yahya (2024) researched the influence of financial literacy on women's economic empowerment, namely via digital financial services. The results emphasized the essential necessity of including financial literacy into digital financial services, as this can boost women's economic participation and foster gender equality. Nyamagwa (2021) researched the influence of financial literacy on the advancement of female SMEs traders in South Mugirango sub-county, Kenya. The results demonstrated that financial literacy training substantially improved the success of SMEs among women.

Diagnostic Test

The study used a diagnostic test on data gathered with a 95% confidence level to determine if the data was a true or false. The research identified multicollinearity utilizing variance of Inflation (VIF), normality applying Shapiro-Wilk Test and heteroscedasticity utilizing Breusch-pagan test.

Testing for Multicollinearity

The research assessed multicollinearity through the application of VIF. If the VIF for any variable above 5, it signifies the presence of multicollinearity, necessitating remediation prior to further research.

Table 4.2 Multicollinearity Test

Variable	VIF	I/VIF
Financial Literacy	1.31	0.762660

Table 4.3 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.386	.206		1.869	.068
	Financial literacy	.602	.133	.499	4.531	.000

Simple linear regression analysis was done to assess the influence of financial inclusion on WEE through Microfinance Banks in Kisumu County Kenya. The equation ($Y=\beta 0+\beta_1 X_1 +\varepsilon$) becomes: $Y=0.386+0.602\ X_1$.

Where Y is the dependent variable (women economic empowerment), X_1 is financial literacy. The potential value of Y, when financial literacy variable is set to zero, is 0.386.

Table 4.3, above shows the regression equation ascertained, taking all factors into account (access to credit, financial literacy, mobile financial services) constant at zero, women economic empowerment will be 0.386. The research findings analyzed also demonstrate that, a unit rise in financial literacy led to a 0.602 increase in women economic empowerment in Kisumu County, This infers that, financial literacy contribute to women economic empowerment in Kisumu County. At 5% level of significance and 95% level of confidence, financial literacy showed a p-value 0.000, Therefore, financial literacy was significant factor.

Hypothesis Testing using the Simple Regression Model

H_{02}: Financial Literacy has no significant effect on WEE in Microfinance Banks in Kisumu County Kenya

The results rejected the hypothesis that financial literacy had insignificant effect on women economic empowerment through Microfinance Banks in Kisumu County Kenya. Divergent to this hypothesis, financial literacy was determined to have a favorable and substantial effect on women economic empowerment through Microfinance Banks in Kisumu County Kenya ($\beta = 0.602$, $p =0.000$).

Test for Normality.

The Shapiro-Wilk test was selected for this purpose, serving as the method to assess the normality of the data.

	Shapiro-Walk Statistics	Df	Sig
Financial literacy	0.724	70	0.000

Source: Survey Data (2025)

The results of the Shapiro-Wilk normality test displayed above showed the distribution properties of the variable under examination., financial literacy deviated from the normalcy statistically significantly as evidenced by the p-values (Sig=0.000). Despite non normality,parametric tests were retained due to sample size > 30 and robust standard errors in SPSS.

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