DIGITAL LENDING AND FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES OWNED BY YOUTH IN KAKAMEGA COUNTY, KENYA

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ABSTRACT

Access to digital lending can be an enabler for young people in businesses in Kenya. However, youth Micro and Small enterprises are at dismal financial performance. There are reported low financial performance indicators such as low profitability, low revenue increase, diminishing loan repayment and equally weak liquidity state among MSE Owned by youth. In Kakamega the annual report of loan repayment among the youth reported a default of 71.82%. Limited studies have assessed digital lending and financial performance of youth enterprises at large leaving business literate cadre unexplored. The researcher sought to close the knowledge gap on digital lending. Basically, the study analyzed the effect of digital lending on financial performance of MSE owned by youth in Kakamega County Kenya. Specifically established the effect of period of loan repayment, interest rate on loan and amount of loan on financial performance of MSE Owned by youth in Kakamega County. Theoretically, information asymmetry, credit risk and stakeholder theory were utilized. In this study the target population was 1,689 as per the 2022 MSE owned by youth in Kakamega. The study sampled 313 MSE owned by youth in Kakamega County. Statistical Package for Social Sciences was adopted in analyzing both descriptive and inferential statistics from obtained questionnaires. The Ordinary Least Square model was adopted. The study found that loan installment approach has improved financial performance of MSEs in Kakamega implying the installments are essential. The findings from the linear regression analysis noted a statistically notable significant positive association coefficient between loan repayment Period and the level of financial performance of youth owned SMEs observed among small and medium firms (P0.003<.005). The study established that capacity to borrow determines loan to be awarded hence improving financial performance of MSEs in Kakamega. The findings from the linear regression analysis noted a favorable correlation coefficient for amount of loan amount and financial performance of youth owned SMEs among small and medium firms (P0.002<.005). The linear regression analysis noted a statistically significant influence of correlation coefficient for loan interest rate and the level of youth owned SMEs financial performance observed among youth owned SMEs (P0.00<.005). Conclusively digital lending has a positive significant effect on financial performance of Micro and Small Enterprises owned by youth in Kakamega County Kenya. The study recommend that the youth owned SMEs should subscribe to loan repayment to enable them to execute and pay their loans easily, hence conveniently managing the debt. Secondly, the youth owned SMEs should utilize the amount of loan given on investment worth projects that would in the long run yield success. The youth owned SMEs should subscribe to loan interest rate that are achievable as this would enable them realize better profits.

Key words: Access to Credit, Digital Lending, Loan Amount, Loan Interest Rate

INTRODUCTION

Background of the Study

Digital credit is the broad variety of financial technologies executed through amount of loan, repayment period and interest rate charged. The utilization of digital remote methods, such as electronic financial transfers, mobile money, e-money, and card payments, makes this feasible (Asian Development Bank, 2016). The ability to become financially integrated in the digital sphere is contingent upon having access to digital technologies. The creation of reasonably priced digital facility is a crucial prerequisite for promoting digital financial based inclusivity since young people without access to the internet or a cell phone are often the most vulnerable in their communities. According to UNICEF (2017), seventy one percent of young people worldwide participate in online activities which make them easily accessible on digital lending platforms. Statistically the ages of 18 and 35 are prominent on internet usage. The importance of having access to online information and services has grown to the point where several financial institutions acknowledge internet activities. This is especially true with digital lending (Burns & Gottschalk, 2019).

The youth enterprises are solely focused on youth activities and operate in a legally sound setting. Businesses owned and operated by individuals under 35 years of age are known as youth enterprises (Government of Kenya, 2005). In the United Kingdom those aged 18 and 30 are given startup funding to propel financial performance of their business (The Prince's Trust, 2012). Equally the Bangladesh youth entrepreneurship initiative propelled businesses positively.

Kenya has a comparatively high unemployment rate, hence more jobs must be created through entrepreneurial endeavors. The World Bank (2017) reports that the nation's unemployment rate is 20%, having increased significantly from 17.4% in 2014 to 19.8% in 2019. Every year, eight hundred thousand young people on average enter the workforce without any means of support. This will eventually become a crisis if it is not appropriately addressed in a timely manner. In Kenyan, the government has developed mitigation measures where one of the numerous tactics is to provide funding for the youth business start-ups. This has been accomplished through the creation of youth fund, which was started in 2006. Reviving youth involvement in SMEs establishment is the primary purpose of the government's SMEs policies, strategies and objectives (KIPPRA, 2002).

The economic report by RoK (2012) states that Kenya's jobless rate rose from a record 12.7 in 2006 to 40% in 2011. This amazing shift has resulted in higher jobless rates that trail Kenya's economic growth. A nation with a high unemployment rate experiences economic losses, a decline in the standard of living within its states, higher fiscal costs as a result of government budget deficits, and negative social effects, as crime has been found to be closely correlated with unemployment rates (Magatti, 2017).

Microfinance institutions, which provide remarkably flexible interest rates and the entrepreneurs' savings, are currently Africa's largest source of funding for SMEs (Kauffmann,

2005). A sizeable portion of Kenya's annual budget is allocated to supporting SME's (RoK, 2012). However, as many young people still lack access to government funding sources, this uptake has not happened as the administration had hoped. The Kenyan government launched the YEDF for the first time in 2006. Reducing youth unemployment, which affects 61% of the population, was the primary objective. Since its founding in 2006, the Fund has provided funding to more than one million young people. Additionally, by providing market support and entrepreneurial training, it has assisted hundreds of young people in growing their businesses. This sum is insufficient to assist youth enterprises in accordance with the annual budget. adolescents Enterprise money gets an annual budget of $4 billion, however only 28% of eligible adolescents actually use the money (RoK, 2017).

Previous research by the majority of scholars, including Wohoro (2016), has determined that social issues, the business regulatory environment, and inadequate education are the primary causes of the Youth Enterprise Funds' low uptake. In Namibia, a comparable study (Ramsden, 2010) determined that inadequate formal entrepreneurship education and poor literacy rates are the primary underlying issues that prevent effective entry to the Youth Enterprise Funds. Additional research demonstrates that the youth enterprise funds financial status in Murang'a was more likely to be associated with entrepreneurs who had received suitable entrepreneurship training specific to the kind of firm they were operating (Kimando, Njogu, & Kihoro, 2012). There is a significant amount of MSMES in Kenya pioneered by the youth with the potential of applying for the Youth Enterprise Funds. However, a really small percentage has successfully acquired this funding. This study looked at digital lending and financial performance of Youth enterprises.

Statement of the Problem

Access to digital lending can be an enabler for young people in businesses in Kenya. Micro and Small enterprises have gained relevance through digital funding leading to growth of businesses (Sykes, 2016). However, youth Micro and Small enterprises are at dismal financial performance. There are reported low financial performance indicators such as low profitability, low revenue increase, diminishing loan repayment and equally weak liquidity state among Micro and Small Enterprises Owned by youth (Wohoro, 2016).

Youth Employment Network indicates that 60% of funding under Micro and Small youth business face challenges (SEEP, 2013). This is attributed to digital borrowing where amount of loans, loan repayment period and interest rates are key drawbacks to financial performance of their enterprises. According to YEDF, (2020) the Youth are slow when it comes to repayments of digital loans which is a serious challenge to financial performance of youth enterprises. Youth MSE in Vihiga County recorded low loan repayment of 39.1% among the youth businesses. In Kakamega the annual report of loan repayment among the youth reported a default of 71.82% (YEDF, 2020). Furthermore, younger people lose money to fraud arising from digital platforms more often than older people (Federal Trade Commission, 2020).

Most empirical studies fail to examine financial performance thus uptake of digital funds (Asamba, 2016; Birech, 2013; Kanyari & Namusonge, 2013). The study's objective was to

ascertain the digital lending and financial performance of youth-owned micro and small businesses in Kakamega County, Kenya.

Research Objectives

The general objective of the study was to analyze the effect of digital lending on financial performance of Micro and Small Enterprises Owned by youth in Kakamega County Kenya.

Specific Objectives

i. To establish the effect of digital loan repayment period on financial performance of MSEs Owned by youth in Kakamega County Kenya.
ii. To find out the effect of digital loan interest rate on financial performance of MSEs Owned by youth in Kakamega County Kenya.
iii. To determine how digital loan amount affects financial performance of MSEs Owned by youth in Kakamega County Kenya.

Research Hypotheses

H_{o1}: Digital loan repayment period has no statistically significant effect on financial performance of MSEs Owned by youth in Kakamega County Kenya.

H_{o2}: Digital loan interest rate has no statistically significant effect on financial performance of MSEs Owned by youth in Kakamega County Kenya.

H_{o3}: Digital loan amount has no statistically significant effect on financial performance of MSEs Owned by youth in Kakamega County Kenya.

Theoretical Review

Information Asymmetry Theory

Akerlof originally developed information asymmetric theory in the 1970s. The idea states that after evaluating lending applications provided cases of incomplete information arises making players not to be well informed as some are disadvantaged (Binks & Ennew, 2017). Espy (2015) defines the circumstance in which the parties involved in a transaction are unaware of all relevant facts; in the case of digital lending, the lender is likely to be unaware of the borrowers' past. The theory explains that when information asymmetry is perceived, lending entities face two primary challenges: moral hazard in monitoring the behavior of Micro and Small Youth Enterprises, and adverse selection, in which digital platforms make errors by lending to the wrong people. Micro and small youth firms must provide reliable information in order to be approved for a loan. Our idea is significant to our study because digital lenders evaluated micro and small youth firms to decide the loan amount to be provided. Asymmetry information was used to guide loan award decisions in order to decrease default rates. The loan amount was assessed to determine the repayment period.

Moreover, the duration of the loan repayment period influences the interest rate applied to the loan. This guideline comprehensively addresses the entire variable, thereby establishing the foundational theory for the study. Nevertheless, this theory faces criticism, as borrowers may provide inaccurate information that could result in misleading conclusions.

Credit Risk Theory

The hypothesis put forth by Merton in 1974. The lending institution is required to assess the borrower's capacity to repay. Nonetheless, a significant risk of default exists in the realm of digital lending due to the inaccessibility of the borrower in real-time.

The online process causes certain lenders to obscure their practices. The lender faces the potential risk of being blacklisted due to the lendee's failure to make timely loan repayments, which could adversely impact financial performance. The interest rates imposed by certain lenders are elevated, resulting in a significantly increased total amount due. This, as a consequence, causes MSEs to experience delays, thereby extending the loan repayment period. This theory aids in comprehending the profiles of individuals eligible for loan amounts, thereby facilitating the determination of appropriate loan interest rates and ensuring that deserving candidates are taken into account. The theory of credit risk faces criticism due to the notion that an individual may be regarded as a reliable borrower based on a history of timely repayments; however, the circumstances surrounding the prior loan may differ significantly from those of the present situation.

Stakeholder Theory

Established by Freeman in 1984, the theory centers on ethics and fundamental principles that are employed to govern an organization. It talks about those who have a close relationship to an institution and what needs to be done to address the issue. Assuming that stakeholders are individuals who contribute to achieving a particular objective, the emphasis lies on both institutional financial performance and service delivery. According to Sturdivant (1979), stakeholders include business owners, current staff members, clients of the organization, vendors of goods and services, and the community in which the organization operates. Organizational growth is facilitated by the involvement of stakeholders, who are more important than non-stakeholders. This idea gives a hand to initiatives by microenterprises that have the noble goal of using digital financing to help young people.

The rationale behind selecting stakeholder theory for this research is its ability to integrate multiple stakeholders inside an organization, such as staff members, clients, vendors, financiers, and local communities. Lenders provide digital and commercial loans to young people. Understanding other social actors who create new jobs, goods, and services that are needed by numerous stakeholders is also made easier by the idea. This method involves participants (young people and lenders) in stakeholder engagement. Stakeholder engagement is also said to operate dynamically, with each stakeholder impacting the efforts of the others according to the relationships already in place (Donaldson & Preston, 2019). The parties involved start talking about interest rates, loan amounts, and loan repayment terms.

Empirical Review

Karabulut and Bilgin (2020) investigated the influence of unrestricted deposit insurance on loan delinquency. Loan repayment time significantly affects financial performance. Numerous affluent and emerging economies have established deposit insurance frameworks to mitigate the risks associated with systemic bank failures. The analysis indicates that deposit protection

serves to benefit banks. This study did not explore specific dimensions of credit history, including credit score, payment behaviors, outstanding balances, patterns of default, and the duration of credit history. The report lacked comprehensive analysis regarding digital lending methods. This study examines the loan interest rate and the corresponding loan amount. It also neglected to address youth enterprises, instead directing its attention towards deposit insurance corporations. The present investigation concentrated on micro and small youth entrepreneurs specifically within Kakamega County, rather than encompassing the entirety of Kenya.

Wohoro (2016) conducted an examination of the impact of interest rates on youth enterprises. Despite the assurances from government officials of these organizations regarding the reduction of interest rates to enhance the uptake of these funds, the implementation has not materialized. It neglected inclusion of digital lending and the interest rates imposed on digital firms, which will be rectified. Moreover, the present investigation aims to determine the interest rate preferences. The current study addressed loan repayment period and the loan amount. It additionally neglected to consider youth enterprises, focusing instead on youth as individuals. The issue of digital lending practices was not adequately addressed. This paper is further grounded in the context of MSEs operated by youth in Kakamega devolved unit, rather than focusing on youth as individual entities.

Ogujiuba (2020) conducted an analysis of loan guarantees for SMEs in Nigeria, revealing that these were constrained by macroeconomic instability and the unpredictability of the business environment. The conclusion of the study indicates that numerous small and medium-sized enterprises necessitate guarantors to be eligible for the volume of guaranteed loans. This study did not adequately consider the precise quantity of issues related to loan guarantees, including the history of guarantors, current guaranteed loans, the capacity to guarantee, the conditions required for guaranteeing, and the amounts involved in the guarantees. This study concentrated on the concept of guarantorship and did not delve into the domain of digital lending. The loan's interest rate and repayment terms were initially neglected but have now been meticulously examined in the current analysis. While the loan amount was subjected to meticulous scrutiny, the dimension of digital loan amounts did not come to fruition. It neglected to consider youth enterprises, focusing predominantly on SMEs as a singular category. This research specifically focuses on micro and small enterprises operated by young individuals in Kakamega County, rather than MSEs.

RESEARCH METHODOLOGY

This study employed a cross-sectional survey research design. According to Cooper and Schindler (2014), the research design functions as a framework for the processes of data access and measurement. The population for which information is needed is the target population, which comprises the complete aggregation that satisfies the specified set of criteria (Sarantakos, 2005). According to the 2022 MSE owned by youth in Kakamega, Kenya (Kakamega County MSE, 2022), 1,689 people are the study's target group. The researcher gathered data using questionnaire. All responders, as well as young MSE members in Kakamega County, were subjected to questionnaires.

The research model equation;
$Y= \alpha + \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \varepsilon$
Y = Financial performance of Youth MSE
α = Constant
β1… β3 = the slope.
X1= Loan repayment period
X2= Amount of loan
X3= Loan interest rate
ε = error term
This study employed regression analysis with the OLS model.

Descriptive Statistics

This section applies percentages, frequencies, means, and standard deviations to elucidate the responses of the participants.

Loan Repayment Period and Financial performance of MSEs in Kakamega County

The subsequent tables elucidate the results for each metric concerning loan repayment period as factored in tables 1.

Table 1: Loan Repayment Period

Response	5	4	3	2	1	Mean	Std. Dev
The mode of loan payment has improved financial performance of MSEs in Kakamega	32 (16)	100 (50)	62 (31)	4 (2)	2 (1)	3.41	0.89
The loan installment approach has improved financial performance of MSEs in Kakamega	24 (12)	104 (52)	64 (32)	4 (2)	4 (2)	3.68	0.80
Members discipline on loan repayment has improved financial performance of MSEs in Kakamega	36 (18)	118 (59)	32 (16)	10 (5)	4 (2)	3.85	0.83
Guarantee loan system for loan repayment has improved financial performance of MSEs in Kakamega	58 (29)	104 (52)	12 (6)	14 (10)	6 (3)	3.94	1.02
Existing guaranteed loans has improved financial performance of MSEs in Kakamega	28 (14)	124 (62)	8 (4)	30 (15)	8 (4)	3.68	1.04

Source: Field data (2025)

The research examined the influence of loan payback durations on the financial performance of youth-owned Micro and Small Enterprises (MSEs) in Kakamega County. Concerning the impact of loan repayment techniques on corporate financial performance, 82% of respondents affirmed this, with 32% strongly agreeing and 50% agreeing, suggesting that payment strategies are prioritized. A mean value of 3.41 and a std of 0.89 indicate modest consensus with heterogeneity in perceptions, underscoring the importance of loan payback for MSE financial performance. Regarding the loan instalment method, 12% highly concurred, 52%

concurred, 4% strongly disagreed, 4% disagreed, and 32% remained undecided state in neutrality. The average value was 3.68, with a negligible standard deviation of 0.8.

While 18% strongly agreed that the discipline of members about loan repayment has improved the functioning of MSEs in Kakamega, 59% of respondents expressed agreement overall. Still, 16% stayed neutral, 5% disagreed, and 2% strongly disagreed. Together with a low standard deviation of 0.83, the average is 3.85. 29% of respondents strongly agreed that the guarantee loan scheme for loan repayment has improved the financial performance of young-owned Micro and Small Enterprises in Kakamega; 52% expressed overall agreement; 6% remained indifferent. Only a handful of people expressed disagreement; 10% said so and 3% said they strongly disagreed. With a remarkable standard deviation of 1.02, the average value is 3.94. Regarding the present guaranteed loans and their effect on the improved financial performance of Micro and Small Enterprises in Kakamega, 14% highly agreed, 62% agreed, and 4% stayed indifferent. Fifteen percent also indicated disagreement; four percent of them strongly disagreed.

Amount of Loan and Financial performance of MSEs

The study conducted an inquiry on the influence of digital loan amount awarded and financial performance of MSEs owned by Youths in Kakamega County.

Table 2: Amount of Loan and Financial performance of MSEs in Kakamega County

Responses	5	4	3	2	1	Mean	Std. Dev.
Credit history determines loan to be awarded hence improved financial performance of MSEs in Kakamega	96 (48)	56 (28)	36 (18)	4 (2)	8 (4)	4.15	1.05
Capacity to borrow determines loan to be awarded hence improved financial performance of MSEs in Kakamega	44 (22)	80 (40)	36 (18)	38 (19)	2 (1)	3.62	1.08
Capital ability determines loan to be awarded hence improved financial performance of MSEs in Kakamega	32 (16)	94 (47)	44 (22)	24 (12)	6 (3)	3.62	0.99
Collateral requirement determines loan to be awarded hence improved financial performance of MSEs in Kakamega	32 (16)	94 (47)	44 (22)	24 (12)	6 (3)	3.62	0.99
Conditions to borrow determines loan to be awarded hence improved financial performance of MSEs in Kakamega	44 (22)	80 (40)	36 (18)	38 (19)	2 (1)	3.62	1.08

Source: Field data (2025)

The researcher examined loan amounts on the financial performance of MSEs. Notably, 48% and 28% of respondents strongly agreed and agreed, respectively, that credit history has a role on loans award. The results yielded a average of 4.15 and a significant std of 1.05. Concerning the extent to which borrowing capacity influences the allocation of loans and subsequently enhances the financial performance of youth-owned MSEs in Kakamega, a 62% level of agreement was observed, with an average of 3.62 and a std of 1.08. The capacity for capital significantly influences the allocation of loans, thereby enhancing the financial performance of

MSEs owned by youth, as evidenced by a 63% agreement and an average value of 3.62, accompanied by a std of 0.99. The average of 3.62 as well as a std of 0.99, was documented concerning the collateral requirements for determining loans to be granted, thereby enhancing the financial performance of MSEs owned by youth. A cumulative 62% of respondents agreed that the conditions for borrowing influence the loans awarded, thereby enhancing the financial performance of youth-owned MSEs in Kakamega, with a mean score of 3.62 and a notable standard deviation of 1.08.

Loan Interest Rate and Financial performance of MSEs in Kakamega County

This study provides responses on digital loan interest rates charged on financial performance of MSEs in Kakamega County.

Table 3: Loan Interest Rate

Response	5	4	3	2	1	Mean	Std. Dev.
There is a Penalty fee that has improved financial performance of MSEs in Kakamega	38 (19)	96 (48)	42 (21)	18 (9)	6 (3)	3.72	0.97
There is increase on interest rate on loan default that has improved financial performance of MSEs in Kakamega	58 (29)	104 (52)	12 (6)	20 (10)	6 (3)	3.94	1.02
There is covenant restrictions on loan borrowed that have improved financial performance of MSEs in Kakamega	28 (14)	124 (62)	10 (5)	30 (15)	8 (4)	3.68	1.04
There are payment patterns that have improved financial performance of MSEs in Kakamega	58 (29)	104 (52)	12 (6)	20 (10)	6 (3)	3.94	1.02
There is credit period plan that has improved financial performance of MSEs in Kakamega	38 (19)	96 (48)	42 (21)	18 (9)	6 (3)	3.72	0.97

Source: Field data (2025)

The findings were that 48% agreed as 19% strongly agreed that there is a penalty fee that has improved financial performance of MSEs owned by youth in Kakamega hence a mean value of 3.72. Furthermore, 52% agreed as 29% strong agreement that there is increase on interest rate on loan default that has improved financial performance of youth owned MSEs in Kakamega. There are covenant restrictions on loan borrowed that have improved financial performance of MSEs owned by youth in Kakamega since 62% agreed with the statement as 14% strongly agreed though, 15% disagreed, and the mean was 3.78. According to 52% of respondents and 29% who agreed and strongly agreed there are payment patterns that have improved financial performance MSEs owned by youth at 1.02 standard deviation value and

lastly there is credit period plan that has improved financial performance of MSEs owned by youth in Kakamega in relation to a mean value of 0.97.

Financial performance of MSEs owned by Youths in Kakamega County

This study responses on financial performance of MSEs owned by youth.

Table 4 Financial performance of MSEs among SMEs

	5	4	3	2	1	Mean	Std. Dev.
Profits earned have improved financial performance of MSEs in Kakamega	64 (32)	94 (47)	26 (13)	8 (4)	8 (4)	3.96	1.01
There are good sales that has improved financial performance of MSEs in Kakamega	96 (48)	74 (37)	16 (8)	6 (3)	8 (4)	4.22	1.02
There is low default rate has improved financial performance of MSEs in Kakamega	40 (20)	74 (37)	40 (20)	24 (12)	22 (11)	3.40	1.26
There is good credit score that has improved financial performance of MSEs in Kakamega	96 (48)	74 (37)	16 (8)	6 (3)	8 (4)	4.22	1.02

Source: Field data (2025)

A significant 47% of respondents conveyed their agreement, while 32% articulated strong agreement regarding the assertion that profits generated have positively influenced the financial performance of MSEs owned by youth in Kakamega. Furthermore, 37% concurred and 48% strongly concurred that vigorous sales have played a significant role in enhancing the financial performance of these enterprises, as demonstrated by a mean value of 4.22. Furthermore, 37% of the participants indicated their agreement, while 20% expressed strong concurrence that a low default rate has favorably impacted the financial performance of MSEs owned by youth. Furthermore, 48% agreed that a positive credit score has significantly impacted the financial performance of MSEs owned by youth.

Multi-collinearity

The assumption of regression analysis that was applied to examine the state of whether a high reationship existed was multi collinearity test and results are provided in table 5 below.

Table 5: Collinearity Test

Variable	Tolerance value	VIF value
Loan Repayment	.807	3.513
Amount of Loan	.573	2.413
Loan interest rate	.615	2.273
Financial performance of MSEs	.507	1.975

Source: Field data (2025)

The Variable Inflation Factor (VIF) values ranged from 1.975 to 3.513, remaining below the maximum value of 10, thereby confirming the no traces of multicollinearity issues. The

tolerance scores ranged from 0.507 to 0.807, remaining below the threshold of 1.0, indicating the absence of multicollinearity (Mnyuny, 2018).

Multiple Regression Analysis

This study aimed to explore the effects of digital lending on the financial performance of MSEs owned by youth in Kakamega County. This was achieved by employing multiple regression analysis.

Table 6 Multiple Regression Analysis Model Summary

Model	R	R Square	Adj R Square	Std. Error of the Estimate	Change Statistics			
					R Sq Change	F Change	df	Sig. F Change
1	.651[a]	.423	.414	.38791	.000	13.004	1	199

a. Predictors: (Constant), Loan repayment period, Loan amount, Loan interest rate

Source: Primary Data (2025)

The summary of the model presented in Table 6 offers a comprehensive overview of its components. The R square column reveals that three digital lending factors contributed to 42.3% of the significant variation observed in the financial performance of youth-owned Micro and Small Enterprises (R square = 0.423, P = 0.000). This indicates that 56.7% of the variation in the financial performance of youth-owned Micro and Small Enterprises can be attributed to factors that lie beyond the parameters of this model. The study utilized the F Ratio to assess the model's significance, specifically its ability to predict the financial performance of youth-owned Micro and Small Enterprises with enhanced accuracy compared to the mean score, regarded as a fundamental estimate.

Table 7: Coefficients

"Model	Unstandardizd Coefficients		Standardizd Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.354	.302		1.173	.245
Digital loan repayment period	.198	.069	.217	2.860	.003
Digital loan amount	.204	.059	.280	3.437	.002
Digital loan interest rate	.182	.079	.217	2.287	.000

a. Dependent Variable: Financial performance of MSEs

Source: Primary Data (2025)

Table 7 shows the findings for digital lending thus digital loan repayment period, digital loan amount and digital loan interest rate to be of significant impact on performance of MSEs. The model had a t values exceeding 1.96 implying significant state and p-values below 0.05 a further indicator of significance state, suggesting that digital lending improved financial performance. The findings lend credence to the hypothesis that suboptimal loan payment schedules significantly impact performance. Mwisho (2016), in his examination of the correlation between the number of loans guaranteed and performance of Kenyan SMEs, posited that due to the impact underlying variable fluctuations and temporal factors on exposures, both presently and prospectively, it is imperative for borrowers to diligently monitor their debt

obligations. The multiple linear regression model has been formulated, wherein the 4 predictor constructs are regressed against the financial performance of youth owned MSEs.

$\mathbf{Y}=1.173+ 2.860X_1+3.437X_2+2.287X_3$

Y is the DV variable (Financial performance of MSEs),

X_1 is Digital Loan repayment period

X_2 is Digital Loan amount

X_3 is Digital Loan interest rate

Table 4.12 explains all of the digital lending constructs had a substantial impact on financial performance of MSEs.

Table 8: Hypothesis Results

"Hypothesis	Findings	Decision and basis
HO_1: Digital loan repayment period has no statistically significant effect on financial performance of Youth owned MSEs in Kakamega County	Loan repayment period has a significant positive effect on financial performance of Youth owned MSEs	Reject 0.003<0.05
HO_2: Digital loan interest rate has no statistically significant effect on financial performance of Youth owned MSEs	Loan interest rate has a significant negative effect on financial performance of Youth owned MSEs	Reject 0.002<0.05
HO_3: Digital loan amount has no statistically significant effect on financial performance of Youth owned MSEs	Loan amount has a significant positive effect on financial performance of Youth owned MSEs	Reject 0.000<0.05

Source: Field Data (2025)

Conclusion and Recommendations

Conclusion

Digital loan repayment period significantly influenced financial performance of SMEs among the youth's enterprises. Digital loan repayment period enables youth owned SMEs to execute debt management and undertake their operations more conveniently and in an affordable manner. Digital amount of loan on the other hand enables small-medium enterprises to plan for their investment based on capacity. Digital loan interest rate also guides financial performance since the rate of interest would determine the profit aspect for youth owned SMEs business. The study therefore found that

Recommendations

The youth owned SMEs should subscribe to digital loan repayment to enable them to execute a pay their loans easily, hence conveniently managing the debt. The period of loan repayment has repercussions and therefore the youths should work hard to repay loans within the shortest period as that their profits are not reduced through interest repayments.

The youth owned SMEs secondly should utilize the digital amount of loan given on investment worth projects that would in the long run yield success. The savings made by youths would determine the loan package hence the youths owned SMEs should always save no for better loan amounts.

The youth owned SMEs should subscribe to digital loan interest rate that are achievable as this would enable them realize better profits. Youths SMEs owners should understand that interest rate is determined loan amount and loan repayment period which have a bearing on financial performance and hence be calculative to avoid high interest rate.

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