FINTECH LENDING AND FINANCIAL PERFORMANCE OF THE MICRO ENTERPRISES IN KENYA: A CASE OF MICRO ENTERPRISES IN KASARANI SUB-COUNTY

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DECLARATION

I declare that this document and the research is my original work and has not been presented in any other university for academic work.

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This research is conducted under our supervision and is submitted with our approval as university supervisors.

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DEDICATION

To my Mum, Children, my brothers and Sisters.

ACKNOWLEDGMENT

I would like to express my deepest appreciation for my supervisor Dr John N. Kamau and my Dr. Kiprop Kibos who have guided me tirelessly. My gratitude to my children, Charles, Thembi, Ines and Abdulah for all their moral support and love they have given me throughout this journey and my mother Agnes for staying late at night while I was researching and all those who have supported me to achieve this project and in particular the Central Bank of Kenya as well as my close friends and colleagues for all their support. I will also acknowledge the unwavering support of my friend and colleague Hilda Achieng who has left a tremendous vacuum in the office and who has always been there through good and bad time. May our God grant her eternal peace

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ABSTRACT

The advancements of financial technology (fintech) lending in recent years have brought about a paradigm shift in the financial services landscape, addressing the limitations faced by micro enterprises in accessing credit through traditional financial service providers. The study aimed at investigating the effect of fintech lending on the performance of the micro enterprises in Kasarani Sub-county, Nairobi, Kenya. The micro enterprises were clustered in Kasarani, Njiru, Ruai and Mwiki. The specific objectives were to examine the effect of accessibility credit, affordability of credit and financial inclusion on the performance of micro enterprises. The study was centred on three theories: loanable fund theory, bank focused theory and financial intermediation theory. The study used a descriptive research design that utilised primary data. Primary data was obtained through administering semi structured questionnaires and analysed using a multilinear regression model. The target group were licensed micro enterprises actively operating within Kasarani Sub-county as the target population. The sample size was determined using stratified random sampling procedure in accordance with the Yamane formula. The foregoing methodology arrived at a representative sample size of 270 respondents. The micro enterprise population in Kasarani Sub-county was divided into different strata along the 4 wards. Hand to hand questionnaires was the main method of data collection and analysed using SPSS. The quantitative data from the instruments were analysed using descriptive statistics and inferential statistics in the form of the Pearson's correlations and regression. An experimental pilot test was carried out in Roysambu Sub-county before the commencement of the study where 29 research questionnaires were distributed as per the Mugenda and Mugenda theory of 10% to check on any discrepancies with the designed questionnaire and allowed the investigator to control the moods and attitudes of respondents to the study and undertake corrections before the actual exercise. The study failed to reject all the 4 study hypotheses on the relationship between the variables; fintech accessibility, fintech affordability, financial inclusion and the combined impact of fintech credit accessibility, affordability, and financial inclusion on the financial performance of micro enterprises in Kenya. Correlation analysis pointed to a weak positive relation between fintech credit accessibility and financial performance of micro enterprises and a weak negative relationship between fintech affordability and financial performance of micro enterprises. There was however a moderate positive relation between financial inclusion and financial performance of micro enterprises. The study findings point to the need to realize untapped potential in the industry by leveraging the existing elaborate and vast network created by technology and internet availability. The above is inferred from the empirical evidence of the potential of combined impact of fintech credit accessibility, affordability, and financial inclusion on the financial performance of micro enterprises in Kenya. Technology and more importantly the internet, whose access within the country has taken giant leaps can be leveraged to create awareness and also gather feedback on fintech services and product offerings.

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DEFINITION OF TERMS

Access to credit: This means that a borrower can have good physical access to lenders that want to lend, but the cost and suitability of products make borrowing impractical.

Credit affordability: Refers to the ability of a customer to pay back current and future debt.

Financial Inclusion: Refers to the extent to which microenterprises are included in the lending criteria and the suitability of the lending services as per their needs.

Financial performance: This is the ability of a firm to achieve the range of set financial goals such as profitability.

Fintech: Refers to financial industry that innovatively delivers financial services such as banking payment; financial data using technology.

Lending policies: Refers to regulatory responses which covers policy instruments issued by supervisory authorities to regulate the provision of financial services

Microenterprise: This term is used in this study to refer to small business with typically less than 10 employees working. The enterprise is usually launched by a bank or other entities with a limited amount of capital.

LIST OF ABBREVIATIONS

AFI:	Alliance for Financial Inclusion
CBK:	Central Bank of Kenya
CMA:	Capital Market Authority
DFID:	Department of International Development
E-Banking:	Banking on a mobile platform
EC:	European Commission
FINTECH:	Financial technology
FSB:	Financial Stability Board
FSD:	Financial Sector Deepening
GDP:	Gross Domestic Product
ICIPE:	International Centre of Insect Physiology and Ecology
KYC:	Know your customer
MPESA:	Mobile money platform
NPS:	National Payment Systems
NSSF:	National Social Security Fund
OECD:	Organisation for Economic Co-operation and Development
PWC:	Price Water House Cooper
RBA:	Retirement Benefit Authority
SACCOS:	Savings and Credits Cooperative Societies
USIU:	United States International University
PAU:	Pan African University

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter comprises an exploration of the background, a delineation of the problem statement, formulation of study objectives, elucidation of the study's significance, specification of the scope, articulation of delimitations, and acknowledgment of the study's limitations.

1.2 Background of the Study

The advancements of financial technology (fintech) lending in recent years have brought about a paradigm shift in the financial services landscape, addressing the limitations faced by micro enterprises in accessing credit through traditional financial service providers (Aker and Mbiti 2010). According to The Global Findex Database 2021, the period from 2017 to 2021 witnessed a notable rise in the mean account ownership rate in developing economies, increasing from 63% to 71%. This surge is particularly evident in sub-Saharan Africa, attributed largely to the widespread adoption of mobile money. As a result, fintech lending has emerged not only as a strategy to facilitate access to credit for micro enterprises but also as a means to ultimately enhance their financial performance. Therefore, it becomes relevant to look into the relationship between fintech lending and micro enterprises, specifically their financial performance. This interest is justified by the transformative nature of fintech lending, serving as a game-changer by offering accessible credit solutions to micro-businesses operating predominantly in the informal sector. Moreover, within the broader context of extensive financial inclusion efforts, fintech lending appears to bridge the financial gap by providing credit to micro-businesses in developing economies including Kenya.

Kenya, in Africa is credited with the reputation of being a pioneer in financial inclusion that has been facilitated by M-Pesa which is a mobile phone-based application that eases the money transfer and financial services platform which was launched in 2007 by Safaricom (Fick & Mohammed, 2018). This service enables individuals to transfer money and make payments via mobile phones without the requirement of a traditional bank account. As per the Communications Authority of Kenya, as of December 2019, the subscription of mobile holders was at 53.2 million, with mobile money subscriptions standing at 31.2 million (Business Daily, 2021). The service has expanded to other countries in East Africa and beyond, emerging as a notable example of successful global mobile banking and digital financial services.

The creation of the mobile application has paved the way for the rise of digital credit, primarily facilitated through partnerships between commercial banks and mobile network operators. In 2010 M-Kesho was launched and played a pivotal role in shaping Kenya's digital lending landscape (Wamalwa et al., 2019). Following this, the emergence of digital credit was notable in 2012 with the introduction of M-Shwari, a collaborative initiative between Commercial Bank of Africa (now NCBA) and Safaricom. M-Shwari disbursed microloans totalling around KSh 7.8 billion (Kafenberger et al., 2018), ranging from KSh 100 to KSh 10,000, with a 30-day repayment period and a facilitation fee of approximately 7.5 percent (Suri et al., 2021). Over the past years, the digital credit sector has expanded significantly, with estimates suggesting the presence of several hundred lenders operating in the Kenyan market at various points (Gwer, Odero, & Totolo, 2019).

The digital lending market remained unregulated until March 18, 2022 when the Central Bank of Kenya (CBK) issued regulations granting itself the authority to regulate and supervise digital lenders. The Digital Credit Providers Regulations, 2022, put into effect the provisions of the Central Bank of Kenya (Amendment) Act, 2021, which became effective on December 23, 2021.

Among the segments profoundly impacted by fintech lending in Kenya are microenterprises, which form the backbone of the entrepreneurial landscape in Kenya. Micro-businesses play a central role in job creation and poverty reduction. They are typically characterised by their small size, limited capital, and reliance on owner-operators. These businesses are often family-owned and operate in diverse sectors such as agriculture, trade, and services. Despite their significance, microenterprises have faced obstacles in accessing traditional financial services, including cumbersome loan application processes, stringent collateral requirements, and high rejection rates. These challenges have hampered their growth potential and financial stability.

In Kenya, most microenterprises play a vital role in the economy in a way to contribute to the growth of the economy, in creating jobs and alleviating poverty. These small businesses often operate in the informal sector, are diverse in nature, encompassing agriculture, retail, services, and more. While they form the backbone of Kenya's entrepreneurial landscape, access to financial services, particularly credit, has been a persistent challenge. The emergence of fintech lending platforms offers a promising solution to this problem.

The growth of financial technology (fintech) has disturbed the traditional financial services landscape in Kenya. Fintech companies leverage digital technologies and data analytics to provide innovative financial solutions. One of the most notable fintech innovations in Kenya is mobile money, led by the success of M-Pesa. This widespread adoption of digital financial services has paved the way for fintech lending platforms, which offer quick and accessible credit solutions to micro enterprises and individuals.

1.2.1 Financial Performance

Cho et al. (2019) refer to financial performance as a company's profitability and corporate value. It serves as an evaluation of the extent to which a company has met or exceeded established financial benchmarks, offering insight into the accomplishment of financial goals. According to Verma (2023), financial performance is the degree to which financial objectives have been accomplished and is an important aspect of financial risk management and is used to measure a firm's overall financial health over a given period of time.

A company’s financial performance is important in so many ways as it tells shareholders about its general well-being. It serves as a representation of the economic well-being and the effectiveness of company management, offering insights into the future trajectory of operations, profits, and stock outlook. This assessment discerns the company's proficiency in revenue generation and the management of assets, liabilities, as well as the financial interests of stakeholders and stockholders. Additionally, it enables company stakeholders to assess and make informed economic decisions by analysing both historical and current performance, thereby projecting future growth and performance of the company.

Various metrics exist for gauging financial performance, all of which should be considered in aggregate. Examples include line items such as revenue from operations, operating income, cash flow from operations, and total unit sales. Additionally, financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Net Interest Margin (NIM) can be employed for assessing financial performance.

Hargrave (2024) points that Return on Assets refers to refers to a financial ratio that indicates how profitable a company is in relation to its total assets. The calculation of the ROA ratio involves dividing the operating profit by the total assets, providing a measure of earnings derived from all the financial resources of the company. Conversely, NIM gauges the difference between the interest paid to the bank's lenders, such as liability accounts, and the interest income generated by the bank concerning the value of its assets. The NIM variable is

represented by the net interest income divided by the total earning assets. Return on Equity, often abbreviated as ROE, represents a profitability ratio calculated by dividing net profit by shareholders' equity. It demonstrates the business's efficiency in leveraging equity investments to yield profits for investors. Net profit margin is a profitability ratio that measures what percentage of revenue and other income is left after subtracting all costs accruing to the business, including costs of goods sold, operating expenses, interest, and taxes.

1.2.2 Fintech Lending Accessibility

The business environment is currently undergoing phenomenal changes in terms of business process, practices and customer value expectations and delivery. This has had implications on the overall competitiveness of the market and individual performance of enterprises. In order to cope with these environmental market changes and to survive, some companies have indeed been forced to come up with new products/service and process innovations, while some have been forced to adopt the current existing innovation in the market. The situation is critical when it comes to microenterprises that are vulnerable to market dynamics. To improve their performance and grow beyond their start-up phases some of the microenterprises have adopted the use of Financial Technology to access credit offered by the various financial Institutions.

FinTech is a term that stands for ‘financial’ and ‘technology’ that embraces the utilisation of technology to innovate the financial sector, service provision and systems (Chatchai & Ho-don Yan, 2019, Puschmana, 2017). Accion (2019) provides that it is fintech lending that has introduced digital lending. Hence, digital lending can be characterized as the provision of loans applied for, disbursed, and managed through digital channels by using digitised data to inform their credit decisions. Information Technology & Innovation Foundation (2016) defines Fintech as a combination of the words ``financial technology," this pertains to a group of companies dedicated to leveraging cutting-edge innovations in information technology to enhance financial services. These enhancements offer advantages to both consumers and businesses, resulting in more convenient, higher quality, and cost-effective services

Financial technology (FinTech) represents an emerging business model that harnesses the capabilities of technology and digital devices to offer individuals seamless financial transactions. Broadly speaking, fintech strives to engage consumers with products and services that are more user-friendly, efficient, transparent, and automated, as highlighted by Wulandari (2017).

Fintech lending market system has been under an accelerating growth rate globally. It tends to be the most preferred lending platform as it requires fewer collateral assets from borrowers. It has exhibited debatable phenomena, with both negative and positive impacts to the financial markets and systems. The alternative of fintech financing has led to development of a variety of new category of financial services and products, such as bitcoin, P2P lending, crowd financing, mobile payment, and insure-tech (Breidbach, Keating & Lim, 2020). Globally, Fintech lending has gained popularity as there is no lending discrimination.

Fintech lending can be measured by financial access, the levels of efficiency in lending, intermediation and lending transactions cost, lending process improvement or innovation, rapidity in lending, flexibility of lending terms, and level of market served (Rialp-Criado & Komochkova, 2017). As per Vives (2017), the effectiveness primarily stems from Fintech's capacity to address information asymmetries. In a broader context, Fintech lending provides businesses with speed, convenient services, flexibility, and a tailored emphasis on the funds of smaller customers, thereby diminishing the asymmetry of information (Global Partnership for Financial Inclusion, 2020).

The advent of financial technology (fintech) has facilitated the entry of new players into various realms of financial services, particularly in small business lending (Cornelli, Frost, Gambacorta & Jagtiani, 2022). Emerging fintech lenders frequently leverage alternative data sources and employ machine learning techniques to evaluate the creditworthiness of small businesses. This approach complements the traditional credit scores and soft information utilised by conventional banks. In the United States, the proliferation of fintech lenders aligns with the broader trend of non-bank lenders gaining prominence, concurrent with a retreat by traditional banks. Fintech credit enables firms to enhance leverage and modify their debt structures.

This theory helped to illustrate the necessity to ascertain the loanable funds on the fintech platform by linking the interest rate as an element of affordability of loans in the platform. It helped to ascertain how fintech lending matches their loans to borrowers to mitigate chances of credit default given that fintech lending relies on minimal information of borrowing clients, making the platform more accessible over the traditional systems.

The economic performance is quantified by the Gross Domestic Product (GDP). The GDP depends on the level of investment and consumption. When the GDP is high, loanable funds are more available, therefore, those who want to access loans can do so in the free market.

If the interest rate is high, the consumer will not go for them. The interest rate must be low enough to encourage borrowers. The borrowed funds once invested must produce a return.

The main source of finance for fintech is equity capital raised by their shareholders in their mother country. In Kenya, companies can access loans from the Cooperatives and microfinance institutions and banks.

The borrowers can easily borrow if they have their businesses duly registered, tax compliance certificate in due form, a certificate of good conduct and finally they are not listed under the Credit Reference Bureau. All these falls under the demand side. On the supply side, the following must fall in place such as a steady economy, a low interest rate, a relatively low inflation, a balanced exchange rate. These are the indications that in case the economy is doing well then, the demand of the products will be on high demand.

1.2.3 Fintech Lending availability

Fintech businesses have emerged as a viable alternative to traditional pecuniary organizations, offering a variety of innovative products and services that can benefit micro-businesses. Fintech-driven business models, including crowdfunding, peer-to-peer lending, invoice trading, mobile wallets and payments, and platform-based supply chain finance, are transforming the environment for small businesses. These models play a crucial role in closing the finance gap by allowing smaller firms to leverage alternative funding sources, representing a transformative influence in the industry (Global Partnership for Financial Inclusion, 2020).

Fintech plays a pivotal role in enhancing the performance of micro-businesses by optimizing their operational efficiency, as indicated by Rahardjo, Khwan, and Siharis (2019). It facilitates easy access to capital for micro-businesses, supporting their growth. Beyond conventional capital funding, Fintech now encompasses diverse aspects such as digital payments and financial mechanisms, offering business owners access to a range of financial products. Furthermore, the availability of non-collateral loans enhances business owners' access to capital (Sugiarti, Diana & Mawardi, 2019).

The growth and prosperity of any firm within the economy necessitate access to credit (Ndombi-Avouba, 2022). Access to credit enhances firms' performance, facilitates market entry, supports company growth and risk mitigation, and fosters innovation and entrepreneurial activity. Access to credit is a crucial factor for the performance and sustainability of a firm, as evidenced by growth in sales, expansion of the customer base, and an increase in profit margin. Access to credit plays a key role in improving the performance of firms, facilitating market

entry, promoting the growth of companies, reducing risks, and encouraging innovation and entrepreneurial activities (Sakwa, 2017).

According to Junior (2015), credit affordability is the evaluation of a customer's financial capability to support current and future loans. Affordability specifically addresses the issue of non-repayment resulting from the customer's inability to meet repayment obligations. High-risk borrowers are subject to higher interest rates, as noted by Delfino (2024). Elevated interest rates can diminish business earnings, impeding the capacity for growth. Additionally, high interest rates impact a business's cash flow, as more funds must be allocated for loan repayment thus affecting the financial performance of the (Ndungu, 2016).

1.2.4 Financial Inclusion

Financial inclusion directly and indirectly affects the performance of microenterprises, with mediation from financial intermediation and capital access. In a direct sense, endeavours to enhance financial service accessibility, particularly credit financing for microenterprises, can lead to an expansion in market share, workforce, sales, and profits for these microenterprises.

Increase in financial intermediation in the form of financial service approach to microenterprises facilitate in the expansion of the performance of microenterprises (Ratnawati, 2020). The third specific objective of this study is to determine the impact of financial inclusion on financial performance of micro enterprise. The primary objective of financial inclusion is to broaden the scope of financial services within the structured financial system to encompass individuals with lower incomes (Ann, Hannah & Peter, 2016). Financial inclusion represents one of the initiatives for financial education, particularly aimed at enhancing the community's ability to leverage financial services for direct benefits from financial institutions (Sharma, 2016).

1.2.5 Overview of Microenterprise Sector

Microenterprises constitute the predominant share of businesses globally and serve as significant contributors to both job creation and the overall advancement of the global economy (Pedraza, 2021). In the United Kingdom, the micro-business sector exhibits considerable diversity, with enterprises distributed across various industries, communities, and local economies. This sector, in aggregate, contributes to 33 percent of employment and collectively generates 21 percent of the economy's turnover (Beaudry & Swann, 2019). Micro-businesses constitute three-quarters of all businesses in Canada and play a substantial role in job creation

(Papadaki, Chami & Branch, 2020). In India, we observe the emergence of the Microenterprise sector in a way that is lively and active. This segment contributes in playing a critical part in the provision of the creation of huge opportunities in the employment in comparatively lowering cost better than other industries. This sector offers an extensive array of services and is involved in the production of more than 6,000 products, spanning from traditional to high-tech items. (Pedraza, 2021).

As per the Ministry of Industrialization, Trade and Enterprise Development Sessional Paper No.5 of 2020 on Kenya Micro and Small enterprises policy, a micro enterprise is defined as a business activity whose annual turnover is below Kshs 1 million and meets any of the following criteria;

a) Employs less than 10 people or
b) Has total assets as shall be determined from time to time by the Cabinet Secretary (Responsible for matters relating to SME's).

Microenterprises are mostly sole proprietorship, partnerships or family businesses with fewer than 5 employees and are launched s part times or self-financed operations (Severens & Kays 2018).

It is estimated that in Africa, 80% of microenterprise offers jobs across the continent, which is a good representation that it is a crucial component in driving the growth of the economy. Sub-Saharan Africa alone comprises 44 million micro, small, and medium enterprises, almost all of which are micro (Roy & Wheeler, 2016). Microenterprises substitute the establishment of a pool of skilled and semi-skilled workers, laying the foundation for subsequent industrial growth. Besides, microenterprises are able to offer more opportunities to advance and create a more adapted context in terms of technological innovation (Akamobi, 2020). People who are managing microenterprises within the informal economy are primarily entrepreneurs out of necessity, driven by their fundamental needs influencing their business activities and behaviours. Additionally, it was noted that their achievements were hampered by several barriers, including limited access to capital, inadequate training, and a general reluctance to undertake risks (Ajibo, 2023).

Microenterprises sector is the economic foundation in Kenya comprises the majority (98%) of all business entities, whether registered or unregistered, within the country. This sector predominantly remains informal, with only 20% of the 7.4 million microenterprises operating as licensed entities (Rahman, AbdelFattah, Bag & Gani, 2022). The microenterprise

sector presents significant opportunities for the socio-economic transformation of Kenya's economy. It serves as a platform for absorbing individuals with low skills and those economically marginalized within the labour force, including youth, women, persons with disabilities, and individuals with lower levels of education. Micro Small Enterprises encounter various challenges, including access to affordable credit, market entry, and infrastructure and logistical obstacles (Shibia & Barako, 2017).

1.2.6 Profile of Micro Enterprises in Kasarani Sub-county

Kasarani Sub-county, situated in Nairobi County, Kenya, boasts a high population density. A substantial portion of this population sustains their livelihood through involvement in small and medium businesses, which are predominantly family-owned and scattered throughout the Sub-county (Nairobi City Council, 2018). Kasarani Sub-county is recognized for its active microenterprise sector, featuring a diverse array of firms engaged in various activities, particularly concentrated in metropolitan areas.

The rationale for the choice of the proposed site is the following: Kasarani is the second biggest county in Nairobi. The growth in size in terms of population for the last 10 years has increased. After the building of the Thika Highway, many Nairobians moved to come to live around the highway. It has brought a diversity within the population of Kasarani and the booming of micro businesses.

Most businesses in Kasarani Sub-Location mainly consist of single-household groups and sole proprietorship enterprises. These predominantly comprise artisans and self-help groups involved in the supply and production of raw materials from indigenous crops. Among the primary income-generating activities in this category are the production of small household items, clothing, and fashion. Additionally, activities such as ceramics, footwear, jua- kali artisans, and the production of soft drinks are prevalent, foodstuffs and cuisine specialists and confectioner (Chemwei, 2021). The study will focus on microenterprises that operate in a physical location registered by the county government and has been in existence for at least 6 months to have accessed some form of financial credit either for start-up or business operations. The study will ensure a balanced approach to ensure the various types of microenterprises including; carpentry, cereals, clothes, shoes, hair dressing and salons, barber shops, metal works kiosks and restaurants are covered with not more that 15% respondents reached in one particular microenterprise.

The theory of financial intermediation postulates a situation where many intermediaries play a role in the market without discrimination to make all the services available to everyone from the top to the bottom. The rate is supposed to be complementary instead of being competitive. In this way, the market forces align the lenders and the borrowers in such a way the economy is stable. The financial market is made of the capital market and the money market. The Financial intermediaries include banks, microfinance institutions, saving and Credit Cooperatives Organization, insurance companies, building societies, hire purchase companies, National housing Corporation, pension funds and funds mangers. The financial instruments include short- and long-term loans, promissory notes and credit guarantees.

Financial intermediation has therefore facilitated the inclusion of all types of borrowers because it is an all-inclusive process the big corporations, the individuals as well as all types of individuals can all access finance.

1.3 Problem Statement

The financial performance of the micro enterprise sector is not only important to individual entrepreneurs but to the whole economy as it generates employment opportunities, it's a source of income to many people, and revenue to the government, it drives improvement in quality of life and development of social amenities among many other positive outcomes. In Kasarani Sub-county, many microenterprises fail to meet their third birthday, while others struggle to stay in the marketplace, not even meeting their own financial obligation. If this situation is left unaddressed it will have the effect of affecting the livelihoods and the quality of life of the local people. The non-financial performance is attributed to many factors such individual characteristics of entrepreneurs, lack of knowledge and skill among entrepreneurs, and above all lack of access to formal credit in the marketplace which has traditionally been seen as the biggest impediment to performance of microenterprises (Mohamed, 2017). The emergence of financial technology lending can be seen as providing the opportunity for microenterprises to improve their financial performance; hence this study attempts to determine whether financial technology lending has any effect on the current financial performance situation of microenterprises located in Kasarani area. However, the utilization of fintech in microenterprise in terms of accessibility, affordability and inclusion is still not clear making it difficult to judge whether they are beneficial to microenterprises or not.

Numerous studies have been carried out worldwide on Fintech lending and financial performance of microenterprises. In the developing countries more so in Africa, less effort has

been imparted into the field thus less determination has been made on the relationship between the variables. In the developed economies, sustainability of micro enterprise is positively affected by Fintech lending products (British Business Bank, (2015). Kiilu (2018) examined the impact of fintech businesses on the financial performance of the banking sector in Kenya and found that uptake of mobile payment solutions has a positive effect on financial performance of the commercial banks. But, the scope of the study was confined to the influence of fintech firms on the financial performance within the banking sector, thereby indicating a contextual gap. Azzan (2021) studied the effect of microfinance on financial performance of small and medium enterprises in Kwale County, Kenya. It was reasoned that microfinance emphatically impacted the financial performance of small and medium enterprises. The study was limited to micro-finance and financial performance of SMEs in Kwale County thus presenting a contextual gap. From the above review, it indicates that less has been done on the relationship between that fintech lending and financial performance thus creating a gap in the area. This study aimed at filling this gap by investigating the effect of fintech lending on financial performance of microenterprises in Kasarani Sub-county.

1.4 Purpose of the Study

To determine the effects of fintech lending on financial performance of the micro enterprises in Kasarani Sub-county area

1.5 Objectives of the Study

a) To assess the impact of fintech credit accessibility on the financial performance of micro enterprises in Kasarani Sub-county.

b) To investigate the influence of fintech credit affordability on the financial performance of micro enterprises in Kasarani Sub-county.

c) To analyse the effect of financial inclusion on the financial performance of micro enterprises in Kasarani Sub-county.

d) To determine the combined impact of fintech credit accessibility, affordability, and financial inclusion on the financial performance of micro enterprises in Kasarani Sub-county

1.6 Research Hypotheses

Ho_1: There is no significant relationship between fintech credit accessibility and financial performance of micro enterprises in Kenya.

Ho_2: There is no significant relationship between fintech credit affordability and financial performance of micro enterprises.

Ho_3: There is no significant relationship between financial inclusion and financial performance of micro enterprises.

Ho_4: There is no significant relationship between Fintech credit accessibility, affordability, financial inclusion and financial performance of micro enterprises in Kasarani Sub-county.

1.7 Significance of the Study

The outcomes of the study will prove highly advantageous to various stakeholders. Strategic managers of fintech lending firms will gain insights into the types of products to offer their clients and how to align their lending terms with existing fintech policies. Additionally, the findings will serve as a crucial tool to make decision in order to guide proactive measures to mitigate risks and enhance the overall performance of commercial banks.

The study's findings hold significance for microenterprises in Kasarani Sub-county, shedding light on the impact of fintech lending on their comprehensive financial performance. This research provides microenterprise owners with an enhanced comprehension of key fintech lending variables, including fintech credit accessibility, fintech credit affordability, and financial inclusion. Furthermore, microenterprise owners can gain valuable insights that will aid them in approaching lending institutions for financial assistance.

Government agencies and regulatory authorities, including the Central Bank of Kenya and the Capital Market Authority, will find this study essential for policy formulation. The insights derived from the study can contribute to the development of a robust regulatory framework, guiding bank managers in effective risk mitigation strategies to instil public confidence in commercial banks. This, in turn, can establish a competitive advantage for the government by fostering the development of a resilient fintech lending sector that continues to contribute through tax payments.

The study will be highly beneficial for academicians and scholars. It will offer recommendations that can serve as valuable insights for other researchers when selecting their research topics. Additionally, the study will contribute important literature reviews that can

enhance the research endeavours of these scholars, thereby establishing a foundational basis for empirical referencing.

1.8 Scope of the Study

The study was restricted to effects of fintech lending on financial performance of the microenterprises in Kasarani Sub-county. It was limited to three variables: credit accessibility, credit affordability and financial inclusion. The study took place in Kasarani Sub-county area. The target population were owners of microenterprises operating in Kasarani Sub- County area. The study took a period of eight months from December 2023 to April 2024.

1.9 Delimitation of the Study

This work sought to investigate the effect of fintech lending on the financial performance for the micro enterprise within the sub- county of Kasarani. The study focused on three variables, the access to credit lending, the affordability of credit and the financial inclusion. The study did not investigate the following related Fintech variables: Fintech innovation, Fintech data protection and Fintech risk management.

1.10 Limitation of the Study

The subject of fintech lending is still new in the financial landscape therefore there is not enough information available. There were limitations on the access to customer private information and constraints related to cultural, religious, and personal beliefs. The researcher addressed this by providing adequate information to the respondents by assuring them of utmost confidentiality and privacy of their information and the fact that the information would be strictly for research purposes only.

1.11 Assumption of the Study

The study supported a number of assumptions including: the study instrument to elicit reliable responses, the respondents fully understood the questions asked and gave truthful information required for the study. This study also assumed that the respondents would be available for the study and would volunteer to participate in answering the questionnaire.

1.12 Theoretical Framework

This study was based on a number of theories that link fintech lending and financial performance of micro enterprises in Kasarani that includes loanable fund theory, bank focused theory and financial intermediation theory.

1.12.1 Loanable Fund Theory

This theory was established by Swedish market analyst Knut Wicksell (1936). As per this neoclassical theory, the cost of lending (interest rates) is a subject of supply of loanable assets and the demand of the available assets. The theory outlines that the interest rates arise due to investment, saving, and dissaving of the economic units.

Demand for loans is due to the availability of investment opportunities in the economy. If investment levels increase in the economy, there will be high demand for the funds and thus it will increase the lending. The lending is affected by both supply side and demand side of the loanable funds.

1.12.2 Bank Focused Theory

This theory was put forward by Lyman (2006) which holds that lending institutions that include commercial banks can create more synergy from adopting contemporary technology such as mobile lending in the provision of their services to the esteemed customers. Mobile banking is real time banking as the clients can execute transactions anytime at their comfort unlike the traditional banking service provision that requires customers to visit the banking halls. Mobile banking platform has made banking more efficient and cheaper as the transaction cost has been minimized to the acceptable low level. Linking of banking services to mobile technology has created high efficiency in the industry as the service providers are able to interact with their customers on a timely basis. It has eliminated unnecessary formalities in the banking industry that the youths are unable to meet like collateral requirements for borrowing.

This theory was considered fundamental to the study as it will help the study to ascertain the link between fintech platform and credit accessibility among micro enterprises. The micro enterprises are considered as the most in capitalizing on the technological advancement in getting their services. They have easy access to technological facilities like smart phones, high internet connection and other technological peripherals. The micro enterprises are mostly owned by youth and are kept abreast to technological evolutions. Another of financial transactions by these youths are settled through technological platforms that makes this theory more relevant to the study.

1.12.3 Financial Intermediation Theory

This theory was developed by Medoff (2002), which outlines that financial intermediation exists to minimize cost of transaction. Financial intermediation is the act of institutions and individuals that acts as middlemen between the supplier and the consumer. With the emergency of technology, a few intermediaries exists between the suppliers of financial assets and the effective consumers of such financial assets. The providers of technological platforms like internet and mobile services are engaged by financial institutions and other lenders to facilitate their service delivery to their customers. They facilitate electronic fund transfer and online lending transactions.

This theory was more applicable in undertaking the study as it enabled the study to link fintech lending policies by lending firms and the intermediaries who facilitate fintech lending transactions. Fintech service providers has made it possible for the organisation that are loaning firms in meeting the needs of their clients through the intermediation process facilitated by technological firms like mobile service providers. The link that has been created by the financial technology platform has facilitated fintech lending to a success of the day and heightened the platform to be more considerate by the youths.

An innovation can be described as an idea practiced that is perceived as new by a person or another unit of adoption. Rogers (1995). P11. In general Innovation Diffusion Theory is a theory that addresses new ideas, new products and social practices that are spread within the society or from one society to another. The innovation Diffusion Theory tries to identify explanatory variables that determine and govern the respective process. The Diffusion Theory will focus more on the aggregate analysis of all decisions that are adapted by the members of the social system.

The Diffusion of Innovation Theory had been developed by E.M. Rogers. The main purpose of the theory was to explain how with time an idea or product can reach the momentum and can be spread throughout a specific population or social system. At the end of the diffusion (spreading process), mostly people will embrace it as part of a social system. The perception of people becomes the crucial part of the analysis because it influences people behaviour (Rogers, 2003). The decision to use innovation can be determined by 5 issues such as the perception of usefulness, the matching of needs, intricacy, testability and visibility on how technology is adopted with the social system. The theory provides that there are people who

accept being called acceptors and can be divided into different groups as inventors, the early acceptors, the early common, the late majority and the laggards.

According to (Fichman 2006), the customers who are part of the innovation adaption phase can vary in their features. Therefore, among the microenterprises, not all of them will easily accept Fintech and if they do it, they will not approve together. The theory proved why some micro enterprises adopt Fintech before others.

1.13 Conceptual Framework

A conceptual framework is a graphical depiction illustrating the interrelationships and connections among the research variables being investigated. This framework provides a visual representation of the hypothesized effect of fintech lending on the performance of micro enterprises. The major variables associated with fintech lending include accessibility of fintech credit, affordability of fintech credit, and financial inclusion.

The independent variables in this study are:

1. **Accessibility of Fintech Credit**: This variable examines how easily micro enterprises can obtain credit through fintech platforms. Factors such as application simplicity, approval speed, and user-friendliness are considered.
2. **Affordability of Fintech Credit**: This variable assesses the cost-effectiveness of fintech lending for micro enterprises. It includes interest rates, fees, and the overall cost of borrowing compared to traditional lending sources.
3. **Financial Inclusion**: This variable measures the extent to which fintech lending enables previously unbanked or underbanked micro enterprises to access financial services. It looks at the reach and penetration of fintech solutions in underserved areas.

The dependent variable in this study is:

Performance of Micro Enterprises: This variable evaluates how the adoption of fintech lending impacts the business outcomes of micro enterprises. Performance metrics may include profitability, and overall financial health.

Independent variables **Dependent Variable**

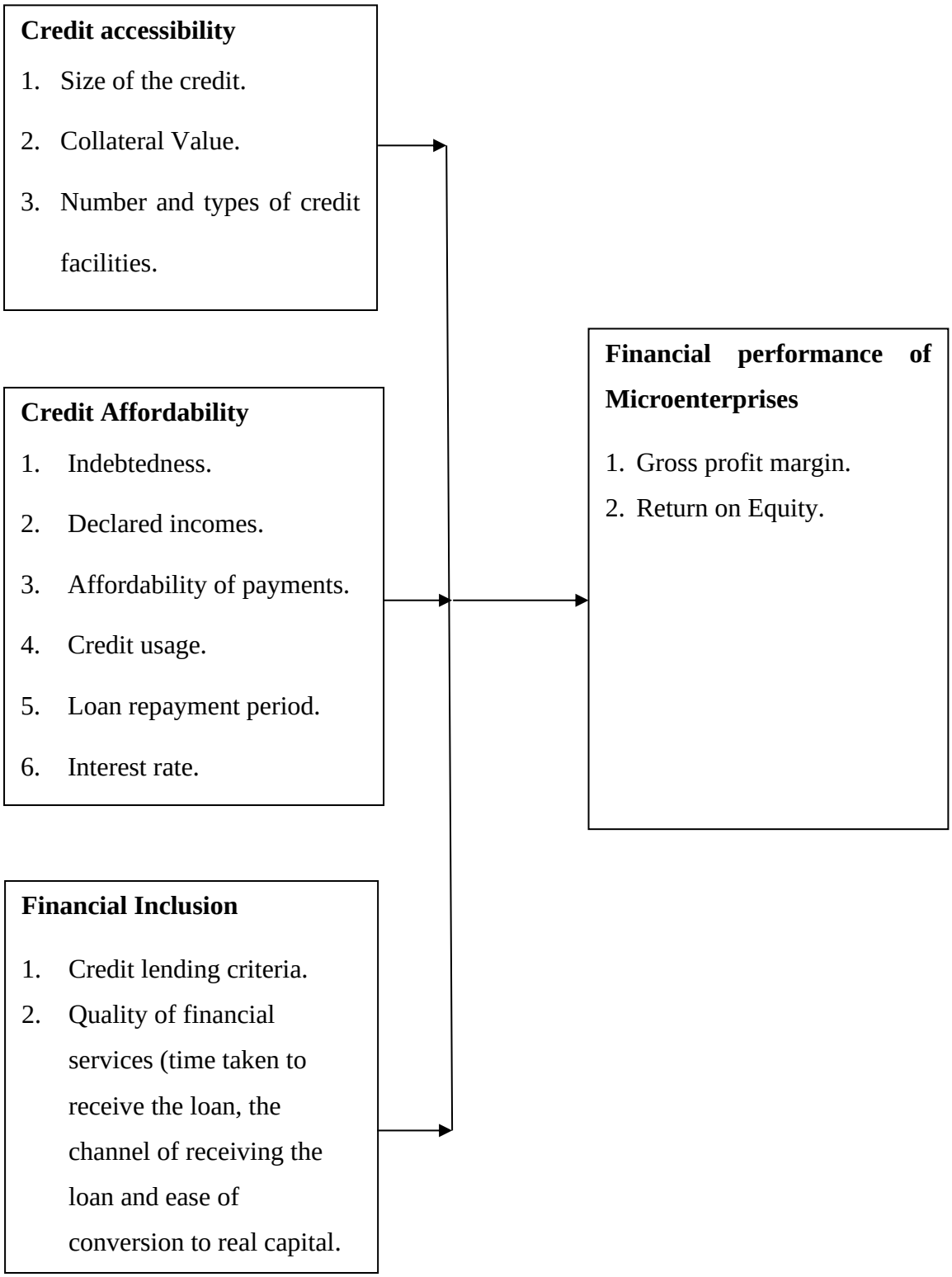


Figure 1.1: Study Conceptual Framework. Source: Researcher (2024)

Figure 1.1 above illustrates how the independent variables namely, fintech credit accessibility, credit affordability and financial inclusion are hypothesised against the dependent variable financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section is dedicated to conducting a comprehensive review of the extant literature pertaining to the research problem. It starts by reviewing theories that support the study then reviewing the empirical literature on the already accomplished study on the problem. This facilitates the identification of the gap that are existing in the literature on the study.

2.2 Financial Performance of the Microenterprise in Kenya.

Financial performance of micro enterprises depends on numeral features. These are credit accessibility, credit affordability and financial inclusion. The indicators of financial performance of a micro enterprise include gross profit margin, return on investment, return on assets and return on equity.

It has been established that microenterprises are a pillar to economic development in the emerging economies (Atiku & Abatan, 2021). Accessibility of FinTech innovation to microenterprises has driven big leaps in the advancement of the financial sector as it has enhanced efficacy as well as effectiveness in service delivery while driving down the costs associated with running business (Zhu, X., & He, J. 2019). Small and medium-sized enterprises. Small and medium-sized enterprises (SMEs) with access to P2B (Peer-to-Business) loans may transition from long-term bank debt to short-term bank debt in order to uphold financial flexibility. Wang, L., & He, D. 2019) noted that small enterprises do not have access to credit due to the fact that they are not credit worthy.

The cost of small business loans has been identified as a significant challenge for small businesses, impacting their role in economic development. Recent research highlights that credit costs fluctuate over time and vary between lenders. Borrowers can typically lower the total interest paid by selecting the lender with the best interest rates, repaying loans faster, and repaying the loan principal earlier than expected. For instance, Gonzalez and Marlow (2020) found that while many borrowers understood their loan's lump sum payment, they were often unaware of the interest charges and the calculation methods used.

Small businesses require a fixed and transparent total cost of credit to effectively measure the cost of lending. According to Kim and Park (2020), transparency in credit costs is crucial for small businesses to make informed financial decisions.

Financial inclusion is characterized as a state where all individuals capable of utilizing financial services have access to a comprehensive range of high-quality financial services. These services should be accessible at reasonable costs, offered conveniently, and delivered with dignity for the clients. The Center for Financial Inclusion (2020) underscores the importance of financial inclusion in enabling individuals to diversify or augment income streams within households.

Clark (2020) argues that financial inclusion plays a pivotal role in facilitating liquidity and cash flow, acting as a resilience mechanism against adversity by building assets and allowing clients to navigate loss through consumption smoothing without resorting to selling productive assets. Furthermore, financial inclusion contributes to income growth when credit is channeled into income-generating activities that yield returns exceeding loan installment repayments. It also supports asset-building, even in cases where credit-financed investments may not yield substantial net profits but contribute to creating lasting assets for the clients.

2.3. Fintech Lending and Financial performance of Microenterprises

This section examines the impact of lending on the financial performance of microenterprises, emphasizing the provision of sufficient working capital. Working capital is defined as the difference between current assets and current liabilities, enabling businesses to meet financial obligations easily. Increased access to capital allows microenterprises to acquire more current assets, such as stock and debtors, and facilitates business expansion by opening new investment opportunities.

Financial inclusion involves integrating all types of lenders at every level without discrimination. According to Johnson and Arnold (2020), financial inclusion encompasses sustainable, pertinent, cost-effective, and meaningful financial services tailored for the financially underserved population, particularly those residing in rural areas. Financial inclusion means offering access to a comprehensive array of secure, convenient, and affordable financial services to marginalized and vulnerable groups. This includes individuals with low

incomes, those residing in rural areas, and undocumented persons who have historically been underserved or excluded from the formal financial sector (Financial Action Task Force, 2020).

According to the Fin-Access Lending Household Survey in Kenya, access to financial services and products improved from 75.3 percent in 2016 to 82.9 percent in 2019. Currently, 89 percent of the population can access various forms of financial services. Between 2006-2019 a huge progress has been made to expand the financial services accessibility. Financial inclusion serves a dual purpose by enhancing the efficiency of intermediation between savings and investments, while also enabling transformative changes in the configuration of the financial system. It ensures accessible financial services for the disadvantaged and vulnerable segments of society, empowering them to actively participate in development initiatives and safeguard themselves against socio-economic shock.

2.3.1 Fintech Credit Accessibility and performance of Microenterprises

A study by Kimani and Muturi (2021) investigated the effect of mobile credit on the growth of small and medium-sized enterprises (SMEs) in Kenya and Tanzania. Using a descriptive research design, the study collected primary data from respondents, focusing on regulatory issues, consumer protection, and platform accessibility. The study found that the use of FinTech facilities has increased, particularly among rural and low-income earners. Consumers can apply for mobile loans and receive instant approval via mobile devices, which has advanced financial inclusion by providing access to credit for remote users to improve business operations. However, regulatory agencies have not adequately addressed this growth, intending to establish policies that could undermine FinTech platforms. This gap needs to be addressed by developing cost-benefit models and fostering cross-border collaboration.

Kariuki (2020) examined youth access to credit facilities in Kenya, focusing on youth credit risk. Using a descriptive research design and a combination of primary and secondary data, the study found that formal lending institutions like commercial banks view youths as high-risk borrowers due to their lack of collateral, thus excluding them from lending brackets. Most banks prefer lending to well-established enterprises with substantial security. Although FinTech services have bridged some gaps, youths are often sidelined through credit blacklisting. To enhance financial inclusivity, the study suggests that government agencies and policymakers develop risk-sharing policies to create a balanced FinTech model.

Carney (2021) studied the impact of FinTech innovation on new business models in Europe using diagnostic study analysis and statistical inferences. The study concluded that FinTech, as a financial innovation enabled by technology, leads to new business models, application processes, and products that significantly impact financial markets, institutions, and service delivery. Businesses adopting FinTech innovations improve efficiencies, reduce operational costs, and increase market share. However, there is a gap in cross-border regulatory systems, as some view FinTech as a potential tool for money laundering and financing terrorism.

Research by Njoroge (2021) surveyed the accessibility of capital sources for SMEs in central and western Africa. The study utilised a descriptive design and found that African SMEs have minimal access to capital, constraining their growth. They rely primarily on retained earnings, informal savings, and lending associations, which are unpredictable and regionally concentrated. Few businesses use FinTech facilities for capital access, preferring traditional bank loans. The study suggests that development partners and government planners should initiate policies to encourage technological adoption by SMEs to withstand business environment challenges.

Chigunta (2020) examined the effect of FinTech on youth enterprise performance across Africa, focusing on credit accessibility for youth enterprises in developing countries. Using primary data collected through questionnaires, the study identified socio-cultural constraints as significant barriers to youth participation in economic activities, particularly for young women. While there are few microcredit programs targeting youth, the study highlighted the need for FinTech to evaluate enterprise performance through digital platforms and cash flow analysis. The study recommended a collaborative policy-making process to ensure uniform application of FinTech across borders.

During periods of low interest rates and low inflation, credit accessibility is high. A robust economy, indicated by high GDP, enhances credit accessibility for borrowers. Bijak et al. (2021) examined the impact of FinTech credit affordability on microenterprise performance, defining credit affordability as the borrower’s ability to meet credit obligations without financial strain. The study found that lending institutions assess borrowers' ability to comfortably fulfill loan commitments, considering other financial obligations and routine expenditures.

Bitta (2022) conducted an investigation examining the nexus between the affordability of credit and the financial performance of small and medium-sized enterprises (SMEs) in Machakos County, Kenya. Financial performance was assessed through the net profit margin. The study drew upon four theoretical frameworks—namely, loanable funds, credit scorecards, pecking order, and trade-off theories—in order to establish a scholarly foundation. Employing purposive sampling, the research selected a single respondent from each identified firm, while random sampling was employed to construct a sample comprising 100 SMEs. The findings of the study revealed a discernible correlation between credit affordability and the financial performance of SMEs in Machakos County, Kenya. Specifically, the research indicated a significant association between the cost of credit and financial performance, as well as between the credit history of borrowers and financial performance. Furthermore, the study demonstrated that loan repayment exhibited a significant relationship with financial performance. Nevertheless, the research results indicated an absence of a significant correlation between loan collateral and financial performance.

In a related study Mutinda (2019) investigated how financial factors affected the affordability of credit to SMEs in Kenya's Machakos County. The target of the researcher target population was 380 SMEs and used both simple random selection as well as stratified sampling to arrive at a sample size of fifty-seven. The study employed both descriptive analysis and inferential statistical methods. The investigation revealed that variables such as the expense associated with credit, the duration of the repayment period, and the scale of the organization exerted influence on the accessibility of loans. A significant proportion, exceeding fifty percent, of SMEs encountered challenges in furnishing the complete set of requisite business information necessary for credit approval

Chaniwa, Nyawenze, Mandumbu, Mutsiveri, Gadzirayi, Munyati and Rugare (2020) researched on ending poverty through affordable credit to small-scale cotton farmers in Zimbabwe. The study was able to conduct an analysis of the patterns evident in cotton production, yields, and market share for three consecutive seasons: 2015/2016, 2016/2017, and 2017/2018. Cottco demonstrated a notable improvement in cotton production, transitioning from 100,000 contracted farmers yielding 10.8 thousand tonnes in the 2015/2016 season to 385,000 contracted farmers producing 127 thousand tonnes in the 2017/2018 season. Furthermore, Cottco's market share witnessed a significant ascent, rising from 37.9% in the 2015/2016 season to 74.5% in the 2016/2017 season and ultimately reaching 89.3% in the 2017/2018 season. This substantial increase is attributed to intensified investment facilitated

through input credit schemes tailored for smallholder farmers lacking financial resources for crop cultivation. Additionally, agronomic support measures were implemented to ensure optimal production. The financial commitment from the company amounted to US$26 million in the 2015/2016 season, US$42 million in the 2016/2017 season, and US$60 million in the 2017/2018 season.

In the domain of microfinance institutions, Ndegwa (2020) explored the factors influencing credit affordability for youth engaged in small-scale entrepreneurial agriculture projects in Kiambu County, Kenya. The study employed a survey to gather data, providing insights into factors such as literacy levels, interest rates, collateral requirements, and the number of lending institutions that collectively influence credit accessibility. The findings highlighted that even a modest reduction in interest rates significantly increased credit availability for youth entrepreneurs.

Similarly, Evans and Adjei (2021) conducted research on the impact of escalating lending rates on borrowers' repayment capacities in the Tamale Metropolis. Using a cross-sectional survey approach, they distributed structured questionnaires to 101 participants selected through non-probability sampling methods. The study revealed a consensus among borrowers that the prevailing lending rates were perceived as excessively high, which negatively affected their businesses' ability to generate sufficient returns for loan repayment.

Both studies underscored the critical role of interest rates in shaping the operational and financial dynamics of small businesses. They recommended that financial institutions and policymakers consider mechanisms such as Interest Rate Reduction Refinancing Loan (IRRRL) frameworks to mitigate the adverse effects of high lending rates and support sustainable business growth.

Moreover, advancements in financial technology (FinTech) have streamlined credit accessibility by improving processing efficiency and reducing costs (Smith, 2023). This technological progress has contributed to lower default rates, making loans more affordable and enabling borrowing firms to leverage capital effectively for enhanced financial performance.

2.3.2 Fintech Credit Affordability and Financial performance of Microenterprises

According to Experian (2022), credit affordability refers to a customer's ability to manage current and future debt repayments. A loan is deemed affordable when it aligns with the borrower's capacity to meet existing and anticipated payment obligations without necessitating additional debt relief or restructuring (Financial Conduct Authority, 2020). The Office of Fair Trading (2021) outlines that affordability assessments are creditor-led evaluations focused on determining whether borrowers can sustainably fulfill specific credit obligations. These assessments aim to safeguard borrowers from potential financial distress or adverse outcomes.

Credit providers offering affordability are pioneers in their customer-centric approach, offering distinctive support to individuals underserved by conventional financial services (Adams, 2021). Considering the affordability of loan repayments is crucial for consumers of high-cost credit when selecting a credit source (Birkenmaier, 2023). This consideration is particularly relevant for low-income individuals who prefer weekly or fortnightly repayment schedules, which better match the frequency of their income from employment or benefits. Many at the lower end of the income spectrum rely on various forms of borrowing. However, access to fair and affordable credit remains a significant challenge for millions in developing countries (Mohammed & Uraguchi, 2020).

Technology has revolutionized the accessibility and affordability of credit in today's financial landscape. Through innovative digital platforms and data-driven algorithms, technology has streamlined the lending process, making it more efficient and cost-effective. By automating various aspects of credit assessment and decision-making, technology has reduced administrative overhead and minimized the need for physical branches and extensive paperwork. This, in turn, has lowered operational costs for financial institutions, allowing them to offer loans at more competitive interest rates. Moreover, technology has expanded the reach of financial services, enabling borrowers to access credit remotely and eliminating geographical barriers.

The low default rate in the lending industry is a significant advantage for customers, as it enhances their ability to repay loans and strengthens their creditworthiness. With fewer borrowers defaulting on their loans, financial institutions can offer more favourable terms and interest rates, ultimately making it easier for customers to meet their financial obligations. This positive payment history not only boosts their credit scores but also establishes a track record of responsible borrowing, which, in turn, increases their eligibility for larger loans in the future.

Agency banking has significantly improved financial accessibility and convenience for customers, making it available to a broader and more diverse population. With the expansion of agency networks, customers can now conduct banking transactions in their own neighbourhoods, even in remote or underserved areas. These agency locations, often hosted by local businesses or entrepreneurs, offer a range of banking services, from cash deposits and withdrawals to account inquiries and even loan applications. This proximity and accessibility mean that customers no longer need to travel long distances to traditional bank branches, saving time and reducing the costs associated with accessing financial services.

2.3.3 Financial Inclusion and Financial performance of Microenterprises

Ibor, Offiong, and Mendie (2023) investigated the impact of financial inclusion on the performance of micro, small, and medium enterprises (MSMEs) in Nigeria. Using a survey research design, they collected data through questionnaire administration and analysed it using the Pearson Chi-square technique. The study found a significant and positive correlation between financial inclusion and the operational growth of MSMEs. However, challenges such as limited access points and inadequate infrastructure hinder prompt and effective access to financial services for MSMEs in Nigeria. The research recommends strategic measures to expand financial service access in rural areas, improve infrastructure, and implement a policy roadmap that includes a financial services geospatial map. Additionally, the study suggests promoting nationwide payment digitization, leveraging advanced ICT and e-banking tools, and establishing robust consumer protection mechanisms.

Barasa (2022). The research aimed to assess the impact of financial inclusion on the financial performance of Small and Medium Enterprises (SMEs) in Mombasa. The theoretical framework of the study incorporated the Grameen Theory, Credit Rationing Theory, and Financial Intermediation Theory. The target population comprised 3000 SME owners in Mombasa County, from which a study sample of 300 SME owners, representing 10%, was selected. The study revealed a weak positive correlation between financial access and the financial performance of SMEs in Mombasa County. The positive effect of financial access was attributed to the convenience provided by accessibility to commercial banks and mobile banking for SME owners. Similarly, the study found a weak positive relationship between financial quality and financial performance, with the impact of financial quality being linked to adaptability in credit reimbursement periods and the safeguarding of advances to mitigate defaulting. Additionally, a weak positive relationship was established between financial usage and financial performance, where the positive effect of financial usage was ascribed to

appropriate asset utilization for organizational purposes and the infusion of individual budgets to support businesses. Furthermore, a positive relationship was identified between service delivery and financial performance, with the influence of financial usage attributed to the effective preparation of financial institutions and their intermediaries to serve SMEs, along with the provision of specialized service lines to help SMEs overcome challenges.

In their 2019 study, Samuel, H. M., and Mbugua, D., explored the influence of financial inclusion initiatives on female entrepreneurs managing small and medium enterprises in Nairobi County. The researchers specifically examined a sample of 377 SMEs owned by women entrepreneurs located in Nairobi CBD. From the broader target population, a subset of 65 SMEs was selected for the study. The collected data underwent both qualitative and quantitative analyses. The study's results revealed that meaningful financial inclusion has a positive impact on the financial performance of SMEs owned by women in Kenya.

Financial intermediation brings into play intermediaries such as SACCO's, building societies, insurance companies and mutual funds. This brings into the picture all types of borrowers. Hence financial inclusion enables more firms to obtain credit for expansion of their businesses and hence improve on financial performance.

Recent studies have highlighted the significant role of fintech in enhancing the financial performance of micro enterprises in Kenya. The accessibility of fintech credit has enabled micro enterprises to obtain financing more easily and quickly compared to traditional banking methods, thus fostering business growth and operational efficiency (Mwangi & Bwisa, 2019). Affordability of fintech credit, characterized by lower interest rates and reduced transaction costs, has also been found to positively influence the financial stability and profitability of these enterprises (Ngugi, 2020). Furthermore, financial inclusion through fintech has expanded the reach of financial services to previously underserved or unbanked populations, thereby improving the overall economic activity within these communities (Kamau & Oluoch, 2021). The combined effect of these factors has been shown to significantly enhance the financial performance and sustainability of micro enterprises in Kenya, as evidenced by increased revenues and better access to financial resources (Omondi, 2022). These findings underscore

the transformative potential of fintech in driving economic growth and financial inclusion in developing economies.

2.4 Summary of the Reviewed Literature

In summary, the reviewed literature underscores the importance of fintech credit accessibility, affordability, and financial inclusion in enhancing the financial performance of microenterprises. These factors can have a substantial role on the ability of businesses to access credit, grow, and generate profits, ultimately contributing to economic development. Additionally, the regulatory environment and infrastructure play vital roles in shaping the landscape of financial intermediation and inclusion.

Table 2.1: Research Gaps

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
Omondi (2022),	Majorly focused on the regulatory issues, consumer protection and accessibility of these platforms to the users	Descriptive research Design	Use of fintech facilities is on increase more so to the rural and low-income earners.	The study focused on regulatory issues and consumer protection.	This study focuses on the accessibility, affordability and social inclusion of Fintech.
Similarly, Barasa (2022),	To study youth credit risk.	Descriptive research Design	Formal lending institutions like commercial banks in Kenya regard youths as high-risk borrowers as they lack the required collateral and thus put them out of lending brackets	The study focused on commercial banks and youth not microenterprises.	This study will focus on microenterprises and Fintech.
Adams (2021)	Effect of FinTech innovation on new business models in Europe.	Diagnostic study analysis	Fintech being financial innovation enabled through technology leading to the emergence of new business	The study was carried in Europe which has a very different context compared to Nairobi.	This study will seek to gather knowledge on the subject area in the context of Kasarani in Nairobi.

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
			models, application processes, or products, causing a substantial impact on financial markets, financial institutions, and the delivery of financial service.		
Samuel, H. M., and Mbugua, D. (2019)	The accessibility of capital sources by small and medium-sized enterprises in Africa	Descriptive study design	That developing countries more so African SMEs have minimal access to capital, which eminently constrains their expansion and growth.	The study was conducted in central and western Africa.	This study will be conducted in East Africa.
Mohammed & Uraguchi (2020)	Establishing the factors affecting performance of youth enterprise.	Survey design	Accessibility to credit facilities by the youths is at the realm as there exists few microcredit programs targeting the youths.	The study focused on factors including socio-culture constraints affecting youth and women participation.	This study will focus on effects of Fintech in terms of access, availability and inclusion, and will cover a broader population and not just specific to youth.

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
Bitta (2022).	Examining the nexus between the affordability of credit and the financial performance of small and medium-sized enterprises (SMEs) in Machakos County, Kenya	Descriptive study design	significant association between the cost of credit and financial performance, as well as between the credit history of borrowers and financial performance	Employed purposive sampling, and selected a single respondent from each identified firm which may not be statistical sufficient.	This study will use a broader sample using probability sampling.
Mutinda (2019)	How financial factors affected the affordability of credit SMEs in Kenya's Machakos County	Descriptive analysis and inferential statistical methods.	A significant proportion, exceeding fifty percent, of SMEs encountered challenges in furnishing the complete set of requisite business information necessary for credit approval	Study focused on SMEs and broader financial factors affecting affordability of credit.	This study focuses on how access and affordability of Fintech lending affects performance of the microenterprises.
Mutinda (2019)	Ending poverty through affordable credit to	Descriptive survey design	Intensified investment facilitated through input	The study did not look at Fintech and how	This study focuses on Fintech lending and looks

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
	small-scale cotton farmers in Zimbabwe.		credit schemes tailored for smallholder farmers may have a significant effect on increasing cotton farmers income.	affected microenterprise. The study was limited to farmers only.	at different sectors and not farmers.
Ndegwa (2020)	Factors that influence credit affordability for youth that are engaged in small-scale enterprises entrepreneurial agriculture projects in Kiambu County in Kenya.	Quantitative and Qualitative research design.	Factors such as literacy level, interest rates, collateral requirements, and the count of lending institutions collectively influence access to credit.	The study focused on youths and mainly focused on entrepreneurial agriculture projects.	This study will focus on the general population and a broader category of microenterprises.
Evans and Adjei (2021)	Assess the ramifications of escalated lending rates on borrowers' repayment capacities in the Tamale Metropolis	A cross-sectional design.	The study underscored the profound impact of lending rates, whether high or low, on business operations.	Mainly focused on ramifications of lending rates.	This study will focus beyond lending rates and look at the broader area of Fintech lending.

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
Ibor, Offiong and Mendie (2023)	Examined the influence of financial inclusion on the performance of micro, small, and medium enterprises (MSMEs) in Nigeria.	Survey research design.	Findings revealed a positive and significant impact of financial inclusion on the operations and growth of MSMEs.	The study was limited to the influence of financial inclusion. Covered micro, small and medium enterprises in Nigeria.	This study aims at accessibility, affordability and inclusion. This study will also focus on microenterprises only. The study will be conducted in Kenya which may bring out unique aspects on the subject compared to the situation in Nigeria.
Barasa (2022)	Assess the impact of financial inclusion on the financial performance of Small and Medium Enterprises (SMEs) in Mombasa.	Descriptive survey design.	Positive effect of financial access was attributed to the convenience provided by accessibility to commercial banks and mobile banking for SME owners.	The study focused on commercial banks. The study also focused on small and medium enterprises.	This study will only focus on Fintech lending and microenterprises only.

Author	Focus of the Study	Methodology Used	Findings	Research Gap	Focus of the Current Study
Samuel, H & Mbugua (2019)	The influence of financial inclusion initiatives on female entrepreneurs managing small and medium enterprises in Nairobi County.	Mixed method design.	Hence financial inclusion enables more firms to obtain credit for expansion of their businesses and hence improve on financial performance.	Study focused on female entrepreneurs. The study also focused on small and medium enterprises.	This study will focus on the general population and a broader category of microenterprises.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter delineates the methodologies and procedures that were employed in conducting the study. It comprehensively covers the research design, target population, sample selection, sampling procedures, data collection instruments, pilot testing, and the methodologies for data preparation and analysis.

3.2 Research Design

The research design provides an overall road map to the study process. This research employed a descriptive research design to enable the establishment of the effect of fintech on the growth of microenterprises in Kasarani Sub County. According to Ogula (2012), a research design is the strategy adopted to undertake a study and gather the required data as well to analyse it to give information for study conclusions. The study problem for this research was suitably undertaken by engaging descriptive research design as it aimed at describing the nature of the respondent and the result of determining the answer to research questions.

3.3 Research Site

The proposed research was conducted in the Kasarani sub county, which is within the southern part of Nairobi County. With the opening of the Thika Superhighway, there was a boom in the real estate sector. The establishment of higher education institutions such as the ICIPE, USIU, PAU, KENYATTA UNIVERSITY, Thika Road Mall has led to the mushrooming of support services and the localization of other amenities such as Banks, schools, hospitals, Safaricom Moi Centre have attractive to local and international investors. This led to an influx in migration to Kasarani as these conditions were favorable for setting up business. Many City Council stalls were built and youth in majority were the owners of these businesses.

3.4 Target Population

As outlined by Kothari (2011), a population is an element of collection or group from any given selection of units or sector where a representative sample can be selected for further investigation and examination. This study included licensed microenterprises actively operating within Kasarani Sub-county as the target population. The participants in this research were the owners of these microenterprises. Kasarani Sub-county boasts a total of 834

microenterprises, spread across Kasarani, Njiru, Mwiki, and Ruai (Nairobi County Council, 2021).

Table 3.1: Population Distribution of Kasarani sub county Microenterprises

/N	Clusters of Microenterprises	Number of SMEs	Percentage
1	Kasarani	304	36%
2	Njiru	94	11%
3	Ruai	230	28%
4	Mwiki	206	25%
	Total	**834**	**100%**

Source: Nairobi City Council

3.5 Study Sample

Sample size is the element of study that is representative of the entire population and it should have the attributes of the elements in the entire population for it to be representative of the population for the purpose of study (Babbie, 2010).

3.5.1 Sampling Procedure

The microenterprises were clustered on the basis of towns Kasarani, Njiru, Ruai and Mwiki consisting of various businesses, carpentry, cereals, cloth selling, metal works kiosks (strata). We used cluster sampling in each town. Thereafter the study employed a stratified random sampling procedure because the target population is heterogeneous consisting of various strata (carpentry, cereals, cloth selling, metal works kiosks). The enterprises for the study were picked at random from the various strata.

3.5.2 Study Sample Size

It is necessary to choose and split a sample in order for it to accurately and suitably represent the population. The sample size for this study was determined using the Yamane (1973) formula. From the calculation, the study used a sample size of 270 respondents. Based on the stratified random sampling technique employed, micro enterprises were picked randomly form each stratum to make up the desired sample population of 270 micro enterprises. It follows then, that, 270 respondents proved inherently representative of the population of micro enterprises in Kasarani Sub-county.

Where:

- n = Sample Size
- N = Population Size
- e = Sampling Error

Thus:

$$n = \frac{N}{1+N(e)^2}$$

$$n=\frac{834}{1+834(e)^2}$$

$$n= \frac{834}{1+834(0.05)^2}$$

n = 270

Table 3.2: Sample Size distribution

/N	Clusters of Microenterprises	Number of SMEs	Percentage	Sample Size distributed proportionally
1	Kasarani	304	36%	89
2	Njiru	94	11%	31
3	Ruai	230	28%	74
4	Mwiki	206	25%	67
	Total	**834**	**100%**	**834**

Source: Researcher- 2024

The sample of 270 respondents was distributed proportionally to the four locations.

3.6 Data Collection

3.6.1 Data Collection Instruments

Cooper and Schindler (2012), outlines that a data collection instrument is a device that the researcher uses to gather information from the esteemed respondents by use of questions to enable them to provide answers to specific research questions. The study engaged primary data that was obtained through administration of questionnaires. The questionnaire comprised a combination of closed-ended and open-ended questions to enable the researcher to get wider and expounded responses to the specific aspects of the study. The questionnaire indicated data in relation to the respondents' background and at the same time contained structured questions on both dependent and independent variables. Likert scale was used to obtain data that was analysed to establish findings and the studies.

3.6.2 Pilot Testing of Research Instruments

The research instrument, namely the questionnaire, underwent a pilot test before the commencement of the study to establish its suitability to the study. An experimental piloting was conducted in Roysambu Sub county where 29 research questionnaires forming 10% were administered to determine any discrepancies with the designed questionnaire. it also allowed the investigator to control the moods and attitudes of respondents to the study and undertake corrections before the actual exercise. Mugenda and Mugenda (2003) argue that 10% of the sample is sufficient for the representation of the entire population.

3.6.3 Instrument Validity

Validity provides information relative to the degree to which a test is engaged by the researcher (Lotosseliti, 2003). Validity pertains to the accuracy of a measurement, indicating whether the results genuinely represent what the measurement is intended to assess. It facilitates the assurance that the tests employed are not restructured thus influencing the research findings. The researcher worked with the study supervisor and subject experts including colleagues who provided feedback and insights which confirmed the content of the tools were appropriate in measuring the study variables. The pilot which was carried out in Roysambu Sub-county enabled revisions and further refinement of the tool to remove ambiguities.

3.6.4 Instrument's Reliability

Taherdoost (2016) defines reliability as the level of consistency of an instrument to provide a similar outcome if the study is repeated under the same conditions or circumstances. It implies that the potential of replicating a study within similar conditions with no alteration

of the findings. Cronbach alpha was employed with threshold of 70%. The piloting of the questionnaires and established the coefficient of all variables and was useful in assessing the reliability of the research instrument. From the data provided in table 3.3, we deduced that the tool passed the reliability test as evidenced by the high Alpha value of 77.2%.

Table 3.3: Reliability Statistics

Cronbach's alpha	**Value**
Credit accessibility	0.889
Credit affordability	0.792
Credit inclusion	0.857
Financial performance	0.786
Combined variable effect	0.538
Overall Cronbach's Alpha	**0.772**

3.6.5 Data Collection Procedure

In collecting the data, the study questionnaires were delivered by hand to each respondent. Each respondent was given one week to answer the questions. The responses were tabulated and statistical methods used to do the analysis.

3.7 Data Analysis

The collected data was verified for accuracy and consistency to ensure that all questions were answered and to rule out any false or inconsistent data. The data obtained from the questionnaire were analysed using SPSS (Statistical Package for the Social Sciences). Descriptive statistics was employed in the analysis process such as frequency and percentages to depict the data while simple and multiple linear regression was used to establish existence of any significant relationship between the dependent (Financial performance of micro enterprises) and the independent variables (credit accessibility, credit affordability and financial inclusion).

The Multiple regression model used:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where;

Y= Financial Performance of micro enterprises

β_0= constant

β_1……β_3 =coefficients

X_1= credit accessibility

X_2 = credit affordability

X_3= financial inclusion

ε = error term

The research operated with a 95% confidence level, corresponding to a significance level of 0.05. In practical terms, for an independent variable to exert a significant impact on the dependent variable, the associated p-value must fall below the established significance level of 0.05.

3.7.1 Assumptions of regression

Regression analysis is a statistical technique utilised to model the relationship between a dependent variable and one or more independent variables. The assumptions of regression include linearity, which dictates that the relationship between the dependent variable and the independent variable is approximately linear. Homoscedasticity will mean that there should be a constant variability between the independent variables. In the normality residuals there is a need for a normal distribution. In the case of independence of errors, there should be no correlation between the errors.

3.7.2 Hypothesis Testing

Hypothesis testing is done to determine whether there is a significant difference between a sample measurement and a population estimate. A test statistic is calculated. Should the test statistic fall below the critical value, the null hypothesis is upheld and in case the test statistic surpasses the critical value, the null hypothesis is dismissed.

3.7.3 Testing for assumptions of Regression

Normality test can be described as statistical procedure that is used in determining in case of a given sample or dataset to check whether it follows a normal distribution. It can also be called the Gaussian distribution or bell curve, which is a symmetric probability distribution that is seen in many natural phenomena. Normality tests are usually very critical when it comes to statistics for the reason that many statistical methods, such as t-tests and analysis of variance

(ANOVA), adopt that the data comes from a normal distribution for accurate results. Z test is for big samples but t- Test is for small samples.

heteroscedasticity test can be defined as a statistical test that detects the presence of heteroscedasticity in a regression model. The objective is to scrutinise whether the variability of the residuals displays a methodical pattern that can be related to the values of the independent variable(s).

Multi-collinearity test is another method used in statistics to measure if there is the presence and severity of multicollinearity in a multiple regression model. The main objective is to identify situations in case there are the independent variables that are highly correlated and that can cause issues that can inflate the standard errors that can render unstable the coefficient estimates and understand the difficulties in interpreting the model.

The Autocorrelation Test is a statistical technique used to quantify the extent of resemblance between a specific time series and its delayed iteration across consecutive time intervals. It involves time series data, correlation coefficient, and lagged values.

3.8 Legal and Ethical Considerations

Ethical considerations are a set of principles that have been enacted to guide the research design and practices that calls for all researchers to adhere to them in the process of undertaking research. This is meant to safeguard the rights of participants by ensuring voluntary participation, confidentiality and communication of research results to all stakeholders. This study ensured proper authority was sought before its undertaken, and all code of conduct was observed to the letter.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings from the data analysis. Demographic characteristics including age and gender of the respondents are presented. The data on location and type of business of the respondents indicate the study reached valid respondents representing the study target population. The chapter provides descriptive statistics of the variables under study to establish their relationships in view of the study objectives. The findings have been presented using tables and figures to support conclusions of the study objectives and study questions.

4.2. Response rate

The response rate refers to the portion of the study sample in percentage that participated in responding to the study questionnaire. The study distributed 270 questionnaires to the respondents in the four administrative wards in Kasarani Sub-county as shown in table 4.1 below.

Table 4.1 Number of SMEs participating in the study in the 4 administrative wards

S/N	Location of Microenterprises	Number of SMEs	%
1	Kasarani	104	39
2	Njiru	31	12
3	Ruai	66	25
4	Mwiki	62	24
5	**Total**	**263**	**100**

Source: (Researcher, 2024)

The analysis on table 4.1 above show that out of the total 270 questionnaires which were distributed, 263 completed questionnaires were returned. This translated to 97.4% response rate which is deemed adequate to carry out statistical analysis according to the principle of Minimum Acceptable Response Rate which places the benchmark at 60% or higher according

to Ramshaw (2019). This means that the survey response rate was quite good and therefore the responses deemed representative of the sample.

4.3 Demographic characteristics of the respondents

The characteristics of the respondents who participated in the study was as follows. Is as shown on table 4.2 below

Table 4.2: Characteristics of respondents

Characteristic	Distribution	Frequency	Percentage
Gender	Male	107	41%
	Female	156	59%
Level of Education	Certificate	141	54%
	Diploma	64	24%
	Degree	37	14%
	Masters	21	8%
Length of time in	< 1 year	169	64.3%
Business operations	1-3 years	64	24.3%
	3-5 years	23	8.7%
	>5 years	7	2.7%
Respondents Designation	Owners	179	68%
	Managers	84	32%

Source: (Researcher, 2024)

The results of the analysis shown on table 4.2 indicate that majority of the respondents were female at 59% of the respondents while 41% were male. This implies that majority of the sole proprietors that took part in the survey were actually women.

The study also sought to determine the period the respondents' businesses had been in operation in all the four wards within Kasarani Sub-county as shown on table 4.2 below. The results of the analysis equally show that a higher proportion of respondents' enterprises were less than a year old at 64% followed by 24%, 1-3 years of operations while 8% and 3% were 3-5 years and over 5 years of operations respectively. The data portrayed a downward trend in the number of SMEs as duration of operations increased. This implies that the survival rate of most SMEs decreased with the increase in years of operation.

As regards matters the level of education for respondents who participated in the study. The data indicates that 54% of the respondents possessed a certificate and close to a quarter of the respondents 24% had a diploma as their highest level of education. 14% of the respondents had attained graduate level education while a small proportion of 8% had attained post graduate (Masters) education. This is an indication that there was an inverse relationship between the level of education attained and business ownership.

The majority of the participants were business owners at 68%. The data also shows that 32% of the respondents were business managers. It is evident that majority of the small enterprises set up are actually sole proprietorships where the owners take up responsibilities for running the day-to-day operations of the enterprise.

4.4 Fintech credit accessibility and financial performance of SMEs

4.4.1 Descriptive Analysis

The study on table 4.3 below sought to establish the effect of fintech credit accessibility on financial performance of SMEs within Kasarani Sub-county.

The results of the analysis on Table 4.3 above indicate that most of the respondents agreed that fintech credit accessibility affect financial performance of SMEs within Kasarani Sub-county. This is evidenced by the composite mean score of (2.365) and a standard deviation of (2.376). It can therefore be inferred that microenterprise businesses access various Fintech loan products from multiple lenders without the limitations of time and space and this usually accompanied with training and counselling services and all this has positively influenced microenterprise performance.

Table 4.3 Analysis on Fintech credit accessibility and financial performance of SMEs

Statements	N	Mean		Standard deviation
1	My business accesses Fintech loans without the limitations of time and place.	263	3.395	3.137
2	I can easily take small loans from Fintech that fit the immediate needs of my business.	263	3.399	3.137
3	My business can access some Fintech credit facilities simultaneously because they are of various types and address different business need.	263	3.776	3.421
4	Loans given by Fintech lenders accompany the extension of loans to my business with training services on how to access and use the loan.	263	4.186	3.818
5	I can access Fintech loans from a variety of lenders within the comfort of my business premises	263	3.749	3.424
	Composite mean and standard deviation		2.365	2.376

Source: (Researcher, 2024)

4.4.2 Qualitative Analysis

From the analysis of the qualitative data obtained from the responses to open-ended questions, most of the respondents (63%) indicated that accessing fintech services was not really cumbersome. However, the services offered and most especially the interest rates were steep, mainly due to the short repayment period. The respondents however had to go with the fintech services option due to the fact that other conventional lenders had multiple bottlenecks to access to borrowed capital. It therefore follows that fintech services accessibility had a positive effect on the performance of micro enterprises in Kenya.

4.5 Fintech credit affordability and financial performance of SMEs

4.5.1 Descriptive Analysis

The analysis on table 4.4 below sought to establish the effect of fintech credit affordability on financial performance of SMEs within Kasarani Sub-county.

Table 4.4 Analysis on Fintech credit affordability and financial performance of SMEs

	Statements	N	Mean	Standard deviation
1	I Find Fintech loans are relatively cheap in terms of interest rate	263	3.574	3.273
2	The credit period extended by Fintech lenders is adequate to enable me to repay the loan facility .	263	3.555	3.251
3	The credit terms offered to my business by the Fintech lenders are flexible and are open for re-negotiation	263	3.605	3.297
4	The repayment terms of loans by many users makes it affordable	263	3.555	3.263
5	Fintech loans have no requirement for collateral .	263	3.441	3.204
	Composite mean and standard deviation		2.41	2.33

Source: (Researcher, 2024)

The results of the analysis on Table 4.4 above indicate that most of the respondents agreed that fintech credit affordability affect financial performance of SMEs within Kasarani Sub-county. This is supported by the composite mean score of (2.41) and a standard deviation of (2.33). It can therefore be concluded that Fintech loans are relatively cheap in terms of interest rate, offer favorable credit period and terms and have no requirements for collateral and this has a positive effect on the enterprise performance.

4.5.2 Qualitative Analysis

From the analysis of the qualitative data obtained from the responses to open-ended questions, the majority (69%) of the respondents indicated that they rank the Fintech loans highly because it is relatively cheap in terms of interest rate, offer favorable credit period and terms and have no requirements for collateral and this has positive effect on the enterprise performance and this has an effect on their financial performance. The foregoing implied that Fintech loans enhance financial performance of micro enterprises.

4.6 Financial Inclusion and financial performance of SMEs

The analysis on table 4.5 below sought to establish the effect of fintech credit financial inclusion on financial performance of SMEs within Kasarani Sub-county.

Table 4.5 Analysis on financial inclusion and financial performance of SMEs

	Statements	N	Mean	Standard deviation
1	The available financial technology services have enabled faster payment of services.	263	3.559	3.269
2	The available financial technology services have lowered the cost of financing for my business.	263	3.677	3.335
3	The presence of financial technology has increased my savings ability	263	3.532	3.268
4	The presence of financial technology has allowed me to access more financial services	263	3.46	3.214
	Composite mean and standard deviation		3.02	2.088

Source: (Researcher, 2024)

The results of the analysis on Table 4.5 above indicate composite mean score of (3.02) and a standard deviation of (2.088) implying that majority of the respondents agreed that fintech credit inclusion affects financial performance of SMEs within Kasarani Sub- County. It can therefore be inferred that accessing Fintech products using technology have enabled enterprises to repay their loans faster, increased access to financial products and services, enhanced their savings ability, and lowered the cost of access to financial products.; all of which have affected the financial performance of microenterprises. This was an indication that fintech credit inclusion significantly enhanced the financial performance of micro enterprises.

4.6.2 Qualitative Analysis

From the analysis of the qualitative data obtained from the responses to open-ended questions, the majority (57%) of the respondents indicated that the availability of financial technology services has enabled faster payment services and increased savings ability, and this has directly affected business performance, ergo, financial technology had significantly boosted micro enterprise financial performance.

4.7 Financial Performance of Microenterprises

4.7.1 Descriptive Analysis

The study also conducted an analysis of financial performance of SMEs within Kasarani Sub- County as shown in table 4.6 below.

Table 4.6 Analysis on financial performance of SMEs

	Statements	N	Mean	Standard deviation
1	After accessing Fintech credit my business operating income has increased substantially.	263	3.532	3.235
2	Fintech Credit has guaranteed my return on investment.	263	3.639	3.289
3	Fintech has secured my return on Assets.	263	3.677	3.389
4	Fintech credit has boosted the overall performance of your business	263	3.627	3.325
	Composite mean and standard deviation		3.933	2.077

Source: (Researcher, 2024)

The results of the analysis on Table 4.6 above indicate composite mean score of (3.933) and a standard deviation of (2.077) and this means that most of the respondents agreed that by accessing Fintech credit: the operating income of the business has increased substantially, guaranteed my return on investment, secured return on assets and boosted the overall performance of their businesses. From the findings it can be concluded that indicators of financial performance of SMEs in Kasarani Sub-county have been positively affected by Fintech lending.

4.7.2 Qualitative Analysis

From the analysis of the qualitative data majority (68%) of the respondents indicated that accessing Fintech credit: the operating income of the business has increased substantially, guaranteed my return on investment, secured return on assets. This implied that access to Fintech credit boosted the overall financial performance of their businesses.

4.8 Diagnostic Tests

The researcher conducted normality and Multicollinearity to confirm how adequate the models satisfied the assumptions for statistical analysis and interpretation in terms of reliability and accuracy.

4.8.1 Normality test

The study applied the Shapiro-Wilk test at 5% level of significance, to evaluate the normality of the collected dataset as shown on table 4.7 below.

Table 4.7 Normality test Results

Variable Description	Test Statistics (w)	Df	Sig
Credit Accessibility	0.9899	263	0.05
Credit affordability	0.1495	263	0.05
Financial Inclusion	0.9789	263	0.05
Financial Performance	0.9866	263	0.05
Combined Variable Effect	0.4016	263	0.05

Results as shown in table 4.7 indicate that the variables have a normal distribution with p-values greater than 0.05 ranging from 0.14 to 0.98. This was an indication that indeed the sample was drawn from a normally distributed population.

4.8.2 Multicollinearity test

The study sought to test Multicollinearity among the study variables as shown on table 4.8 below. For the Multicollinearity test, a VIF value of less than 0.1 or greater than 10 implies Multicollinearity. Further, a tolerance value tending to Zero implies existence of Multicollinearity and value tending to 1 implies no Multicollinearity.

Table 4.8 Multicollinearity test Results

Variable Description	Tolerance	VIF
Credit Accessibility	0.9333	1.02
Credit affordability	0.9676	1.64
Financial Inclusion	0.9429	1.04
Financial Performance	0.6771	1.07
Combined Variable Effect	0.9382	1.03

The study findings on the Multicollinearity test on table 4.8 above shows tolerance levels for all variables above 0.6 which is tending to 1 implying no Multicollinearity. This means that the various independent variables have no significant intra-correlation which would have otherwise led to less reliable statistical inferences.

4.9. Correlation Analysis

The study performed a correlation analysis to test the degree of association between Fintech lending and the performance of SMEs as shown on Table 4.9 below.

Table 4.9 Correlation Analysis

		Financial Performance	Fintech credit accessibility	Fintech credit affordability	Fintech Credit Inclusion
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)	263			
	N				
Fintech credit accessibility	Pearson Correlation	.1364	1		
	Sig. (2-tailed)	.000			
	N	263	263		
Fintech credit affordability	Pearson Correlation	-.139	.268	1	
	Sig. (2-tailed)	.000	.000		
	N	263	263	263	
Fintech Credit Inclusion	Pearson Correlation	.2781	.311	.190	1
	Sig. (2-tailed)	.000	.000	.000	
	N	263	263	263	263

Source: (Researcher, 2024)

The findings in Table 4.9 reveal the relationship between financial performance, fintech credit accessibility, fintech credit affordability and fintech credit inclusion.

The correlation results depict a positive relationship between fintech credit accessibility and financial performance. The relation was however weak. The association was also found to be statistically significant at 5% level of significance $r= 0.1364$, $p<0.05$.

The correlation results depict a weak negative relationship between fintech credit affordability and financial performance. The association was also found to be statistically significant at 5% level of significance r= -0.1392, p<0.05.

The correlation results depict a moderate positive relationship between financial inclusion and financial performance. The association was also found to be statistically significant at 5% level of significance r= 0.2781, p<0.05.

The overall implication of the results of the Pearson correlation indicated that though both variables go up in response to one another, their relationship is not very strong.

4.10 Simple Regression Analysis

Regression analysis was done to establish the relationships between Fintech lending and the performance of SMEs in Kasarani Sub-county. The R-squared (coefficient of determination) value is the measure of the extent to which a change in the independent variable would affect the dependent variable.

4.10.1 Fintech credit accessibility and financial performance of SMEs

The study analysis on Table 4.10 below sought to the measure the extent to which a change in Fintech credit accessibility would affect financial performance of SMEs using coefficient of the correlation and coefficient of determination.

Table 4.10: Model Summary

Model	R	R-squared	Adjusted R squared	Error of the estimate
1	.412	.499	.237	.47909

a. Predictors: (Constant), Fintech Credit Accessibility

Source: (Researcher, 2024)

The study analysis shown on table 4.10 above indicates a relationship between Fintech credit accessibility and financial performance of SMEs (R=.). The coefficient of correlation, R, is at .412 which is an indication of a positive relationship. The R-squared value (R^2=0.499) suggests that approximately 49% of the variability in financial performance of SMEs can be explained by Fintech credit accessibility. This implies that fintech credit accessibility has a significant effect on the variability in financial performance of SMEs.

4.10.1.2 Analysis of Variance (ANOVA)

This section represents results accrued from the analysis of variance used to evaluate the difference between the means of the two groups that is credit accessibility and financial performance.

Table 4.11: ANOVA Results for fintech credit accessibility and financial performance

ANOVA					
Model	Sum of squares	DF	Mean squares	F	Sig
Regression	3.5361	7	11.5051	46.119	.000[b]
Residual	38.1018	256	0.2295		
Total	41.6379	263			

Source: (Researcher, 2024)

The results of the analysis, as presented in Table 4.11, indicate that the ANOVA model is statistically significant (F (7, 256) = 46.119, p<.05). Therefore, it can be said that the there is no significant difference between the means of fintech credit accessibility disaggregated variables and the financial performance of SMEs.

4.10.1.3 Simple Regression Coefficients

The research ran a regression coefficient to assess how much change in the individual independent variables can predict the change in the dependent variables. The results of the analysis are unveiled in Table 4.12.

Table 4.12: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	.465	.372		1.992	.171
	Credit Accessibility	.436	.195	.391	2.160	.010

a. Dependent Variable: Credit Accessibility

Source: (Researcher, 2024)

As illustrated in table 4.12, credit accessibility has a significant positive effect (B=.436, t=2.160), p<.05) on financial performance. The regression coefficient of 0.436 for credit

accessibility implies that a unit increase in credit accessibility, there would be a 0.436 unit increase in enterprise financial performance. This is an indication that better credit accessibility leads to significantly improved financial performance of micro enterprises.

4.10.2 Fintech credit affordability and financial performance of SMEs

4.10.2.1 Model Summary

The study analysis on Table 4.13 below sought to the measure the extent to which a change in Fintech credit affordability would affect financial performance of SMEs using coefficient of the correlation and coefficient of determination.

Table 4.13: Model Summary

Model	R	R-squared	Adjusted R squared	Error of the estimate
1	.529	.349	.207	.48052

a. Predictors: (Constant), Fintech Credit Affordability

Source: (Researcher, 2024)

The coefficient of correlation, R, is at .529 which is an indication of a positive relationship between fintech credit affordability and financial performance.

In this case fintech credit affordability would cause a 53% change in variability in financial performance of SMEs. This implies that the effect of fintech credit affordability on financial performance of SMEs is significant.

4.10.2.2 Analysis of Variance (ANOVA)

This section represents results accrued from the analysis of variance used to evaluate the difference between the means of the two groups that is credit affordability and financial performance.

Table 4.14: ANOVA Results for fintech credit affordability and financial performance

ANOVA					
Model	Sum of squares	DF	Mean squares	F	Sig.
Regression	3.9327	10	17.3892	39.059	.000[b]

Residual	37.4432	253	0.2344
Total	41.3759	263	

Source: (Researcher, 2024)

The results of the analysis, as presented in Table 4.14, indicate that the ANOVA model is statistically significant (F (10, 253) = 39.059, p<.05). Therefore, it can be said that there is no significant difference between the means of fintech credit affordability disaggregated variables and the financial performance of SMEs.

4.10.2.3 Simple Regression Coefficients

The research ran a regression coefficient to assess how much change in the individual independent variables can predict the change in the dependent variables. The results of the analysis are unveiled in Table 4.15.

Table 4.15: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	.531	.431		2.001	.176
	Credit affordability	.478	.121	.390	1.702	.039

a. Dependent Variable: Financial Inclusion
b. Predictor Variable: Credit affordability

Source: (Researcher, 2024)

As illustrated in table 4.12, credit affordability has a significant positive effect (B=.478, t=1.702), p<.05) on financial performance. The regression coefficient of 0.478 for credit affordability implies that a unit increase in credit affordability, there would be a 0.478 unit increase in enterprise financial performance. This is an indication that better credit affordability leads to significantly improved financial performance of micro enterprises.

4.10.3 Financial Inclusion and financial performance of SMEs

4.10.3.1 Model Summary

The study analysis on Table 4.16 below sought to measure the extent to which a change in Fintech credit inclusion would affect financial performance of SMEs using coefficient of correlation and coefficient of determination.

Table 4.16: Model Summary

Model	R	R-squared	Adjusted R squared	Error of the estimate

1	.439	.471	.293	.2555

a. Predictors: (Constant), Fintech Financial Inclusion

Source: (Researcher, 2024)

The coefficient of correlation, R .439 portrays a positive relationship between fintech credit inclusion and business performance of SMEs. The R-squared (coefficient of determination) value is the measure of the extent to which a change in the independent variable would affect the dependent variable. In this case financial inclusion would cause a 47% change in financial performance of SMEs. This implies that the effect of fintech credit inclusion on financial performance of SMEs is significant.

4.10.3.2 Analysis of Variance (ANOVA)

This section represents results accrued from the analysis of variance used to evaluate the difference between the means of the two groups that is credit inclusion and financial performance.

Table 4.17: ANOVA Results

ANOVA					
Model	Sum of squares	DF	Mean squares	F	Sig
Regression	3.5361	11	1.5546	37.201	.000[b]
Residual	35.1018	252	0.2677		
Total	38.6379	263			

Source: (Researcher, 2024)

The results of the analysis, as presented in Table 4.17, indicate that the ANOVA model is statistically significant (F (11, 252) = 37.201, p<.05). Therefore, it can be said that there is no significant difference between the means of financial inclusion disaggregated variables and the financial performance of SMEs.

4.10.3.3 Simple Regression Coefficients

The research ran a regression coefficient to assess how much change in the individual independent variables can predict the change in the dependent variables. The results of the analysis are unveiled in Table 4.18.

Table 4.18: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	.482	.312		1.980	.137
	Financial Inclusion	.390	.207	.409	2.001	.009

a. Dependent Variable: Financial Performance

Source: (Researcher, 2024)

According to the results of the analysis shown on table 4.18 above credit inclusion has a significant positive effect (B=.390, t=2.001), p<.05) on financial performance. The regression coefficient of 0. 390 for credit inclusion implies that a unit increase in credit inclusion, there would be a 0.390 unit increase in enterprise financial performance. This is an indication that better credit inclusion leads to significantly improved financial performance of micro enterprises.

4.11 Multiple Regression Analysis

The study sough to establish the combined effect of Fintech credit access, affordability and inclusion on financial performance of SMEs in Kasarani Sub- County

4.11.1 Model Summary

Table 4.19: Model summary

Model	R	R-squared	Adjusted R squared	Error of the estimate
Constant	.465	.531	.303	.284
Affordability	.436	.507	.312	.229
Accessibility	.478	.486	.387	.260
Inclusion	.390	.521	.395	.239

a. Predictors: (Constant), Fintech Financial Inclusion, Fintech Credit accessibility, Fintech Credit affordability

According to the results of the analysis shown on table 4.19 above all the variables have a positive effect on the dependent variable. A unit change in credit accessibility would lead to a corresponding .436 increase in financial performance. A unit change in credit affordability would lead to a corresponding .478 increase in financial performance. This is an indication that

a unit change in credit inclusion would lead to a corresponding .390 increase in financial performance.

4.11.2 ANOVA Results

Table 4.20: ANOVA

ANOVA					
Model	Sum of squares	DF	Mean squares	F	Sig
Regression	3.5361	11	1.5546	37.201	.000[b]
Residual	35.1018	252	0.2677		
Total	**38.6379**	**263**			
Regression	3. 0072	8	1.3749	32.609	.000[b]
Residual	33.2861	255	0.1113		
Total	**36.2933**	**263**			
Regression	3.5096	7	1.7351	41.8291	.000[b]
Residual	36.0729	256	0.9260		
Total	**39.5825**	**263**			

Findings as presented in table 4.20 suggest that the regression model is statistically significant as proven by ($F(11, 252) = 37.201$, $p<.05$), ($F(8,255) = 32.609$, $p<.05$), ($F(7,256) = 41.8291$, $p<.05$). From the foregoing it can be concluded that credit accessibility, credit affordability and financial inclusion are reliable predictors of micro enterprise financial performance.

4.11.3 Regression Coefficients

The research ran a regression coefficient to assess how much change in the individual independent variables can predict the change in the dependent variables. The results of the analysis are unveiled in Table 4.19.

Table 4.21: Coefficients

		Unstandardized Coefficients		**Standardized Coefficients**		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	.465	.372		1.992	.171

Credit Accessibility	.436	.195	.391	2.160	.010
Credit Affordability	.478	.121	.390	1.702	.039
Credit Inclusion	.390	.207	.409	2.001	.009
Combined Variable Effects	.418	.183	.329	1.926	.006

a. Dependent Variable: Financial Performance

Source: (Researcher, 2024)

From table 4.21 the regression coefficients indicate that all the independent variables have a significant positive effect on the dependent variable. For instance, credit accessibility has a significant positive effect (B=.436, t=2.160; p<.05) on financial performance, credit affordability has a significant positive effect (B=.478, t=1.702; p<.05) on financial performance and financial inclusion has a significant positive effect (B=.390, t=2.001; p<.05). This means that a unit increase in each of the predictor variables would result in increased levels of micro enterprise financial performance.

The Multiple regression model used:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where;

Y= Financial Performance of micro enterprises

β_0= constant

β_1……β_3 =coefficients

X_1= credit accessibility

X_2 = credit affordability

X_3= financial inclusion

ε = error term

4.12 Testing of the Hypothesis

The study hypothesis **Ho_1** stated that there is no significant relationship between Fintech credit accessibility and financial performance of micro enterprises in Kasarani Sub-county; However, the study results shows that there is a significant relationship between Fintech credit accessibility and financial performance of micro enterprises as indicated by the regression coefficients ((B=.436, p<.05). Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis

The study hypothesis **Ho_2** stated that there is no significant relationship between Fintech credit affordability and financial performance of micro enterprises in Kasarani Sub-county; However, the study results show that there is a significant relationship between Fintech credit affordability and financial performance of micro enterprises as indicated by the regression coefficients ((B=.478, p<.05). Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis.

The study hypothesis **Ho_3** stated that there is no significant relationship between Fintech credit inclusion and financial performance of micro enterprises in Kasarani Sub-county; However, the study results show that there is a significant relationship between Fintech credit inclusion and financial performance of micro enterprises as indicated by the regression coefficients ((B=.390, p<.05). Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis.

The study hypothesis **Ho_4** stated that there is no significant relationship between Fintech credit accessibility, affordability, financial inclusion and financial performance of micro enterprises in Kasarani Sub-county. However, the study results show that there is a significant relationship between Fintech credit accessibility, affordability, financial inclusion and financial performance of micro enterprises as indicated by the regression coefficients ((B=.418, p<.05). Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This final chapter presents discussions on the study results and findings for each objective. The discussion includes contrasting with available knowledge on the subject from other authors. The chapter concludes by providing a summary of main findings, conclusions, and recommendations on the subject of financial performance as regards micro enterprises.

5.2 Summary of Study Findings

This subsection provides a summary of the study findings relating to the effect of Fintech credit accessibility, affordability, financial inclusion on the financial performance of microenterprises in Kasarani Sub-county.

5.2.1 Effect of Fintech credit accessibility on financial performance of the micro enterprises in Kasarani Sub-county

The study established that Fintech credit accessibility affect financial performance of the micro enterprises as shown by the composite mean score and Standard deviation (Mean=2.365 SD= 2.375). This was reinforced by the results of the qualitative analysis that showed that majority of the respondents (63%) agreed that Fintech credit accessibility affect financial performance of the micro enterprises. In addition, coefficients of simple regression analysis results ($B=.436$, $p<.05$) showed that Fintech credit accessibility has significant effect on financial performance of the micro enterprises.

5.2.2 Effect of Fintech credit affordability on financial performance of the micro enterprises in in Kasarani Sub-county

The study findings established that Fintech credit affordability affect financial performance of the micro enterprises as evidenced by the composite mean score and Standard deviation (Mean=2.41; SD= 2.33). Results of the qualitative analysis showed that majority of the respondents (69%) indicated that Fintech loans ranked highly because they were relatively cheap in terms of interest rate, offered favorable credit period and terms and had no requirements for collateral. In addition, coefficients of simple regression analysis results

(B=.478, p<.05) showed that Fintech credit accessibility has significant effect on financial performance of the micro enterprises.

5.2.3 Effect of financial inclusion on financial performance of the micro enterprises in Kasarani Sub-county

The study findings established that financial inclusion affect financial performance of the micro enterprises as evidenced by the composite mean score and Standard deviation (Mean=3.02; SD= 2.088). Results of the qualitative analysis showed that majority of the respondents (57%) indicated that the availability of financial technology services has enabled faster payment services and increased savings ability and this has directly affected business performance. In addition, coefficients of simple regression analysis results (B=.390, p<.05) showed that Fintech credit accessibility has significant effect on financial performance of the micro enterprises.

5.2.4 Effect of Fintech credit accessibility, affordability, and financial inclusion on financial performance of micro enterprises in Kasarani Sub-county

From the study findings, all the three independent variables; Fintech credit accessibility, affordability and financial inclusion affect financial performance of the micro enterprises in Kasarani Sub-county. Consequently, the statistical analysis results provide concrete evidence demonstrating that the three variables significantly affect financial performance of micro enterprises and strengthening them provides opportunity for growth and expansion of micro enterprises in terms of financial performance.

5.3 Discussions of the Study Findings

This section discusses the results under each study objective.

5.3.1 Credit accessibility and financial performance of micro enterprises in Kenya

The study findings established that there was a positive relationship between fintech credit accessibility and performance of micro enterprises depicting that an increase in fintech credit accessibility causes an increase in financial performance of micro enterprises in Kenya. Factors including the easy and favorable fintech loans terms had a positive effect on financial performance of SMEs. This position supports findings by Bitta (2022); Mutinda (2019); Blechman (2019) and Chaniwa et al. (2020) who established a significant relationship between availability of non-collateralized loans and financial performance among SMEs.

Further, the position that the lack of collateral by fintech loans is an enabler to access to credit for SMEs which concurs with findings by Birkenmaier, (2023) who reported that formal lending institutions like commercial banks in Kenya regarded lack the required collateral as a high-risk factor thus using it as a key indicator to access loans. The findings of this study further validate the position held by Mutinda (2019) on a significant proportion of SMEs not being able to satisfy requirements for loan approvals from the conventional lenders such as backs. This points to the critical role by fintech credit on financial performance of SMEs.

The study findings also concur with the findings by Ndegwa J. (2020) who established that factors including interest rates, collateral requirements, and the count of lending institutions collectively influenced access to credit hence performance of micro enterprises. Study findings that SMEs preferred fintech loans since they were easily accessible and convenient were well in line with the position by Barasa (2022) further acting as an enabler to increased financial performance of the SMEs.

5.3.2 Credit affordability and financial performance of micro enterprises in Kenya

The findings established a statistically significant relationship between fintech credit affordability and performance of micro enterprises depicting that an increase in fintech credit affordability causes an increase in financial performance of micro enterprises in Kenya. Findings supports Bitta (2022) on the existence of significant association between the cost of credit and financial performance of micro enterprises. However, this is despite the weak negative relationship depicted by the correlation between fintech credit affordability and financial performance which concurs with the findings by Ndegwa J. (2020) that concluded that there was a significant negative relationship between accurately declaring one's income and credit affordability. These findings also concur with Mutinda, (2019) and Ndegwa J, (2020) which state that the high rate of repayment turnover makes further borrowing more affordable and creates a cascading effect on microenterprises financial performance.

5.3.3 Financial inclusion and financial performance of micro enterprises in Kenya

The study findings established a statistically significant relationship between financial inclusion and performance of micro enterprises depicting that an increase in financial inclusion causes an increase in financial performance of micro enterprises in Kenya. This corroborated the findings of Mbugua et al, (2022) who reported a significant relationship between financial inclusion and financial performance of micro enterprises. They further state that financial technology has positively impacted payment services across micro enterprises by saving time as well as enhancing controls. This concurs with Experian (2022) on the position that the use

of technology on fintech loans was a key driver the emergence of new business opportunities which had a substantial impact on financial markets, financial institutions, and the delivery of financial service. Further the findings are in agreement with Barasa, (2022) who stated that there exists a significantly positive relationship between availability of financial technology services and enhanced financing costs.

5.3.4 Fintech credit accessibility, affordability, financial inclusion and performance of micro enterprises in Kenya.

The study findings established a statistically significant relationship between fintech credit accessibility, affordability, financial inclusion and performance of micro enterprises depicting that an increase in credit accessibility, affordability and financial inclusion causes an increase in financial performance of micro enterprises in Kenya. This was in line with the findings of Mwangi & Bwisa, (2019) who reported a significant relationship between fintech credit accessibility, affordability and financial inclusion and financial performance of micro enterprises. The accessibility of fintech credit has enabled micro enterprises to obtain financing more easily and quickly compared to traditional banking methods. Equally, affordability of fintech credit, characterized by lower interest rates and reduced transaction costs, has also been found to positively influence the financial stability and profitability of these enterprises. Furthermore, financial inclusion through fintech has expanded the reach of financial services to previously underserved or unbanked populations, thereby improving the overall economic activity within these communities (Kamau & Oluoch, 2021). According to Omondi, (2022) the combined effect of these factors has been shown to significantly enhance the financial performance and sustainability of micro enterprises in Kenya, as evidenced by increased revenues and better access to financial resources.

5.4 Conclusion

From the findings of the study, it can be concluded that all the three factors under study; fintech credit accessibility, affordability and financial inclusion have a significant relationship with financial performance of micro enterprises in Kasarani Sub-county in Nairobi, Kenya. This means that each of the three variables impacts on financial performance of micro enterprises in Kasarani Sub-county. Aspects such as easy access to credit facilities due removal of barriers such as collateral as a requirement to access loans, use of technology, interest rates and repayment time all play a critical role in the business environment of micro enterprises hence drive the change in their overall financial performance.

5.4 Conclusion

From the findings of the study, it can be concluded that all the three factors under study; fintech credit accessibility, affordability and financial inclusion have a significant relationship with financial performance of micro enterprises in Kasarani Sub-county in Nairobi, Kenya. This means that each of the three variables impacts on financial performance of micro enterprises in Kasarani Sub -county. Aspects such as easy access to credit facilities due removal of barriers such as collateral as a requirement to access loans, use of technology, interest rates and repayment time all play a critical role in the business environment of micro enterprises hence drive the change in their overall financial performance.

5.5 Recommendations

5.5.1 Recommendations for Policy

There is need for continued policy action on regulating the interests and repayments rates of fintech loans as far as micro enterprises are concerned. There is need for consideration by the Government on reducing the cost of operations and credit through programs such as tax concessions for fintech platforms as a catalyst for growth and expansion of micro enterprises in Kenya.

Financial policies such as fixed minimal cost of borrowing targeting micro enterprises should be implemented by the CBK and other sector regulators aimed at increasing their access to fintech credit and general expansion of micro enterprises.

5.5.2 Recommendation for Practice

There is need for more investment in technological innovations that can further improve efficiency of fintech credit processes including applications, approvals, and repayments focusing on the user needs of fintech credit products and opportunities. Based on the evidence from the study, there exists market opportunity for expansion of Fintech credit to cover more small and micro enterprises which may be limited to access credit facilities from conventional lenders such as banks.

5.6 Areas of Further Research

Based on the study findings, accessibility, affordability and financial inclusion contribute to a certain extent on financial performance of micro enterprises providing opportunity for more research on the other possible factors including internal capacity of micro enterprises on management and financial controls. This could also cover effects of elements such as environmental, regulatory and policy changes affecting various sectors and types of businesses.

Further research is necessary to cover wider and varying contexts different from Kasarani sub county in order to come up with in depth knowledge and understanding of fintech and micro enterprises. This includes studying the variables in rural set-ups or in larger contexts such as the entire county or country and also varying sizes of micro enterprises.

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APPENDICES

Appendix I: Research Questionnaire

PART A: BACKGROUND INFORMATION.

1. What is your gender?

Male [ ] Female [ ]

2. What is your highest level of education?

Certificate [ ] Diploma [ ] Degree [ ]

Masters [ ] Phd [ ]

3. How long have you been operating in this business?

Less than 1 year [ ] 1-3 Years [ ]

3-5 years [ ] More than 10 years [ ]

4. What is your position in the business?

Owner [ ] Manager [ ]

Other (please specify) _____

5. When was the business registered?

Less than 1 year [ ] 1-3 years [ ] More than 3 years [ ]

6. How many employees working in the business?

5 and below [ ] 6-10 [ ] Above 10 [ ]

SECTION B: CREDIT ACCESSIBILITY AND FINANCIAL PERFORMANCE

7. Below are several statements on accessibility of FinTech services and business performance. Kindly indicate the extent of your agreement with each of these statements. Use a Likert scale of 1-5, where; 1=strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree.

Statement		2			
Fintech loans are easily repayable in your business operation					
The majority of people prefer to take small loans.					
Fintech loans are relatively cheap in terms of interest rate					
Loans given by Fintech are the best because of non-existing collateral					
I can access Fintech loans from a variety of lenders within the comfort of my business premises					

8. In your own words, what experience do you have on the accessibility of this fintech services and its effect on the performance of your business;

……
……
……

SECTION C: CREDIT AFFORDABILITY AND FINANCIAL PERFORMANCE

9. Below are several statements on credit affordability and business finacila performance. Kindly indicate the extent of your agreement with each of these statements. Use a Likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree.

Statement	1	2	3		

Affordability of credit has been hindered by high indebtedness					
accurately declaring my income positively impacts my credit affordability.					
Proper credit usage impacts on the financial well-being of the person taking the loan					
The repayment of loans by many users makes it affordable					
Affordability of credit has improved the performance of business					

10. In summary form, how do you rank the mobile banking platform and its effect on performance of micro enterprises;

……
……
……

SECTION C: FINANCIAL INCLUSION AND FINANCIAL PERFORMANCE

11. Below are several statements on financial inclusion and performance of business. Use a Likert scale of 1-5; where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5 = strongly agree;

Statement	1		3		
The available financial technology services have enabled faster payment of services.					
The available financial technology services have lowered the costs of financing for my business					
The presence of financial technology have increased my savings ability					

The presence of financial technology has allowed me to access more financial services					

12. How can you summarize the nature of financial inclusion established by fintech lenders and their implications to micro enterprise performance;

……
……
……

SECTION F: FINANCIAL PERFORMANCE OF MICROENTERPRISES

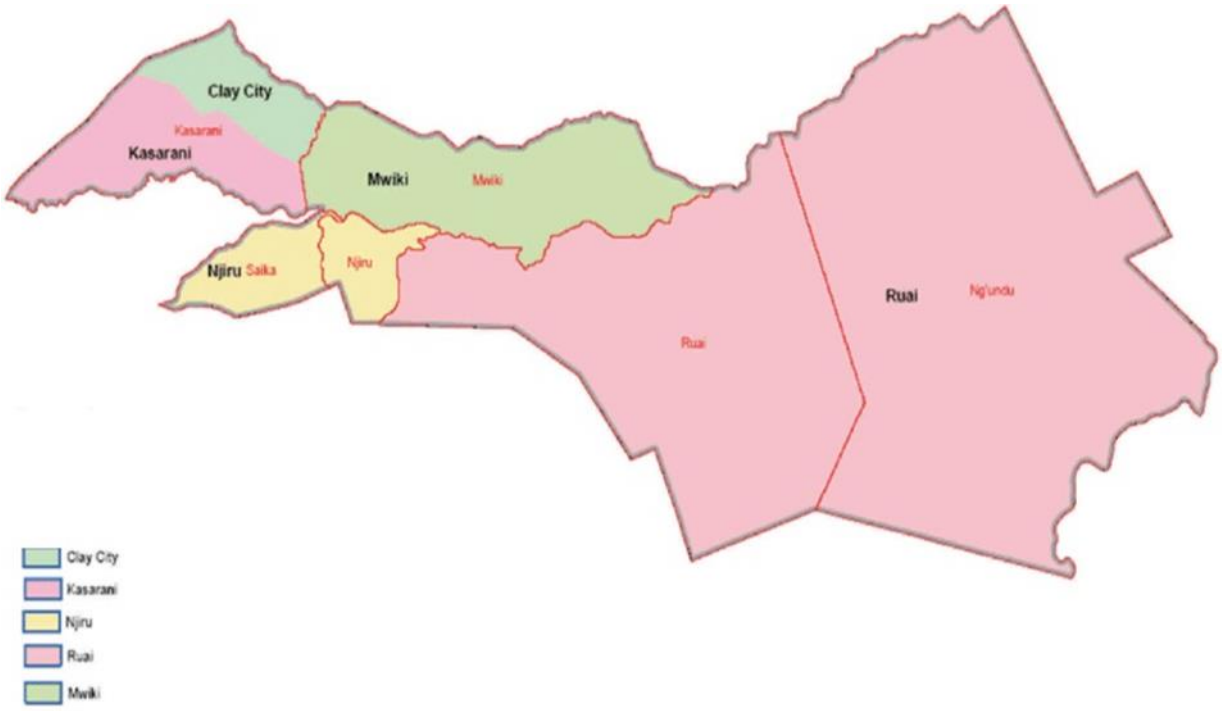
13. Below are several statements on performance of microenterprises traders. Kindly indicate the extent of your agreement with each of these statements. Use a Likert scale of 1-5 where; 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly disagree.

Statement	1				5
After accessing Fintech credit my business operating income has increased substantially					
Fintech credit has guaranteed my return on investment					
Fintech has secured my return on assets					
Fintech credit has boosted the overall performance of your business					

14. In your own words, how do you think the fintech platform affects performance of micro enterprises and what can be done to enable micro enterprises leverage on the fintech platform for high profitability;

……
……
……

Appendix II: Map of Kasarani Sub-county



Appendix III: Research Budget

Activity	Amount
Proposal Printing	5,000
Internet	2,000
Consultations	10,000
Data collection expenses	15,000
Final research printing	5,000
miscellaneous expenses	3,000
Total	40,000

APPENDIX IV: RESEARCH AUTHORIZATION

18^{sth}*, February 2024*

E-mail: researchwriting.mba.mme@anu.ac.ke

Tel. 0202711213

Our Ref: 17S03DMBA011

The Director.
National Commission for Science,
Technology and Innovation (NACOSTI),
P. O. Box 30623, 00100
Nairobi. Kenya

Dear Sir/Madam:

RE: RESEARCH AUTHORIZATION FOR: NGO BAKANG ANNY CAROLL

Miss. Anny is a postgraduate student at Africa Nazarene University in the Master of Business Administration (MBA) program.

In order to complete her program, Miss. Anny is conducting research entitled: '**Effect of Fintech Lending on Financial Performance of Micro Enterprises in Kenya: A Case of Micro Enterprises in Kasarani Sub-county Area'**

Any assistance offered to her will be highly appreciated.

Yours Faithfully,



DR. Kimani Gichuhi,

MBA, Coordinator,

School of Business,

Africa Nazarene University.

APPENDIX V: NACOSTI RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 734880

Date of Issue: 04/April/2024

RESEARCH LICENSE



This is to Certify that Ms.. ANNY CAROLL NGO BAKANG of Africa Nazarene University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Effect of Fintech Lending on Financial Performance of Micro Enterprises in Kenya: A Case of Micro Enterprises in Kasarani Sub-County Area' for the period ending : 04/April/2025.

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APPENDIX VI: RESEARCH WORK PLAN

S/NO	Activity	Nov 2023	Mar 2024	Apr 2024	May 2024	Jun 2024
1.	Submit draft proposal					
2.	Proposal defense					
3.	Post defense review of proposal					
3.	Data collection, Data Analysis & Report writing					
5.	Project Defense and post defense corrections					
6.	Project paper binding and publishing					