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LOAN APPROVAL PROCESS AND SUSTAINABILITY OF MICRO AND SMALL ENTERPRISES CREDIT PROGRAMMES IN NAIROBI COUNTY GOVERNMENT, KENYA

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ABSTRACT

The sustainability of Micro and Small Enterprises (MSEs) credit programmes remains a critical development concern, particularly in developing economies where access to affordable and reliable financing is essential for enterprise growth, employment creation and poverty reduction. Governments, financial institutions and development partners have established various credit programmes to provide financial resources to MSEs that may otherwise face difficulties accessing financing from conventional lending institutions. However, the long-term sustainability of these credit programmes remains a challenge therefore the study sought to establish the effect of the loan approval process of public–private funding on the sustainability of MSEs credit programmes in Nairobi County Government, Kenya. The study was anchored on credit rationing theory. The study adopted descriptive correlational cross-sectional research design targeting 218 respondents comprising 20 top-level employees of the Department of Finance and Economic Planning, 6 finance officers of the Department of Business and Hustler Opportunity, and 192 officials of 64 beneficiary groups. Slovin's formula was used to get a sample size of 141 respondents, selected through stratified random sampling. A structured questionnaire was used to collect primary data. Before the main study a pilot study was conducted in Kiambu County where 14 questionnaires administered to beneficiaries of credit programmes in Kiambu County. Data were analysed using descriptive and inferential statistics. The findings established that there is a strong, positive, and statistically significant correlation between loan approval process and sustainability of MSEs credit programmes ($r = 0.771$, $p < .001$). From the findings the study concluded that timely approval are critical for the sustainability of public–private funded MSE credit programmes in Nairobi County Government. The study recommends that Nairobi County Government and its private financial partners should adopt standardised eligibility criteria, digitise the approval process, and communicate requirements, timelines and decisions clearly to applicants.

KEY WORDS: *Loan Approval Process, Sustainability of Credit Programmes, Public–Private Funding*

1.0 BACKGROUND OF THE STUDY

Loan approval process refers to the systematic procedures through which financial institutions and credit programme administrators receive, assess, verify, evaluate and make decisions on loan applications before extending credit to eligible borrowers (European Banking Authority [EBA], 2020). The process involves establishing borrower eligibility criteria, receiving and verifying loan application documents, assessing creditworthiness, evaluating business viability, determining repayment capacity, appraising loan requirements and making approval or rejection decisions. It also entails determining the amount of credit to be advanced, establishing loan repayment conditions and communicating lending decisions to applicants (Asah & Louw, 2021).

Loan approval processes are particularly relevant to the sustainability of Micro and Small Enterprises (MSEs) credit programmes because they determine the quality of borrowers selected, the level of credit risk assumed and the likelihood of recovering funds advanced to beneficiaries (EBA, 2020). Effective loan approval procedures enable credit programme administrators to identify eligible enterprises, assess borrowers' financial capacity, evaluate business viability, minimise inappropriate lending decisions and protect revolving funds. In addition, systematic loan approval processes promote transparency, accountability, fairness and consistency in the allocation of financial resources (World Bank, 2019). This is particularly important for credit programmes that depend on loan repayments to replenish revolving funds and extend financing to successive groups of MSE beneficiaries. (Abor, Agbloyor, & Kuipo, 2021).

Globally, loan approval processes have become increasingly important in enterprise financing as financial institutions seek to balance financial inclusion with prudent credit risk management. The increasing recognition of MSEs as contributors to employment creation, innovation and economic development has encouraged governments, commercial banks and development finance institutions to establish lending programmes targeting smaller enterprises (World Bank, 2021). However, assessing MSE loan applications remains challenging because many enterprises operate with limited financial records, inadequate collateral, irregular cash flows and insufficient credit histories. (World Bank, 2022).

In Europe, loan approval processes are increasingly guided by regulatory frameworks that emphasise responsible lending, borrower creditworthiness assessment, transparency and effective credit risk management. The European Banking Authority (EBA, 2020) developed the Guidelines on Loan Origination and Monitoring to strengthen institutional governance, improve credit assessment procedures and ensure that financial institutions maintain prudent lending standards. The guidelines require lenders to evaluate borrowers' financial positions, business models, income sources, cash flows, existing financial commitments and repayment capacity before approving loans (European Central Bank ECB, 2025)

In South Africa, loan approval processes are particularly important in financing small, medium and micro enterprises (SMMEs) because financial institutions must assess the creditworthiness of enterprises operating under different financial and operational conditions. The country's SMME sector comprises enterprises in trade, manufacturing, agriculture, construction, services and other economic activities that require financing for working capital, business expansion and investment. However, many smaller enterprises face challenges in meeting conventional lending requirements because of inadequate financial documentation, limited collateral, weak credit histories and irregular business cash flows (Asah and Louw, 2021).

Loan approval processes are particularly important in Kenya because MSEs encounter various challenges in meeting conventional lending requirements. These include inadequate business records, insufficient collateral, limited credit histories, incomplete application documents and difficulties demonstrating consistent repayment capacity. According to the Central Bank of Kenya (CBK, 2025), the 2024 Survey Report on MSME Access to Bank Credit established that commercial banks and microfinance banks received MSME loan applications worth approximately KSh872.6 billion between 2023 and 2024, of which KSh771.1 billion, representing 88.4%, was approved. Commercial banks approved approximately 88% of the applications received, while microfinance banks approved 91.4% of their MSME loan applications.

Sustainability of Micro and Small Enterprises (MSEs) credit programmes refers to the ability of credit programmes to maintain their financial resources, institutional capacity and lending operations over time while continuously providing accessible financing to eligible enterprises (Ledgerwood, 2021). It reflects the capacity of programme administrators to recover disbursed loans, maintain adequate revolving funds, manage operational costs, strengthen institutional systems and ensure the continued availability of credit to successive groups of MSE beneficiaries (CGAP, 2022). Sustainability can therefore be assessed through three main indicators: financial sustainability, institutional sustainability and programme continuity, which collectively reflect the ability of credit programmes to maintain their operations and achieve their intended development objectives over the long term (OECD, 2020).

Financial sustainability refers to the ability of MSE credit programmes to generate, recover and maintain sufficient financial resources to support lending operations without continuous depletion of available funds or excessive dependence on external financing (Morduch, 2020). It involves effective loan recovery, timely repayment by beneficiaries, maintenance of revolving funds, control of administrative costs and prudent financial management (Ledgerwood, 2021). High loan default rates, delayed repayments and inadequate recovery mechanisms can undermine the revolving nature of credit programmes and reduce their capacity to finance additional beneficiaries. (CGAP, 2022).

Institutional sustainability refers to the ability of organisations responsible for administering MSE credit programmes to maintain the human, managerial, governance and operational capacities required to deliver credit services effectively over time (Ledgerwood, 2021). It encompasses institutional governance, administrative capacity, accountability, staff competence, financial management systems and the effectiveness of programme monitoring and evaluation mechanisms (World Bank, 2021).

Institutional sustainability is particularly important because MSE credit programmes require effective organisational structures to manage loan applications, assess borrowers, approve credit facilities, monitor beneficiaries, recover disbursed funds and maintain accurate financial records. Weak institutional governance, inadequate staffing, insufficient technical capacity, poor accountability and political interference may compromise programme implementation and expose credit resources to misuse (Hermes & Lensink, 2020). Maintaining institutional sustainability therefore requires clear operational policies, competent personnel, transparent decision-making procedures, effective internal controls and reliable monitoring systems. These practices enable implementing institutions to strengthen accountability, improve operational efficiency, manage credit risks and maintain the organisational capacity required to administer lending programmes effectively (Rosenberg, Gonzalez, & Narain, 2019).

Programme continuity refers to the ability of MSE credit programmes to maintain lending activities and consistently provide financial assistance to eligible enterprises over successive funding cycles without prolonged operational interruptions or premature termination (OECD, 2020). It reflects the capacity of programme administrators to maintain regular loan disbursement, replenish available financial resources, expand beneficiary coverage and sustain programme activities despite changes in funding availability, economic conditions and institutional priorities. Programme continuity is particularly important because MSEs require consistent access to financing to establish businesses, acquire productive assets, meet working capital requirements and expand their operations (Narain, 2019).

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2.0 STATEMENT OF THE PROBLEM

The sustainability of Micro and Small Enterprises (MSEs) credit programmes remains a critical development concern, particularly in developing economies where access to affordable and reliable financing is essential for enterprise growth, employment creation and poverty reduction. Governments, financial institutions and development partners have established various credit programmes to provide financial resources to MSEs that may otherwise face difficulties accessing financing from conventional lending institutions. However, the long-term sustainability of these credit programmes remains a challenge.

Despite the establishment of MSE credit programmes, several issues continue to threaten their sustainability. These include increasing loan default rates, delayed loan repayments, inadequate recovery of disbursed funds, high administrative and operational costs, insufficient revolving funds, political interference in loan administration and overdependence on government allocations and donor funding. These challenges undermine the revolving nature of credit programmes because funds that should be recovered and re-lent to other enterprises become tied up in unpaid loans.

FinAccess MSE Tracker Survey, reported that 61% of MSE borrowers had recently defaulted on their loans or made late repayments in June 2023, compared to 43% in October 2022. Furthermore, 49% of Hustler Fund borrowers reported having defaulted or made late repayments. Such repayment challenges raise concerns about the capacity of credit programmes to sustain their lending operations, particularly where repayments constitute the primary source of funds for subsequent lending cycles therefore the study sought to assess loan approval process and sustainability of micro and small enterprises credit programmes in Nairobi County Government, Kenya

3.0 THEORETICAL FRAMEWORK

The study was anchored on Credit Rationing Theory, developed by Joseph Stiglitz and Andrew Weiss in 1981. The theory explains why lenders may restrict credit even when applicants are willing to pay higher interest rates. Under imperfect information, lenders cannot fully distinguish borrowers according to risk or observe all of their subsequent investment decisions. Higher interest rates may attract riskier applicants or encourage borrowers to undertake riskier projects, which can reduce the lender's expected returns. (Stiglitz & Weiss, 1981).

The theory therefore argues that credit allocation depends on the information a lender is able to obtain about applicants' business activities, obligations and repayment prospects. Appraisal and screening procedures are the means by which such information is gathered, and eligibility criteria are the rules by which it is converted into approval decisions. The framework offers a basis for understanding why approval decisions differ among applicants who appear similar and why access to credit may be limited even where there is unmet demand.

The strength of Credit Rationing Theory lies in its explanation of the information problems that confront lenders and of the rationale for screening in credit markets. It shows that approval decisions are not merely administrative steps but mechanisms for managing adverse selection and risk, which makes it directly applicable to credit programmes operating in settings where applicants have limited collateral or formal financial records (Stiglitz & Weiss, 1981).

Credit Rationing Theory is relevant to the loan approval process, particularly loan appraisal procedures and borrower eligibility assessment. Appraisal provides information about applicants' business activities, financial obligations and repayment capacity, while eligibility assessment establishes whether applicants satisfy programme requirements. In public–private funded MSE credit programmes in Nairobi County Government, these assessments may support informed lending decisions and reduce avoidable credit losses. However, eligibility does not necessarily establish creditworthiness, and restrictive screening may undermine outreach. The study therefore applied the theory to examine how approval practices balance protection of the loan fund with access for intended beneficiaries, while treating approval turnaround time as an operational dimension requiring empirical investigation. The theory was therefore directly relevant to the present study, as it provided the theoretical foundation for the loan approval process as the study's independent variable.

4.0 EMPIRICAL REVIEW

Khan, Rossi, and Lee (2022) studied the impact of the loan application process on the growth of MSEs in Singapore. A mixed-methods design was used, combining quantitative growth measures with qualitative owner perspectives. Purposive sampling selected 117 loans focused on growth sectors; data came from revenue statements and interviews and were analysed via correlation and thematic coding. Descriptive results showed higher MSE revenues under rapid approval (within 48 hours), and inferential results confirmed a strong positive correlation between approval speed and growth. The study concluded that quick disbursement systems drive MSE growth at Funding Societies and recommended digitalisation. Purposive sampling of "growth-sector" loans introduces selection bias and limits generalisability beyond high-growth Singaporean MSEs. The mixed-methods design strengthens insight but the modest sample and lack of control for firm size or sector confounders weaken causal claims.

Mwangi and Njoroge (2021) examined the effect of loan approval procedures on financial inclusion at Equity Bank, Kenya. Using a cross-sectional design, stratified random sampling produced 126 loan applicants (including women and youth). Data from approval records and inclusion surveys were analysed with logistic regression. Streamlined processes improved access for marginalised borrowers; process accessibility significantly predicted inclusion. The study recommended inclusive application processes for low-income groups. The single-bank, cross-sectional design cannot establish temporal causality or generalise beyond Equity Bank. Stratified sampling improved representation of women and youth, yet the absence of longitudinal repayment or sustainability measures leaves the long-term effects of approval reforms unexamined.

Adewale, Mensah and Alabi (2021) investigated the effect of the loan approval process on credit performance of MSEs in Nigeria. A quantitative correlational design sampled 240 SME loan applications from three commercial banks in Lagos and Abuja via stratified random sampling. Bank credit records and 24-month repayment data were analysed with multiple regression and chi-square tests. Rigid, paper-based processes lengthened approval times and were negatively related to loan performance. The authors advocated digital scoring and process efficiency. Although sector representation was sought, the correlational design and reliance on bank records alone cannot isolate approval-process effects from borrower characteristics or macroeconomic shocks. The 24-month window is useful but still relatively short for assessing sustained performance.

Lee, Zhang and Nguyen (2020) investigated automatic loan-approval systems and MSE credit performance in Vietnam. A mixed-methods design purposively sampled 150 MSEs that obtained digital credit from fintech lenders in Hanoi and Ho Chi Minh City. Loan-service databases were supplemented by semi-structured interviews; regression showed faster approval times under algorithmic systems, while qualitative data linked clear criteria and rapid feedback to higher borrower trust and repayment adherence. Digitised approval was found to improve credit performance. Purposive sampling of fintech clients restricts external validity to digitally literate borrowers and may not transfer to public–private or bank-based schemes. The mixed-methods approach is a strength, yet the absence of a traditional-bank control group limits comparative claims.

Mkhize and Sibanda (2022) examined the impact of loan-approval processes on credit performance of commercial banks serving MSEs in South Africa. A mixed-methods design analysed 180 MSE loan records from four banks and interviewed 50 credit managers. Quantitative results linked formalised, risk-oriented systems (credit scoring, collateral evaluation) to better repayment; qualitative findings showed that clear approval criteria improved client understanding of obligations and reduced default from misunderstanding. Structured approval systems were judged central to credit-risk reduction; digital integration was recommended. The mixed-methods design is robust, yet purposive selection of four banks and the modest interview sample limit generalisability. Causal inference is constrained by the lack of a longitudinal or experimental component.

Costa and Oliveira (2023) studied the link between loan-approval requirements and loan quality in Brazilian community-development financial institutions. Logistic regression on 250 SME applications (2018–2022) showed that weak evaluation criteria (purely qualitative scoring) were significantly associated with higher default probabilities. The authors recommended blended protocols combining financial ratios with business-viability narratives. Logistic regression is appropriate for binary default outcomes, but the study does not report model diagnostics or controls for macroeconomic conditions. Reliance on a single CDFI type restricts applicability to broader public–private programmes.

5.0 CONCEPTUAL FRAMEWORK

The conceptual framework of the study illustrates the relationship between the loan approval process, the independent variable, and the sustainability of credit programmes, the dependent variable.

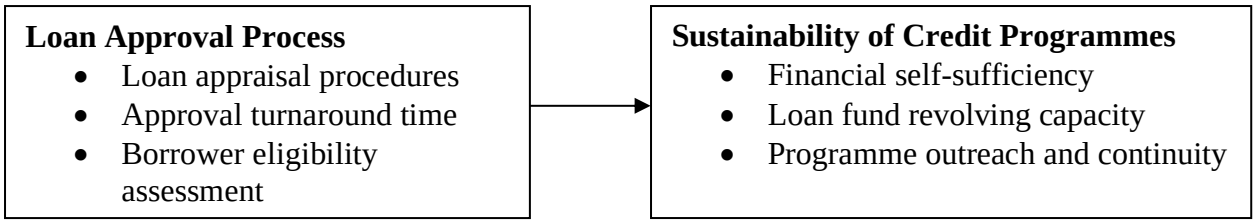


Figure 1: Conceptual Framework

Source: Researcher (2026)

6.0 METHODOLOGY

The study adopted a descriptive correlational cross-sectional research design, appropriate for describing the prevailing loan approval practices of public–private funded MSEs credit programmes at a single point in time and for determining whether variations in the loan approval process were associated with significant variations in programme sustainability. The study was conducted in Nairobi City County Government, Kenya, focusing on the Department of Finance and Economic Planning, the Department of Business and Hustler Opportunity and the groups receiving loans from the county. The target population comprised 218 respondents, namely 20

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top-level employees of the Department of Finance and Economic Planning, 6 finance officers of the Department of Business and Hustler Opportunity, and 192 officials (chairpersons, secretaries and treasurers) of 64 groups that had received loans from Nairobi County Government. Slovin's formula, applied at a 5% margin of error, was used to arrive at a sample size of 141 respondents, which was distributed across the three categories through stratified random sampling (13, 4 and 124 respondents respectively. A structured questionnaire was used to collect primary data on the loan approval process and on the sustainability of credit programmes. Semi-structured interview schedules were used to obtain the chairpersons' experiences of the approval process. A pilot study was conducted using 14 questionnaires administered in Kiambu County. Face validity was established through review of the instrument by research supervisors. Reliability was assessed using Cronbach's Alpha, with a threshold of 0.70 applied to determine acceptable internal consistency (Kothari, 2012). Quantitative data were analysed using SPSS version 25, combining descriptive statistics (frequencies, percentages, means and standard deviations) with inferential statistics comprising Pearson correlation analysis and multiple regression analysis at the 5% level of significance. Prior to inferential analysis, diagnostic tests for normality was conducted. Interview responses were transcribed, coded and organised into themes.

7.0 RESULTS

7.1 Response Rate

A total of 129 questionnaires were administered, out of which 107 were completely filled and returned, resulting in a questionnaire response rate of approximately 82.9%, while 22 questionnaires (17.1%) were incomplete. In addition, 10 of the 12 scheduled interviews with group chairpersons were completed, representing an interview response rate of 83.3%. The response rate obtained was therefore adequate for data analysis. Table 1 presents the response rate for the study.

Table 1: Response Rate

Category	Completely Filled	Incomplete	Total
Questionnaire	107 (82.9%)	22 (17.1%)	129 (100%)
Interview	10 (83.3%)	2 (16.7%)	12 (100%)
Total	**117 (83.0%)**	**24 (17.0%)**	**141 (100%)**

7.2 Demographic Characteristics

The study collected demographic information on the respondents' gender and highest level of education to contextualise the findings and assess the representativeness of the sample.

7.2.1 Gender of Respondents

The study sought to establish the gender representation of the respondents involved in the public–private funded MSEs credit programmes in Nairobi County Government. The findings are presented in Table 2.

Table 2: Gender of Respondents

Category	Frequency	Percentage (%)
Male	61	57.0%
Female	46	43.0%
Total	**107**	**100%**

The findings in Table 2 indicate that 57% of the respondents were male and 43% were female. This shows that both genders were actively involved in the credit programmes, although males had a slightly higher representation, suggesting that the programmes are broadly gender-inclusive and aligned with the goal of equitable economic empowerment.

7.2.2 Highest Level of Education Attained

The study sought to determine the highest level of education attained by the respondents. The findings are presented in Table 3.

Table 3: Highest Level of Education

Category	Frequency	Percentage (%)
Certificate	7	6.5%
Diploma	24	22.4%
Bachelor's Degree	51	47.7%
Master's Degree	16	15.0%
PhD Degree	9	8.4%
Total	**107**	**100%**

The findings in Table 3 indicate that 47.7% of respondents held Bachelor's Degrees, followed by those with Diplomas (22.4%), Master's Degrees (15.0%), PhD Degrees (8.4%) and Certificates (6.5%). This demonstrates that most respondents were well educated, which suggests that many of them were county personnel and group officials with the capacity to understand loan procedures, eligibility requirements and programme-management practices, and therefore in a position to give informed views on the loan approval process.

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7.3 Descriptive Statistics

7.3.1 Loan Approval Process

The study sought to assess the respondents' level of agreement with statements regarding the loan approval process of public–private funding in Nairobi County Government. Table 4 presents the findings.

Table 4: Loan Approval Process

Statement	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean	Std.
The programme conducts a comprehensive appraisal of loan applications before approval.	16.8	63.6	6.5	13.1	0.0	3.841	0.859
The loan appraisal procedures effectively identify borrowers with the ability to repay loans.	21.5	30.8	22.4	25.2	0.0	3.486	1.093
Loan applications are approved within a reasonable period.	29.0	40.2	18.7	12.1	0.0	3.860	0.976
The speed of the loan approval process enables MSEs to access funds when needed.	41.1	29.9	16.8	12.1	0.0	4.000	1.037
Borrowers are assessed against clear and well-defined eligibility criteria before receiving loans.	33.6	36.4	17.8	12.1	0.0	3.916	1.001
The eligibility assessment process ensures that only qualified applicants receive loans	42.1	29.0	16.8	12.1	0.0	4.009	1.042
The loan approval process is transparent and consistent for all applicants	44.9	29.0	13.1	9.3	3.7	4.019	1.141
Aggregate						3.876	0.608

From the findings, 16.8% of the respondents strongly agreed that the programme conducts a comprehensive appraisal of loan applications before approval, 63.6% agreed, 6.5% were undecided and 13.1% disagreed, with a mean of 3.841 and a standard deviation of 0.859. This implies that the programmes generally undertake comprehensive borrower appraisals before approving loans, although the proportion who disagreed suggests that appraisal may not be applied consistently in all cases. Comprehensive appraisal is essential because it enables lenders to assess business viability, creditworthiness and repayment capacity before disbursement. The finding is consistent with Costa and Oliveira (2023), who found that stronger borrower evaluation criteria improve loan quality and reduce the probability of default.

In addition, 21.5% of respondents strongly agreed that the loan appraisal procedures effectively identify borrowers with the ability to repay loans, 30.8% agreed, 22.4% were undecided and 25.2% disagreed, yielding a mean of 3.486 and a standard deviation of 1.093. This was the lowest-rated statement, and it suggests that respondents held only moderately positive views on the capacity of appraisal procedures to identify borrowers who can meet their obligations. The high proportion of respondents who disagreed or were undecided indicates that the programme could strengthen its borrower assessment mechanisms. The finding concurs with Mkhize and Sibanda (2022), who established that structured, risk-oriented approval systems, including credit scoring and collateral evaluation, are positively associated with repayment performance among MSE borrowers.

Further, 29.0% of respondents strongly agreed that loan applications are approved within a reasonable period, 40.2% agreed, 18.7% were undecided and 12.1% disagreed, resulting in a mean of 3.860 and a standard deviation of 0.976. This indicates that respondents generally perceived the turnaround time for approval positively. Timely approval is important because it enables MSEs to purchase stock, meet operating expenses and respond to business opportunities. The finding is in line with Lee, Zhang, and Nguyen (2020), who reported that faster approval times under structured, automated systems were associated with higher borrower trust and repayment adherence.

Moreover, 41.1% of respondents strongly agreed that the speed of the loan approval process enables MSEs to access funds when needed, 29.9% agreed, 16.8% were undecided and 12.1% disagreed, giving a mean of 4.000 and a standard deviation of 1.037. This suggests that approval speed generally supports timely access to finance among MSEs benefiting from the programmes, and it is a relative strength of the approval process. The results are consistent with those of Khan, Rossi, and Lee (2022), who found that rapid loan approvals improved MSE growth by enabling enterprises to access funds within a short period.

Additionally, 33.6% of respondents strongly agreed that borrowers are assessed against clear and well-defined eligibility criteria before receiving loans, 36.4% agreed, 17.8% were undecided and 12.1% disagreed, producing a mean of 3.916 and a standard deviation of 1.001. The combined agreement of 70.0% shows that most respondents perceived the eligibility criteria to be clear and well defined. Clear criteria promote fairness, transparency and consistency in loan allocation, particularly in public–private credit arrangements where beneficiaries need to understand the requirements for accessing finance. The finding resonates with Mwangi

and Njoroge (2021), who found that simplified and accessible approval procedures enhanced financial inclusion among women and youth borrowers at Equity Bank.

Likewise, 42.1% of respondents strongly agreed that the eligibility assessment process ensures that only qualified applicants receive loans, 29.0% agreed, 16.8% were undecided and 12.1% disagreed, with a mean of 4.009 and a standard deviation of 1.042. The combined agreement of 71.1% implies that eligibility screening is viewed as effective in selecting suitable applicants. By lending to applicants with viable business activities and reasonable capacity to repay, the programme can reduce avoidable defaults and protect the revolving fund. The finding supports Costa and Oliveira (2023), who established that stronger assessment requirements improve risk evaluation and reduce the likelihood of poor loan performance.

Lastly, 44.9% of respondents strongly agreed that the loan approval process is transparent and consistent for all applicants, 29.0% agreed, 13.1% were undecided, 9.3% disagreed and 3.7% strongly disagreed, yielding a mean of 4.019 and a standard deviation of 1.141. This was the highest-rated statement, and the combined agreement of 73.9% demonstrates a positive assessment of transparency, although the respondents who disagreed or were undecided suggest that some concerns may persist regarding fairness, communication of procedures or uniform application of criteria. Transparent approval processes build borrower trust, minimise perceptions of favouritism and reduce opportunities for political interference. This finding agrees with Mkhize and Sibanda (2022), who found that clear approval criteria improve borrowers' understanding of their obligations and reduce repayment challenges arising from misunderstandings.

The overall mean score of 3.876 and standard deviation of 0.608 indicate that respondents generally agreed that loan approval procedures were effectively implemented within the public–private funded MSE credit programmes in Nairobi County Government. The findings suggest that transparency, eligibility assessment and timely approval were relative strengths of the programmes, while the lower mean of 3.486 for the effectiveness of appraisal in identifying borrowers able to repay points to an area requiring improvement. Strengthening creditworthiness assessment while maintaining timely, transparent and consistent procedures could enhance sustainability by improving borrower selection, reducing default risk and protecting the revolving fund.

The researcher asked the chairpersons of groups receiving loans from Nairobi County Government to describe their experience with the loan application and approval process. One chairperson stated that *"The application process was straightforward because the county officers explained the forms and guided us on the documents we needed to submit."* Another indicated that *"The process involved several stages, and we had to make several follow-ups before we received confirmation that our application had been approved."* This shows that the process may be straightforward for some groups, while others experience delays and administrative challenges.

The chairpersons were further asked whether the eligibility criteria and documentation requirements were clearly explained. One stated that *"The officers explained the eligibility requirements during our initial meeting, and we were informed about the documents needed before submitting our application."* Another indicated that "Some requirements were not clear at first, and we had to return to the county offices several times to obtain clarification and provide additional documents." This indicates that communication about eligibility criteria and documentation varied across groups.

In addition, the chairpersons were asked how long their groups waited between submitting applications and receiving funds. One stated that *"We received the loan about six weeks after submitting our application, which allowed us to plan our business activities."* Another indicated that *"Our application took several months to be processed, and by the time we received the money, some of the business opportunities we had planned to pursue were no longer available."* This suggests that the duration between application and disbursement influences the extent to which groups benefit from the credit programme.

Finally, the chairpersons were asked about challenges experienced during the approval process. One stated that *"Our main challenge was gathering all the required documents because some group members had incomplete records."* Another indicated that *"We had to make repeated visits to the county offices to follow up on our application, which increased our transport costs and took time away from our businesses."* This shows that documentation requirements, limited information and repeated follow-ups may create barriers that discourage eligible groups, raise the cost of accessing credit and delay productive investment. These accounts corroborate the quantitative findings: guidance from officers and transparent procedures were valued, while delays and unclear requirements remained a source of concern.

7.3.2 Sustainability of Credit Programmes

The researcher sought to assess the respondents' level of agreement with statements on the sustainability of MSEs credit programmes in Nairobi County Government. The findings are indicated in Table 5.

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Table 5: Sustainability of Credit Programmes

Statement	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean	Std.
The credit programme generates sufficient funds to meet its operational expenses	44.9	29.0	13.1	9.3	3.7	4.019	1.141
The programme can continue operating without relying heavily on external financial support.	22.4	53.3	12.1	12.1	0.0	3.860	0.905
Loan repayments provide adequate funds for lending to new beneficiaries.	29.0	30.8	12.1	24.3	3.7	3.570	1.245
The revolving fund is sufficient to sustain continuous lending activities	17.8	53.3	16.8	12.1	0.0	3.766	0.886
The programme has consistently expanded its services to more MSEs.	14.0	50.5	18.7	16.8	0.0	3.617	0.928
The programme has maintained continuous lending operations over time	21.5	37.4	16.8	12.1	12.1	3.439	1.290
The MSES credit programme is financially sustainable in the long term.	22.4	53.3	12.1	12.1	0.0	3.860	0.905
Aggregate						3.732	1.043

From the findings, 44.9% of the respondents strongly agreed that the credit programme generates sufficient funds to meet its operational expenses, 29.0% agreed, 13.1% were undecided, 9.3% disagreed and 3.7% strongly disagreed, with a mean of 4.019 and a standard deviation of 1.141. This implies that respondents generally held positive views of the programme's ability to cover its operating costs from its own resources. The finding aligns with Hermes and Lensink (2020), who found that lower operating costs and higher staff productivity improve the financial sustainability of credit programmes.

In addition, 22.4% of respondents strongly agreed that the programme can continue operating without relying heavily on external financial support, 53.3% agreed, 12.1% were undecided and 12.1% disagreed, yielding a mean of 3.860 and a standard deviation of 0.905. This suggests that respondents generally perceived the programme as capable of operating without heavy reliance on external financing, although the proportion who disagreed indicates that some concerns about financial independence remain. The result concurs with Morduch (2020), who observed that heavily subsidised programmes often exhibit weaker repayment discipline and portfolio management.

Further, 29.0% of respondents strongly agreed that loan repayments provide adequate funds for lending to new beneficiaries, 30.8% agreed, 12.1% were undecided, 24.3% disagreed and 3.7% strongly disagreed, resulting in a mean of 3.570 and a standard deviation of 1.245. This indicates that repayments are generally perceived as contributing to the funds available for relending, but the sizeable proportion who disagreed suggests that collections may not always maintain the expected revolving capacity. The result is consistent with Cull, Demirgüç-Kunt, and Morduch (2021), who found that institutions with high repayment rates and low portfolio-at-risk ratios achieve stronger financial self-sufficiency.

Moreover, 17.8% of respondents strongly agreed that the revolving fund is sufficient to sustain continuous lending activities, 53.3% agreed, 16.8% were undecided and 12.1% disagreed, giving a mean of 3.766 and a standard deviation of 0.886. This suggests that the revolving fund was generally considered adequate to support continuous lending, although those who were undecided or disagreed indicate that its adequacy may still require attention. The finding supports Ledgerwood, Earne, and Nelson (2021a), who found that strong institutional capacity, portfolio monitoring and recovery systems improve the long-term viability of credit programmes.

Additionally, 14.0% of respondents strongly agreed that the programme has consistently expanded its services to more MSEs, 50.5% agreed, 18.7% were undecided and 16.8% disagreed, with a mean of 3.617 and a standard deviation of 0.928. This indicates general agreement that the programme has widened its outreach, which is important because it demonstrates the capacity of a credit facility to reach additional beneficiaries. The finding agrees with Armendáriz and Szafarz (2021), who argued that sustainability should be assessed not only through financial viability but also through social outreach and inclusion.

Furthermore, 21.5% of respondents strongly agreed that the programme has maintained continuous lending operations over time, 37.4% agreed, 16.8% were undecided, 12.1% disagreed and 12.1% strongly disagreed, yielding a mean of 3.439 and a standard deviation of 1.290. This was the lowest-rated statement on sustainability and suggests that respondents were only moderately positive about the continuity of lending. The finding is consistent with Ledgerwood, Earne, and Nelson (2021a), who found that well-governed programmes with regular portfolio reviews and strong recovery policies are more likely to remain operational over time.

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Lastly, 22.4% of respondents strongly agreed that the MSEs credit programme is financially sustainable in the long term, 53.3% agreed, 12.1% were undecided and 12.1% disagreed, producing a mean of 3.860 and a standard deviation of 0.905. This indicates that respondents generally had positive views of the programme's long-term financial viability. The finding concurs with Cull, Demirgüç-Kunt, and Morduch (2021), who established that high repayment rates, low portfolio risk and operational efficiency are necessary for financial self-sufficiency.

The overall mean score of 3.733 and standard deviation of 1.043 indicate that respondents generally held positive views regarding the sustainability of MSEs credit programmes in Nairobi County Government. The highest mean was recorded for the programme's ability to generate sufficient funds to meet operational expenses (4.019), while the lowest was recorded for maintaining continuous lending operations over time (3.439), suggesting that attention should be given to strengthening recovery, cost management and the continuity of lending.

7.4 Diagnostic Tests

Diagnostic tests were conducted prior to inferential analysis to confirm that the data satisfied the assumptions underlying regression analysis.

7.4.1 Normality Test

A normality test was used to assess whether the data were normally distributed, with a significance value greater than 0.05 indicating normality. The results are presented in Table 6.

Table 6: Normality Test Results

Variable	Statistic	df	Sig. (p-value)
Loan Approval Process	.979	107	.082
Sustainability of Credit Programmes	.977	107	.086

The results indicate that the loan approval process had a test statistic of 0.979 (p = .082), while sustainability of credit programmes had a test statistic of 0.977 (p = .086). Since both p-values were greater than the significance level of 0.05, the data were approximately normally

7.5 Inferential Analysis

7.5.1 Correlation Analysis

The study conducted a Pearson correlation analysis to determine the strength and direction of the relationship between the loan approval process and the sustainability of MSEs credit programmes in Nairobi County Government. The findings are presented in Table 7.

Table 7: Correlation Matrix

		Loan Approval Process
Sustainability of Credit Programmes	Pearson Correlation	.771**
	Sig. (2-tailed)	.000
	N	107

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

From the findings in Table 7, the study established a strong, positive, and statistically significant correlation between the loan approval process and the sustainability of MSEs credit programmes ($r = 0.771$, $p < .001$). The significance value of .000 reported by SPSS is interpreted as $p < .001$. This implies that comprehensive loan appraisal, borrower eligibility assessment, transparency and timely approval of applications are strongly associated with sustainability. Proper borrower screening enables programme managers to select applicants with viable enterprises and adequate repayment capacity, thereby reducing default risk, protecting revolving funds and supporting continuity of lending. The finding is consistent with Costa and Oliveira (2023), who found that strong borrower-evaluation procedures improve loan quality and reduce default risk, and with Mkhize and Sibanda (2022), who found that structured approval systems improve repayment. Since the analysis is correlational, the result demonstrates an association rather than proof of causation.

7.5.2 Regression Analysis

The study carried out a multiple regression analysis at the 95% confidence level to evaluate the effect of the loan approval process on the sustainability of MSEs credit programmes. Table 8 presents the Regression Coefficients results.

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Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.909	.156		5.826	.000
	Loan Approval Process	.231	.060	.224	3.837	.000

a. Dependent Variable: Sustainability of Credit Programmes.
b. Significance level used: $p < .05$

The interpretation of the findings follows the regression model:

$$Y = 0.909 + 0.231X_1$$

Where:

Y = Sustainability of Credit Programmes;
X_1 = Loan Approval Process

From the findings, a one-unit increase in the loan approval score would lead to a 0.231-unit improvement in the sustainability score (unstandardised coefficient B = 0.231, standardised Beta = 0.224, t = 3.837, $p < .001$). This suggests that proper appraisal, clear eligibility criteria, borrower assessment and transparency in approval improve portfolio quality by ensuring that credit is extended to applicants with viable enterprises and repayment capacity. The findings align with Costa and Oliveira (2023), who found that stronger loan-evaluation procedures improve credit performance and reduce default risk.

7.6 Hypothesis Test Results

The study tested the hypothesis that the loan approval process has no statistically significant effect on the sustainability of MSEs credit programmes in Nairobi County Government (H_{01}: Loan approval process of public–private funding has no statistically significant effect on the sustainability of MSEs credit programmes in Nairobi County Government).

The regression analysis showed that the loan approval process had a positive and statistically significant effect on the sustainability of MSEs credit programmes (B = 0.231, β = 0.224, t = 3.837, $p < .001$), which was below the 0.05 significance threshold. Based on these findings, the null hypothesis was rejected. This implies that the loan approval process significantly influences the sustainability of MSEs credit programmes in Nairobi County Government, underscoring that comprehensive appraisal, clear eligibility assessment, transparent procedures and timely approval improve the selection of viable borrowers and reduce the risk of default.

8.0 CONCLUSION

The study concluded that the loan approval process, through comprehensive loan appraisal, clear borrower eligibility criteria, timely processing and transparent procedures, has a positive and statistically significant effect on the sustainability of MSEs credit programmes in Nairobi County Government, Kenya (B = 0.231, $p < .001$). This conclusion is consistent with Credit Rationing Theory (Stiglitz & Weiss, 1981), which links the information lenders obtain through screening to the quality of credit allocation

9.0 Recommendations

The study recommends that Nairobi County Government and its private financial partners strengthen borrower appraisal and approval procedures. The programmes should adopt standardised eligibility criteria, structured credit-scoring procedures, business-viability assessments and evaluations of borrowers' repayment capacity, and should digitise the approval process where possible to reduce paperwork, minimise processing delays and improve transparency.

The study further recommends that the County Government communicate clearly with all applicants on eligibility requirements, required documentation, approval timelines and the reasons for unsuccessful applications, and that it simplify documentation requirements and reduce the need for repeated visits to county offices, which raise the cost of accessing credit for groups. This should be complemented by regular training of credit officers in borrower assessment, so as to improve the effectiveness of appraisal in identifying borrowers able to repay, the weakest-rated aspect of the approval process.

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