Journal of Finance and Accounting

Digital Credit and Financial Performance of Small and Medium Enterprises in Nairobi City County, Kenya

Jane Nzembi Thomas & Dr. Nathan Mwenda, PhD

ISSN: 2616-4965

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 9||Issue 4 ||Page 38-63|| September|2025|
Email: info@stratfordjournals.org ISSN: 2616-4965

Digital Credit and Financial Performance of Small and Medium Enterprises in Nairobi City County, Kenya

[1*]Jane Nzembi Thomas & [2]Dr. Nathan Mwenda, PhD
[1]MBA Students, School of Business, Economics and Tourism, Kenyatta University, Kenya
[2]Lecturer, Accounting and Finance Department, Kenyatta University, Kenya

How to cite this article: Thomas, J. N., & Mwenda, N. (2025). Digital Credit and Financial Performance of Small and Medium Enterprises in Nairobi City County, Kenya. ***Journal of Finance and Accounting*****, 9 (4), 38-63. https://doi.org/10.53819/81018102t5385**

Abstract

This study ascertained the effect of digital credit on financial performance of selected SMEs in the CBD of Nairobi City County, Kenya. The research employed a cross-sectional research design. The population comprised 5,400 SMEs located in the Nairobi CBD. The study utilized a stratified random sampling technique to determine the necessary sample size. The sample involved responders selected by stratified proportionate sampling to identify 358 significant SMEs across several categories by the Licensing Office in Nairobi City County Offices. The research utilized source data gathered via a research tool. A pre-testing questionnaire was administered to 18 owners/managers of SMEs not included in the study sample. All the others in SMEs in Nairobi, not included in the study population, made up this population. Cronbach's alpha tested the reliability of the scale and a score of 0.7 was considered. SPSS Package for Social Sciences was used. All the data gathered was of the quantitative type and it was analyzed through inferential analysis and descriptive analysis. It was shown as figures and tables. It was found that digital credit, its easy access, the rules surrounding it and its terms are key to how SMEs in Nairobi City County, Kenya, manage their finances. The research showed that SMEs in Kenya benefit financially from being able to access digital credit. Digital credit does not have a major impact on SME finances. It is concluded that the rules for digital credit play, a vital role in the financial health of SMEs. SMEs depend on privacy regulation, identity theft regulation and interest rate regulation that deal with the issues and appropriate responses. From this study, it is advised that SMEs take advantage of digital credit to help them reach their main aims and carefully plan how to achieve their objectives. Those who provide digital credit should make products available to SMEs to assist in shaping their offerings, sell them and urge use of the products by other players in the market. It is necessary to make sure the quality of the credit service is perfect, as this can keep customers from comparing prices with others. The report advises that digital credit providers for SMEs in Nairobi should come up with strategies to increase their online visibility.

Keywords: *Digital credit usage, credit accessibility, credit terms, digital credit regulations*

1.0 Introduction

Small and medium enterprises (SMEs) form a vital component of Kenya's economy, employing over 15 million people and contributing roughly 30% of the nation's value-added. However, many of these firms continue to face chronic challenges, chief among them limited access to formal financing. At the same time, Kenya has become a world leader in digital financial services: for example, mobile money platforms (e.g. Safaricom's M-Pesa, launched in 2007) helped boost formal financial inclusion from about 27% in 2006 to over 80% by 2021. Building on this foundation, Kenya pioneered digital lending products. The introduction of M-Shwari in 2012 marked the first major mobile credit service for consumers, and shortly thereafter all of the country's largest banks and numerous fintech firms rolled out their own digital loan offerings. As a result, digital lending has grown explosively – industry surveys indicate that by the late 2010s, over six million Kenyans had taken at least one digital loan (indeed, roughly 86% of all small loans in 2016–2018 were digital in nature). These fintech-driven models can help SMEs overcome funding constraints by optimizing capital allocation and improving investment efficiency. For example, recent research finds that innovative digital finance platforms alleviate financing pressures on firms and enhance returns on investment. Nonetheless, observers warn that digital credit often comes with high interest charges and penalty fees, which can lead to over-indebtedness for borrowers.

Financial performance is a firm's overall financial health and its effectiveness in generating profit from its assets and operations. Examining financial statementsassets, liabilities, revenues, expenses, and profits helps one to evaluate profitability, efficiency, and liquidity (Luther, 2023). For SMEs in particular, sound financial performance is very important; studies find that poor performance and inadequate financial management are usually mentioned as main factors of SMEs failure. On the other hand, companies who keep good financial records can more easily get finance, make development investments, and weather economic shocks. Thus, maintaining SMEs' viability depends on closely observing measures including profit margins, return on assets, and cash flow (Luther, 2023).

Digital banking and fintech innovations are the two key facilitators of SMEs' financial efficiency. Digitizing payments, invoicing, account management, loans, and other processes lowers transaction costs, accelerates cash flows, and increases financial service accessibility. For instance, Alfizari and Al-Shboul (2024) find that adoption of fintech, including mobile and online banking, greatly improves SMEs' financial performance; moreover, higher digital accessibility shows a very strong beneficial impact. Likewise, Purba et al. (2021) note that digital banking provides MSMEs with significant speed and ease, which helps entrepreneurs to handle payments and accounts online without visiting a branch, so increasing turnover. In short, digital banking tools can help SMEs operate more efficiently and profitably (Alfizari & Al-Shboul, 2024).

Digital credit refers to loans delivered and repaid electronically via digital channels (e.g., mobile-phone apps or SMS/USSD platforms) rather than through traditional brick-and-mortar branches (Center for Effective Global Action [CEGA], 2023; Center for Financial Inclusion [CFI], 2024). These products are engineered to be instant, automated, and remote (CEGA, 2023; CFI, 2024), meaning that loan underwriting and disbursement happen with minimal human intervention. Borrowers apply using basic mobile devices or apps, and algorithms evaluate alternative data (such as airtime purchases or transaction history) to make credit decisions in seconds (GSMA, 2024; CEGA, 2023). This remote delivery drastically reduces traditional frictions: loans can be approved and deposited without paperwork or trips to a bank (Innovations for Poverty Action [IPA], 2023; CFI, 2024). Digital credit

products are usually small and relatively and temporary meant to fulfill working-capital needs or immediate spending (GSMA, 2024; Brailovskaya et al., 2024). These services have grown extensively with the fast development of smartphones and mobile-money networks in developing economies, therefore providing credit access to people formerly unserved by traditional banks (CFI, 2024; GSMA, 2024).

Digital credit refers to small, short-duration loans delivered via mobile phones or online platforms. This model has expanded rapidly; for example, about six million Kenyans took a digital microloan in the past decade. These services promise quick, automated underwriting using alternative data (like payment history and mobile usage) to reach underserved borrowers (Weitzberg & Bonyo, 2025; OECD, 2024). However, research warns that without strict oversight, many consumers face hidden fees and opaque terms, leading to over-indebtedness and fraud. Recognizing this risk, African regulators (through AFI) have stressed the need for clear policy frameworks to govern these products. Such frameworks aim to sustain digital lending's growth for inclusion while enforcing consumer protections (transparency, fair pricing, data privacy) (Cassara, 2024; World Bank Group, 2020).

Over the past decade and a half Kenya has seen a dramatic expansion in formal financial inclusion. National survey data indicate that the share of Kenyan adults with access to formal financial services rose from about 26.7% in 2006 to about 82.9% by 2019 (Central Bank of Kenya, KNBS, & FSD Kenya, 2019). Correspondingly, the proportion of adults completely excluded from any financial services fell sharply (from over 41% in 2006 to around 11% in 2019) (Central Bank of Kenya et al., 2019). This surge reflects broad improvements in the financial sector and outreach policies: by 2019 Kenya's inclusion rate was among the highest in sub-Saharan Africa (Central Bank of Kenya et al., 2019).

Small and medium enterprises (SMEs) are a cornerstone of Kenya's economy. They are extremely numerous – in total around 7.4 million micro, small, and medium enterprises (MSMEs) – and collectively employ millions of Kenyans. The World Bank emphasizes that these MSMEs "hold the key to job creation and greater productivity" in Kenya (World Bank, 2021). As hubs of entrepreneurship, SMEs drive innovation and provide goods, services, and employment to Kenyans (Rotich et al., 2025). However, most Kenyan SMEs remain very small and often operate informally; the vast majority struggle to scale up due to limited financial, human, and technological resources. Addressing these limitations is therefore crucial to realizing the full potential of Nairobi's (and Kenya's) vibrant SME sector.

Nairobi City County, which includes Kenya's capital city, is a central hub for these enterprises. The county contributes roughly 27.5% of Kenya's gross county product (an analogue of GDP), reflecting its outsized economic role (Stats Kenya, 2023). Nairobi's economy is diverse—encompassing manufacturing, services, trade, and technology—and it supports thousands of SMEs large and small. For example, Nairobi's central business district alone had about 2,821 registered small and medium enterprises by 2022. The city's well-developed infrastructure and networks make it a magnet for entrepreneurs and innovative businesses. In sum, Nairobi's SME sector is dense and dynamic, drawing on the region's size and resources.

Despite their importance, Nairobi's SMEs face significant challenges that limit their growth. A critical barrier is access to finance: as the World Bank notes, many Kenyan MSMEs "urgently need greater access to credit" to expand (World Bank, 2021). SMEs also often lack adequate resources in skilled labor, technology, and management capacity (Rotich et al., 2025). Moreover, intense competition and

complex regulations in the capital's business environment can discourage formal scaling. As a result, many Nairobi SMEs remain small or informal and cannot expand into larger operations. Addressing these gaps is widely viewed as essential to fully leverage Nairobi's entrepreneurial energy.

Recognizing their importance, Kenyan authorities and development partners have launched support programs for SMEs. For example, a World Bank-supported project in 2021, dedicated $100 million to assist over 250,000 small firms in recovering from the epidemic and increases their access to funding (World Bank, 2021). Simultaneously, Nairobi's sophisticated digital environment is generating new prospects: mobile money platforms such as M-Pesa account for approximately 5% of Kenya's GDP (GSMA, 2025). This robust digital finance infrastructure allows small firms to manage transactions, savings, and credit digitally. Such policy initiatives and technology adoption aim to strengthen Nairobi's SMEs and boost their contribution to inclusive growth. Continued investment in finance, infrastructure, and digital services will be crucial as SMEs continue to drive innovation and jobs in the city.

1.1 Statement of the Problem

The financial success of SMEs has a substantial influence on economic growth worldwide, as emphasized by recent studies highlighting their contribution to national development (Arundale, 2018). Despite their value, many SMEs find it difficult to get enough money since banks and financial institutions especially those in their early years of business perceive them as high risk (Mungai, 2021).. With over 2 billion individuals still lacking access to conventional banking services, global financial inclusion is a concern and limits more general involvement in economic systems (Ozili, 2020). Particularly for underprivileged groups, wide-ranging obstacles including low financial literacy, gender inequalities, regulatory challenges, and high transaction costs still prevent access to financial services in Kenya (FSD Kenya, 2019). Lack of financial inclusion usually results in ineffective transactions, little choices for saving, and exclusion from basic financial services (World Bank, 2020). Furthermore, SMEs in Kenya often lack institutional savings or credit systems, therefore compromising their capacity to develop and run effectively (Capgemini, 2021).

As the nation keeps striving for financial inclusion and better economic performance, questions about the efficiency of several financial instruments in supporting SMEs develop (Ndungu & Kimathi, 2022). Masolo and Wanjohi (2021) concentrated on how digital lending affects the financial performance of a few chosen commercial banks, exposing that low-income individuals without collateral might more easily get digital credit. Their results show that unlike conventional credit channels, digital loans typically are unsecured and accessible to people without traditional assets, therefore separating them (Masolo & Wanjohi, 2021). However, their research did not address SMEs, creating a contextual gap for enterprises outside the banking sector. Momanyi (2018) studied micro-entrepreneurs in Nairobi's Eastlands and found digital lending enhanced financial outcomes for low-income populations, but this again did not encompass formal SMEs. Similarly, Wathome (2020) discovered no strong link between digital credit and financial performance among youth-owned enterprises in Kangemi, which differ structurally and operationally from SMEs covered in the current study.

Although SMEs are critical to employment creation and economic advancement, their sustainability has remained fragile, with high failure rates over time (Kenya National Bureau of Statistics [KNBS], 2021). Statistics show that 40% of SMEs close within their first year, 80% shut down within five years, and nearly all fail by the tenth year (KNBS, 2021). Additionally, the Return on Assets (ROA) among

SMEs in Nairobi dropped from 6.8% in 2018 to 6.5% in 2019, then declined further to 3.6% in 2020, with minor recovery to 4.9% in 2021 and 5.8% in 2022 (Central Bank of Kenya [CBK], 2023). This trend demonstrates the instability SMEs face and raises concerns about their long-term financial performance. Diverse researchers have come to diverse findings on how digital credit influences SMEs' financial performance, exposing gaps between settings and approaches applied (Mwangi & Gichuki, 2020). Thus, this study bridged conceptual, contextual, and methodological gaps by assessing the effect of digital credit and the moderating effects of regulation on SMEs' financial performance in Nairobi City County, Kenya.

1.2 Study Objectives

The research's general objective was to ascertain the effect of digital credit on financial performance of selected SMEs in the CBD of Nairobi City County, Kenya. The research was grounded on the subsequent specific objectives:

- To find out the influence of digital credit usage on financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.
- To explore the effect of digital credit accessibility on financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.
- To assess the effect of digital credit terms on financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.
- To evaluate the moderating effect of digital credit regulations on the link between digital credit and financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.

The research presumed the subsequent research hypotheses:

- **H_{01}:** Digital credit usage does not significantly affect the financial performance of selected SMEs in the CBD of Nairobi City County, Kenya
- **H_{02}:** Digital credit accessibility does not significantly affect the financial performance of selected SMEs in the CBD of Nairobi City County, Kenya
- **H_{03}:** Digital credit terms does not significantly affect the financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.
- **H_{04}:** Digital credit regulations have no significant effect on the link between digital credit and financial performance of selected SMEs in the CBD of Nairobi City County, Kenya.

2.0 Literature Review

The literature review was done in sections.

2.1 Theoretical Review

The theoretical framework established the constraints or bounds of the research. This research's theoretical framework was based on the following theories.

2.1.1 Diffusion of Innovations Theory

In recent years, Nairobi City County's SMEs have seen rapid expansion of mobile-based credit services, with platforms like M-Shwari reaching millions of users. This growth invites application of diffusion of innovations theory to understand how such novel financial services propagate among the city's small businesses. Diffusion theory emphasizes innovation attributes (e.g. relative advantage, compatibility, complexity) and communication channels as key determinants of adoption. The relative advantage of fast access to operating finance is especially noticeable for Nairobi entrepreneurs since digital loans may be secured at odd hours to fulfill immediate needs including inventory replenishment. On the other hand, complexity such as opaque loan terms and foreign mobile interfaces can slow down adoption in line with diffusion's prediction that greater seeming complexity lowers acceptance. Using a diffusion lens to frame digital credit consumption in Nairobi emphasizes the need of knowledge and peer influence overall since SMEs are more inclined to use these products themselves when they observe their neighbors utilizing mobile loans.

Five main innovative traits identified by diffusion theory as influencing adoption rates are relative advantage, compatibility, complexity, trialability, and observability. The relative advantage is clear in the Nairobi SME scene: digital credit provides quick, collateral-free borrowing closely matched to the cash-flow requirements of many small enterprises. Low-cost experimentation high trialability which diffusion theory predicts should hasten adoption if first experiences are positive is also enabled by the automated systems of digital lenders. Simultaneously, the intricacy of high interest rates and short-term loan terms discourages some Nairobi business owners, consistent with research showing that more complexity slows dispersion. Observability plays a role as well: when entrepreneurs see peers promptly obtaining funds via mobile loans, they learn of the benefits and become more willing to try the innovation. Overall, this framework suggests that highlighting ease of use and clear benefits of digital credit (maximizing relative advantage and compatibility) will help accelerate its diffusion among Nairobi SMEs.

Kenya's advanced mobile networks have provided a powerful platform for financial innovations to spread across social networks. In Nairobi, information about new digital loan services often travels through mobile advertising and word-of-mouth among traders. Initially, a few innovators (e.g., tech-savvy shop owners) may try mobile credit and demonstrate its usefulness, influencing early adopters and the larger SME community to follow. Empirical data reflect this process: for instance, CGAP reports that M-Shwari loan application volumes surge early each morning when many small traders restock inventory, indicating that seeing peers use the service encourages further uptake. Once an innovation gains a foothold, a bandwagon effect can occur – many Nairobi SMEs will join as soon as they see neighbors benefiting, consistent with the classic S-curve diffusion model. These dynamics imply that targeting influential SME groups and showcasing visible success stories are critical strategies to accelerate the diffusion of digital credit in Nairobi's business community.

2.1.2 Credit Rationing Theory

Analyzing financial inclusion in especially small companies in developing countries is vital in assessing financial inclusion. Credit rationing theory holds that lenders may restrict the quantity of credit given even to qualified borrowers due to knowledge asymmetries and risk concerns (Jappelli & Pagano, 2002). SMEs are particularly vulnerable to this phenomenon since companies usually lack official financial records or sufficient collateral (Beck & Demirgüç-Kunt, 2006). Under such

conditions, lenders want safer, more open borrowers, hence SMEs are left off the official credit scene. Given many SMEs in Nairobi operate informally and make it challenging for conventional lenders to evaluate their creditworthiness, this idea is especially pertinent in Kenya (Waweru & Kalani, 2009). Therefore, perceived risk might cause financing difficulties even for very promising businesses.

Recent changes in financial technology are progressively changing this dynamic. Digital credit platforms today evaluate credit risk and provide modest loans using alternative data such mobile money transaction history and airtime consumption (FSD Kenya, 2019). These developments provide a more inclusive lending approach and help to lower dependence on traditional credit scoring. Targeting SMEs hitherto kept out of bank finance, mobile-based loan services as Tala, Branch, and Fuliza have expanded greatly in Nairobi (Gikandi & Bloor, 2010). This change reflects a pragmatic application of credit rationing theory: where information asymmetry is lowered, credit becomes more available. As such, digital lending can be considered as a corrective action meant to solve the rationing bias in conventional credit systems.

2.1.3 Bank-Led Theory

The bank-led theory describes a financial delivery system whereby regulated banks employ digital infrastructure to extend their services through other parties through agency banking. ATMs, and mobile platforms, this approach lets financial institutions provide digital credit without involving consumers in visiting conventional bank offices (Donovan, 2012; Bångens & Söderberg, 2011). in Kenya, banks such as Equity Bank and KCB have pioneered this technique through mobile apps and agent networks to target SMEs neglected by mainstream financial services (World Bank, 2022; EIB, 2024). These developments give small companies in Nairobi faster and more handy access to working finance. The bank remains the main service provider while agents operate as intermediaries in consumer interaction and transaction processing (CGAP, 2020; Upadhyaya et al., 2025). This system lowers running expenses and increases outreach to Nairobi's increasing business community.

Mobile banking applications such as M-Coop Cash and KCB M-Pesa exemplify the bank-led model in Nairobi, enabling SMEs to access loans instantly via mobile devices. These platforms utilize the creditworthiness information included in consumer transaction records to generate chances for digital loan disbursement without physical documentation (Ouncho et al., 2023; FSD Kenya, 2022). Retail agents enhance these apps and help to keep physical closeness to SMEs by providing cash-in and cash-out services (Donovan, 2012; Bångens & Söderberg, 2011.). By means of this synergy between mobile apps and agents, banks have been able to grow outreach while also following financial rules. Reduced wait times and varied loan periods help SMEs better control short-term cash shortfalls. Thus, the bank-led model in Kenya is very helpful in closing the difference between microenterprise demands and official credit channels.

2.1.4 Asymmetry Information Theory

Asymmetric information theory, originally introduced by Akerlof (1970) and expanded by Spence (1973) and Stiglitz (1976), addresses how information imbalances distort market outcomes. Risk assessment is difficult in financial markets since the borrower usually knows more precisely about their creditworthiness than the lender. In SMEs lending, this situation becomes especially troublesome since inadequate assessment of the applicant's risk profile is prevented by restricted financial transparency and poor record-keeping (Beck & Demirgüç-Kunt, 2006). Small businesses in Nairobi

can operate informally without audited statements or credit records, which increases this information gap and results in negative selection. Despite the possible profitability of the company, lenders react to this uncertainty by raising borrowing rates, requesting collateral, or outright rejecting applications (Ng'anga, 2015). As such, asymmetric information stays a fundamental theoretical prism for comprehending the financial exclusion of SMEs in Nairobi and like urban economies in developing countries.

Digital credit platforms are increasingly disrupting this traditional imbalance by introducing data-driven lending practices. These platforms utilize alternative data—such as mobile phone usage, airtime top-ups, and mobile money transactions—to create behavioral credit scores in lieu of formal financial records (FSD Kenya, 2019; Gikandi & Bloor, 2010). Tools like M-Shwari, Tala, and Branch in Kenya are able to make near-instant lending decisions based on these proxies, significantly reducing underwriting costs and minimizing the informational disadvantage lenders typically face (FinRegLab, 2023). By digitizing the borrower profile, these platforms address both adverse selection and moral hazard—two primary consequences of information asymmetry—as they allow for better prediction of repayment behavior (AFI, 2025). Consequently, Nairobi-based SMEs previously excluded from formal finance channels now access working capital through these mobile platforms, demonstrating the theory's practical relevance to digital credit inclusion. However, despite improved access, concerns over data privacy, over-indebtedness, and limited financial literacy remain pressing issues that warrant regulatory attention (Ndungu & Francis, 2020).

2.1.5 Agency Theory

Agency theory examines the principal–agent relationship in finance, where lenders (principals) entrust small business owners (agents) with capital under conditions of imperfect information. According to the theory, principals assign duties expecting the agents to operate in their best interests, yet agents may have greater knowledge about their own businesses than about outside lenders. Agency concerns stemming from this knowledge asymmetry can include moral hazard (borrowers might pursue riskier projects after receiving credit) and adverse selection (riskier borrowers self-select for loans). Lenders put policies including collateral requirements, covenants, or monitoring of SMEs borrowers in place to help to minimize these conflicts. To evaluate risk and match incentives, digital credit platforms, for instance, depend more and more on automated data and alternative scoring. Agency theory thus emphasizes how the SMEs-lender relationship in Nairobi is shaped by mismatched incentives and knowledge gaps.

In practice, this knowledge asymmetry is really evident in practice in the SMEs of Kenya. Studies reveal that when seeking finance, Kenyan SMEs have major information gaps, which makes lenders unable to evaluate loan applications. According to Gichure et al. (2016), SMEs sometimes lack collateral or accurate financial records, which causes 88% of Kenyan banks polled to name insufficient borrower data as the biggest obstacle to SMEs lending. This lack of data drives lenders to restrict credit or price loans more, therefore rationing funds to higher-risk borrowers.

2.2 Empirical Review

The two researchers started a study in 2021 to find out how digital banking is helping with financial inclusion in Burundi. Digital money distribution, digital money transfers and the value of such transactions were studied in relation to financial inclusion in Burundi. It looked at 14 financial firms

providing digital banking. Out of all possible institutions, only three were selected for the study due to having enough data. Descriptive study was the approach used to collect data between 2012 and 2019. There was no noticeable effect of digital partikoli on financial inclusion in Burundi, based on the study. Yet, digital money transactions helped to greatly increase financial inclusion. Alternatively, the regression coefficient for digital money transactions showed no significant effect, so it did not help predict financial inclusion. This research sought to fill a gap because it considered a broad range of situations due to the study's holistic and flexible approach.

In 2021, Palanga (2021) set out to understand the key factors affecting whether people in Nairobi City County and its environs started and kept using digital credit apps. The study analyzed why the uptake of these financial technologies has increased. There were 600 smartphone users in the sample and researchers used purposeful random sampling to select them. Data were gathered using proper and dependable questionnaires and then IBM's SPSS version 23 was utilized to study the data sets. Examining the data included studying both the dependent variable and the recently appearing independent factors—socio-economic and technological factors. Then, the research used inferential statistics that involved regression and correlation analysis to find out the key reasons people stick with digital credit applications. About 70% of the target audience or 420 people, answered the questionnaire on their smartphones. The study confirmed that there was a big positive connection between technology and the dependent variable. Additionally, how the economic factor played a role was also highly significant for adopting and continuing digital credit. One thing to mention is that in the study, how well the SMEs performed financially was not examined, only the reasons for using digital credit applications were considered.

Tran (2021) did a thorough review of the effect of bank credit on SMEs in Ho Chi Minh City, Vietnam. The researchers assumed that being able to obtain bank credit is important for the growth and progress of firms. Most SMEs depend on bank loans as their main external or outside, source of capital. A number of related and banking factors determine credit availability for the enterprise. To see what credit information SMEs could access, the study surveyed 269 businesses by means of a questionnaire. Using regression, the study identified the factors that greatly affect how much credit banks provide. Information was analyzed using SPSS 22.0. Research indicates that the ability to secure a bank loan is contingent upon the business's setting, equity, existence of a business plan, collateral provided, project valuation, and tax identification number. The business plan and project value of the enterprise turned out to be the biggest factors in influencing the results. On this topic, the study did not investigate how SMEs in Nairobi are affected financially by being able to access digital credit. The fact that there are gaps in the earlier studies encouraged this study to discuss the theoretical and practical points missing in them.

Frimpong, et al (2022) investigated financial literacy, digital finance access and the success of SMEs in the Central region of Ghana. Questionnaires were used in a quantitative study to get data from 400 SMEs in Cape Coast, Mankessim, Assin Fosu, Agona Swedru and Kasoa. Participants were given self-completed questionnaires to gather data and SPSS was selected to test the descriptive statistics. As the study found, using Mobile Money is the most popular digital option among SMEs in the reviewed regions. For examining the link among financial literacy, digital finance access and SME performance, the research adopted the PLS-SEM method. It was revealed that strong financial literacy helps businesses get involved in digital finance and using digital finance boosts how SMEs perform. It was also confirmed that digital finance played a role in how financial literacy affects SME performance.

The research discovered that there was an absence of studies on the impact digital credit has on SME's finances.

Gubbins et al (2018) point out that to get a loan through a mobile app, users must agree to the terms listed by the company. However, since it is not always convenient to open the link on a mobile device, most customers just sign up for the service without looking at all the terms. Although many people have internet access, not very many are willing to read the list of terms and conditions all the way through. The main parts of the terms and conditions are mostly the same standard legal clauses found in most bank agreements. In a research by Mostafa et al (2018), it was found that appraising mobile loans was much speedier than the same process done in traditional banks. As a result, it was also concluded that using loans and having greater financial inclusion is linked to the amount of time spent on mobile loan appraising which in turn helps improve financial results.

Murunga (2018) adopted a sample of 98 people as estimated by utilizing the Taro Yamane formula. In the results, the regression coefficient for loan disbursement was 0.202 which means that for every 1% increase in loan disbursement, the financial performance of MFBs in Nairobi improved by 0.202%. The study did not evaluate or study potential digital credit term knowledge shortfalls. Overall such studies highlight how loan appraising processes help improve the financial condition of commercial and microfinance banks. This indicates that financial institutions should rely on digital systems, a borrower's credit rating and how effective loans are processed to ensure strong performance.

Yusef, et al (2022) studied the role of technology and business models in strengthening financial inclusion and the socioeconomic development of low-income countries. They stressed that digital technology and business frameworks can raise inclusive economies and tackle a wide range of social and economic problems which benefits low-income countries that make up much of the world's population. The analysis focused on how digital credit affects the financial sector, not the background information on SMEs. Their research study (Agwanyanjaba, 2019) on implementing transaction authorization via USSD push was guided by the knowledge that relying solely on a PIN to authenticate a user brings about several challenges. Because of this, a system that blends USSD push with a PIN has become popular in solving these challenges. A sample of people for the study was selected using convenient sampling.

Besides Quota Sampling, Snowball Sampling was used to involve 385 additional respondents. 442 participants participated in the survey conducted online. It was shown in the study that a total of 84.4% of the respondents use mobile banking regularly. Kenyan mobile banking users most often pick PINs as their preferred way to log in. Many people (69%) in our study claimed to have lost money after their PINs were hacked. A solution to help protect Kenyan mobile banking users has been made. Apart from checking the PIN, the solution also makes use of IMEI, MSISDN and IMSI. Also, the service also offers a USSD push based on time, complemented by using biometric verification through finger recognition. Because of these added factors and methods, the suggested approach tries to enhance the safety and ease of using mobile banking in Kenya. It ignored a detail relating to digital credit terms and the financial results of SMEs.

https://doi.org/10.53819/81018102t5385

2.3 Conceptual Framework

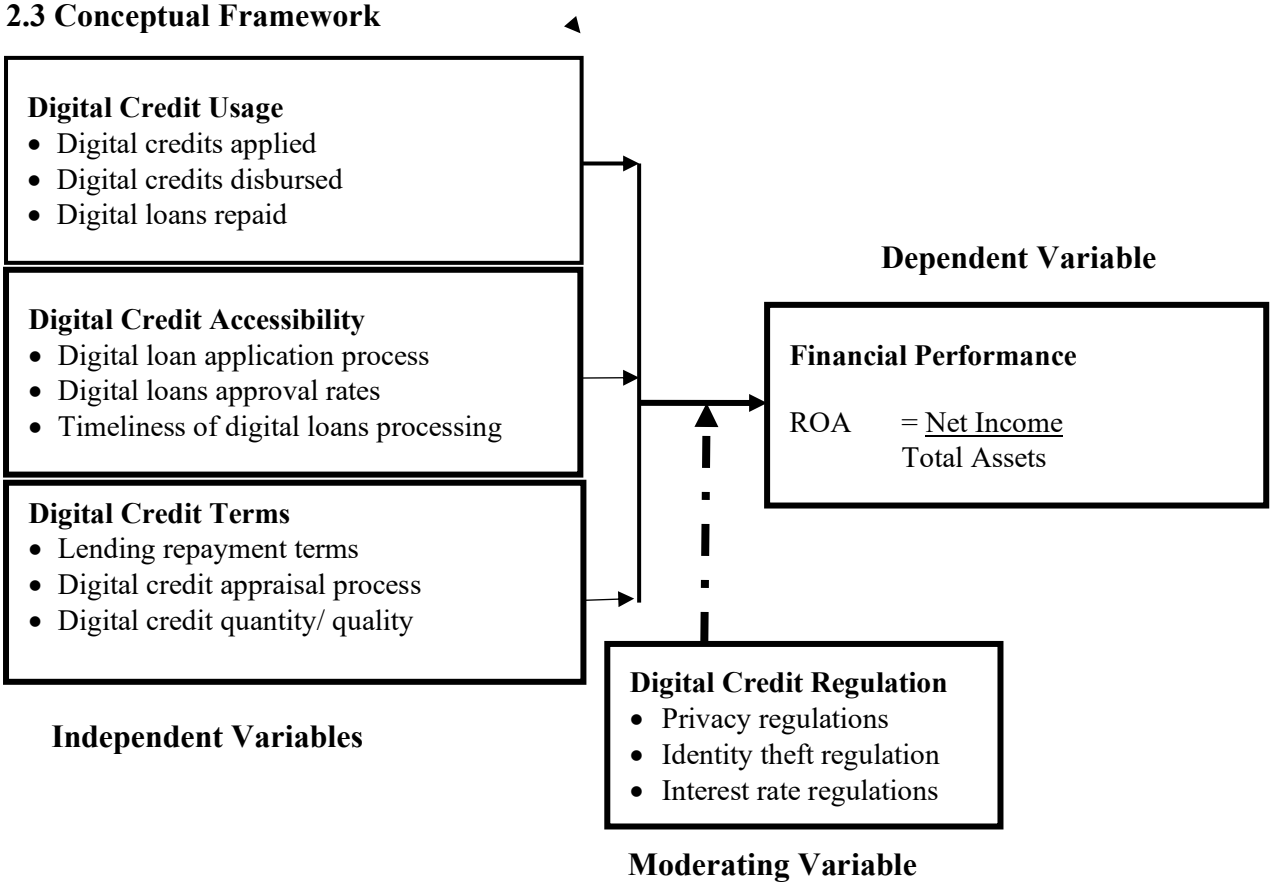

Figure 1: Conceptual Framework

Researcher (2025)

3.0 Research Methodology

This research employed a cross-sectional survey design to evaluate the impact of digital credit on the financial success of SMEs in Nairobi City County, Kenya. The target population for this research consisted of all registered SMEs operating in Nairobi's Central Business District. Nairobi County's Department of Trade showed that, there were roughly 2,821 registered SMEs in the CBD. In sum, the target population includes all formal SMEs (1–99 employees) in Nairobi CBD as of 2024, totaling roughly 2,800 enterprises and spanning the full range of employee and revenue bands noted above. The study applied stratified random sampling. By means of a proper research instrument, primary data was used for research. Secondary information covered the available data on the earnings of the SMEs for the past five years (2018 to 2022). An exploratory pilot study was done before the larger study was conducted. Analyzing data means combining information you have and coming to conclusions and inferences. Statistical analysis requires hypotheses to be tested, data to be analyzed, disparities in data to be found, structures to be recognized, important variables to be singled out and conclusions to be made. Looking at and understanding questionnaires and other sources of data are important steps in data analysis. Before looking at the answer sheet, the field data was studied and checked against what the respondents said to identify the best responses. Consistency and completeness checks was

performed on the questionnaires. Before entering raw data into the SPSS, they were encoded. Just quantitative data was gathered and studied utilizing descriptive analysis. The researcher looked at the data and decided how it would be used with SPSS and Microsoft Excel. During quantitative analysis, mean scores, frequencies and percentages were used for analysis. However, the data followed a discussion about the topic after the scientist analyzes common thoughts about it. Multiple regression analysis and Pearson correlation belong to inferential statistics, whereas mean and standard deviation are often used in descriptive statistics. All qualitative and content data was shown in a text report following the analysis process.

4.0 Findings and Discussion

The findings and discussion were done in sections.

4.1 Response Rate

The research targeted a sample of 358 senior managers drawn from SMEs operating within Nairobi City County. A total of 315 respondents completed and resubmitted the questionnaires, resulting in a response rate of approximately **88.0%**. This rate is regarded highly satisfactory for survey-based research, exceeding the 70% benchmark commonly accepted for reliable data collection.

4.2 Descriptive Statistics

This section utilized descriptive statistics to give a brief overview of what the responders thought about the research variables. Respondents were asked to grade a series of structured statements that were related to each research variable in order to find out what people thought about digital credit and how it affected the financial success of small and medium-sized businesses (SMEs) in Nairobi. The questionnaire utilized a five-point Likert scale, with answers ranging from 1 (no extent/strongly disagree) to 5 (very considerable extent/strongly agree). This method let respondents show how much they agreed or disagreed with something, which gave a more detailed picture of their views on important issues.

4.2.1 Digital Credit Usage

This part examined at how the respondents who answered the survey thought digital credit affected the financial health of small and medium-sized businesses in Nairobi City County. Table 1 shows that a large majority (52.7%) of participants agreed that digital credit had a big effect on financial results. Another 33.0% said there was a moderate effect, which means that most of the people who answered saw some beneficial benefit, even if it wasn't very strong. Only a small number of respondents said they didn't think digital credit would have much of an effect. 3.8% said it would have a modest effect, and 1.3% said it wouldn't have any effect at all. At the same time, 9.2% said they had a very high level of impact, which shows that certain small and medium-sized businesses may be quite dependent on digital finance. These results show a clear trend: a large majority think that digital credit can help small and medium-sized businesses do better financially. This could be because it is easy to get, quick to pay out, and flexible enough to help with short-term cash flow problems. The findings show that digital credit is generally seen as a useful financial tool in the SME sector in Nairobi, even though the level of impact may vary.

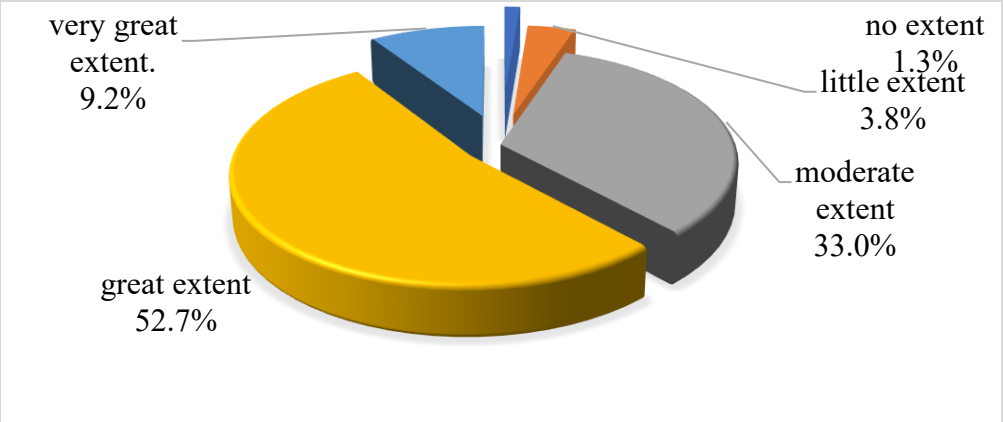

Figure 2: Influence of Digital credit usage on financial performance of SMEs

The responders were requested to evaluate the influence of each component of digital credit utilization on the financial health of SMEs in Nairobi City County. The obtained responses were analyzed, and the findings were displayed in Table 1 below.

Table 1: Digital credit usage on the financial performance of SMEs

	1	2	3	4	5	MS	SD
Digital credits applied	0.6	5.7	34.3	41.9	17.5	3.70	0.877
Digital credits disbursed	1.6	6.7	37.5	40.6	13.7	3.58	0.836
Digital loans repaid	1.3	7.0	38.7	35.9	17.1	3.61	0.776

The aggregated results from Table 1 revealed that digital credit plays a meaningful role in shaping the financial success of SMEs in Nairobi City County. The overall mean score of 3.70 suggests a generally positive perception of digital credit's influence. Specifically, digital loan repayment recorded a mean of 3.61, while digital credit disbursement followed closely with a mean of 3.58. These figures reflect a consistent recognition among respondents of the various stages through which digital credit contributes to SME financial outcomes. Participants rated their agreement with statements related to different dimensions of digital credit use, such as access, disbursement, and repayment processes. The relatively high mean scores across these indicators imply that digital credit systems are not only widely used but are also viewed as effective in supporting financial stability and operational continuity within SMEs. The findings reinforce the notion that digital financial solutions are integral to the day-to-day operations of many small and medium-sized businesses in Nairobi. Their impact spans the entire credit lifecycle—from disbursement to repayment—highlighting the relevance of fintech-enabled credit access in modern enterprise financing.

https://doi.org/10.53819/81018102t5385

Table 2: Agreements on digital credit usage and financial performance

Assertions	SD	D	N	A	SA	Mea
Most of digital credit applications are approved in the quickest feasible time.	0.0	6.0	50.2	27.9	15.9	3.54
Digital credits are allocated promptly, facilitating the operations of SMEs.	1.3	9.2	41.9	29.8	17.8	3.54
Repaying digital credits via the accessible systems is more convenient.	1.9	7.3	40.6	33.7	16.5	3.56
The digital credit providers guarantee adherence to due process in the prompt disbursement of digital credit.	2.5	8.3	37.5	34.9	16.8	3.55
Digital credit helps SMEs realize short- and long-term aims by providing credit-debt balancing.	1.0	9.8	41.3	33.0	14.9	3.51
Digital credit platforms have facilitated fundraising for expenditure and savings initiatives amongst SMEs.	2.2	7.9	47.9	29.2	12.7	3.42
The user-friendliness of digital financial services has improved access to digital financing for SMEs in the City.	1.6	10.2	40.6	34.3	13.3	3.48
Digital loans have prevailed in the SMEs sector in this region by providing advantageous conditions.	0.3	10.5	41.3	35.2	12.7	3.50

The responses indicate a generally positive perception of digital credit processes among SMEs in Nairobi City County. Notably, participants expressed agreement that existing platforms effectively support digital credit repayment, as shown by a mean score of 3.56. Similarly, there was strong consensus that digital credit providers ensure a streamlined and timely disbursement process, reflected in a mean of 3.55. Respondents also agreed that loan approvals are typically granted within short timelines (mean = 3.54), and that quick disbursement of funds helps maintain smooth business operations (mean = 3.54). Moreover, digital credit usage was associated with a better understanding of debt management, with a mean of 3.51, suggesting that these tools may support SMEs in balancing short- and long-term financial objectives. The notion that digital credit offers competitive conditions for SME financing was also affirmed by a mean score of 3.50. However, some areas reflected neutral sentiments. For instance, the notion that the convenience of managing digital financial services has expanded credit accessibility received a mean of 3.48, while the statement that digital credit platforms assist in raising money for spending and savings plans received a slightly lower mean of 3.42. These neutral scores may point to areas where user experience or financial literacy could be improved to enhance the perceived value of digital credit tools. Overall, the findings underscore the operational benefits and strategic value that SMEs associate with digital credit, particularly in terms of speed, access, and financial planning.

4.2.2 Digital Credit Accessibility

The research sought to explore how the accessibility of digital credit influences the financial outcomes of SMEs operating in Nairobi City County. Respondents were asked not only to rate this influence but also to support their views with practical examples. As illustrated in Figure 3 , a plurality of respondents (42.2%) perceived the influence of digital credit availability as moderate, while 35.0% believed the impact was substantial. An additional 14.0% described the influence as very significant,

suggesting that for a portion of SMEs, accessible digital funding plays a transformative role. Only 8.0% considered the effect to be minimal.

These results indicate that digital credit access is widely regarded as a facilitator of positive financial performance among SMEs. The varied levels of influence cited may reflect differences in how firms integrate digital funding into their operational and strategic frameworks. For many businesses, ready access to digital credit likely supports working capital management, timely inventory replenishment, and investment in short-term growth initiatives. Overall, the data imply that the accessibility of digital credit is not merely a convenience but a critical enabler of financial sustainability and resilience within the SME sector. Its integration into the broader financial infrastructure of these enterprises may be a key determinant of competitive viability in increasingly dynamic markets.

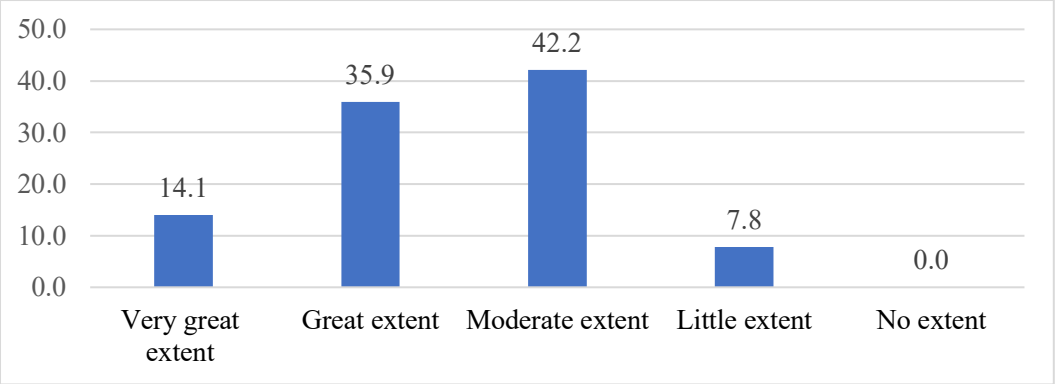

Figure 3: Extent to which DC Accessibility influence financial performance

The responders were requested to elucidate how several facets of digital credit accessibility influence the financial health of SMEs in Nairobi City County.

Table 3: Digital Credit Accessibility Aspects affecting financial Performance

Aspects	1	2	3	4	5	MS
Digital loan application process	1.3	8.3	41.9	32.4	16.2	3.54
Digital loans approval rates	1.6	10.2	39.7	34.3	14.3	3.50
Aptness of digital loans processing	0.6	9.8	40.6	35.6	13.3	3.51

Insights from Table 3 suggested that several key aspects of the digital lending process have a meaningful effect on the financial success of SMEs in Nairobi City County. The digital loan application process received a mean score of 3.54, indicating that respondents generally view the ease and efficiency of applying for loans as a significant contributor to business outcomes. Similarly, timeliness in loan processing yielded a mean of 3.51, while loan approval rates were close behind at 3.50, highlighting that quick, predictable, and accessible credit decisions are crucial for supporting SME financial stability. These results underscore the importance of streamlined credit systems in enabling SMEs to meet operational demands and take advantage of time-sensitive business

opportunities. Delays or complexity in digital loan procedures could limit cash flow availability, whereas well-structured platforms enhance liquidity and planning.

The findings resonate with observations by Kim and Park (2020), who argue that firms which integrate robust financial resource planning and efficient digital loan systems into their operations are better positioned to sustain and improve performance. In this context, digital loan application procedures, approval mechanisms, and turnaround time form an essential part of SMEs' financial resilience strategies.

Table 4: Digital Credit Accessibility Aspects affecting financial Performance

Assertions	SD	D	N	A	SA	Mean
The digital credits are accessible owing to their enhanced approval rates.	1.6	6.3	38.1	41.3	12.7	3.57
The digital credits are efficiently processed and distributed, rendering them more reachable for SMEs.	1.0	8.9	41.9	31.7	16.5	3.54
The enhanced connectivity through mobile phones has augmented access to digital credits for SMEs.	1.3	7.3	41.6	34.9	14.9	3.55
The existence of effective mobile network infrastructure guarantees accessible digital finance services for SMEs.	2.2	7.9	37.8	35.6	16.5	3.56
The insufficiency of formal banking services has led to the vast uptake of digital credit amongst SMEs.	0.6	9.5	41.9	34.9	13.0	3.50
Digital credit has enhanced SMEs' need for immediate access to capital and seamless transaction experiences.	1.9	7.6	40.3	35.6	14.6	3.53
The digital credit application process is quick and less burdensome for borrowers.	0.6	10.	40.3	38.4	10.5	3.48
The digital credit is promptly and effectively allocated to satisfy the enterprise's requirements.	2.2	8.3	33.7	37.8	18.1	3.61

The findings summarized in Table 4 revealed strong agreement among respondents regarding the accessibility and timeliness of digital credit services for SMEs in Nairobi City County. A mean score of 3.61 was recorded for the statement that digital credit is ably disbursed at the right time to meet business requirements, indicating that many SMEs rely on these tools for prompt financial intervention. Moreover, digital credit appears widely accessible due to high approval rates, as reflected by a mean of 3.57. Respondents also acknowledged the role of mobile network infrastructure in facilitating credit access, with a mean score of 3.56, while mobile phone connectivity was credited for improving outreach to underserved SMEs (mean = 3.55). The data further show that digital loans are processed and released quickly, earning a mean of 3.54, and that they contribute to instant access to capital and seamless payment experiences (mean = 3.53). Additionally, the shortcomings of traditional banking systems have driven SMEs to embrace digital credit alternatives, as noted by a mean of 3.50.

However, some reservations were expressed, with respondents offering neutral feedback on whether the adoption process for digital credit is straightforward and hassle-free, as indicated by a mean score of 3.48. This may suggest that despite the general convenience of digital credit, there are still usability or accessibility barriers that need to be addressed, particularly for first-time or less tech-savvy users. Overall, the results highlight the pivotal role of technology and infrastructure in shaping SMEs' access

to credit, while pointing to specific areas where digital finance providers could further enhance user experience

4.2.3 Digital Credit Terms

The research aimed to find out the impact of digital credit terms on the financial achievements of SMEs based in Nairobi City County. From the data in Figure 4, we can see that 34.4% of the responders believe that digital credit terms greatly affect the financial success of SMEs, 42.2% believe that digital credit terms affect SMEs moderately, 15.6% feel digital credit terms have little impact and 7.8% believe digital credit terms have a very strong impact on SMEs. Therefore, SMEs in Kenya perform better thanks to the availability of digital credit terms. This agrees with what Gelan (2020) observed, where digital credit terms were noted to significantly contribute to firms' best results.

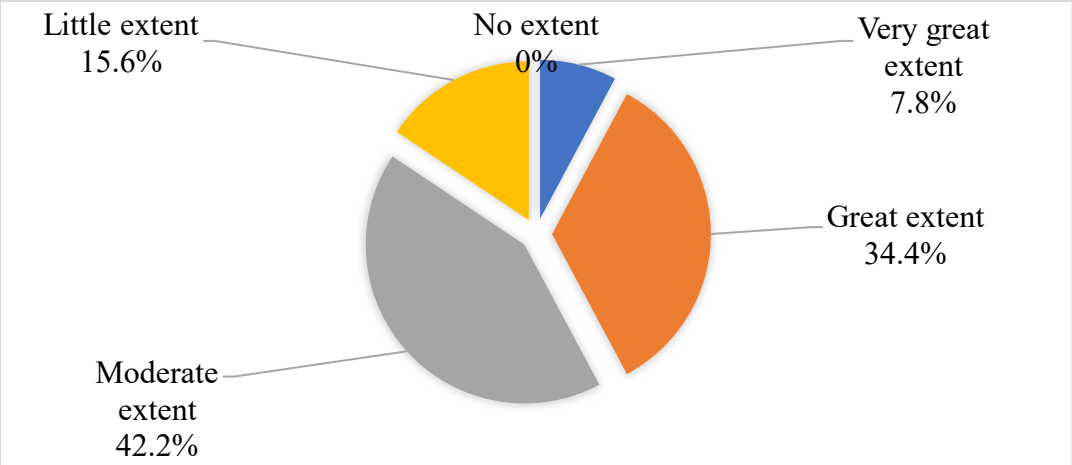

Figure 4: Extent to which digital credit terms influence financial performance

The responders were tasked with evaluating the impact of various digital lending terms on the financial health of SMEs in Nairobi City County. The results are displayed in Table 5.

Table 5: Aspects of DC Terms affecting Financial Performance of SMEs

	1	2	3	4	5	Mean	Std.Dev
Lending repayment terms	10.2	10.2	42.9	39.8	7.1	3.541	0.884
Credit appraisal process	9.2	9.2	43.9	38.8	8.2	3.551	0.894
Credit quantity/ quality	11.2	11.2	41.8	40.8	6.1	3.531	0.877

The results summarized in Table 5 provide insight into how various aspects of digital credit terms are perceived to influence the financial success of SMEs in Nairobi City County. Among the key indicators, the credit appraisal process recorded the highest influence with a mean score of 3.551, suggesting that how thoroughly borrowers are evaluated significantly impacts financial outcomes. This likely reflects the importance of aligning credit access with an SME's actual capacity and needs, minimizing the risks of over-indebtedness or underfunding. Lending repayment terms closely followed with a mean of

3.541, indicating that the flexibility, duration, and clarity of repayment agreements are critical factors in ensuring SME financial stability. When repayment conditions are favorable and predictable, businesses are more likely to sustain cash flow and meet financial obligations effectively.

The quantity and quality of credit offered was also deemed influential, earning a mean of 3.531. This reflects the view that both the adequacy of loan amounts and the suitability of financing structures play essential roles in enabling SMEs to meet short-term operational needs and long-term strategic goals. Collectively, these findings point to the central role of credit terms in determining whether digital financing serves as a catalyst for growth or a source of strain. The responses affirm that well-structured digital credit products—characterized by accurate appraisals, manageable repayment conditions, and appropriate loan sizes—are strongly associated with improved financial performance among SMEs. Further perceptions on this relationship were captured through additional statements analyzed in Table 4.9, which offer a more detailed breakdown of how these credit features interact with business outcomes in the local SME context.

Table 6: Digital Credit Terms Aspects affecting financial Performance

Assertions	SD	D	N	A	SA	Mean
The digital credit terms are comprehensible, accessible, accommodating, and adaptable for debtors.	0.0	8.9	39.5	33.9	17.7	3.605
The amounts of digital credit granted are substantial for SME operations.	1.6	11.3	37.9	36.3	12.9	3.476
The transaction cost of the digital credit is equitable, and the applicant possesses sufficient knowledge while borrowing.	0.0	13.7	36.3	34.7	15.3	3.516
The interest imposed on digital loans is reasonable and supportive to small firms.	0.8	11.3	40.3	33.9	13.7	3.484
The cost of digital credit markedly rises the operational costs of SMEs.	0.0	9.7	37.9	35.5	16.9	3.597
SMEs have boosted their financial productivity through digital loans and digital services.	2.4	7.3	33.9	43.5	12.9	3.573

The data presented in Table 6 highlight respondents' perceptions of how digital credit terms influence the financial health of SMEs in Nairobi City County. The findings suggested that borrowers are generally familiar with the terms of digital credit, which are perceived as straightforward, user-friendly, and adaptable, as reflected by a mean score of 3.605. This suggests that transparent and accessible loan conditions are contributing to SMEs' confidence in utilizing digital financing tools. Respondents also noted that the value of digital credit provided is significant to their business operations (mean = 3.476), underscoring its role in meeting day-to-day capital needs. Similarly, the affordability of borrowing, coupled with borrowers' awareness and understanding of credit obligations, received a mean score of 3.516, pointing to the importance of financial literacy in maximizing the benefits of digital credit. The cost of interest on digital loans was considered manageable and appropriate for small enterprises, with a mean of 3.484. However, there was also agreement that digital credit can increase operating costs (mean = 3.597), highlighting a potential trade-off where easy access to funds may be offset by increased financial obligations. Importantly, many respondents observed that digital credit solutions have enhanced their firms' financial productivity, as evidenced by a mean score of 3.573. This suggests that, despite cost considerations, SMEs are leveraging digital loans to boost efficiency, maintain

liquidity, and support business continuity. Overall, these responses confirm that the structure and cost of digital credit products play a critical role in shaping financial performance outcomes for SMEs. The balance between accessibility, affordability, and financial literacy appears to be key in determining whether digital credit becomes a strategic asset or a liability.

4.2.4 Digital Credit Regulation

The research also investigated how regulatory frameworks surrounding digital credit affect the financial success of SMEs in Nairobi City County. As depicted in Figure 5, the largest segment of respondents (42.2%) perceived the impact of digital credit regulation as moderate, while 35.7% viewed the influence as substantial. Additionally, 10.9% believed the impact was minimal, and a smaller group, 9.4%, reported an extremely high level of influence. These findings suggest that while perceptions vary, there is broad consensus that regulatory measures surrounding digital credit carry meaningful implications for SME operations. The majority of participants recognized that regulation plays a role in shaping access, cost, and trust in digital lending platforms. This may reflect concerns over compliance requirements, interest rate caps, licensing of lenders, or consumer protection measures—all of which can directly or indirectly influence business cash flow and credit decisions. In summary, the data indicate that digital credit regulation is viewed as an influential factor in the financial ecosystem of SMEs. A balanced regulatory environment may enhance transparency and lender accountability, thereby contributing to improved financial outcomes for small businesses.

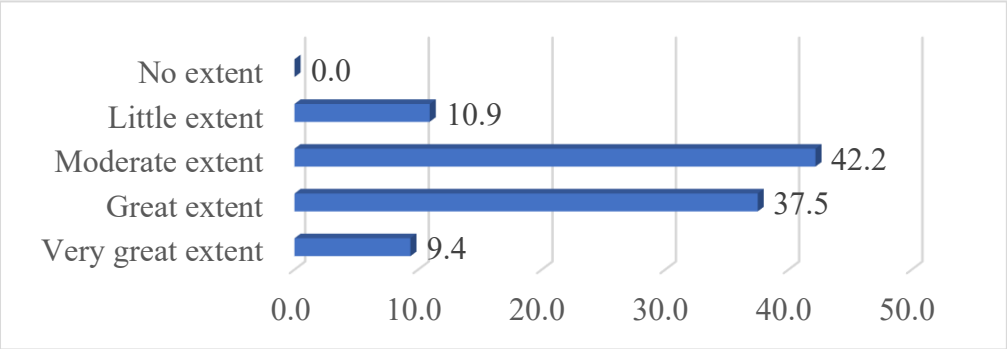

Figure 5: Extent to which DC regulation influence financial performance

The participants were requested to evaluate the impact of various elements of digital credit regulation on the financial health of SMEs in Nairobi City County.

Table 7: Aspects of digital credit regulation affecting Performance of SMEs

	1	2	3	4	5	Mean
Privacy regulations	8.2	8.2	44.9	39.8	7.1	3.541
Identity theft regulation	9.2	9.2	45.9	37.8	8.2	3.571
Interest rate regulations	10.2	10.2	40.8	41.8	7.1	3.561

Table 7 provided insights into how particular regulatory dimensions of digital credit influence the financial success of SMEs in Nairobi City County. Among the factors assessed, identity theft regulation was rated as having the strongest impact, with a mean score of 3.571, indicating that safeguards against fraud and unauthorized access are crucial for fostering trust in digital lending

platforms. Interest rate regulation followed closely, recording a mean of 3.561, suggesting that ceilings or controls on borrowing costs significantly affect SMEs' ability to manage debt and sustain profitability. Likewise, privacy regulation—with a mean score of 3.541was also considered influential, likely due to the sensitivity of financial and business data shared during digital loan transactions. These findings demonstrate that digital credit regulations play an essential role in shaping SMEs' financial health by promoting secure, fair, and predictable lending environments. They support the view that a strong regulatory framework not only protects borrowers but also facilitates broader participation in the digital credit ecosystem. The results align with the work of Sakti and Prasetyo (2019**)**, who emphasized that policies and regulations serve a strategic function in guiding organizational behavior and addressing emerging risks. In the context of SMEs, such regulations appear to be foundational in building confidence and supporting sustainable financial performance.

4.2.5 Financial Performance

The central objective of the research was to examine how digital credit influences the financial success of SMEs within Nairobi's Central Business District (CBD), using ROA as the key performance indicator. ROA was computed by dividing net income by total assets, using self-reported financial figures provided by participating firms over a five-year period. As summarized in Table 8, the average annual net income reported by SMEs was approximately KShs. 106.2 million, with a maximum income of KShs. 136.9 million recorded in 2019. The lowest annual income was also reported in that five-year span, although the specific figure was not clearly stated. The average value of total assets over the same period was approximately KShs. 1,538.65 million, with a standard deviation of KShs. 1,028.6 million, indicating considerable variability across firms. The highest total asset value was recorded in 2020 (KShs. 1,716.02 million), while the lowest appeared in 2021 (KShs. 1,429.47 million). In terms of financial performance, the mean ROA over five years stood at 6.0%, with a standard deviation of 1.31%, reflecting moderate fluctuations in profitability among the SMEs studied. The peak ROA of 8.0% occurred in 2020, likely coinciding with optimal revenue conditions or efficient asset utilization, whereas the lowest ROA of 4.5% was observed in 2021, possibly due to market disruptions or operational constraints during that year. Despite the economic challenges faced in certain periods, the results show an overall positive financial trajectory, with ROA consistently exceeding 5%, which is often considered a threshold for healthy performance in small enterprises. The upward trend from 2018 to 2020, followed by a dip in 2021 and subsequent recovery in 2022, suggests resilience and adaptive capacity among Nairobi's SMEs, even amidst external shocks.

Table 8: Financial Performance of SMEs for 2018-2022

Indicator(s)	2018	2019	2020	2021	2022	Mean	Std. Dev	Min	Max
Av. Annual Net Income (Mn)	92108	113464	136869	64006	124368	106163	25699	64006	136869
Av. Annual Total Assets (Mn)	1460976	1501875	1716019	1429467	1584932	1538653.8	10286	1429467	1716019
Agg. Annual ROA	6.3	7.6	8.0	4.5	7.8	6.8	1.31	4.5	8.0

4.3 Inferential Statistics

Using the data from the descriptive statistics, the research team performed inferential statistics to form suggestions and opinions. Relationships between the research variables were analyzed using inferential analysis.

4.3.1 Model Summary

From Table 9, the contribution of digital credit to a part of SMEs' financial figures has a R squared of 0.729. So, the variance in SMEs' financial performance can be explained by 72.9% of the amount attributable to digital credit use, digital credit accessibility and digital credit terms. The data shows there is a moderate link between the research variables.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.854[a]	0.729	0.718	0.0438

a. Predictors: (Constant), Digital credit usage, digital credit accessibility, and digital credit terms

4.3.2 Analysis of Variance

To confirm that the model connecting the independent variables and the dependent variable was statistically substantial, the research also conducted an analysis of variance. As found in Table 10, the significance value was 0.0438 which is lower than 0.05. According to the table, the F-critical number was 2.448, but the results in Table 10 gave a calculated F of 4.594. The data was well fitted by the model as the p-value (0.000) was less than 0.05 and the actual F was greater than the F critical. These results suggested that the model was suited to the study since it was statistically significant when examining the connection between the research variables.

Table 10: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.0353	4	0.00882	4.594	0.0245[b]
Residual	0.5952	310	0.00192		
Total	0.6305	314			

Dependent Variable: Financial Performance of SMEs

Predictors: (Constant), Digital credit usage, digital credit accessibility, and digital credit terms

4.3.3 Regression Coefficients

The research gave the regression coefficient data to illustrate how changes in the independent variable affect the dependent variable. The regression findings are summarized in Table 11. The results show that utilizing digital credit has a big and positive effect on the financial health of several small and medium-sized businesses. There is a beta value of 0.589 and a significance value of 0.000, which is less than 0.05, that backs up this finding. The results show that when a unit uses more digital credit, the financial health of the chosen SMEs goes up by 0.589 units. The results support Estin's (2018) claims that companies that use good digital credit practices have better operational capabilities

The results also show that having access to digital financing has a big and favorable effect on the financial health of the chosen small and medium-sized businesses. The Beta value is 0.327 and the significance value is 0.001, which is less than 0.05. The findings show that for every unit increase in access to digital finance, the financial health of the chosen SMEs improves by 0.327 units. The results are in line with what Ruiters (2019) said: having access to digital credit makes it easier for organizations to implement better management practices that increase their performance. So, digital credit activities are caused by high operating costs that come from paying management teams a lot of money.

The research also demonstrates that the digital credit conditions have a strong and positive impact on the finances of the small businesses. Beta equals 0.412 and the significance value (sig) is less than the one-tailed significance level of 0.05—all indicating that this linear regression model is significant. The data indicate that higher adoption of digital terms by a group leads to an improved financial performance of 0.412 units in the chosen SMEs. These results continue the findings of Tsai and Shih (2019), who explained that digital credit terms could result in negatives for the companies. In the end, digital credit regulation appears to positively affect the financial performance of the SMEs without being significant. You can see this in the Beta value of 0.112 and sig value of 0.087, both of which are below the significance level (0.05). Results show that stronger digital credit regulation practices by a unit lead to a 0.112 unit boost in financial performance among the chosen SMEs. This supports the research of Simamora and Nugraha (2021) that states companies with high centralization tend to have more coordination and less flexibility and vice versa. Researchers applied a regression model when doing the study.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Whereby;

Y=Financial performance of selected SMEs

$\mathbf{X_1}$=Digital credit usage

$\mathbf{X_2}$=Digital credit accessibility

$\mathbf{X_3}$=Digital credit terms

$\mathbf{X_4}$ =Digital credit regulations

ε =Error term

https://doi.org/10.53819/81018102t5385

β_0=Regression constant or intercept,

β_1-β_4=coefficients of independent variables.

The ideal model of the research is;

$Y = 0.415 + 0.589X_1 + 0.327X_2 + 0.412X_3 + 0.112X_4$

Table 11: Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	0.415	0.084		4.9405	0.011
Digital credit usage	0.589	0.096	0.555	6.1354	0.000
Digital credit accessibility	0.327	0.101	0.201	3.2376	0.001
Digital credit terms	0.412	0.174	0.286	2.3678	0.000
Digital credit regulations	0.112	0.105	0.941	1.0667	0.087

Dependent Variable: Financial performance of selected SMEs

5.0 Conclusion

This study concluded that digital credit serves as a vital financial enabler for SMEs in Nairobi City County. SMEs have been able to improve their cash flow, control their operating costs, and reach both short-term and long-term financial goals by using digital credit effectively. Many firms have been able to get revolving money more easily via digital platforms. This has helped them develop and stay strong in a market that is becoming more competitive. Access to digital credit was found to have a big effect. The convenience of applying for a loan, the high approval rates, and the quick processing times have all helped SMEs do better financially. Technological integration, especially through mobile connectivity, has made it easier to borrow money, which has led to more people being able to use financial services. These efficiencies show how the way digital lending ecosystems are set up helps businesses make quick financial decisions and stay in business. Digital credit terms also had a significant, although not huge, effect on how well things went. Borrowers have been more responsible with their money because of flexible repayment plans, clear charges, and appraisal methods that are easy for them to understand. But higher operating costs associated with interest rates show that monitoring should continue to make sure that costs are reasonable, especially for smaller or newer businesses. Even though the effects of digital credit regulation weren't as clear statistically, they are still an important part of the long-term financial health of SMEs. It seems that rules on data privacy, identifying borrowers, and restricting interest rates make lending safer and more ethical. These frameworks help users trust the system and may affect how long they utilize digital credit systems. In summary, the research shows that digital lending is a good strategy for SMEs since it helps them improve their financial performance by making it easier to access, use, and manage their money. These observations make a strong case for building up the digital credit infrastructure while also making sure that borrowers are educated and that the rules are enforced to get the most out of its development potential.

https://doi.org/10.53819/81018102t5385

6.0 Recommendations

The study recommended that in order to improve the financial performance of SMEs, it is important for business owners to use digital credit systems in their day-to-day operations. The research found that utilizing digital credit correctly can help with cash flow, speed up operations, and make financial planning easier. So, SME leaders should make digital credit a top priority for both short-term and long-term funding. This will help them reach their company goals more quickly. In addition, lenders and technology companies need to work on making it easier to apply for loans, speeding up the approval process, and making mobile access more widely available. These changes would not only make it easier for small and medium-sized businesses to get loans, but they would also help them stay strong and competitive in a changing business world. Another important issue is making the terms of borrowing better. The results showed that fair and open financial conditions have a small effect on how well SMEs do. Because of this, digital credit providers should give consumers loan conditions that are flexible, easy to understand, and in line with how much they can pay back. Clear information on interest rates, processing fees, and payback schedules can create trust and encourage smart borrowing. Also, making digital credit services better overall—by teaching users, providing quick customer care, and making communication clear—can lower financial risk and help people make smart credit decisions. Banks and other financial institutions need to make sure that their services are not only easy to get to, but also trustworthy and focused on the needs of their customers.

Finally, it is important to pay attention to the rules that govern digital lending. Regulation didn't have as big of an influence on the numbers, but it's important since it makes the lending area secure, fair, and open to everyone. Policymakers and regulators should collaborate with credit providers to update digital lending rules to deal with problems like protecting customer data, stopping fraud, and protecting consumers. Regular reviews and changes could help maintain rules up to date as technology changes quickly. Also, adding financial literacy programs for small and medium-sized businesses would be a useful addition to regulation. Teaching business owners about credit management, risk awareness, and financial planning can help them use digital credit more responsibly and help their businesses grow in a way that lasts.

REFERENCES

Abbott, B.O. (2021). Financial Technology and Credit Usage among Small and Medium Enterprises in Kisumu Central Business District, Kenya. Journal of Finance and Accounting. 5(1): 28-38.

Avouba, F. N. (2022). Effects of Access to Credit on the Performance of SMEs in the Congo, The Journal of Entrepreneurial Finance: 24(3): 48-64.

Babu, N. (2020). Effect of Digital Credit on Poverty Reduction among Low Income Borrowers in Kenya: A Case of Major Digital Credit Providers in Kenya. United States International University-Africa.

Benami, E., & Carter, M. R. (2021). Can digital technologies reshape rural microfinance? Implications for savings, credit, & insurance. Applied Economic Perspectives and Policy, 1–25.

https://doi.org/10.53819/81018102t5385

Central Bank of Kenya, Kenya National Bureau of Statistics, & Fsd. (2021). The 2020 Finaccess Household Survey Retrieved November 15, 2022, from https://fsdkenya.org/publication/finaccess2019/

Chesang, I. (2019). Effects of access to credit on financial performance of small and medium enterprises in Nairobi County. MBA Research Project, University Of Nairobi.

FinAccess (2019). FinAccess 2019 Household Survey, Central Bank of Kenya. Kenya National Bureau of Statistic

Frimpong, S.E., Agyapong, G. & Agyapong, D. (2022). Financial literacy, access to digital finance and performance of SMEs: Evidence From Central region of Ghana, Cogent Economics & Finance, 10:1.

Kamau, C. (2021). Digital Credit in Kenya: A Survey of Costs, Uses and Borrowers Considerations in Relation to Loan Uptake. East African Journal of Business and Economics, 3(1), 164 - 172.

Kinyua, S. N., Jagong'o,A. (2022). Financial strategies and growth of small and medium enterprises in Kerugoya Town, Kirinyaga County, Kenya. International Academic Journal of Economics and Finance, 3(7), 388-407.

Liu, X., Tang, Z. & Zhao, Y. (2021). Determinants of financial performance: An evidence from Internet finance sector. Managerial and Decision Economics, 43(5): 1256-1265.

Masolo, V. F., Wanjohi, F. (2021). Digital credit and financial performance of selected commercial banks in Kenya. International Academic Journal of Economics and Finance, 3(7), 369-387.

Misati, R. N., Kamau, A., Kipyegon, L. & Wandaka, L. (2019) Is The Evolution Of Fintech/Digital Financial Services Complementary to Bank Performance In Kenya? Financial Times, 14 October 2019.

Mitheu, J.M. (2018). The regulation of digital credit in Kenya: The case for consumer protection. LLB Project, Strathmore University, Kenya.

Momanyi, C. (2021). Digital credit for economic development, a case of ISBI's model of lending to micro-entrepreneurs in the Eastland's of Nairobi. Strathmore University.

Muthomi, A.M. (2021). Effect of digital credit on financial performance of financial sector in Kenya. MBA Research Project, University Of Nairobi.

Nshimirimana, E., Githui, T., & Muhavani, A. (2021). Effect of Credit Financing on Financial Performance of Small and Medium Enterprises in Nairobi Central Business District, Kenya. Journal of Finance and Accounting, 5(2).

OECD. (2021). Enhancing the contributions of SME's in a global and digitalized economy, Meeting of the OECD Councilat Ministerial Level Paris, 7-8 June 2021.

https://doi.org/10.53819/81018102t5385

Ozili, P.K. (2020) Financial performance research around the world: a review. Forum for social economics, 1(1): 1-24.

Palanga, J.N. (2021). Determinants of digital credit applications adoption and continuous use in Kenya: Case study of Nairobi and its environs. Masters' Thesis Kenya Methodist University, Kenya.

Tehseen, S. Muneeb, D. Mahmoud, A. B. Hack-Polay, D. Yan, Y. H., & Nawaz, F., (2020). SMEs in the digital business sector: Examining six theories about digital SME success. In R. Ho, A. Ng, & M. Nourallah (Eds.), Impact of Globalization and Advanced Technologies on Online Business Models. IGI Global.

Totolo, E. (2018). The digital credit revolution in Kenya: an assessment of market demand, 5 years on. Financial Service Deepening Kenya.

Tran, H. A. (2021). The impact of bank credit accessibility of small and medium enterprises in Ho Chi Minh city, Vietnam. International Journal of Rough Sets and Data Analysis, 8(1): 25-30.

Wamalwa, P., Rugiri, I., & Lauler, julienne. (2019). Digital Credit, Financial Literacy and Household Indebtedness. Digital Credit, Financial Literacy and Household Indebtedness, WPS (08), 1–44.

Wathome, F. N. (2020). Effects of Digital Credit on financial performance of the Youth in Kenya: A Survey of Kangemi, Nairobi County. United States International University-Africa.

World Fintech (2021). The Global Findex Data Base 2021. Accessed 11th August 2023: https://globalfindex.worldfintech.org/

Yangdol, R., & Sarma, M. (2019). Demand-side Factors for financial performance: A Cross-country Empirical Analysis. International Studies, 56(2-3), 163-185.

Yusef, A.Y., Basuki, B., Purwono, R. & Usman, I. (2022). The Impact of Digital Technology and Business Regulations on Financial Inclusion and Socio-Economic Development in Low-Income Countries. SAGE Open: 1–15.

https://doi.org/10.53819/81018102t5385