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MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MARSABIT COUNTY, KENYA

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ABSTRACT

In Marsabit county, the performance of most SMEs have been declining with some businesses even closing down. Though there are a lot of SMEs that are set up in Marsabit County, most of them close down with the first three years of their operation. This is majorly due to declining profits. For example, in the year 2021 more than 20% of the SMEs in Marsabit County reported losses while in the year 2022 the number of SMEs that recorded losses increased to 26%. The fact that most SMEs owners lack enough knowledge on micro finance services as well as most micro finance banks have a lot of regulations puts SMEs off from accessing their services puts the performance of the SMEs at threat. This study aimed to determine the effect of microfinance services on financial success of SMEs in Marsabit County, Kenya. Specifically, the research sought to ascertain the influence of credit facilities on financial success of SMEs. Descriptive research approach was employed in this research. The 628 SMEs in Kenya's Marsabit County make up the study's intended audience. Using stratified random sampling, 117 owners and managers of SMEs in Marsabit County, Kenya, made up the sample size. Primary data was gathered by the researcher. Questionnaires with some structures were used to gather data. Descriptive statistics like means, frequencies, and standard deviation were adopted to analyze quantitative data. To ascertain the link between the variables, inferential statistics such as regression analysis and correlation was performed. Tables and graphs were used to display the data. In view of the effect of credit facilities on financial performance of SMEs in Marsabit County, Kenya, regression results which aimed to ascertain the effect of credit facilities on financial performance of SMEs, it was suggested that credit facilities was statistically significant and hypothesis two was rejected and the correlation was very strong (0.000<0.05). The study recommends that, despite the challenges and obstacles faced by SMEs, they must exhibit the capacity for enhanced performance, growth, and maintenance of their role as a vital contributor to the nation's GDP, provided they have access to requisite finance.

KEY WORDS: *Microfinance Services, Financial Performance, Financial Literacy, Credit Facilities and Development of Managerial Skills.*

INTRODUCTION

Performance measures an organization's capacity to employ resources from its core business model to generate revenue. The prestigious productive yield of a system in the form of commodities or services is known as operational performance (Hervani et al., 2022). Good performance affects the firm's survival and prosperity. Small-scale traders' performance is measured by perceived return, consistent clientele, and a percentage growth in profitability over the prior year (Jasin, 2022). According to Joo and Lee (2021), the absence of tariff barriers has had a significant impact on small-scale traders' performance.

Management and other stakeholders in all organizations are very interested in and concerned about financial performance due to its importance for many businesses (Peter et al., 2018). Monitoring a business's financial performance aids management in gathering data on how funds are invested and move both within and outside the organization. Additionally, managers must to base their choices on information on the company's performance (Onyango, 2018).

Microfinance services have been connected to the financial performance of SMEs. This is because, in order to expand and accomplish their objectives of fostering an entrepreneurial spirit, competing with larger organizations, generating employment, and assisting in the fight against poverty, small and micro businesses require access to financing

(Mutuma, 2020). Furthermore, a company's ability to secure funding affects both its level of performance and its chances of survival, regardless of its size. The main goal of microcredit, according to Omondi and Jagongo (2018), is to assist SMEs perform better, partly because it makes it simpler to obtain small advances that are not feasible through traditional banking facilities.

SMEs are often commended for their critical role in enhancing sustainable development and equitable economic growth. In the USA and the EU, SME are defined as companies with less than 500 people; in developing countries, however, any company with fewer than 100 employees is considered a SME (Qalati et al., 2021). Due to increasingly intentional government policies and laws designed to support SMES as catalysts for job creation and economic growth, these businesses have grown in significance in economic matrices worldwide in recent years. SMEs are thought to make up more than 90% of all businesses in the majority of economies with rapid job growth. Additionally, they serve as a means of boosting exports and industrial production (Al Busaidi et al., 2019).

Japan has the highest quantity of SMEs amongst the mechanized states, accounting for over 99% of all businesses (EIU, 2020) and over 70% of the total employment. Despite this anchor role played by MSMEs in Japan, most of these ventures have been closing or recording a decline in profits, which hinders growth. Between 1999 and 2014 the MSMEs numbers in Japan fell by 21%; from 4.8 million to 3.8 million (OECD, 2021). The inability of SMEs in Japan to receive microfinance services has resulted in subpar performance. Inadequate collateral and excessive interest rate charges hinder small businesses' access to banking services (Fairoz, & Hirobumi, 2021).

Most SMEs in Yemen have been witnessed to grow in their profitability. According to AL-Maamari, Aljonaid and Alrefaei (2025) indicated that microcredit significantly affects profitability, sales growth, and employment expansion among MSEs in Yemen. The Yemeni government has instituted measures aimed at fostering economic expansion via the implementation of microfinance initiatives and backing for Micro and Small Enterprises (MSEs). Research indicates that microfinance exerts a notable influence on economic advancement (Ali, 2023), while MSEs contribute favorably to the sustainable development landscape in Yemen (Ghaleb & Ekrem, 2022). Furthermore, the provision of microcredit by entities such as Al-Amal Bank has yielded positive outcomes for women’s empowerment by augmenting household earnings and asset accumulation (Ali Al-Shami et al., 2021).

In 2010, SMEs in Malaysia accounted for roughly 34% of the nation's GDP. The majority of these SMEs reported higher profitability in 2014 and 2023. The development of SMEs in Malaysia has been aided by the availability of MFIS services; lending has come to be seen as a crucial instrument for enhancing young people's incomes, mostly through the reallocation of resources to more productive uses (Yakob, Yakob, Bam, & Rusliv, 2021).

SME success rates are lower in Africa than on other continents. Due to theft, the majority of SMEs in Congo filed for bankruptcy in 1993 and 1996. The growth and success of non-oil sectors are hampered by the hegemony of the oil sector in Equatorial Guinea, Chad, and Gabon. The SMEs that form the foundation of Ghana's economy have also established a strategy to support their expansion (Wega, 2018). As per the International Labor Organization (ILO), Sub-Saharan Africa is still among the weak regions at a mean of 51.8; far underneath the OECD mean of 78.4 and the worldwide 63.0 mean. This corroborates with the African Economic Outlook 2020 report by AfDB (2020), which indicated that as at end of year 2019, there was a 77% likelihood that most SMEs in Africa would stagnate, while the more established ventures stood a 5% chance.

SMEs in Ethiopia have drawn the attention of the government to the country's recent growth in unemployment. Notwithstanding the role of SMEs in regional employment generation, persistent limitations on their access to formal sector financing jeopardize their ongoing growth and development. The lack of funding in the SME sector in Ethiopia affects the production, performance and economic contribution of SME (Zelalem & Wubante, 2019).

SMEs are regarded in Uganda as being the primary forces driving economic growth, development, and transformation (NDPII 2015/16-2019/20). The majority of the economy of the nation is dominated by SMEs, which account for 90% (2.5 million people) of all private sector jobs and 80% of manufacturing output, which accounts for 20% of GDP (UBOS, 2016 and UIA, 2018). For example, 10% of MSMEs are engaged in manufacturing, 33% in trade, 49% in services, and 8% in other sectors (UIA, 2018). Ssempala et al. (2018) noted that insufficient access to financing for SMEs, especially in Uganda, constitutes a significant barrier to achieving this potential. Given that SMEs are the

engine for the nation's industrial growth and development, bank loans are one of the primary strategies for addressing the issue of underfunding in the SME sector.

Kenya has acknowledged that informal companies provide jobs for low-income households (Omondi & Jagongo, 2018). Given how many jobs SMEs have produced since independence, the Kenyan government recognized their potential. They have also made a substantial contribution to the decline in poverty. Nevertheless, despite the relevance of the SMEs to the economic sector they have continued to record a worrying trend of their performance. In the year 2017 SMEs contributed 6.4% to the manufacturing sector. However, the value decreased to 4.9% in the year 2018 and but further increased to 6.8% in the year 2019. The proportion of SMEs in the manufacturing sector fell to 5.6% in 2020. According to the Kenyan Manufacturers Association, Munyao (2021) asserts that SMEs in Kenya have distinct challenges that hinder their expansion and financial success, hence diminishing their capability to contribute substantially to equitable development. Insufficient credit access, weak managerial and technical competencies, low educational levels, insufficient market awareness, tight regulatory environments, and limited technological access are all relevant challenges.

Statement of the Problem

The rise of SMEs and their capacity for profit-making promote their long-term development, the creation of jobs, and poverty elimination. Access to money and better services also have a big impact on these corporate organizations' expansion. MFIs offer non-financial packages, such training, to those who are principally responsible for lending to SMEs so as to optimize the utilization of the resources made available by the lenders (Mutuma, 2020). However, SMEs persist in their failures notwithstanding the answers that microfinance institutions assert to provide. Within the initial months of operation, three out of five SMEs fail, according to the KNBS (2018).

In Marsabit county, the performance of most SMEs have been declining with some businesses even closing down. Though there are a lot of SMEs that are set up in Marsabit County, most of them close down with the first three years of their operation. This is majorly due to declining profits (Issa, & Kiruthu, 2019). For example, the profits of SMEs in Marsabit county was59% in the year 2020 but declined to 43% in the year 2021. The profits further declined to 39% in the year 2022 and further declined to 32% in the year 2023. This implies that the profitability of SMEs in Marsabit County has been declining. The fact that most SMEs owners lack enough knowledge on micro finance services as well as most micro finance banks have a lot of regulations puts SMEs off from accessing their services puts SME's performance at threat (Odhiambo, 2023).

Despite earlier studies, little is known about the financial success and microfinance services provided by SMEs in Kenya's Marsabit County. Pei-Wen et al. (2018) focused on the impact of microfinance facilities on the success of SMEs in Malaysia. However, because the research concentrated on the success of SMEs in Malaysia, there is a contextual gap. Amoah (2020) concentrated on microfinance services and the fiscal success of SMEs in Ghana's Sekondi-Takoradi Metropolis. By focusing just on microloans, microsavings, financial literacy training, and microinsurance as the only categories of microfinance services, the study illustrated a contextual gap. Gachiri (2024) focused on the financial literacy and success of women-owned business in Kilifi County, Kenya. A methodological error was discovered through the use of an explanatory design. This research utilized a descriptive research design. The current research concentrated on effect of microfinance services and financial success of SMEs in Marsabit County, Kenya.

Objective of the Study

The general objective was ascertaining the effect of microfinance services on financial success of SMEs in Marsabit County, Kenya.

Specific Objective

To ascertain the effect of credit facilities and financial success of SMEs in Marsabit County, Kenya.

THEORETICAL REVIEW

Financial Growth Life Cycle Theory

This theory was postulated by Berger and Udell (1998). This theory outlines the range of financing possibilities accessible in the business and provides an example of a major enterprise. Theory guarantees that a business can

comprehend its financial resources throughout duration and necessitates a shift in information access. Conceptually, Berger and Udell (1998) concentrate on financial order and information opacity across a company's existence. The initial insider finance, trade credit, and angel funding continuum lies a diminutive yet more revealing and ambiguous structure.

A business can access more external debt and finance sources as it moves along the continuum. Businesses will eventually be able to access larger amounts of government financing and equity. There is no age range specified for each developmental stage in this model. Additionally, it ignores decline at any stage of the lifespan, just like the prior method did. The retained utility is excluded in the model, but it doesn't specify the stage of business growth and incorporates numerous foreign equity and liability sources that were not in the prior model (Ayadi, 2008).

The theory outlines the financial sources that are typically accessible at different phases of a company's development as well as the potential funding problems that may occur at each step. The financial cycle model delineates the sources of capital typically generated by financial institutions at each phase of a business's growth, integrating elements of agency theory, selection theory, and commerce. Start-ups sometimes encounter difficulties in securing external financing due to a lack of knowledge on the process (Huyghebaert & Gucht, 2007). The main and most popular sources of finance nowadays are owner personal investments and money from friends and family (Ullah & Taylor, 2007).

Assets like stocks, which are commonly utilized as collateral to secure a firm's loan, are also included in an owner's investment in a start-up (Basu & Parker, 2001). Businesses must raise sufficient funds to trade, but early planning errors might result in issues with a lack of capital. In severe circumstances, the business might not be able to survive, particularly in terms of its ability to compete (Cressy, 2006).

The Financial Growth Cycle Theory (FGCT), while valuable for understanding how firms finance their growth, has limitations, particularly when applied to startups and rapidly changing industries. It can struggle with industries experiencing rapid technological or regulatory changes, and its reliance on average growth rates across age groups can be flawed. Additionally, the theory may not fully capture the nuances of individual firm behaviour, especially in the early stages of growth (Mac an Bhaird, et al, 2011).

The theory endorses the variability of microcredit services and their influence on SME expansion. The Financial Growth Life Cycle Theory suggests that SMEs evolve through distinct stages, each with specific financial needs and challenges. Microfinance services can serve a critical role in supporting these SMEs at diverse stages of their life cycle, particularly during the early stages when they face challenges accessing formal financing. Effective application of this theory to microfinance can lead to improved SME performance and financial stability

Behavioral Theory of the Firm

This hypothesis was first postulated in 1952 by Cyert et al (1963). The theory makes several key assumptions about how firms function and make decisions. These presumptions contain more realistic, behavioral aspects of organizational decision-making, departing from the conventional neoclassical economic model of a profit-maximizing, perfectly rational corporation. It is a paradigm that helps understand how small businesses are growing and demonstrates how each company supports the others (Zahra, Sapienza & Davidsson, 2006).

The concept indicates that the organization has multiple persons with varying objectives (Read et al., 2009). Moreover, the organization's aims may solely be attained through a negotiation process when coalition members concur on the specific goals (Cyert & March, 1992). Even though members of an alliance may have different goals, the alliance and the company will be viable as long as the available incomes exceed the demands of the members. These goals need to address a wide range of problems, including sales, revenue, records, and production levels.

This theory is divided into four parts: human emotions, profit satisfaction, cooperative behavior, and business size. Depending on the size of the company, some managers may want to work for a large, prosperous company because it will offer them greater honor and status. The managers may be driven to demonstrate the company' performance, which leads them to pursue high-profile goals. Consequently, relinquishing past decisions incurs a cost. In profit-oriented scenarios, even if employees do not seek to maximize profits, the owners may nonetheless pursue that

objective. Nevertheless, administrators and staff may render decisions that do not optimize profits due to the lack of precise information amongst staff.

Some companies may be able to set up goals that are substantially different from the yield maximization approach of the past. Maximizing the wellbeing of all stakeholders is the cooperative firm's aim. Human emotions drive people to intentionally choose ways to take advantage of their financial well-being. However, emotions do have an impact on us in the real world. This might be bias, prejudice, and preconception-based discrimination.

The Behavioral Theory of the Firm, while insightful, has limitations. It can be descriptive rather than predictive, may overemphasize disorganized decision-making, and doesn't always account for strategic planning. The theory also focuses on a short time horizon and may neglect long-term strategic planning (Gavetti, Greve, Levinthal, & Ocasio, 2012).

The theory therefore explains SMEs' performance. It thus elucidates the dependent variable of the research which is success of SMEs. The theory can help understand and improve the performance of SMEs by acknowledging that managers in SMEs make decisions based on their own perceptions, aspirations, and limited information processing capabilities. This theory suggests that SMEs often don't strive for pure profit maximization but focus on achieving various goals sequentially, such as size, market share, and staff satisfaction.

Empirical literature Review

Credit Facilities and Financial Performance

The study by Senberg, Sazu, and Jahan (2022) researched the impact of credit risk assessment on financial success. The research design employed in the research was explanatory. It was ascertained that the financial success of financial institutions in the US and Europe, as measured by ROE and ROA, is influenced by the assessment of credit risk. The research also suggested that the financial success of banking institutions in the US and Europe is significantly impacted by the credit risk evaluation indicators examined in this study. Whilst the present research adopted primary data, the previous study used secondary data.

Isyaku and Balla (2022) examined how loan facilities affected SMEs' performance in the city of Jalingo. Out of 387 SMEs that were registered with the Corporate Affairs Commission, 196 SMEs were randomly chosen to take part in the research utilizing a questionnaire instrument. The study's conclusions showed that trade credit had no discernible effect on SMEs' success in the city of Jalingo. Bank financing has a favorable and noteworthy effect on Jalingo's SMEs' financial success. In the city of Jalingo, overdraft significantly affects the success of SMEs. The research revealed a conceptual gap since it concentrated on the success of SMEs in the city of Jalingo.

The impact of loan facilities and infrastructure on SMEs' performance for company development was the main emphasis of Ayensuwa Ekuban's (2021) study. An instance analysis of Cape Coast's SMEs. The study selected 126 SMEs from a total populace of 190 using a descriptive survey and simple random selection. The study also demonstrated that Cape Coast's SME performance is positively impacted by infrastructure and credit facility accessibility in a statistically meaningful way. The research's findings suggested that the success of SMEs in Cape Coast has been impeded by several factors, including insufficient collateral security for credit eligibility, frequent power outages, an unreliable electricity supply, inadequate water supply, and obsolete infrastructure. Additionally, the state of the roads is poor for businesses looking to improve their performance, and issues with the telecommunications and transportation systems have an impact on the success of SMEs in Cape Coast. The new research concentrated on three microfinance services, whereas the previous study only examined one, which was credit facilities.

Owen (2020) researched how financial literacy affected savings and financial access in Kenya. Cross-sectional data from the 2013 and 2016 FinAcess surveys were used in the study. A variety of diagnostic assessments, including the Wald and model specification tests, were conducted to guarantee precise outcomes. An increase of one year in age enhances the prospect of utilizing formal financial services while diminishing the likelihood of acquiring informal financial services, based on the findings from 2013 and 2016 in relation to the excluded category. A one percent improvement in wealth, however, improves the likelihood of using the official financial strand while diminishing the likelihood of employing the informal one. The more educated the respondent, the more likely they are to acquire

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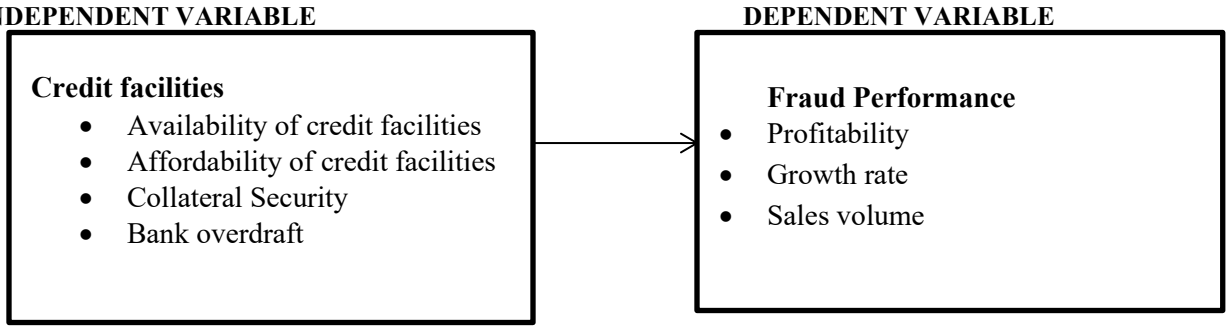
official financial services, whereas the less educated they are to obtain informal financial services. It was shown that financial literacy and income both enhanced the likelihood of saving. The likelihood of saving is reduced as family size and the distance to the closest mobile money agent rise. To ensure that every student attains college readiness, coordinated efforts from all stakeholders, including the government, are essential.

Jemal's (2019) research the effects of financial literacy on the financial success of SMEs 200 small-scale managers contributed primary data via standardized feedback form. The structural equation model was adopted for analyzing the data. The results demonstrated that financial literacy strongly influenced business performance, encompassing both fiscal and non- fiscal aspects. Moreover, all three aspects of financial literacy—awareness, attitude, and knowledge—substantially enhance both financial and non-financial performance. Nonetheless, the study was conducted in Ethiopia, signifying a methodological gap.

Figure 1: Conceptual Framework



Source: Researcher (2025)

Research Design

This research adopted descriptive research design. This plan mostly encompasses collecting data from sample individuals through their responses to information gathering tools. This study's usage of this design was made possible by its adaptability, competency, and generalizability. Also, this strategy is regarded as the most significant way to give a representative portrait of the viewpoints and characteristics of a sizable community. Leavy (2022), who notes that descriptive investigations allow a researcher to establish phenomena or traits related to the population under study and ultimately identify the linkages between variables, further emphasizes this point. Therefore, this strategy may prove to be more suitable for measuring microfinance services and financial success of SMEs in Marsabit County, Kenya.

Target Population

A target population is a homogeneous grouping of all the elements for which feasible attributes are available (Thomas, Nelson & Silverman, 2010). The research's intended audience consists of all of 628 SMEs in Marsabit County, Kenya (Marsabit County Report, 2022). The specific respondents incorporated owners/managers of the SMEs in Marsabit County. Therefore the unit of analysis was 628 SMEs in Marsabit County, Kenya while unit of observation was 628 owners/managers of the SMEs in Marsabit County, Kenya.

Sampling Design

A stratified sampling technique was utilized to acquire an illustrative sample from the target audience. This strategy guarantees proportional representation of various sub-groups within the population. The sample size determination utilized formula proposed by Nassiuma (2015) to arrive at a sample size of 117 owners/managers of SMEs in Marsabit County, Kenya

Data Collection Instruments.

Primary data was gathered by the researcher. The main method of gathering data was semi-structured questionnaires, with only a few carefully thought-out survey questions and the rest of the area left open for impromptu discussion. The instrument consisted of closed-ended questions to gather. In addition to questions on the study variables, the feedback form asked about the responders' demographics. Questionnaires are preferred as they allow researchers to encompass a broader geographic area at a relatively lower cost and time investment (Bell *et al.,* 2022).

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Data Collection Procedure

The researcher got research license from NACOSTI to conduct study. A request for permission to collect data and an explanation of the project's objectives was made to the county government of Marsabit. Upon receiving approval from the county administration, the researcher distributed the survey forms to the proprietors/managers of the SMEs. The completed questionnaire was immediately collected and where it was not possible, arrangements were made for further selection.

Data Analysis and presentation

Both quantitative and qualitative data analysis methodologies was employed to evaluate the information obtained. Quantitative methodologies included frequencies, mean and standard deviations. Pearson's product moment correlation and multiple regression were utilized in ascertaining the relationships between factors. Descriptive and inferential analyses was carried out using SPSS version 24. The model was;

$\mathbf{Y=\beta_0+\beta_1X_1+\varepsilon}$

Whereby;

Y=Financial Performance of SMEs

B_0=Intercept coefficient

ε_i =Error term

X_1 – Credit Facilities

β_1 - regression coefficients

RESEARCH FINDINGS AND DISCUSSIONS

Table 1: Descriptive Statistics of Credit Facilities

	N	Mean	SD
Due to a lack of funding, SMEs are unable to grow.	101	4.2772	.70879
The number of new business owners entering the market is boosted by microfinance services.	101	4.1782	.74022
Access to MFI financing boosts SMEs' productivity, which propels business expansion.	101	4.0297	.65506
The time frame between loan application and payout is ideal for meeting the needs for which the business owner requested the loan.	101	4.3267	.72262
MFIs offer SMEs loans with attractive and competitive interest rates.	101	3.0198	.82438
The length of time required to repay the loans provided by MFIs has an impact on the company's financial results.	101	4.0297	.72740
Valid N (listwise)	101		

Source: Field Study (2025)

On the aspect of whether Due to a lack of funding, SMEs are unable to grow, The number of new business owners entering the market is boosted by microfinance services, Access to MFI financing boosts SMEs' productivity, which propels business expansion, The time frame between loan application and payout is ideal for meeting the needs for which the business owner requested the loan and The length of time required to repay the loans provided by MFIs has an impact on the firm's financial results, most the responders strongly agreed with the assertions at a mean of 4.2772, 4.1782, 4.0297, 4.3267 and 4.0297 with the standard deviation of 0.70879, 0.74022, 0.65506, 0.72262 and 0.72740 respectively. On the aspect of MFIs offer SMEs loans with attractive and competitive interest rates, most of the responders were neutral about the assertion at a mean of 3.0198 with a standard deviation of 0.82438.

Table 2: Descriptive Statistics of Financial Performance

	N	Mean	SD
Our total profits have been increasing yearly	101	4.0792	.93470
The salaries of employees are paid on time	101	2.3267	.64975
The amount of capital employed in the business has been increasing yearly	101	4.2772	.70879
The sales volume has been increasing every year	101	4.2772	.63433
There has been expansion of the market size of our firm.	101	4.2277	.69110
In the last 3 years, the size of our organization has been expanding	101	4.2277	.69110
Our business has increased the number of customers we serve yearly	101	4.2772	.70879
The customers review of services offers have been highly positive	101	2.2277	.69110

The quality of our products has increased considerably	101	4.3267	.64975
The trends of output of our firm has been on the rise in the past 3 years	101	2.6733	.64975
Our business can comfortably pay for all its expenses	101	2.7723	.61451
Valid N (listwise)	101		

Source: Study Data (2025)

On the aspect of Our total profits have been increasing yearly, The amount of capital employed in the business has been increasing yearly, The sales volume has been increasing every year, There has been expansion of the market size of our firm, In the last 3 years, the size of our organization has been expanding, Our business has increased the number of customers we serve yearly and The quality of our products has increased considerably, majority of the strongly concurred with the claim at of mean 4.0792, 4.2772, 4.2772, 4.2277, 4.2277, 4.2277 and 4.3267 with a variance of 0.93470, 0.70879, 0.63433, 0.69110, 0.69110, 0.70879 and 0.64975 respectively. On the claim that The salaries of employees are paid on time, The customers review of services offers have been highly positive, The trends of output of our firm has been on the rise in the past 3 years and Our business can comfortably pay for all its expenses, most of the participants disagreed with the claims at a mean of 2.3267, 2.2277, 2.6733 and 2.7723 with a variation of 0.64975, 0.69110, 0.64975 and 0.61451 respectively.

Correlation Analysis

The researcher created a correlation matrix between the variables utilizing the SPSS software. The results are summarized in Table 3.

Table 3: Correlations Analysis Test

		Credit Facilities	Financial Performance
Credit Facilities	Pearson Corr.	1	.933**
	Sig. (2-tailed)		.000
	N	101	101
Financial Performance	Pearson Corr.	.933**	1
	Sig. (2-tailed)	.000	
	N	101	101

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

Source: Field Data (2025)

Credit facilities had a very robust and favourable connection with financial success with the Pearson correlation coefficient at 0.933 and had a significance level of 0.000 ($p<0.05$). The findings are congruent with Ayensuwa Ekuban's (2021) who found that Cape Coast's SME performance is positively impacted by infrastructure and credit facility accessibility in a statistically meaningful way.

Regression Analysis

Multiple regressing analysis was computed to derive the relationship between the variables.

Table 4; Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.937[a]	.878	.874	.11801

a. Predictors: (Constant), Development of Managerial Skills , Credit Facilities , Financial Literacy

Source: Field Study (2025)

The regression output findings, as displayed in Table 4.11, demonstrate that the R-square (coefficient of determination) is 0.0.878, signifying that 87.8% of the variations in financial success of SMEs can be attributable to changes in financial literacy, credit facilities and development of managerial skills. The remaining changes amounting to 12.2%, were attributable to factors outside this researcher model.

Analysis of Variance (ANOVA)

The ANOVA test was done and the results shown in Table 5.

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Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.736	3	3.245	233.048	.000[b]
	Residual	1.351	97	.014		
	Total	11.087	100			

a. Dependent Var.: Financial Performance
b. Predictors:(Constant), Development of Managerial Skills, Credit Facilities, Financial Literacy
Source: Field Study (2025)

The p-value of 0.000 in the ANOVA results displayed in table 4.12 suggests that the regression model was statistically substantial and effectively predicted the connection between microfinance services characteristics and financial success of SMEs in Marsabit County, Kenya. The F test suggests that any F value exceeding one signifies significance. In this instance, the calculated F value was 233.048, which surpasses one, leading to the conclusion that the model is significant.

Regression Coefficients
The regression output was done and represented in Table 6.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.119	.160		-.747	.457
	Credit Facilities	.875	.052	.865	16.902	.000

a. Dependent Variable: Financial Performance
Source: Field Study (2025)
An OLS was done to produce the linking amongst microfinance services characteristics and financial success of SMEs in Marsabit County, Kenya. The following regression equation was established.
Y (Financial Performance**) = -0.119 + 0.875X_1**
These findings were interpreted and discussed as below:
In the absence of any microfinance services characteristics, the financial success of SMEs in Marsabit County declined by 0.119 units.

The outcomes demonstrate that a unit boost in credit facilities led to a 0.875 growth in financial performance of SMEs. A p value of 0.000<0.05) infer that it was statistically considerable. Henceforth, hypothesis HO_2 was rejected. This may be ascribed to the fact that despite the challenges and obstacles encountered by SMEs, they consistently exhibit the capacity for enhanced performance, expansion, and maintenance of their status as a vital contributor to the nation's GDP, provided they have access to requisite finance.

These outcomes concur to with Isyaku and Balla (2022) who examined how loan facilities affected SMEs' performance in the city of Jalingoand concluded that trade credit had no discernible effect on SMEs' performance in the city of Jalingo. It also agrees with the findings by Senberg, Sazu, and Jahan (2022) who researched the impact of credit risk assessment on financial success, employing the explanatory research design and found that the financial success of banking institutions in the US and Europe is significantly impacted by the credit risk evaluation indicators examined in this study.

CONCLUSION AND RECOMMENDATIONS

Conclusion
In view of the effect of credit facilities on financial success of SMEs in Marsabit County, Kenya, regression results which aimed as ascertaining the effect of credit facilities on financial success of SMEs, it was suggested that credit facilities was statistically significant and hypothesis two was rejected and the correlation was very strong. This implies that SMEs adopting credit facilities based on the availability of credit, affordability, collateral security, and bank overdraft provisions will enhance good financial performance of by SMEs.

Recommendations

As per the effect of credit facilities on financial success of SMEs in Marsabit County, Kenya, the study recommends that despite the challenges and obstacles encountered by SMEs, they must exhibit the capacity for enhanced performance, growth, and maintenance of their status as a vital contributor to the nation's GDP, provided they have access to requisite finance.

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