MICRO-CREDIT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII COUNTY, KENYA

Okari Pascal Oseko & Dr. Kadima Murunga John, PhD

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 12, Iss.2, pp 943 – 957, May 15, 2025. www.strategicjournals.com, © Strategic Journals

MICRO-CREDIT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII COUNTY, KENYA

Okari Pascal Oseko [1]& Dr. Kadima Murunga John, PhD [2]

[1] Master Student, Jomo Kenyatta University of Agriculture and Technology, Kenya
[2] Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

Accepted: May 2, 2025

DOI: http://dx.doi.org/10.61426/sjbcm.v12i2.3250

ABSTRACT

Micro Finance Institutions offer non-financial packages, such as training, in addition to their principal loan offering to Small and Medium Enterprises in order to maximize the usage of the lenders' resources. Small and Medium-Sized Enterprises must be profitable in order to alleviate poverty and promote economic progress. This study was anchored on three theories, namely; Agency Theory, Finance Growth Theory and Financial Intermediation Theory. The objective of the study was to establish the effect of Micro-Credit practices on Financial Performance of Small and Medium Sized enterprises in Kisii County, Kenya. The study adopted a descriptive research design. The target population for the study was from the licensed Small, Medium sized enterprises within the municipality in various sectors that include: trade, commercial services, and financial services. The study adopted stratified method of sampling technique and applied Slovin's formula to get a sample size. The study used the questionnaire as a tool of primary data collection. The pilot study was taken from Small and Medium Sized firms in Kisii County, Kenya that were not part of the main study. Statistical Package for Social Science (SPSS version, 2024) Software was used to tabulate, analyze, and refine the data for both descriptive and inferential statistics. The results indicated Micro-Credit practices had an effect on financial performance of Small and Medium Size enterprises. The study recommends for the Small and Medium Sized enterprises to embrace micro-credit practices in management since there is an influence and improvement of financial performance. Furthermore, the study recommends for further studies based on similar variables though on various different category enterprises and even larger area coverage than at county level.

Key words: *Micro-Finance Institutions, Micro-Credit practices, Financial Performance*

CITATION: Okari, P. O., & Kadima, M. J. (2025). Micro-credit practices and financial performance of small and medium enterprises in Kisii County, Kenya. *The Strategic Journal of Business & Change Management,* 12 (2), 943 – 957. http://dx.doi.org/10.61426/sjbcm.v12i2.3250

INTRODUCTION

Global evidence on the role of micro and small enterprises on economic development has been under literature, hence statistically the average growth rate of medium and small enterprises in countries for example; Pakistan is less than 10% as compared to 43.72% in India (Ejaz & Ramazan, 2012; Kausar, 2013; Vasu & Jayachandra, 2014). Considerably, in United States of America, financial institutions have persistently locked out small and medium enterprises on financial access as constrained by credit evaluation and lending conditions. On Cultural perspective, formal and traditional financial institutions have continuously locked out medium and small sized firms due to lack of collateral security, poor financial records and failure of past credit scoring criterion (Adera, 2015).

Njuguna (2015) notes, Medium and Small sized firms represent about 78 percent of all the firms operating globally (USAID, 2010). Considering countries like Indonesia, Singapore, Thailand and India, medium and small enterprises contribute over 40 percent of the Gross Domestic Product. Most of the scholars support the relevance of small and medium enterprises, however researchers in developed economies have little in support of SMEs. Njuguna (2015) embrace empirical literature indicates contribution of medium and small enterprises in the industrial sector to the national Gross Domestic Product was estimated at 40%, 52%, 55% and 47.5% for India, Japan, Sri Lanka, and Thailand respectively.

The availability of money impacts the ability of an organization in a variety of ways, particularly in the choice of technological advances, accessibility to markets, and having accessibility to vital resources, all of which have a significant impact on the sustainability and achievement of a business (Wole, 2009). According to Wole, one of the biggest challenges entrepreneurs' encounters, especially those in the SMEs sector, is obtaining financing for business start-ups or operations. Lack of access to capital is one of the key reasons impeding SMEs' formation and expansion.

Kibet (2015) sought to establish a link between microfinance lending and SMEs' performance in Kenya's Uasin Gishu County. According to the findings, MFIs were the primary source of initial financing for SMEs, primarily providing loans and savings services. Among the SMEs that took part in the study, 100% admitted to obtaining investment capital through loans. They claimed that the monies were used for their intended purposes, and that MFIs were the predominant source of money due to an absence of alternatives. Kibet (2015) suggests that the government adopt legislation that supports SMEs access to microcredit that is beneficial to both parties in order to stimulate lending, which benefits the economy through increased money circulation and reduces the unemployment rate.

SMEs' ability to expand heavily depends on their ability to invest in restructuring and innovation. All of these ventures require funds and thus access to finance is necessary. Against this backdrop, the repeated perception of SMEs regarding their challenges with access to finance is a critical area of concern, if not addressed appropriately, can jeopardize the survival and expansion of the SMEs sector. Most studies operationalize Micro-Credit practices through loan accessibility, interest rates and loan repayment terms.

Gutiérrez-Nieto and Serrano-Cinca (2023) investigated extensive loan data on 253 small and medium-sized borrowers from an Indian bank both before and after they became newly eligible for the program. In particular, the program's size definition was revised in 1998, allowing a new set of medium-sized enterprises to get loans at subsidized interest rates. Naturally, these enterprises began to borrow under this preferred program, but rather than just swapping subsidized credit for more expensive finance, they increased their sales in proportion to the additional loan sources, implying that these firms were previously credit constrained.

According to the CBS/ICEG/K-Rep (1999), the two

main obstacles SMEs face are limited market access and financial services. Some of the facts noted that prevent small-scale entrepreneurs from receiving credit from formal credit institutions include a lack of tangible security and the procedural bureaucracies of credit borrowing. Because of these issues' impact, most SMEs operators have confined themselves to small markets with low profit margins due to fierce competition. As a result, the majority of SMEs are stagnating, regressing to micro status, or closing after a few years of operation. Very few are able to progress to medium and large-scale firms (Govt. of Korea, 2004).

Due to a shortage of funds, SMEs in Kenya face expansion challenges. They rarely progress beyond the start-up stage, and others fail at an early point (Brownwyn, 1995). According to Hallberg (1998)'s research, access to credit is a critical component of SME development. They have few options for obtaining financing other than depending on their retained earnings to fund their investment. As a result, SMEs do not have enough financing to meet their needs at different stages of growth. As a result, there is a financing gap for new or expanding businesses. Microfinance Institutions give seed capital to SMEs by lending money and purchasing capacity equipment. This necessitates that the Microfinance Institution manage credit risk effectively. SMEs must arrange in order to meet the borrowing requirements imposed by microfinance banks. These credit terms can have an impact on SMEs' profitability because inability to repay loans might result in fines and other penalty-related charges.

Forster, Greene, and Pytkowska (2006) investigated the situation of microfinance in Central and Eastern Europe and discovered that outreach to the region's poor was relatively low, with groups primarily focusing on lending to already established SMEs. According to the report, microfinance institutions centered their activities on the provision of basic, short-term, relatively high-interest working-capital loan products. "Microfinance lending necessitates a genuine ability to repay the loans as well as a diverse source of income" (Shreiner & Colombet 2001). The study by Forster, Greene, and Pytkowska finds that Microfinance Institutions do not give seed capital to SMEs in the European regions studied, but it does not analyze the impact of this deficiency on SME growth. In contrast, Peters (2000) contends that equity financing has been successful in wealthy countries and may be repeated in developing countries by granting business start-up funds.

Zeller (2003) investigated micro companies in Madagascar and discovered that friends and family were the most important sources of seed money for new SMEs in the country. According to Okurut, Banga, and Mukungu (2004), SMEs in Malawi received start-up financing from money lenders; however, money lenders did not lend to the community's poorest members because they lacked the means to provide collateral. Commercial banks may be unable to give seed capital due to their severe loan requirements and inability to access rural areas, but in South Africa, as noted by FNB (2010), the banking system remains the primary source of financing to start and expand businesses. Financial services companies like First Rand have a history of fostering successful entrepreneurial businesses.

A lack of credit is one of the most important obstacles confronting SMEs and impeding their development. According to Mwobobia (2012), loans from Kenyan microfinance organizations are typically limited in size, have no grace period, are designed for a short period of time, and have extremely high interest rates. certain studies may be useful in identifying seed capital sources in certain African nations, but they do not address the impact of seed capital on the growth of SMEs. According to a study conducted by Kehinde and Ashamu (2014) on the influence of pioneering status on the growth and earnings of SMEs in Nigeria, giving pioneering status for tax purposes will go a long way toward creating a strong earnings base for the SMEs. It was also discovered that while SMEs owners commonly employ personal savings

to establish their businesses, they are not superior to debt financing (government financing and leasing) during the growth stage of the SMEs' life. The study also highlighted the pecking order theory, which suggested that companies prioritize internal sources of money above debt, which involves issuing shares to allow enterprises to access capital at the early stages of their development.

Statement of the Problem

Small and Medium Enterprises (SMEs) are globally acknowledged as vital contributors to economic growth, employment generation, and poverty alleviation (Beck & Demirguc-Kunt, 2006). Nevertheless, SMEs often grapple with severe financial constraints that impede their ability to expand operations, enhance productivity, and achieve financial sustainability (Kira & He, 2012). Traditional banking institutions exacerbate these challenges by imposing stringent lending requirements, including demands for substantial collateral and comprehensive financial records that obstruct many SMEs to access credit facilities (Rao et al., 2023). Microfinance Institutions (MFIs) have emerged as a promising alternative, providing specialized financial services such as micro-credit practices to small businesses (Ledgerwood, 2013). Study by Wanjiku (2015) have explored the broad relationship between microfinance and business development, however, this study often over-looks the nuanced impacts of specific micro-credit services on critical financial performance indicators like profitability, liquidity, and business expansion. Moreover, despite the growing presence of MFIs, limited empirical evidence exists regarding their effectiveness in improving Micro-Credit practices on financial performance in regions such as Kisii County (Memba, Gakure, & Karanja, 2012). Challenges related to financial literacy, loan repayment burdens, and operational inefficiencies further complicate SMEs' ability to leverage microfinance services effectively (Soldátková & Černý, 2022). Given these gaps, this study aimed to critically examine the effect of Micro-Credit practices on Finance Performance of Small and Medium Enterprises in Kisii County, Kenya.

Study objective

To examine the effect of Micro-Credit practices on Financial Performance of Small and Medium Enterprises in Kisii County, Kenya.

Research Hypothesis

There is no significant effect of Micro-Credit Practices on Financial Performance of Small and Medium Enterprises in Kisii County, Kenya.

LITERATURE REVIEW

Theoretical Literature Review;

Agency Theory

Jensen and Meckling introduced this theory in 1976 with a plan that provides rules for establishing contracts that facilitate the evaluation and motivation of an agent's actions while also considering the principals' interests. According to Jensen and Meckling (1976) and Jensen and Ruback (1983), agents may be induced to make insolvent investments notwithstanding Principal losses. Creditors and business owners sometimes clash because debt obligations push owners to make subpar investments. Due to the firm's owners' limited liability, debt contracts result in an unbalanced distribution of profits: the owners are presumed to earn more profit if an investment is more profitable than the original value of debt, while creditors bear all of the consequences if the investment fails.

Financial institutions can use credit rationing to establish a favorable credit or loan market by adjusting interest rates for specific borrowers. When lenders' data is incomplete, adverse selection occurs, in which some loan applicants are authorized while others are denied (Darush & Hman, 2015). Lenders are more willing to lend to those they believe will repay their loans. When a company is not adequately incentivized to expand, it may fail to grow and eventually default on its loan payments, and when a client receives a loan and then engages in high-risk ventures, moral hazards arise.

Lenders suffer agency costs due to the risky character of the credit industry, which impacts the outcome of credit services for SMEs due to high information needs and administration challenges. According to some academics, the slow growth of small and medium-sized firms (SMEs) is due to a lack of access to financial resources, which has deterred many SMEs from seeking external finance for their operations.

The agency theory becomes a critical instrument when addressing agency costs on loans, such as in the case of small and medium-sized firms (SMEs) with restricted access to external equity (Darush & hman, 2015). The impact of debt on a company's bottom line can be better understood using agency theory, which focuses on the connection between lenders and borrowers in terms of the costs of monitoring small and medium-sized companies' (SMEs') investing activities. Due to their agency relationship, small and medium-sized firms (SMEs) are less likely to be authorized for bank loans.

Finance Growth Nexus Theory

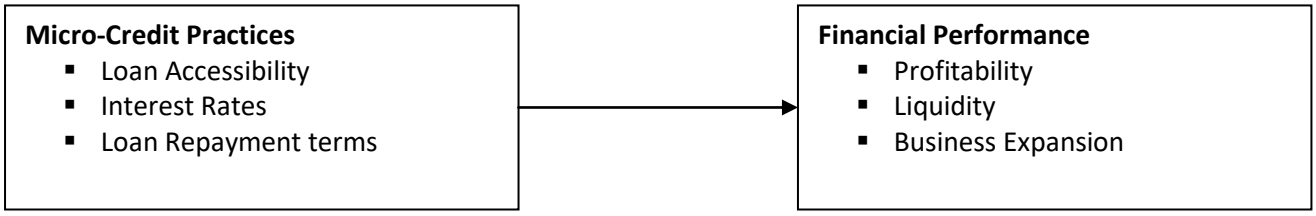
Bagehot (1873) laid the groundwork for what became known as Solow's finance-growth nexus theory. (1956). According to the theory, a flourishing economy is the consequence of the interaction of the supply-leading and demand-following impacts of financial development. Furthermore, the theory recognizes that limited access to financial resources is a significant factor to persisting income disparities and poor corporate financial performance. That is why easy access to low-cost financing is critical; it improves business performance and helps level the financial playing field. Several economists have presented opposing viewpoints on this concept. According to the demand side of the dispute, the economy grows in reaction to changes in the real sector rather than being stimulated by the financial system. According to proponents of the financial-led growth hypothesis, a thriving financial sector fosters economic growth, which helps businesses.

Goldsmith (1969), McKinnon (1973), and Levine & Zervos (1996) all underline the relevance of financial institutions to economic expansion, similar to Ndebbio (2004). Proponents of supply-leading theory argue that creating financial institutions directly results from rising demand for such services in a growing economy. According to the finance-growth nexus idea, the availability of low-cost financial services is positively connected with corporate expansion and economic development. This is evidenced by greater firm financial performance and the development of new companies. The influence of micro finance organizations to the growth in GDP and success of small and medium-sized firms (SMEs) due to their supply of critical financial services should be assessed to ascertain the importance of the link between them.

Financial Intermediation Theory

Shittu (2012) claims that Goldsmith (1969) and later Shaw and McKinnon (1973) research created the framework for the notion of financial intermediation. Understanding the significance and disparities in growth between nations and the quality of products offered by financial institutions was viewed as critical to supporting economic development, leading to general acceptance of the financial market's role in fostering this advancement. According to Bolton and Freixas (2000), intermediation enhances communication between investors and business owners. According to this approach, MFIs are required to function as fiscal intercessors by providing information about SME lenders, monitoring their progress, presenting appealing contractual arrangements, and negotiating payment conditions with struggling borrowers in order to assist alleviate the underlying problems. This idea will be applied to the study to comprehend the available financial facilities and how to obtain them to build firms.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

Research Design

Research design is a plan, structured examination conceived so as to obtain answers to research questions and to control variance; hence, research design stipulates arrangement of conditions for collection and analysis of data in a manner that seek to put together relevance to research objectives with an economy in procedure (Sekeran & Bougie,2016). It is an overall plan on how researchers will answer their research question and meet objectives (Bryman, 2016). In the study by Rahi (2017) on business research methodology, research design is a comprehensive plan of sequence of operations that a researcher intends to carry out to achieve the objectives of a research study.

In the study by Thomas, Oenning and Goulant (2018) on survey of research methods, choosing an appropriate research design depends on nature of research questions and hypotheses, variables, sample of participants, research settings, data collection methods and data analysis methods. Thus, a research design is a structure, or blueprint, of research that guides a process of research from formulation of research questions and hypotheses to reporting research findings. In designing any research study, a researcher should be familiar with the basic steps of the research process that guide all types of research designs. Also, a researcher should be familiar with a wide range of research designs in order to choose most appropriate design to answer research questions and hypotheses of interest.

This study adopted a descriptive survey research design since data involved was quantitative in nature and more so descriptive study focuses on explaining situations. This study tested different variables relationship with descriptive statistics in order to establish variables relationships. According to Bryman (2016), quantitative method mainly focuses on collection of numerical data and testing theories and hence an approach was deductive.

Target Population

Kothari (2004) defines a target population as a collection of people who share collectively observable characteristics that distinguish them from other groups. Wellington (2008) explains this phenomenon by focusing on the researcher's objectives and defining populations as elements or things containing the material sought by the researcher. The study's target respondents comprised 222 licensed SMEs from the municipality in diverse industries such as trade, commercial services, and financial services. As respondents, the study focused on business owners and managers. If a company or organization has multiple managers, the researcher chose the top management. The target population will be as tabulated below;

Table 1: Target Population

Section	Target Population
General Merchandise	34
Electronic Shops	32
Mpesa Shops	87
Restaurants	17
Cosmetics Shops and Pharmacist	27
Hardware Shops	15
Boutique Shops	10
Total	222

Sample Size and Sampling Procedure

Sampling refers to a thorough enumeration of all population units (Cooper & Schindler, 2003). According to Onwuegbuzie and Leech (2005), the goal of sampling is to pick a research sample that is representative of the larger population from which it was selected. A sample is a subset of a larger population. A sample, according to researchers, is any representative selection from a larger population that fits certain criteria established via meticulous testing and observation (Bless, Higson-Smith *et al.* 2006).

According to Kothari (2003), the sample should be divided in proportion to the population size of each stratum. The study adopted stratified method and Slovin's formula to get a sample size of 143 respondents. The sample size will be arrived at by using the Slovins formula (Pagoso *et al.,* 1992) found below;

$$n = N/(1 + N(\varepsilon^2)$$

$$n = 222/(1 + 222(0.05^2)$$

$$n = 222/(1 + 222(0.0025)$$

$$n = \frac{222}{1 + 0.555}$$

$$n = 143$$

Where:
n = number of samples
N = total population
e = 0.05 (margin of error)

From the list of 222 SMEs the formula yielded a sample size of 143 enterprises r

Data collection Instruments

Kothari (2007) asserts that a questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms and the questionnaire is vital since respondents are provided with questions for each study variable and a lot of information can be collected over a short period of time (Dillman, 2000). Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. These questionnaires were structured and designed in multiple choice formats. Section one introduced the researcher, topic of research and its purpose to the respondent. Section two was designed to elicit demographic data of the respondents such as gender, level of education and age while section three dwelled on independent and dependent variable of the study.

Pilot Test

A pilot study is a small-scale preliminary study before the main research in order to measure the validity and reliability of data collection instruments, (Kothari, 2007). For the purposes of this study, all components of the questionnaires were checked and coded to ensure clarity of words and the accuracy of the statements in relation to the specific research questions, then pretested in some respondents of small and medium enterprises in Kisii County that was not included in the final sample. A sample size of ten respondents was chosen to form the pilot study. This is because it is necessary to pretest the

instruments of the research on a small sample of respondents in a preparatory exercise to find out if there are any weakness in the instruments so that they could be corrected before used in the final study (Dillman, 2000).

Data Analysis

Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS). version 24 software. The output of analysis was presented using tables to make them reader friendly. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was also organized into graphs and tables for easy reference.

Further, inferential statistics such as regression and correlation analyses were used to determine both the nature and the strength of the relationship between the dependent and independent variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. Computer software package of SPSS version 24 was used to compute statistical data.

Study conceptualized Regression Model;

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

Where;

Y= Financial Performance

α =constant

β_1 = parameter estimate

X_1 = Micro-Credit Practices

ε is the error of prediction.

FINDINGS AND DISCUSSION

Response Rate

The study targeted a sample size of 143 SMEs, of which 134 fully completed the questionnaire, resulting in a **response rate of 93.7%**, as shown in Table 2.

Table 2: Response Rate

Category	Frequency	Percentage (%)
Responded	134	93.7
Non-response	9	6.3
Total	**143**	**100.0**

A response rate above 70% is considered excellent for social science research (Mugenda & Mugenda, 2003), thereby affirming the validity and reliability of the data collected.

Descriptive Statistics of the Variable in the Study;

Descriptive Statistics for Micro-Credit Practices

This section presents SMEs' responses on the availability, accessibility, affordability, and impact of micro-credit practices

Table 3: Micro-Credit Practices

Statement	Mean	Std. Deviation
Credit has enabled us to expand our business operations.	4.12	0.87
Loan terms (interest rates and repayment) are favorable.	3.49	1.06
The MFI loan process is efficient and timely.	3.82	0.94
We have been able to repay MFI loans comfortably.	3.64	1.11

The mean score for most items was above 3.5, indicating a general agreement among respondents that micro-credit services positively impact SME operations. The highest-rated item was business

expansion (mean = 4.12), emphasizing credit's role in capitalizing business growth. However, there were mixed perceptions on the favorability of loan terms (mean = 3.49), implying that some SMEs may find MFI loans expensive or rigid. This supports findings by Agarwal et al. (2023), who noted that while MFIs are more accessible than traditional banks, their interest rates can be burdensome for small enterprises. Many SMEs rely on these credit facilities for purchasing inventory, expanding physical space, or bridging operational cash gaps. This result is consistent with Kibet (2015) and Gutiérrez-Nieto & Serrano-Cinca (2023), who argue that accessible credit is vital for small enterprise growth, particularly in developing economies. However, some respondents raised concerns about interest rates, suggesting a need for more tailored credit products to reduce borrowing costs.

Inferential statistics

Correlation Analysis

Table 4: Correlation Matrix

Variables	Micro credit	Financial Performance
Micro-Credit	1	.631**
Financial Performance	.631**	1

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

All independent variable was positively and significantly correlated with financial performance. Micro-credit practices (.631) had the strongest relationships, suggesting its dominant influence.

Analysis of linear regression;

Linear influence of Job Shadowing on performance

This tested the direct influence micro-credit practices on performance. The results are shown in table 5.

Regression analysis was used to determine the relationship between the independent or predictor variables and a dependent variable.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745a	0.555	0.541	0.36274

a Predictors: (Constant), micro credit practices,

With an R-squared of 0.555, the model shows micro credit, contribute up to 55.5% on employee performance while 44.5% of this variation is explained by other indicators which are not inclusive in this study. This demonstrates a strong relationship between the identified variables and employee performance outcomes, suggesting that they significantly impact employee effectiveness.

From the results in table 5, analysis of variance statistics was conducted to determine the differences in the means of the dependent and independent variables to show whether a relationship exists between the two. The P-value of 0.005 implies that employee performance has a significant relationship with performance, which is significant at 5 % level of significance.

Table 6: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.745	.555	.541	.36274

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	27.410	4	6.853	52.073	.000
Residual	21.990	129	0.170		
Total	49.400	133			

$y = 1.224 + 0.379X_1$

Where;

Y is Financial Performance

X_1 is Micro-Credit Practices

Testing of study hypotheses

Study hypothesis (H_{01}) stated that Micro-Credit practices do not significantly influence financial performance of small and medium enterprises in Kisii County, Kenya. Multiple regression results indicate that Micro-Credit practices significantly influence financial performance of small and medium enterprises (β = 0.379 (0.068) at *p<0.05*). **Hypothesis one is therefore rejected**. The results indicate that that a single improvement in effective Micro-Credit will lead to 0.341 unit increase in the financial performance of small and medium enterprises in Kisii County, Kenya.

Kibet (2015) sought to establish a link between microfinance lending and SMEs' performance in Kenya's Uasin Gishu County. According to the findings, MFIs were the primary source of initial financing for SMEs, primarily providing loans and savings services. Among the SMEs that took part in the study, 100% admitted to obtaining investment capital through loans. They claimed that the monies were used for their intended purposes, and that MFIs were the predominant source of money due to an absence of alternatives. Kibet (2015) suggests that the government adopt legislation that supports SME access to microcredit that is beneficial to both parties in order to stimulate lending, which benefits the economy through increased money circulation and reduces the unemployment rate.

CONCLUSIONS AND RECOMMENDATIONS

The study found that micro-credit significantly impacts SME financial performance, particularly in business expansion, inventory procurement, and operational sustainability. Respondents reported that access to MFI credit enabled them to scale their operations and seize new market opportunities. With a mean score of 4.12 and a standardized regression coefficient of 0.341, micro-credit practices was the most influential variable in the regression model. However, some SMEs expressed concern about loan interest rates and the burden of short repayment periods, suggesting the need for more flexible and affordable credit terms. The correlation coefficient of 0.631 confirms a strong positive relationship with financial performance, consistent with global studies that recognize access to affordable credit as a driver of enterprise growth (Agarwal et al., 2023; Gutiérrez-Nieto & Serrano-Cinca, 2023).

In addressing the objective, the study concludes that micro-credit practices have a substantial effect on SME financial performance. Access to credit from MFIs enables businesses to expand operations, purchase inventory, and meet recurring expenses, contributing to increased profitability and sustainability. The strong correlation and regression results underscore the importance of affordable and accessible credit in fostering SME growth. However, some challenges persist,

particularly regarding the affordability of loans and the rigidity of repayment schedules, which may hinder the ability of SMEs to fully exploit credit services for long-term development.

In relation to the objective concerning micro-credit practices, MFIs are advised to review their loan product offerings with a view to making them more adaptable to the financial realities of SMEs. This includes the introduction of grace periods, flexible repayment plans aligned with SME revenue cycles, and the development of tiered interest rate models that reward consistent repayment behavior. Such enhancements would lower the barriers to credit access and encourage responsible borrowing, ultimately supporting SME growth and expansion.

REFERENCES

Adnan, M., & Kumar, S. (2021). *Impact of Microfinance on the Performance of Micro and Small Enterprises in Developing Countries*. Journal of Small Business and Enterprise Development, 28(4), 745–764.

Adera, A. (2015). Instituting effective linkages between formal and informal financial sector in Africa: A Proposal. Saving and Development. Journal of Entrepreneurship and Management, 1(2), 5-22.

African Centre for Entrepreneurship Proficiency Development (2011). Should MSE growth be tied to development policy? Nairobi: ACEPD.

Adnan, S. A., & Kumar, P. (2021). Role of microfinance in economic development. *Adhyayan: A Journal of Management Sciences*, *11*(2), 22-30.

Agarwal, P., Singh, R., & Chopra, D. (2023). *Microfinance and Business Growth among Small Enterprises: Evidence from Emerging Economies*. International Journal of Finance and Economics, 38(1), 101–116.

Agarwal, S., Kigabo, T., Minoiu, C., Presbitero, A. F., & Silva, A. F. (2023). Serving the underserved: microcredit as a pathway to commercial banks. *Review of Economics and Statistics*, *105*(4), 780-797.

Akisimire, R. (2010). *The Impact of Savings on the Performance of SMEs in Uganda*. Makerere University Business School Working Paper Series.

Aladejebi, O. (2019). The impact of microfinance banks on the growth of small and medium enterprises in Lagos Metropolis. *European Journal of Sustainable Development*, *8*(3), 261-261.

Alias, N. A. L. (2024). The Contribution of Microfinance Institutions to Personal Financial Management. *Available at SSRN 4845831*.

Amadasun, D. O., & Mutezo, A. T. (2022). Influence of access to finance on the competitive growth of SMEs in Lesotho. *Journal of Innovation and Entrepreneurship*, *11*(1), 56.

Amuedo-Dorantes, C., & Pozo, S. (2019). *Remittance Receipts and Business Ownership in Latin America*. The Journal of Development Studies, 55(6), 1033–1050.

Ayton, D. (2023). Qualitative descriptive research. *Qualitative Research–a practical guide for health and social care researchers and practitioners*.

Banerjee, A., Karlan, D., & Zinman, J. (2021). *Remittance flows and SME financing: A randomized control trial in developing economies.* World Development, 140, 105-122.

Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance, 30*(11), 2931-2943.

Bless, C., Higson-Smith, C., & Kagee, A. (2006). *Fundamentals of social research methods: An African perspective*. Juta and Company Ltd.

Carter, M. R., Cheng, L., & Sarris, A. (2016). *Where and how index insurance can boost the adoption of improved agricultural technologies.* Journal of Development Economics, 118, 59-71.

Chipangura, A., & Kaseke, N. (2012). Growth constraints of small and medium enterprises (SMEs) at Glenview Furniture Complex (GFC) in Harare (Zimbabwe). *International Journals of Marketing and Technology*, *2*(6), 40-83.

Cooper, D. R., Schindler, P. S., Cooper, D. R., & Schindler, P. S. (2003). Business research methods.

Cooper, N (2012). The impact of microfinance service on the Growth of small and

medium enterprises in Kenya. *Unpublished MBA project*, University of Nairobi.

Cull, R., & Hartarska, V. (2023). Overview of microfinance, financial inclusion, and development. In *Handbook of microfinance, financial inclusion and development* (pp. 2-19). Edward Elgar Publishing.

Demirgüç-Kunt, A., Klapper, L., & Singer, D. (2020). *Financial inclusion and remittances: How SMEs benefit from cross-border transfers.* The World Bank Economic Review, 34(2), 425-450.

Dercon, S., Kirchberger, M., Gunning, J. W., & Platteau, J. P. (2019). *Microinsurance in theory and practice: A review.* The World Bank Research Observer, 34(1), 1-38.

Dercon, S., Kirchberger, M., Gunning, J. W., & Platteau, J. P. (2019). *The Impact of Microinsurance on Household Welfare*. World Development, 124, 104638.

Dockel, J. A., & Ligthelm, A. A. (2005). Factors responsible for the growth of small businesses. *South African Journal of Economic and Management Sciences*, *8*(1), 54-62.

Enaifoghe, A., & Ramsuraj, T. (2023). Examining the function and contribution of entrepreneurship through small and medium enterprises as drivers of local economic growth in South Africa. *African Journal of Inter/Multidisciplinary Studies*, *5*(1), 1-11.

Fadikpe, A. A. A., Danquah, R., Aidoo, M., Chomen, D. A., Yankey, R., & Dongmei, X. (2022). Linkages between social and financial performance: Evidence from Sub-Saharan Africa microfinance institutions. *Plos one*, *17*(3), e0261326.

Freixas, X., Parigi, B. M., & Rochet, J. C. (2000). Systemic risk, interbank relations, and liquidity provision by the central bank. *Journal of money, credit and banking*, 611-638.

G20 Global Partnership for Financial Inclusion. (2021). *Harnessing digital finance for SME growth: The role of remittances in economic development.* Retrieved from https://www.gpfi.org

Giesbert, L., Steiner, S., & Bendig, M. (2011). *Participation in micro life insurance and the use of other financial services in Ghana.* The Journal of Risk and Insurance, 78(1), 7-35.

Gray, D. S., Saunders, M. N. K., & Goregaokar, H. (2012). *SME Funding Strategies: Reinvesting Profits and Building Resilience*. Journal of Small Business Strategy, 22(2), 85–97.

Gupta, S., Pattillo, C. A., & Wagh, S. (2019). *Effectiveness of remittance flows in promoting SME growth in sub-Saharan Africa.* African Development Review, 31(3), 250-266.

Gutiérrez-Nieto, B., & Serrano-Cinca, C. (2023). Assessment of microfinance institutions and their impact: evidence from a scientometric study. *Handbook of Microfinance, Financial Inclusion and Development*,

41-65.

Gutiérrez-Nieto, B., & Serrano-Cinca, C. (2023). *Financial Services and Enterprise Development: An Analysis of Credit Constraints and SME Growth*. Journal of Business Venturing Insights, 19, e00301.

International Monetary Fund (IMF). (2021). *Micro-remittances and SME financing: A policy framework for economic resilience.* Retrieved from https://www.imf.org

Jones, K. R., Gwynn, E. P., & Teeter, A. (2019). Quantitative or qualitative: Selecting the right methodological approach for credible evidence. *Journal of Human Sciences and Extension*, *7*(2), 5.

Kamau, C. G. (2021). Availability of Finance, Finance costs, and business success in Kenya: focus on the small and micro enterprises. *EPRA International Journal of Economics, Business and Management Studies (EBMS)*, *8*(8), 26-30.

Karitu, B., & Muathe, S. (2023). Microfinance institutions and cooperatives: Unexploited blue ocean strategy for growth of MSMEs in Kenya. *International Journal of Social Science and Economic Research*, *8*(04), 618-640.

Kalui, F., and Omwansa, D. (2015). Effects of microfinance institutions' products on financial performance of small and medium enterprises; a case of Machakos town in Kenya. *Journal of Business and Management*, 17, 4, 50 -57.

Kibet, D., Achesa, K., and Omwono, G. (2015). Effects of microfinance credit on the performance of small and medium enterprises in Uasin Gishu County, International *Journal of Small Business and Entrepreneurship Research*, 3, 7, 57 – 78.

Kisaka, S. and Mwewa, N.M. (2014). The Impacts of Micro-Credit, Micro-Savings and Training on Growth of SMEs in Machakos County in Kenya. *Review of Quantitative Finance and Accounting*, 5(7), 43- 49.

Koech, C.B. (2011). A survey of the financial constraints hindering growth of SMEs

in Kenya: The case of Kamukuji District in Nairobi County. *Unpublished MBA Project*. University of Nairobi

Kausar, A. (2013). Factors effect microcredit's demand in Pakistan. International Journal of Academic Research in Accounting, Finance and Management Sciences, 3(4), 11-17.

Kira, A. R., & He, Z. (2012). The impact of firm characteristics in access to financing by small and medium-sized enterprises in Tanzania. *International Journal of Business and Management, 7*(24), 108-119.

Kirikiru, J. M. (2021). *Selected Financial Factors Influencing Financial Performance Of Small And Medium Enterprises In Kenya* (Doctoral dissertation, Egerton University).

Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Age International.

Ledgerwood, J. (2013). *The new microfinance handbook: A financial market system perspective*. World Bank Publications.

Longo, L., Wiketye, E., & Mpogole, H. (2023). Effects of microcredit on micro, small and medium enterprises performance in Tanzania with reference to selected MSMEs in Iringa municipality. *International Journal of Finance and Accounting*, *2*(1), 47-61.

Macdonald, K. (2024). Financing for Micro, Small, and Medium-sized Enterprises in Kenya.

Madole, H. (2013). *The impact of microfinance credit on the performance of SMEs in Tanzania: a case study*

of national microfinance bank-Morogoro (Doctoral dissertation).

Manzoor, F., Wei, L., & Sahito, N. (2021). The role of SMEs in rural development: Access of SMEs to finance as a mediator. *Plos one*, *16*(3), e0247598.

Matul, M., Dalal, A., De Bock, O., & Gelade, W. (2013). *Why people do not buy microinsurance and what can we do about it.* Microinsurance Innovation Facility, International Labour Organization.

Memba, S. F., Gakure, R. W., & Karanja, K. (2012). Venture capital (VC): Its impact on growth of small and medium enterprises in Kenya. *International Journal of Business and Social Science, 3*(6), 32-38.

Mohapatra, S., & Ratha, D. (2019). *Remittance flows and their impact on small business growth in emerging economies.* Migration and Development Review, 8(1), 12-32.

Monsen, E. R., & Van Horn, L. (2007). *Successful approaches*. American Dietetic Associati.

Morduch, J. (2017). *The future of microfinance: Vision or delusion?* Innovations: Technology, Governance, Globalization, 12(1-2), 189-206.

Mugenda, O. M., & Mugenda, A. G. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Acts Press.

Murori, C. K. (2022). Challenges Affecting Financial Performance of Smalland Medium Sized Firms in Kenya. *African Journal of Commercial Studies*, *1*(1), 9-17.

Nakabugo, M. J., Muathe, S., & Mwasiaji, E. (2022). Microfinance services and government regulations: Reflections on performance of small holder coffee entrepreneurs in Uganda. *The Journal of Entrepreneurial Finance (JEF)*, *24*(1), 1-24.

Nyabwanga, R. N., & Ojera, P. B. (2012). Financial management practices and business performance of small and medium enterprises in Western Kenya. *African Journal of Business Management, 6*(18), 5807-5817.

Ngugi, V., & Kerongo, F., (2014). Effects of Micro-Financing on Growth of Small and Micro Enterprises in Mombasa County. International Journal of Scientific Engineering and Research (IJSER), 2(4), 138-142.

Njuguna, H. K. (2015). Factors Affecting Participation of Micro and Small Enterprises in Public Procurement in Kenya. Jomo Kenyatta University of Agriculture and Technology: Published PhD Thesis.

Okpara, J. O., & Wynn, P. (2007). Determinants of small business growth constraints in a sub-Saharan African economy. *SAM advanced management journal*, *72*(2), 24.

Okwu, A.T., Bakare, G.B., & Obiwuru, T.C. (2013). Business Environment, Job Creation and Employment Capacities of Small and Medium Enterprises in Lagos State, Nigeria: A Descriptive Analysis. *Business Management Dynamics*, 3(2), 97-110.

Onwuegbuzie, A. J., & Leech, N. L. (2005). On becoming a pragmatic researcher: The importance of combining quantitative and qualitative research methodologies. *International journal of social research methodology*, *8*(5), 375-387.

Orozco, M., & Yansura, J. (2020). *Challenges of remittance utilization in small enterprises: Policy implications for financial inclusion.* Inter-American Dialogue, 5(2), 22-40.

Pulka, B. M., & Gawuna, M. S. (2022). Contributions of SMEs to employment, gross domestic product, economic growth and development. *Jalingo Journal of Social and Management Sciences*, *4*(1), 1-18.

Rao, P., Kumar, S., Chavan, M., & Lim, W. M. (2023). A systematic literature review on SME financing: Trends and future directions. *Journal of Small Business Management*, *61*(3), 1247-1277.

Ratha, D., De, S., & Kim, E. J. (2020). *The impact of remittance flows on economic growth and SMEs in developing countries.* World Bank Working Paper No. 9234.

Ratha, D., De, S., Kim, E. J., Plaza, S., Seshan, G., & Yameogo, N. D. (2020). *COVID-19 Crisis Through a Migration Lens*. World Bank.

Savatia, A. (2018). Micro Support and Performance of Youth Enterprises. *International Journal of Innovative Research and Development*, *7*(2).

Shittu, A. I. (2012). Financial intermediation and economic growth in Nigeria. *British Journal of Arts and Social Sciences*, *4*(2), 164-179.

Soldátková, N., & Černý, M. (2022). Microfinance in Sub-Saharan Africa: social efficiency, financial efficiency and institutional factors. *Central European Journal of Operations Research*, *30*(2), 449-477.

Sooriyakumaran, L., Thrikawala, S. S., & Pathirawasam, C. (2022). A study between the association of financial management practices and performance of small and medium enterprises (SMEs) background: A working paper. *International Journal of Research and Innovation in Social Science*, *6*(1), 166-179.

Sulemana, A. & Adjei, S. A. (2015). Microfinance Impact on Agricultural Production in Developing Countries – A Study of the Pru District in Ghana. *International Journal of Academic Research and Reflection* 3(3), 26 - 44.

UNDP. (2022). *The role of remittances in driving small business competitiveness.* United Nations Development Programme Report.

United Nations (2010). 'Role of Microcredit and Microfinance in the Eradication of Poverty: Report of the Secretary-General', UN General Assembly, United Nations, New York,

Wanjiku, M. J. (2015). The role of microfinance institutions in financing small businesses in Kenya. *Journal of Economics and Finance, 6*(3), 34-42.

Wansi, T., & Burrell, D. N. (2023). Financing Challenges of Cameroon's Small and Medium Enterprises (SMEs). *Financial Markets, Institutions and Risks*, *7*(4), 88-104.

World Bank. (2021). *Financial access and SME growth: The role of remittance inflows in capital formation.* Retrieved from https://www.worldbank.org

Yang, D. (2021). *Remittances and small business investments: Evidence from Latin America.* Economic Development and Cultural Change, 69(4), 1053-1078.

Zayed, N. M., Mohamed, I. S., Islam, K. M. A., Perevozova, I., Nitsenko, V., & Morozova, O. (2022). Factors influencing the financial situation and management of small and medium enterprises. *Journal of Risk and Financial Management*, *15*(12), 554.