

Influence of Mobile Loan Structuring on Growth of Small and Micro Enterprises in Nairobi City County, Kenya

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ABSTRACT

Background of the study: Small and Micro enterprises are an essential fragment of many countries. In Kenya, small and micro-enterprise area accounts for more than fifty percent of new opportunities created. However, the deficiency of loans is a key inhibition to the growth of the small and micro-enterprise sector. Restrained access to proper finance because of inadequate and lack of competence to provide financial services is a constraint to the advancement and expansion of the sector.

Objective of the study: The research sought to establish the impact of mobile loan structuring on the growth of small and micro enterprises in Nairobi City County. The research was steered by; the Technology acceptance model, credit rationing theory, and financial growth life cycle theory.

Research Methodology: The study utilized a descriptive research design and questionnaires were used as the primary research tool. The target population was a total of 1539 SMEs respondents' operating within Nairobi Central Business District, hence obtaining a sample of 317 SMEs as respondents. The survey employed a stratified sampling technique where the population were split into seven strata depending on the sector the firm is operating in. The sample population units were subsequently chosen using simple random sampling.

Results and findings: The study findings revealed that mobile loan structuring has a negative and significant effect on the growth of SMEs ($\beta = -0.178$; $p < 0.05$). The study concluded that the size of loans advanced affects how the needs of the business are met, and most importantly, favorable loan facility processing fees also affects transaction costs. The study recommends that clients should be provided with a fair repayment plan that allows them to pay the loan in a more structured manner.

Keywords: Mobile Loan Structuring, Growth, Small & Micro-Enterprises, Sustainable growth, Credit rationing, Financial growth.

INTRODUCTION

Promoting grassroots economic and equitable sustainable growth has been the purpose of SMEs globally (Wairimu & Mwilaria, 2017). Already grown and growing economy constantly relies on small businesses to trigger and sustain the growing economy and equitable development. The World Bank also estimates that seven out of ten formal employment opportunities are produced by SMEs (World Bank, 2019). It also

estimates that by 2030 the global workforce will need 600 million jobs, making the expansion of the SME sector a preference for many governments. In Europe, SMEs are the backbone of the regional economy, where the sector provides about 67% of total jobs in the private sector (EU, 2016). The data researched shows that in South Africa, SMEs offer employment opportunities for up to 47% of the nation's working population. The sector also contributes a supplementary 20% of the state's GDP and is responsible for around 6% of total tax revenue (Liedtke, 2019).

In Kenya, micro and small businesses hold a significant part in the financials' development. Most financial institutions do not offer SMEs credits due to their catastrophic rates, which makes it difficult for lenders to assess their viability. Kenya's National Bureau of Statistics (Kenya NBS) conducted research (2017) and demonstrated that about 400,000 small, micro and medium businesses fail to survive their second year. A very small number can sustain themselves to the fifth year-leading to concerns about the sustainability in this sector. SMEs owned by youth fail to get finance because marketplaces prefer supporting reputable businesses (Mwangi and Namusonge, 2015).

In countries with low incomes, digital credit has been on an upward trend. This has been mostly in sub-Saharan Africa. In Kenya, for example, a small rate credit and savings service, M-shwari, has greatly grown since its launch in late 2012 (Cook & McKay 2015). In many countries, SME development has been negatively impacted by limited access to credit. The partial availability of credit has impacted the development of SMEs negatively in several states. The main social and economic elements that affect the expansion and viability of small businesses are increasing SMEs' access to capital and having managerial expertise (Suryadevara, 2017).

Statement of The Problem

Small and Medium Enterprises (SMEs) play a significant role in most economies in the World. It is argued by Folajinmi and Peter (2020) that SMEs account for most businesses worldwide. In Europe, SMEs are enterprises with less than 250 employees, annual sales not more than Euro 50 million and have a balance sheet not more than Euro 43 million. Even though SMEs have a significant contribution towards economic development, employment, innovation and poverty eradication, their failure rate is alarming. More than 60% of businesses fail within a few months to 4 years of existence (KNBS, 2017; Atandi & Wabwoba, 2016). The collapse rate is higher in the informal sector with over 50% of SMEs collapsing within less than 5 months. This trend is significant as nearly 400,000 small, medium and large businesses are affected (KNBS, 2021). If Kenya is to achieve Vision 2030 and address unemployment, economic development and the needs of the growing youthful population, then the issues that hamper survival and growth of SMEs need to be addressed. Deloitte (2016) points out that inadequate capital, limited access to markets, poor infrastructure, inadequacy in knowledge and skills and rapid technological change contribute to failure of SMEs in the country. In addition, majority of SMEs lack a competitive advantage over large enterprises resulting in dismal financial performance (KNBS, 2021).

The limited availability of funding for microenterprises can be attributed to the conventional lenders' assumption that these businesses are high-risk and lack profitability. As a result, these lenders frequently show reluctance in providing loans to microenterprises (Sanya & Polly, 2017). Nevertheless, it is vital to scrutinise the influence of mobile telephone loans on the advancement of this industry in the Kenyan market. The rise of digital platforms, as emphasised in the M-Pesa timeline (Helix Institute of Digital Finance, 2015), and the triumph of micro-lending collaborations like the CBA and Safaricom partnership (Cook & McKay, 2015), emphasise the importance of examining the impact of mobile credit in assisting small and medium-sized enterprises (SMEs). This study sought to examine the impact of mobile lending frameworks on the expansion of small and micro-enterprises in Nairobi City County, providing insights into a possible remedy for the credit difficulties encountered by these businesses.

Research Objectives

The study sought to establish the influence of mobile loan structuring on growth of small and micro enterprises in Nairobi City County

Research Questions

What is the influence of mobile loan structuring on growth of small and micro enterprises in Nairobi City County?

Significance of the Study

The study is significant to SME owners in Nairobi City County as it illuminates the critical role that mobile loan structuring plays in the development and growth of their businesses. It offers a clear understanding of how different elements of mobile loans can either aid or hinder their financial progress. With this information, SME owners can better navigate the financial landscape, selecting loan products that align with their growth strategies, leading to improved business performance and economic security. The research also underscores the importance of accessible financial services in fostering an environment where small businesses can thrive, driving innovation and competition within the market. To government officials and policymakers, the study provides evidence-based insights that are essential in crafting policies that encourage the growth of SMEs through improved access to financing. It highlights the potential of mobile loans to act as tools for economic empowerment and presents a case for supporting fintech innovations that could democratize access to capital for small business owners. For scholars and academicians, the study contributes to the body of knowledge on financial inclusion and SME development, offering a platform for future research initiatives. It can serve as a catalyst for academic discourse on the integration of technology in finance and its implications for economic policy and business education, ultimately aiding in the formulation of strategies that can foster a more vibrant and inclusive economy.

THEORETICAL REVIEW/ FRAMEWORK

The theoretical review looks into some of the theories used by scholars in explaining the study, such as Technology acceptance model, credit rationing theory, and financial growth life cycle theory.

Technology Acceptance Model

This is a paradigm of information systems that depicts how consumers come to approve and use technology. Davis established the technology of acceptance Model in 1989. This concept describes new technological commodities and reasons that may lead to acceptance (Khraim, Shoubaki & Khraim, 2011). Sundara & Perera, (2018) portray ease of use as a measure of whether or not the use of new technology has or did not have challenges. The new-fangled technology's ease of use, requirements for the technology to learn or train on features, and skills that may be required to use technology are some of the difficulties that may be experienced. The theories proponents suggest that technology that may be challenging to use has a high chance of not being accepted. The theory further suggests that technology that may be easy to learn may be more likely to be received by the users (Karma, Ibrahim, & Ali, 2014).

Credit Rationing Theory

Credit Rationing Theory is a financing gap theory that was advanced by Stiglitz and Weiss (1981) whom in their formulation, argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization and information asymmetries were the major reason why SMEs

had constrained access to finance. They argued that only SMEs knew their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms had superior private information (asymmetric information). Hence, the bank manager made decisions under asymmetric information, and operated under a moral hazard and adverse selection risk. According to Deakins, North, Baldock and Whittam (2008), small firms that were starting up had a higher chance of being impacted by problems of information asymmetry. They argued that there was a limitation of information, lack of transparency, and knowledge-based assets that were exclusive to founding entrepreneurs.

Financial Growth Life Cycle Theory

The hypothesis of life cycle of financial development was established by Berger and Udell (1998). This theory looks at firms on a size continuum, financing options available to growing firms are also described. The financial growth Life Cycle theory includes changes in information availability and guarantees in unfolding available sources of finance to organizations over time. This theory holds that the funds need options of a business diverse as the commerce grows and get less informational deprivation. Thus the firm is likely to prosper if it's adequately financed (Coleman, 2000). This implies the complexity of the capital structure of the firm intensifies as the firm grows. Various studies conducted concur with the theory that inadequate financing was established to be the primary cause of most SME's failure (Ochanda, 2014).

Financial growth theory also predicts that the firms' growth will enable it to access venture capital (VC) source of the fund. Therefore the firm will become more transparent information wise hence gaining public equity and/or long term debts. The theory thus proposes that as the firm initiates or grows it needs adequate finance for it to be stable. This finance can be obtained from the digital platforms. The availability of the finance will enable the SMEs not only to grow but also to perform better financially (Coleman, 2000). Financial growth theory therefore implies that mobile lending has a positive bearing on the growth of firms by catering for their ever-increasing financial needs.

Empirical Review

Loan Structuring and growth of SMEs

Githuku (2019) employed a descriptive research methodology in a target population of 30253 SMEs within Nairobi city in Kenya to examine the connection between loans amount accessed and growth of SMEs which was sampled to 395. The research used structured questionnaires to acquire primary data. An analysis was conducted and data was later inferred using both inferential and descriptive statistics. The research used multiple regression modeling. The conclusions revealed that primarily, there were no credit facilities availed to SMEs and if availed at all, the credit amounts were very small. These findings discovered that collateral required from SMEs was lofty and SMEs resulted in seeking their business finances from assets and savings. Results from findings also indicated high-interest rates and huge servicing costs for loans, which all hindered SMEs from accessing credit.

In their research, Muhammad, Bambale, Ibrahim, and Sulaiman (2019) evaluated Loan Features, Loan Repayment, and SMEs Performance in Kano: A Mediating Model. The loan term and loan size were used to estimate loan characteristics. The data was put together using a sample of 108 SMEs. To come up with the sample, a simple random sampling technique was applied. Multiple regression in combination with Pearson correlation statistics were applied to investigate data. According to the findings, it was noted that the quantity of the loan and the length of the loan have a favorable association with loan repayment. The research also found that the performance of small and medium businesses mediates the correlations that existed between loan amount, loan duration, and repayment. The research recommended that a regular magnitude of loan and repayment period ought to be maintained during offering loans and, where modification becomes compulsory, the commercial organizations need to set the scope of loan and

repayment period founded on the borrower’s pattern of cash as well as the pattern of their credit score to intensify repayment of loan profitability of the small-medium enterprises. The survey centered on the effectiveness of SMEs but the current research will focus on the performance of Micro and Small Enterprises in NCBD Nairobi City County. Furthermore, Kirui (2017) similarly affirms that nonperforming loans are caused by short loan repayment periods. As a result, a short loan repayment period could quickly result in a non-performing loan.

According to Mills and McCarthy (2016), scarce money or credit impacts small and large businesses differently: small businesses’ short-term debt reduces, whereas large businesses’ short-term debt rises. During instances of restrictive credit, small businesses’ sales and inventories fall faster than large businesses. In another research, Msangula (2015) gathered data from 83 respondents to determine loan interest rates’ effect on the development of SMEs. The study’s major focus was on customers who receive loan services from Vison funds Tanga branch. The study included both quantitative as well as qualitative data collection procedures. Results from the findings indicated an effect of interest rates on performance and development. This was from 68.7 % who responded yes. These results were reinforced by a further 44.6% who agreed to have experienced limited development of business capital while up to 39.8% continued to operate on small profits. Business capital can however experience slow growth if a loan seeker decides to acquire small amounts of loan due to the fear of high-interest rates. Furthermore, Edakasi (2011) affirms that when interest rates are high, many customers may be afraid to borrow since loan repayments are more expensive. It may be difficult for some consumers to maintain up with their current credit repayments, particularly if the rate of interest rises quicker than their revenue.

Conceptual Framework

A conceptual framework is used to differentiate hypotheses and arrange ideas in a visual frame. It contains different disparities and contexts of the study variables. Figure 2.1 displays the conceptual framework for the study.

(Independent Variable)

(Dependent Variable)



Figure 2.1

RESEARCH METHODOLOGY

The current research utilized descriptive analysis as well as inferential survey design. According to Creswell and Creswell (2017) a descriptive survey is defined as correlating to facts of a specific study. The descriptive survey design was better suited to the study since it helps in providing a detailed examination of the effects of mobile credit on the growth of SMEs. The current study population comprised of SMEs operating within Nairobi City County. According to records from Nairobi City County Government there are 1539 registered SMEs found within the Nairobi Central Business District. The sample of the survey was

identified using stratified sampling technique. A stratified sampling technique was adopted where seven (7) strata were identified based on the type of businesses in Nairobi Central Business District. Hence, from the calculation and selected target population of 1539 SMEs, the sample size was 317. The study utilized a questionnaire as the chief data compilation tool. In the existing study, descriptive and inferential statistics were applied in the examination of the set objectives. Pearson correlation and linear regression were utilized.

RESULTS AND DISCUSSIONS

Mobile Loan Structuring

The descriptive analysis was run to determine the influence of mobile loan structuring on the growth of small and micro enterprises in Nairobi City County. Loan structure is widely acknowledged as a critical instrument for microenterprise success, as loan arrangements have a direct impact on an enterprise's profitability. From the study, 90.9% agreed that reasonable interest rates/ cost of repayment affects the smooth repayment of a loan. This indicates that high-interest rates on loans lead to late payments and, as a result, low loan payback. This finding concurs with that of Edakasi (2011) who affirms that when interest rates are high, many customers may be afraid to borrow since loan repayments are more expensive. It may be difficult for some consumers to continue up with their existing loan payments, predominantly if interest rates rise more rapidly than their revenue. If interest rates rise rapidly and remain high for a long time, some borrowers might fail to pay on their loans.

The repayment period is critical in determining the performance of a loan since it gives a customer adequate time and resources to service the loan. According to the study, it was observed that 91.7% reported that a considerate repayment period affects the amount that is repaid. This implies that clients should be provided with a fair repayment plan that allows them to pay the loan in a more structured manner. This finding agrees with that of Kirui (2017) who affirms nonperforming loans are caused by short loan repayment periods. As a result, a decreased loan repayment time can definitely result in a non-performing loan. Similarly, Muhammad, Ibrahim, Bambale, and Sulaiman (2019) recommend that a regular size of loan and tenure ought to be maintained during deploying loan, and where modification size of loan and duration based on the borrowers' behavior of cash (income) to intensify repayment of loan effectiveness among the SMEs.

Microbusinesses entities are thought to have trouble obtaining capital. Many small businesses requesting loans are new, and banks normally want to see a five-year profile of a strong operation. The findings showed that 86.1% agreed that the size of loans advanced affects how the needs of the business are met. This implies that small size businesses may be unable to obtain a loan because they lack a structured profile. This view is consistent with those of Mills and McCarthy (2016) in which their results demonstrate that scarce money or credit impacts small and large businesses differently: small businesses' short-term debt reduces, whereas large enterprises' short-term debt rises. During instances of restrictive credit, small businesses' sales and inventories fall faster than large businesses. Financing institutional crises, in particular, have a greater negative impact on loan-dependent organizations, such as small businesses, than on firms that are less reliant on loan financing. The loan size has a favorable impact on the average transaction costs per loan. Larger loans resulted in cheaper transaction costs per unit of borrowed money for borrowers. According to the results, it was observed that 86.1% of respondents affirmed that favorable loan facility processing fees affect transaction costs. This suggests that low loan uptake will be witnessed due to bottlenecks associated with loan processing. This could affect the performance of SMEs.

Correlation Analysis

The correlational measurement is a numerical method for estimating the connection between the two values and determining how strong that relationship is. In this study, the Pearson correlation analysis was run. This is a metric for how strong a linear relationship between two indicators is. The variables were analyzed at a

0.05 alpha level (2-tailed-test) and described in Table 2.

Table 1: Correlation Analysis

Table 2: Pearson Correlations

		Growth of SMEs
Mobile Loan Structuring	Pearson Correlation	.260**
	Sig. (2-tailed)	0
	N	230

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

The findings in Table 1 showed that there is evidence of a statistically positive correlation between Mobile loan structuring and the growth of SMEs ($r=0.260^{**}$; $p<0.01$). This denotes that once digital firms provide favorable loan interest rates coupled with judicious processing fees enable the client to service their loan. This promotes the growth of SMEs.

Regression Analysis

Regression analysis is the study of how one or more predictors influence a response variable. In the current analysis, a multiple linear regression model was applied. The findings are presented in summary tables, ANOVA, and coefficient Tables.

Table 2: Regression Analysis

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.735a	0.54	0.0534	0.474

a. Predictors: (Constant), Mobile Loan structuring

The model summary indicates that 27% in variation of Growth of SMEs can be explained by the mobile loan structuring, with a standard error of the estimate being 0.66. This suggests that 73% remains as to be explained by other factors.

ANOVA

ANOVA is a set of statistics that give evidence concerning the levels of variation within a regression model and serve as a foundation for significance tests. It demonstrates the robustness of the model in predicting the outcome variable. The finding is displayed in Table 3.

Table 3.: ANOVA^a

Regression	59.723	3	19.908	88.563	.000 ^b
Residual	50.801	226	0.225		
Total	110.524	229			

a. Dependent Variable: Growth of SMEs

a. Predictors:(Constant), Mobile Loan structuring

In a regression analysis, the ANOVA statistic is applied to measure the effect of independent factors on the dependent variable. The finding shows that the model is statistically significant at 0.05 alpha level, $R^2=0.273$, $F(1,228)=85.815$. The finding suggests that the independent variable was significant in determining the growth of SMEs.

Coefficients

During regular regression analysis, the association between each predictor variable and the response is denoted by coefficients. The coefficient value represents the mean change in response when the predictor is increased by one unit. The finding is presented in Table 4.

Table 4: Model Coefficient

Table 4: Coefficientsa

Model	Unstandardized Coefficients	Standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.92	0.273		3.37	0.001		
Mobile Loan structuring	-0.178	0.071	-0.129	-2.497	0.013	0.757	1.321

a. Dependent Variable: Growth of SMEs

Centered on unstandardized coefficients, the results indicate that mobile loan structuring has a negative and substantial effect on the growth of SMEs ($\beta=-0.178$; $p<0.05$).

CONCLUSION

The study concludes that mobile loan structuring plays a significant role in the growth and sustainability of small and micro enterprises (SMEs) in Nairobi City County. With a substantial majority of participants acknowledging the impact of reasonable interest rates and repayment periods on loan repayment behavior and business performance, it becomes evident that financial structures need to be designed with the realities of SMEs in mind. Furthermore, the negative correlation identified between certain mobile loan structuring practices and the growth of SMEs suggests that current models may require refinement to better serve the target demographic. The size of loans and the processing fees also emerged as crucial factors influencing SMEs' access to capital and operational efficiency. The structured mobile loans are essential to the expansion of small and micro businesses in Nairobi City County. Fair interest rates, thoughtful payback schedules, and prudent loan amounts substantially improve these companies' capacity to properly handle their financial commitments. Even if mobile loan structure explains a large amount of the diversity in SME growth, other factors are obviously important as well. As a result, financial institutions ought to concentrate on customizing their loan offerings to better suit SMEs' requirements and promote an atmosphere that supports their growth and prosperity.

RECOMMENDATION

The study recommends that financial service providers should consider implementing fair and reasonable

interest rates that reflect the financial capabilities of SMEs, ensuring that loan repayments are not a crippling burden. Additionally, the extension of repayment periods should be considered to allow SMEs ample time to utilize the borrowed funds for growth before repayment commences. The study further recommends that loan sizes and processing fees be structured in a way that accommodates the unique challenges and financial profiles of SMEs, ensuring these businesses are not excluded from accessing necessary capital. For policymakers, there is a call to facilitate a regulatory environment that supports these changes, and for scholars, to continue this line of inquiry to refine the understanding of financial products' impact on SME growth. The financial institutions should implement more adaptable loan frameworks including reduced interest rates and extended repayment durations in order to lessen the financial strain on small and medium-sized enterprises (SMEs) and augment their potential for growth. Furthermore, it recommends tailoring loan packages to consider the specific cash flow and business characteristics of small and medium-sized enterprises (SMEs) in order to enhance their credit accessibility. Financial institutions can enhance the accessibility of loans for small firms by modifying loan amounts and decreasing processing fees. This could result in a greater utilization of loans and strengthen the general well-being of the SME sector.

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