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Financial Institution Type and Firm-Related Attributes as Predictors of Loan Performance: Repayment Rates and Non-Performing Loans among Kenyan Enterprises

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ABSTRACT

Access to formal credit remains critical for business operations, particularly for firms unable to generate sufficient funds internally. Using the World Bank's Enterprise Survey dataset, 2022, we analyzed 230 Kenyan firms that applied for loans. These loans are sourced from banks (private, commercial, or state-owned) or non-banking financial institutions. Specifically, the paper explores the effect of financial institution type and firm-related characteristics on loan amounts advanced. The results show that the preferred credit provider matters, with the sensitivity level varying among the three institutional types. Additionally, the collateralization value, the owner's equity proportion of fixed assets, and any existing credit facility correlate positively with the outcome variable. There is an inverse relationship between the largest shareholder's ownership and the loan amount. The study uses the new product (service) launches to measure innovation. The findings suggest that firms in the innovation process access higher loan amounts than their non-innovative peers. Be that as it may, the difference in effect size between the two groups is small based on Cohen's d rule. The paper highlights the theoretical and practical implications of these findings.

Key Words:

ownership structure; loan amount; collateralization; fixed assets; product innovation

