

UPTAKE OF DIGITAL LOANS ON PERFORMANCE OF SMALL AND MICRO ENTERPRISES IN UASIN GISHU COUNTY, KENYA

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Abstract: *Small and Micro Enterprises play an important role in economic development of any nation by harnessing human capital, use of raw materials and technology. They require enough funds to facilitate expansion of operations, develop new products, hire new staff and acquire new facilities. If Small and Micro Enterprises are unable to access digital loans, then it becomes difficult to achieve among others their financial objectives. The purpose of the study was therefore to determine the effect of uptake of digital loans on performance of Small and Micro Enterprises in Uasin Gishu County. The indicator of uptake of digital loans adopted in this study was lending platforms and the study sought to determine how uptake of digital loans (lending platform) affect the performance of Small and Micro Enterprises in Uasin Gishu County. The study adopted an explanatory research design. The target population was 2254 Small and Micro Enterprises while the sample size was 339 Small and Micro Enterprises. The study adopted both stratified and simple random sampling techniques. Primary data was collected using structured questionnaires. The study adopted content validity. Internal consistency reliability was measured using Cronbach's alpha coefficient. The data collected was analyzed using Statistical package for social sciences version 21.0. Data was analyzed using both descriptive statistics as well as inferential statistics. The study findings indicated that lending platform has a positive and significant effect performance of Small and Micro Enterprises Uasin Gishu County ($\beta=0.732$, $p < 0.05$). This study concluded that lending platform has a significant effect on financial performance. The study recommends that Small and Micro Enterprises should continue to borrow large amounts of loans via digital platforms. The study recommended that Small and Micro Enterprises should continue to use regulated lending apps available to access digital loans.*

Keywords: *Digital Loans, Lending Platform, Small and Medium Enterprises*

1.0 Introduction

Small and Micro enterprises contribute immensely to the economic growth of a country. These enterprises are considered to be the engine of growth and development of a country (Nyambura, 2013). They account for up to 70 percent of all the businesses that exist in most economies worldwide (Abor & Quartey, 2017). They also create employment. Financial performance is of paramount importance to Small and Micro enterprises, if the Small and Micro enterprises are to realize business expansion as well as achieve the going concern principle (Pretorius & Shaw, 2014). Financial performance refers to how the assets of a business concern can be utilized in an optimal manner in the course of normal business activities so that to raise income for the business (Saedi & Mahmoodi, 2011). Sound or good financial performance is a sign of financial stability for a specified period of time (Berger, Oliver & Pua, 2017).

According to Joseph (2013), financial performance refers to the level to which the financial objective of a business organization is achieved. It also reflects the position or the results of enterprises' policies and operation in monetary terms (Aminasaun & Babayanju, 2016). It refers to achievement of the companies' financial objectives for a certain period of time (Worokinasih & Potipiroon, 2019). The longevity of a firm will be determined by sound financial performance. Good financial performance is because of efficient utilization of resources. Financial performance can be measured using amongst others; liquidity and profitability (Saeedi & Mahmoodi, 2011); profitability and turnover (Alshami, 2008). The sub-constructs for financial performance that are adopted in this study include profitability, liquidity, growth, and sales turnover.

Gates (2010), opines that Small and Micro enterprises are set up to earn profits since profit is the only motivator for an entrepreneur. He further posits that SMEs with no profits are not worth running. The financial performance of the Small and Micro enterprises is affected by so many factors. The factors include amongst others; inability to access digital loans (Aminasaun & Babayanju, 2016). The current study adopted digital loan uptake as a determinant of performance of Small and Micro enterprises. Digital loan uptake refers to access to credit or loan through digital platforms such as Kenya's M-Pesa among others (Mazer, Rafe & Alexandra Fiorillo, 2015). The construct of digital loan uptake that was considered in this study was lending platforms. These constructs have an effect on financial performance of Small and Micro enterprises. Although the magnitude of each sub-construct varies from one construct to another. If the constructs are favorable to borrowers, it is expected that more Small and Micro enterprises will be able to access digital loans and therefore there will be Small and Micro enterprises growth as well as realization of the going concern principle.

Digital loans have been adopted by Small and Micro enterprises around the worldwide. In Kuwait, Fintechs are providing payment solutions and marketplace lending among others for as MSEs (Sabana, 2021). Most Fintechs in Kuwait are in early growth stages. This implies that the impact of Fintechs is still limited. In Kuwait, the government has contributed to the rapid development of Fintech through various measures such as funding support (Kumar, 2017). The Small and Micro enterprises that have access to digital loans in Kuwait have been able to overcome or mitigate financial challenges. In the last one decade, most of the MSEs in Kuwait have been experiencing growth attributed to attractive legal and regulatory frameworks as well as access to digital loans via digital platforms.

In the United States of America, there are new sources of equity and debt funding for MSEs that have opened up via crowdfunding (Schizas, 2021). Equity crowdfunding platforms have helped the investors to buy a stake in the recipient's business are only one of the crowdfunding options, coexisting with a number of pre-selling, donation, or rewards-based platforms. The platforms have led to rapid growth of Small and Micro enterprises. Platforms such as eBay and Amazon have been created. Other smaller networks that offer alternative finance have also been created. These lending platforms have then affected the performance of MSEs (Schizas, 2021).

Digital loans have also been adopted by Small and Micro enterprises in the African continent. Small and Micro enterprises have adopted loans via digital platforms in Africa. According to Agbola and Ankrah (2013), financing MSEs in Nigeria is necessary for encouraging enterprises development. Digital lending platforms have emerged in the recent past in Nigeria that are providing easy access to finance by Small and Micro enterprises. Ojekunle (2019), opines that fintech platforms have been of great help to business concerns as they enhance access to funds in a much faster way. Some of the fintech platforms include Lidya. Other fintech platforms include kiakia, Ren money, carbon, C24, quick check and SMEDAN which is a government backed SME loan. These digital platforms have led to an improvement in the performance of Small and Micro enterprises (Ojekunle, 2019).

In Ghana, digital loans have also been adopted. Nowadays, Entrepreneurs have access to loans via digital platforms (Udimal, Jincai, Musah & Hua, 2019). New models have emerged that are driven by the digital revolution that is taking place in Ghana that is spearheaded by mobile money and fintech. The performance of the Small and Micro enterprises has improved significantly as a result of access to finance due to use of mobile money provided by a number of innovations (Agbola & Ankrah, 2013). Agbola and Ankrah (2013), opine that digital lending platforms have removed the challenges most MSEs were facing that were a hindrance against access to credit. Access to credit has therefore been made easier for all SMEs whose credit score is impressive.

Small and Micro enterprises are an engine for economic growth in Kenya. Access to digital loans is of paramount importance for realization of their financial objectives as well as for the MSEs to record growth. In the last few years, product innovation in the Small and Micro enterprises finance space has been enhanced in Kenya. Mobile based loan platforms for Small and Micro enterprises such as Stawi have been established so as to enhance access to finance by Small and Micro enterprises as well as enhance Small and Micro enterprises growth. According to Olaka (2020), the chief executive officer of Kenya bankers' association, Stawi has provided access to affordable credit to MSEs. According to Obura (2020), in 2020, there was an increase in the uptake of credit from mobile money lenders by SMEs compared to the previous year.

According to Ngulale (2020), Kenya has been viewed as the area hub for Fintech in the recent past. This is attributed to fintechs and mobile platforms such as M-PESA, which became first of its kind in the quest to enhance access to digital loans among other services. Ngulale (2020), further posits that formal banks have taken the cue from such digital lending platforms. They have come up with innovative digital and mobile lending platforms that charge an interest of between 4 and 7.5 per cent per month. Small and Micro enterprises are now able to access loan products via digital platforms and hence the financial performance of the SMEs has considerably improved in the recent past. Small and Micro enterprises also contribute significantly to the revenues collected by the county government (Omiti & Kimuyu, 2016). In the last two decades, Uptake of digital loans has been a great problem for most Small and Micro enterprises in Uasin Gishu County (Saliku, 2015). There has been an emergence of mobile lending platforms around the world. The current study therefore sought to determine the effect of uptake of digital loans on performance of Small and Micro enterprises. The specific objective was to assess the effect of lending platform on performance of Small and Micro enterprises in Uasin Gishu County. The remainder of this article is as follows; section 2 cover literature review and hypothesis development, section 3, research methodology, section 4, results & discussions and section 5, conclusion and recommendations.

2.0 Literature Review & Hypothesis Development

2.1 Lending Platform and Performance

Lending platforms refers to avenues that are available to consumers that allow them to borrow and lend sums of money (Maina, 2016). At any given point in time, the more the numbers of mobile lending apps are available, the more likely for a borrower to have multiple loans (Petersen & Rajan, 2015). Among the leading lending platforms are Mshwari (NCBA Bank), KCB M-PESA (KCB Bank), Timiza (Absa Bank) and the recently licensed lenders like Tala, Branch and Okash among others. The sub-constructs for lending platforms that will be considered in this study include lending apps available, apps downloaded, use of smart phones and regulations. Lending platforms are expected to improve financial performance of Small and Medium Enterprises. Lending apps available and can easily be accessed by Small and Micro Enterprises enhance uptake of digital loans.

Small and Medium Enterprises should be knowledgeable about the lending apps available and should be able to download them and learn much about them (Messai & Jouini, 2018). This will make them know which lending apps works for them and which one to use if in need of extra funds. There are many lending apps that Small and Micro Enterprises have been using to access credit via digital platform (Murumba, 2017). These apps have made Small and Micro Enterprises liquid and are able to address all their liquidity problems with much ease. There are various regulations that affect digital loans and its accessibility. Small and Micro Enterprises should become aware of such regulations and be able to abide with them for continued use of digital loans (Onyeagocha, Chidebelu, & Okorji, 2022). Mbuva and Wachira (2019), researched on lending apps and financial performance of processing Small and Micro Enterprises in Kitui County. The study's aim was to assess the impact lending apps have on financial performance of processing Small and Micro Enterprises. A descriptive research design was used. Target population was a census of 25 processing Small and Micro Enterprises in Kitui County which gave rise to a total of 75 respondents. The data adopted primary data. Lending apps were found to have a significant positive effect on financial performance. The lending apps available was not part of their study which the current study sought to add.

Moussa (2020) examined the effect of lending apps on performance of Small and Micro Enterprises in Lebanon. The study aim was to assess the effect of lending apps on the performance of Small and Micro Enterprises. Target population and sample size were 915 and 17 Small and Micro Enterprises respectively which were selected based on both stratified and simple random sampling techniques. The study used secondary data alone. It was established that lending apps have a significant positive effect on the performance of Small and Micro Enterprises. This study incorporated use of smartphones which had not been considered. Abayo and Oloko (2017), examined lending apps available and financial performance of MSEs in Kisumu County. The study purpose was to establish the impact of lending apps available on financial performance of Small and Micro Enterprises in Kisumu County. Explanatory research design was used. 332 Small and Micro Enterprises were targeted while 77 Small and Micro Enterprises were sampled. The source of data was primary data which was collected using questionnaires. It was established that lending apps available have a statistically significant effect on financial performance of Small and Micro Enterprises. Lending apps were introduced in this study.

Nzibonera and Waggumbulizi (2020), researched on Apps downloaded and performance of MSEs in Uganda. The study adopted a cross-sectional research design. The study population comprised of; managers of MSEs from various sectors operating in Kampala Central Business area in Uganda. The sample size was 132 managers of licensed MSEs in Kampala Central business area. Regression results revealed that Apps downloaded have a significant effect on the performance of MSEs. Lending Apps available was added in the current study. Muriuki (2014), researched on use of smart phones and performance of Small and Micro Enterprises in Kiambu Sub County. The study adopted exploratory research design. Target population was 23 Small and Micro Enterprises in Kiambu Sub-County. The sample size is 7 MSEs in Kiambu Sub County. The study used both primary and secondary data. Results revealed that use of smart phones has a significant effect on performance of Small and Micro Enterprises. In addition to use of smartphones, the current study sought to incorporate lending apps available and hence broaden the scope of the study. Literature reviewed led to development of the following hypothesis statement:

H₀₁: Lending platforms have no significant effect on performance of Small and Micro Enterprises in Uasin Gishu County.

3.0 Research Methodology

The study adopted an explanatory research design to assess digital loan uptake and performance of Small and Medium Enterprises. Explanatory research is characterized by research hypotheses that are used to specify the nature, extent, and the direction of the association among study variables (Roberts, 2013). It was suitable for the current study as the current study used research hypotheses. Target population was 2254 small and micro enterprises in Uasin Gishu County. The sample size was 339 Small and Micro enterprises which comprised of 119 retail traders, 20 wholesale traders, 178 Small and Micro enterprises in the service industry and 22 Small and Micro enterprises in the manufacturing industry. The actual enterprises were selected using stratified random sampling. The different strata’s that were considered in this study include retail traders, wholesale traders, MSEs in the service and manufacturing sector. After identifying the different strata’s (retail traders, wholesale traders, MSEs in the service sector and also MSEs in the manufacturing sector), the respondents were selected randomly. The current study adopted questionnaires to collect primary data. Questionnaire were used in the study because they are not only simple to administer but less expensive to analyze (Roberts, 2013). A 5-point likert scale (1-5) was adopted in the study where ‘1’ represents strongly disagree while ‘5’ represents strongly agree. Pilot testing was conducted in Uasin Gishu County. The pilot testing results were only used in refinement of the research instrument. The study adopted content validity where the study sought the opinion or judgment of experts in the field. The study adopted internal consistency reliability which was measured using Cronbach’s alpha co-efficient. Both descriptive as well as inferential statistics were adopted in data analysis. The inferential statistics that were adopted in the study include both Pearson correlation and regression analysis. SPSS version 21.0 was adopted. Linear regression model was adopted to either accept or reject the null hypothesis. If the p-value is less than 5% the hypothesis was rejected but if the p-value is more than 5% level of significance the hypothesis was accepted. The regression model that was adopted in the study was as follows:

$$Y = \alpha + \beta_1 X_1 + \varepsilon \tag{1}$$

Where; Y represents the dependent variable (performance), α represents the intercept (regression constant), β_1 represents the change in y for each increment change in X_1 , X_1 represents lending platforms, ε represents the error term.

4.0 Results & Discussions

This section covers information on age of the respondents, respondents’ gender, the respondent’s highest academic qualification, whether the business been using digital loans. The period the business has been accessing loans via digital platform and the sector the business belongs to. Findings were presented in Table 1.

Table 1: Background Information

n=264	Indicators	Frequency	Percent
Age bracket	≤ 20 years	21	8.0
	21-30	30	11.4
	31-40	146	55.3
	≥ 40 years	67	25.4
Gender	Male	178	67.4
	Female	86	32.6
Highest academic qualification	Certificate	30	11.4

	Diploma	118	44.7
	Bachelors' degree	58	22.0
	Masters' degree	37	14.0
	Any other specify	21	8.0
Use of digital loans	Yes	208	78.8
	No	56	21.2
Duration of Access to Loans	<1	30	11.4
	1-5	146	55.3
	>5	88	33.3
Business sector	Wholesale and retail trade	155	58.7
	Service related	88	33.3
	Other type (specify)	21	8.0

Out of the total respondents, 21(8.0%) had less than or equal to 20 years, 30(11.4%) between 21 and 30 years, 146 (55.3%) between 31 and 40 years and 67(25.4%) above or equal to 40 years. This implies that the majority of the respondents were aged between 31 and 40 years. On gender, 178(67.4%) of the total respondents were male while 86 (32.6%) were female. This implies that majority of the respondents were male. Regarding the highest level of education, the findings revealed that 30(11.4%) of the total respondents were certificate holders, 118(44.7%) had diploma, 58(22.0%) bachelors' degree, 37(14.0%) masters and 21(8.0%) had either professional qualification or secondary while others had primary education only. This implies majority of the respondents had a diploma level qualification and therefore were able to comprehend and understand the statements on the questionnaire and therefore there was a high probability that they provided accurate responses to statements. On use of digital loans, majority of the respondents, 208(78.8%) revealed that they use digital loans at the various enterprises while 56(21.2%) opined that they do not use digital loans. This implies that majority of the Small and Micro Enterprises in Uasin Gishu County use digital loans.

Out of the total respondents, 30(11.4%) had access to loans via digital platform for a period of less than one year, 146(55.3%) for a period of between 1 and 5 years while 88(33.3%) for a period above 5 years. This implies that majority of the Small and Micro Enterprises had access to loans via digital platform for a period of more than 5 years. In regards to distribution of the respondents by the Sector, the findings revealed that 155(58.7%) of the total respondents revealed that the business belong to wholesale and retail trade, 88(33.3%) service related while 21(8.0%) manufacturing industry. This implies that majority of the Small and Medium Enterprises considered in this study were those in the wholesale and retail trade.

4.2 Descriptive Statistics for Lending Platform on Financial Performance

The study sought to assess the effect of lending platform on performance of Small and Micro Enterprises in Uasin Gishu County. The study focused on lending apps available, Apps downloaded, use of smart phones and regulations as the main sub constructs of lending platform. The researcher was interested on the opinion of respondents on the extent to which such sub-constructs affect the performance of Small and Micro Enterprises. The descriptive findings were as presented in Table 2.

Table 2: Descriptive Statistics for Lending Platform

		S. A	A	N	D	S. D	Mean	Std. Dev
We use the lending apps available to access digital loans.	F	137	30	30	37	30	3.7841	1.47565
	%	51.9	11.4	11.4	14.0	11.4		
We have downloaded various lending Apps.	F	109	58	30	30	37	3.6515	1.45913
	%	41.3	22.0	11.4	11.4	14.0		
We use smart phones to access the lending Apps we have downloaded.	F	146	30	32	28	28	3.9015	1.43217
	%	55.3	11.4	12.1	10.6	10.6		
We only use regulated lenders who offer access to digital loans via lending Apps.	F	137	30	37	30	30	3.8106	1.45206
	%	51.9	11.4	14.0	11.4	11.4	3.7869	

The respondent’s opinion was sought on whether they use the lending apps available to access digital loans, 167(51.9%) of the respondents agreed that they use lending apps available to access digital loans while 67(25.4%) disagreed with the statement. The use of lending apps available to access digital loans was found to affect financial performance of Small and Micro Enterprises with (mean= 3.7841, std. Dev. = 1.47565). The findings resemble that of Mbuva and Wachira (2019) that the use of lending apps available to access digital loans affects financial performance. In regard to whether at the enterprises, various lending Apps had been downloaded, 167 (63.3%) of respondents agreed while 67 (25.4%) disagreed with the statement. Lending Apps downloaded was found to affect financial performance of Small and Micro Enterprises with (mean= 3.6515, std. Dev. = 1.45913). The findings are similar to that of Moussa (2020) that downloading of lending Apps affects financial performance.

In relation to whether the respondents use smart phone to access the lending Apps that they have downloaded, 176 (66.7%) of respondents agreed while 56(21.2%) disagreed with the statement. The use of smart phones to access the lending Apps downloaded was found to affect financial performance of Small and Micro Enterprises with (mean= 3.9015, std. Dev. = 1.43217). The findings are in agreement with that of Abayo and Oloko (2017) that the use of smart phones to access the lending Apps downloaded affects financial performance. On whether only regulated lenders who offer access to digital loans via lending Apps are used at the enterprises, 167(63.3%) of the total respondents agreed while 60(22.7%) disagreed with the statement. The use of regulated lenders only who offer access to digital loans via lending Apps was further found to affect financial performance of Small and Micro Enterprises with (mean= 3.8106, std. Dev. = 1.45206). The findings are in agreement with that of Muriuki (2014) that use of regulated lenders only who offer access to digital loans via lending Apps affects financial performance. These descriptive statistics findings indicate that majority of the respondents opined that lending platform helps to improve the performance of Small and Micro Enterprises in Uasin Gishu County. In a nutshell, the item had an aggregate mean of 3.7869, this implies that majority of respondents agreed that lending platform enhances performance of Small and Micro Enterprises in Uasin Gishu County.

4.3 Inferential Statistics

The inferential statistics adopted were both correlation and regression analysis.

4.3.1 Correlation Analysis

Correlation analysis was done to determine the nature of the relationship that exists between uptake of digital loans and performance of Small and Micro Enterprises in Eldoret Town. Correlation analysis helps to find out whether there is a positive or negative relationship between the study variables. It also helps to determine whether the relationship between the study variables is positively strong or weak, negatively weak, or strong and if no relationship exists between the variables. The correlation analysis results were as follows.

Table 3: Correlations Analysis

		Performance	Lending
Performance	Pearson Correlation		
	Sig. (2-tailed)	1	
Lending	Pearson Correlation	.000	
	Sig. (2-tailed)	.713*	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

Lending platform was found to have a significantly strong positive relationship with performance of Small and Micro Enterprises in Uasin Gishu County of ($r = 0.713$, $p\text{-value} < 0.05$). This implies that the lending platform helps to improve the performance of Small and Micro Enterprises in Eldoret Town. The study is in agreement with that of Abayo and Oloko (2017) that lending platform has a significantly strong positive relationship with performance.

4.3.2 Simple Linear Regression Analysis

Simple linear regression analysis was adopted to predict performance of Small and Micro Enterprises in Uasin Gishu County from lending platform. The model summary results were presented in Table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869 ^a	.755	.751	1.40442

a. Predictors: (Constant), Lending platform

From the table above, the value of adjusted R-square was 0.751 which indicates that the model explained 75.1% of performance from the predictor variable (i.e., lending platform). Analysis of variance (ANOVA) was adopted to assess the goodness of fit test of the regression model. The findings are shown in Table 5.

Table 5: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1576.512	1	394.128	199.823	.000 ^b
1	Residual	510.848	262	1.972		
	Total	2087.360	263			

a. Dependent Variable: Performance

b. Predictors: (Constant), Lending platform

The value of the F test is $F(1, 259) = 199.823, p < 0.05$. This implies that the model is reliable and can be used to predict performance of Small and Micro enterprises. Regression coefficient analysis was conducted in order to determine the beta that helped to show the extent to which each independent variable affects dependent variable. Findings are as shown in Table 6.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
	(Constant)	19.207	.803		.271	.787
1	Lending platform	.732	.056	.313	4.787	.000

a. Dependent Variable: Performance

Table 6 shows the regression coefficients results whereby lending platform had a positive and significant effect performance of Small and Micro Enterprises in Uasin Gishu County of ($\beta=0.732, p < 0.05$). This implies that an increase in lending platform by one unit increases performance of micro and small enterprises by 0.732 units. The study failed to accept the null hypothesis (H_{01}) that predicted that lending platform has no significant effect on performance of Small and Micro Enterprises in Uasin Gishu County. It was therefore noted that lending platform has a significant positive effect on financial performance of Small and Micro Enterprises in Uasin Gishu County. The study is in tandem with that of Moussa (2020) that lending platform has a significant effect on performance.

5.0 Conclusions & Recommendations

The conclusion was as follows that lending platforms have a significant effect on the financial performance of Small and Micro Enterprises. The Small and Micro Enterprises use lending apps available to access digital loans. Various lending Apps have been downloaded at the Small and Micro Enterprises. Lending Apps downloaded affects financial performance of Micro and Small Enterprises. Small and Micro Enterprises use smart phones to access the lending Apps that they have downloaded. Small and Micro Enterprises use only regulated lenders who offer access to digital loans via lending Apps. The use of regulated lenders only who offer access to digital loans via lending Apps affects the financial performance of Micro and Small Enterprises. The lending platform has a significantly strong positive relationship with the performance of Small and Micro Enterprises. The study recommended that the Small and Micro Enterprises should continue to use lending apps available to access digital loans. The Small and Micro Enterprises should continue to download and use only regulated lending Apps. Small and Micro Enterprises should continue to use smart phones to access the lending Apps downloaded. The study further recommended that that a similar study should be conducted on uptake of digital loans and performance of Small and Micro Enterprises in other Counties in Kenya.

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