AN EVALUATION OF CREDIT APPRAISAL TECHNIQUES ADOPTED BY KENYAN COMMERCIAL BANKS IN LENDING TO SMALL AND MEDIUM-SIZED ENTERPRISES

BY:

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DECLARATION

STUDENT'S DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signed .... Date 07/11/2011

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SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the candidate's University Supervisor.

Supervisor Signed .... Date 9/11/2011

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DEDICATION

To my beloved parents who inspired and instilled in me the value of education.

To my husband Geoffrey Sigei who has supported me throughout the entire project.

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ABBREVIATIONS

CBD - Central Business District

CBK - Central Bank of Kenya

FICO - Fair Isaac Credit Scores

IFC - International Finance Corporation

NPLs - Non- performing loans

SMEs - Small and Medium sized Enterprises

UNDP - United Nations Development Program

ABSTRACT

The study was about evaluation of credit appraisal techniques used by Kenyan commercial banks in lending to small and medium sized enterprises. Despite the critical role that small and medium sized enterprises (SMEs) play to all economies in the world, provision and delivery of credit and other financial services to SME sector by commercial banks has not been as expected. The main objective of the study is to determine the credit appraisal techniques used by commercial banks in Kenya to evaluate the creditworthiness of SMEs and to establish whether there exists a relationship between the applicable credit appraisal techniques and the level of non-performing loans. The researcher also established challenges facing banks in using the applicable credit appraisal techniques.

The research design used was descriptive survey design. The population comprised of forty one commercial banks registered by Central Bank of Kenya and with branches within Central Business District. Primary data was collected by means of semi-structured questionnaires. This study adopted multivariate statistics in analyzing the data. This was used to establish whether various independent variables influence changes in non-performing loans. The research adopted both quantitative and qualitative approaches to data analysis. The research findings indicate that the following attributes were considered to be of great importance when making lending decision: strength of income statements, strength of the balance sheet, long histories, quality of accounts receivable and inventory, history of the principal owner and transparency of firms through provision of certified financial statements.

The researcher recommends that Kenyan banks should adopt debt rescheduling and informal workout as debt recovery methods.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Institutions whether profit or non-profit, private or public are more concerned with offering the best goods services. In order to achieve this, firms are always keen on how they relate with the stakeholders within a given environment. However, the environments in which they operate have become not only increasingly uncertain but also more tightly interconnected. This requires a threefold response from these organizations. They are required to think strategically as never before, need to translate their insight into effective strategies to cope with their changed circumstances and lastly, to develop rationales necessary to lay the groundwork for adopting and implementing strategies in this ever-changing environment (Bryson, 1995). Bryson's observation implies that organizations operate within a wider environment that is composed of a number of variables: political, economic, socio-cultural, technological, ecological, and legal. Consequently, any change in any one of these variables is expected to have far-reaching implications in the way organizations operate. Also organizations' operations and/or activities are expected to have an impact within the environments in which they operate.

Commercial banks are financial intermediaries. Financial intermediaries are firms that deal with the mobilization of funds from savers and the accumulation of the same in pools for disbursement to those requiring funds for investment (Gordon et al, 2002). A commercial bank is defined as an institution that accepts deposits that the depositor has a

legal right to withdraw on demand and engages in the business of commercial loans (Sinkey, 1992). Miller, et.al (1993) defined a commercial bank as a depository institution that is relatively unrestricted in its ability to make commercial loans and that is legally permitted to issue checking accounts. Thygerson (1995) asserts that commercial banks perform the role of servicing and portfolio risk management. Stiglitz (1993) identified five roles of financial institutions: they act as intermediaries between savers and borrowers; they relieve the savers the risk of lending, they therefore encourage savers to lend without bearing the associated risk; they provide facilities such as savings deposits which act as savers investment.

They therefore provide investment opportunities for savers while at the same time mobilizing capital for ultimate investment; they play the role of liquidity adjustment in the financial market by taking surplus liquidity and providing it when needed; they provide savers with experts in financial management to manage their future funds. Such experts are usually unaffordable by individual savers.

1.2 Banking industry in Kenya

Banking in Kenya started in 1896 with the National Bank of India opening its first branch. Standard Chartered Bank opened its first branches in Mombasa and Nairobi in January 1911.The Kenya Commercial Bank was established in 1958 with Grindlays Bank of Britain merging with the National Bank of India. The Cooperative Bank of Kenya was established in 1965 for the express purpose of providing financial services to Co-operative societies. Three years later, National Bank of Kenya (NBK) was incorporated

(Ojung'a 2005). Currently, there are 43 commercial banks for 38.6 million Kenyans (2009 population & housing census results). The banking sector in Kenya is composed of commercial banks, non- bank financial institutions, Forex Bureaus and the Central bank of Kenya as the regulatory body. Currently the banking sector has 42 commercial banks and one mortgage finance company. Commercial banks and Mortgage Finance companies are licensed and regulated under the banking Act, cap 488 and prudential regulations issued there under.

Banks accept deposits from savers and accumulate them in order to lend to the many and diversified types of borrowers. According to Block and Hirt,1992; banks have classified their loans according to the type of borrower, use of the loan proceeds and the type of security for the loan. This study will focus on commercial loans which are short term in nature. Small and medium sized enterprises mainly borrow to finance working capital needs. Banks have a variety of credit appraisal techniques that they use while granting loans. These credit appraisal techniques include several transaction based appraisal techniques and relationship lending. According to Petersen and Rajan (1995), banks need some degree of market power to have the incentives to invest in long-term relationships with their borrowers.

A consequence is that relationship credit appraisal techniques are likely to be used in the most concentrated banking markets while transaction based techniques would be preferred to relationship appraisal as the degree of banking competition increases.

1.3 Small and Medium Enterprises

Small and Medium sized Enterprises' definition has not been conventionally accepted. According to the World Bank Group definition, SMEs comprises of enterprises with up to 300 employees and total annual sales of up to US$15 million while the European Union define SMEs as enterprises which employ less than 50 employees and with turnover of less than US$10 million. McCormick's (1993) empirical analysis of Nairobi's small scale manufacturers used four categories: very small enterprises have six or fewer workers, small enterprises have 7-10 workers, medium sizes firms have 11-50 workers, and large enterprises have over 50 workers. However for the purpose of this study SMEs will comprise enterprises of up to 50 employees.

SMEs are important to almost all economies in the world especially to those in developing countries with major employment and income distribution challenges. Provision and delivery of credit and other financial services to SME sector by commercial banks has been below expectation (Omino 2005). The issue of credit availability to small firms has garnered world-wide concern recently. Models of equilibrium credit rationing that point to moral hazard and adverse selection problems (Stiglitz and Weiss, 1981) suggest that small firms may be particularly vulnerable because they are often so informationally opaque. That is, the informational wedge between insiders and outsiders tends to be more acute for small companies, which makes the provision of external finance particularly challenging. Small firms with opportunities to invest in positive net present value projects may be blocked from doing so because potential providers of external finance cannot readily verify that the firm has access to a

quality project or ensure that the funds will not be diverted to fund an alternative project. Small firms are also vulnerable because of their dependence on financial institutions for external funding. These firms simply do not have access to public capital markets.

1.4 Statement of the problem

Large number of population in Kenya derive livelihood from small and medium enterprises (poverty reduction strategy paper 1999) and financing small and medium sized enterprises is critical in fostering entrepreneurship, competition, innovation and growth. Wasonga (2008) in his study of challenges in financing SMEs in Kenya noted that by streamlining the problem of governance and finance that hinder SME growth, the rate of employment and SME contribution to GDP in the next five years could be doubled. SME financing is critical in fostering entrepreneurship, increasing competition, improving innovation and facilitating growth.

SMEs have faced persistent pressure when seeking funds for investment and expansion from financial institutions because they have short business history and they lack formal securities to act as guarantees. (Berger and Udell 2002), studied on small business credit availability and relationship appraisal and sought to establish the importance of bank organizational structure in relationship lending. Commercial banks provide the lowest amount of financing to SMEs and where it is provided, the credit is rationed (Atieno 1998). Large commercial banks tend to have temporarily shorter, less exclusive, less period and longer distance associations with small business borrowers than small banks, Berger et al (2005).

Mwirigi (2006) in his study concluded that promoters of small and medium sized enterprises lack education and ability to convince investors of financial intermediaries. According to Ngare (2006) banks' economic performance and hence value depends on the quality of services provided and the efficiency of its credit risk management. Credit risk management is necessary and critically important to ensure the long term survival of banks. In order for the banks to be effective in their operations, they should employ appropriate credit appraisal techniques (Roberto, 2008). Gariga (2007) did a study on the relationship between relationship appraisal technique and banking competition in the USA. The study concluded that relationships are prevalent so long as a firm commits to borrow from one lender.

Studies on lending to SMEs in Kenya are diverse. These include credit risk management practices by MFIs in Kenya (Mwirigi 2006), challenges in financing SMEs in Kenya (Wasonga 2008), and credit rationing on MFIs and the influence of operation of SMEs (Rukwaro 2001). However there is no study specifically on the credit appraisal techniques adopted by commercial banks in lending to SME borrowers in Kenya. This study tries to fill the gap.

Considering various studies that have been done the researcher found out that there is no known study which has focused on the credit appraisal techniques used by Kenyan commercial banks in lending to SMEs and therefore this study seeks to address this knowledge gap There is no known study which has focused on SMEs yet they contribute

immensely in the Kenyan economy. In addition to this, SMEs pose a great challenge to banks when lending because they are highly risky and they often lack collateral. In some cases they lack clear structure of management and they lack proper financial records. This study therefore seeks to answer the following questions; which credit appraisal techniques are adopted by commercial banks to evaluate the creditworthiness of SMEs in Kenya and to identify the challenges facing banks in using the applicable credit appraisal techniques when lending to SMEs.

1.5 Objectives of the study

The objective of this study will include the following:

i. To determine the credit appraisal techniques used by commercial banks in Kenya to evaluate the creditworthiness of SMEs.

ii. To establish challenges facing banks in using the applicable credit appraisal techniques.

1.6 Significance of the study

This study will be significant in the following ways:

The study will assist the banks and other financial institutions in their endeavor to cultivate better and more efficient methods of lending to SMEs, to be more proactive and anticipate challenges and to mitigate these challenges. The study will also provide a holistic view of the credit appraisal techniques used by banks to lend to SMEs.

The study will be of value to researchers and those in academic as a basis for future empirical and conceptual research. The study will also provide pertinent information to

policy makers who include lead agencies, government and other players in the SMEs for policy making and planning.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature with the aim of addressing the objectives of this study which are to determine credit appraisal techniques adopted by Kenyan banks when appraising SMEs, to establish the relationship the applicable credit appraisal techniques and the level of creditworthiness and the challenges facing banks in using the applicable credit appraisal techniques.

Omino (2005) observed that small and medium sized enterprises play a key role in the growth of the economy and yet provision of credit and other financial services to SME sector by commercial banks has been below expectation. In developing countries, small and medium-sized enterprises (SMEs) have great difficulty in obtaining the necessary financial resources to effectively scale up and grow their businesses. Commercial banks provide the lowest amount of financing to SMEs and where it is provided, the credit is rationed (Atieno1998). The development community has tried to address challenge by creating microfinance lending instruments and private sector investment intermediary institutions, including those supported by the International Finance Corporation (IFC).

2.2 Small Business Credit Appraisal Techniques

Exposure to credit risk is a major issue in contemporary financial management. Credit managers need to adopt appropriate mitigation measures to curb the risk. Most of the credit problems reveal a basic weakness in credit granting and the monitoring process.

These problems can be avoided by formation of an internal credit process (Brealy & Myers 1998). Creditworthiness of a customer lies in assessing if that customer is liable to repay the loan amount in the stipulated time, or not and every bank has their own methodology of determining whether the borrower is creditworthy or not. It is determined in terms of the norms and standards set by the banks. Being a very crucial step in the sanctioning of a loan, the borrower needs to be very careful in planning his financing modes. However, the borrower alone doesn't have to do all the hard work. Banks need to be cautious to minimize their risk exposure.

All banks employ their own unique objective, subjective, financial and non-financial techniques to evaluate the creditworthiness of their customers. However, broad tools to determine loan eligibility remain the same for all banks.

Credit appraisal is the process by which a lender appraises the creditworthiness of the prospective borrower. This normally involves appraising the borrower's payment history and establishing the quality and sustainability of his income. The lender satisfies himself of the good intentions of the borrower, usually through an interview. Small business appraisal by financial intermediaries can be categorized into four main distinct credit appraisal techniques – financial statement lending, asset-based lending, credit scoring, and relationship lending. These techniques are employed to address the types of problems that can lead to either credit rationing (Stiglitz and Weiss, 1981) or 'overlending' (de Meza and Webb, 1987; de Meza, 2002). The first three credit appraisal techniques are often referred to as transactions-based lending, under which the appraisal decisions are

based on `hard' information that is relatively easily available at the time of loan origination and does not rely on the `soft' data gathered over the course of a relationship with the borrower.

2.2.1 Transactions-Based Appraisal Technique

Financial statement appraisal places most of its emphasis on evaluating information from the firm's financial statements. The decision to lend and the terms of the loan contract are principally based on the strength of the balance sheet and income statements. Financial statement appraisal is best suited for relatively transparent firms with certified audited financial statements. Thus, it is likely the technology of choice in bank appraisal to large firms. However, some small firms with long histories, relatively transparent businesses and strong audited financial statements also qualify for financial statement lending.

Under asset-based lending, credit decisions are principally based on the quality of the available collateral. This type of appraisal is very monitoring-intensive and relatively expensive. Generally, the collateral is accounts receivable and inventory, and requires that the bank intensively monitor the turnover of these assets. Asset-based appraisal is available to small firms of any size, but is expensive and requires that the firm have high-quality receivables and inventory available to pledge.

2.2.2 Relationship Appraisal Technique

In relationship lending, the lender bases its decisions in substantial part on proprietary information about the firm and its owner gathered through a variety of contacts over time.

This information is obtained in part through the provision of loans (Petersen and Rajan, 1994; Berger and Udell, 1995) and deposits and other financial products (Nakamura, 1993; Cole, 1998; Mester *et al.,* 1998; Degryse and van Cayseele, 2000). Additional information may also be gathered through contact with other members of the local community, such as suppliers and customers, who may give specific information about the firm and owner or general information about the business environment in which they operate. Importantly, the information gathered over time has significant value beyond the firm's financial statements, collateral, and credit score, helping the relationship lender deal with informational opacity problems better than potential transactions lenders.

Under relationship lending, the strength of the relationship affects the pricing and availability of credit. Traditionally, empirical studies of relationship appraisal have measured the strength of the relationship in terms of its temporal length i.e. the amount of time the bank has provided loan, deposit, or other services to the firm (Petersen and Rajan, 1994, 1995; Berger and Udell, 1995; Angelini *et al.,* 1998; Scott and Dunkelberg, 1999; Ongena and Smith, 2000). According to Cole (1998), alternative measures of relationship strength used in empirical research include the existence of a relationship, the breadth of a relationship in terms of the bank providing multiple services or multiple account managers (Nakamura, 1993; Cole, 1998; Mester *et al.,* 1998; Scott and Dunkelberg, 1999; Degryse and van Cayseele, 2000), exclusivity of the relationship in terms of the bank being the sole provider of bank loans to the firm (Harhoff and Körting, 1998*b*; Ferri and Messori, 2000; Machauer and Weber, 2000; Ongena and Smith, 2000; Berger, Klapper and Udell, 2001), the degree of mutual trust between the bank and the

firm (Harhoff and Körting, 1998*a*), the presence of a hausbank or main bank (Elsas and Krahnen, 1998).

Empirical studies of small business appraisal are often consistent with the importance of strong relationships. Stronger relationships, measured in various ways described above, are empirically associated with lower loan interest rates (Berger and Udell, 1995; Harhoff and Körting, 1998; Scott and Dunkelberg, 1999; Degryse and van Cayseele, 2000), reduced collateral requirements (Berger and Udell, 1995; Harhoff and Körting, 1998; Scott and Dunkelberg, 1999), lower dependence on trade debt (Petersen and Rajan, 1994, 1995), greater protection against the interest rate cycle (Berlin and Mester, 1998; Ferri and Messori, 2000) and increased credit availability (Cole, 1998; Elsas and Krahnen, 1998; Scott and Dunkelberg, 1999; Machauer and Weber, 2000). In addition, small businesses tend to have long outstanding relationships with their banks, over 9 years on average (Berger and Udell, 1998).

2.3 Bank Lending Process

Relationship appraisal and transactions-based appraisal differ in important ways. Relationship appraisal is generally associated with the collection of `soft' information over time through relationships with the firm, the owner, and the local community. This soft information may not be easily observed by others, verified by others, or transmitted to others. In contrast, transactions-based appraisal is generally associated with the use of `hard' information produced at the time of loan origination. This hard information is based on relatively objective criteria, such as financial ratios in the case of financial

statement lending, collateral ratios in the case of asset-based lending, or Fair, Isaac (FICO) credit scores in the case of credit scoring. In this section, we argue that these different types of appraisal require different organisational structures for the bank. Relationship appraisal requires that more authority be given to the loan officer, who has the greatest access to the soft relationship information. This greater authority, in turn, creates agency problems within the bank that necessitate various organizational checks and balances.

A strong argument can be made that the most important relationships in relationship appraisal involve the loan officer. The loan officer is the person in the bank with the greatest access to the soft information about the firm, owner, and community that is hard to quantify and communicate through the organizational structure. The loan officer generally has the most personal contact with the small business, its owner, and employees. The loan officer also typically lives in the local community and has contacts with other local firms and individuals that have relevant information about the firm and its owner and about the business conditions in local market. Through these contacts, the loan officer is able to observe the firm's and the owner's financial conditions and their performance on explicit and implicit contracts with the bank and with others. This issue has not been explored in any penetrating way in the finance literature, although Uzzi and Gillespie (1999) used a sociological paradigm to frame this relationship in terms of a `social attachment'. The loan officer also typically has the most intimate knowledge of the hard data in the loan file and may be in the best position to integrate the two types of information.

If relationship appraisal is based in substantial part on the loan officer's relationships with the firm, its owner, and the local community, then important organizational issues arise within the bank. We argue that banks offering relationship appraisal must delegate more appraisal authority to their loan officers than banks focusing on transactions-based lending, since the soft relationship information known by the loan officer cannot easily be observed, verified, or transmitted to other decision makers within the bank.

This delegation of authority to loan officers in banks offering relationship appraisal may intensify agency problems between the loan officer and the bank as a whole because of differing incentives. Loan officers may have incentives to overinvest in generating new loans, rather than monitoring existing small business relationships because of relatively short horizons or because remuneration is often based on short-term revenues generated by the loan officer (Udell, 1989). This could result in `over lending' although the motivation here is not an asymmetry of information between banks and firms (de Meza and Webb, 1987; de Meza, 2002), but rather an agency problem between loan officers and their banks. It may also be in a loan officer's interest to hide a deteriorating borrower's condition because of a personal friendship with the owner, the prospect of a future job offer from the firm, an undisclosed financial interest in the firm, or illegal kickbacks. All of these problems are exacerbated by delegating more authority to loan officers.

From the bank's perspective, offering relationship appraisal is a choice variable that may require an organizational structure that addresses these inherent agency problems between the bank and the loan officer. Banks that engage in relationship appraisal may be expected both to delegate more authority to their loan officers and to spend more resources monitoring their loan officers and the performance of their loans. Consistent with these arguments, it was found that banks that delegate more authority to their loan officers invest more in monitoring the performance of their individual loan officers' loans through the loan review function (Udell, 1989).

To understand these organizational issues and the factors that affect the supply of relationship credit fully, the loan officer-bank contracting problem must be viewed within the broader organizational issues faced by the bank. The bank's small business borrowers contract with the bank's loan officers. Bank loan officers in turn contract with the bank's senior management. The bank's senior management in turn contracts with the bank's stockholders. Finally, the stockholders contract with creditors and government regulators. Each of these layers is associated with a different kind of agency problem.

The magnitude of the contracting problem between the bank and its loan officers is likely to increase the proportion of the bank's loan portfolio invested in relationship loans because of the greater information problems and greater authority given to the loan officers. This contracting problem may also depend on the complexity and the size of the banking institution. In the smallest banks, the problem is often resolved with the president of the bank making or reviewing most of the business loans. In effect, a small

bank may be able to resolve some of the contracting problems associated with relationship appraisal by eliminating layers of management and reducing the agency problems between the loan officer and senior management of the bank.

Larger and more complex banks may require more intervening layers of management that introduce Williamson (1967, 1988) type organizational diseconomies associated with producing information-driven small business loans alongside their core business of producing transaction-driven loans and other capital market services for large corporations. Large, hierarchical firms may also be at a disadvantage in transmitting the type of soft information associated with relationship appraisal (Stein, 2002). This could lead large institutions to adopt standardized credit policies based on easily observable, verifiable, and transmittable data, i.e. the type of hard data that characterizes transactions-based lending, rather than relationship lending.

Small banks are also often closely held with no publicly traded equity or debt, with the principal owner of the bank also serving as its president. Large banking organizations typically have publicly-traded equity and debt, with more layers through which at least summary information about relationship loans must pass. Large banks may also choose to avoid relationship appraisal because these banks are more often headquartered at a substantial distance from potential relationship customers, aggravating the problems associated with transmitting soft, locally-based relationship information to senior bank management. Consistent with this, a recent theoretical model predicts that relationship appraisal diminishes with `informational distance', or the costs of generating borrower-

specific information, which is likely to be associated with physical distance (Hauswald and Marquez, 2000).

Thus, we might expect larger institutions to be less likely to make relationship loans, and some empirical evidence supports this view. A number of studies found that large banks tend to devote lower proportions of their assets to small businesses, which more often have information problems that require relationship appraisal (Berger *et al.,* 1995). Moreover, the small business loans that are made by large banks tend to be to larger, older, more financially secure businesses, which are most likely to receive transactions-loans, particularly financial statement loans (Haynes *et al.,* 1999). As well, large banks were found to base their small business loan approval decisions more on financial ratios and less on the existence of a prior relationship than small banks, consistent with transactions-based appraisal by large banks (Cole *et al.,* 1999). Small business loans made by large banks were also found to have lower interest rates and lower collateral requirements than the small business loans made by small banks, consistent with transactions-based loans to relatively safe small businesses by the large banks (Berger and Udell, 1996).

Finally, it was found that it is particularly difficult for bank holding companies to control the efficiency of small banks that are located further away from headquarters, consistent with the possibility that small bank activities, possibly including relationship lending, may be difficult to control from a great distance (Berger and DeYoung, 2001). However, other studies found that distance barriers in small business appraisal may be decreasing

over time, perhaps because of improvements in information technology (Cyrnak and Hannan, 2000; Petersen and Rajan, 2000).

The agency costs associated with the next contracting layer – the layer between the senior bank management and stockholders – reflects the standard corporate governance problem. The acuteness of this problem depends on such factors as concentration of ownership and the depth of the bank takeover market. It can affect appraisal behavior, for example, if risk-averse senior managers alter value-maximizing behavior through the substitution of safe loans for more profitable loans.

The final contracting layer is between the bank's stockholders on the one hand and the bank's creditors and government regulators on the other hand. The outcome of these contracts can clearly affect appraisal behavior. For example, when the bank is in financial distress, their creditors and regulators often discipline the banks to induce them to reduce risks by cutting back their lending.

2.4 Small and Medium Enterprises in Kenya

The SMEs are generally acknowledged as effective vehicles for employment generation and economic growth even in developed economies of the world. Despite the general agreement on their role, there has not been a universal definition of an SME. The differences relate to the definitional indicators with employment, turnover and assets employed being the main ones commonly used. Even when the same indicator is considered, there are differences in terms of the cut off points in defining an SME. For

instance, the Small Business Administration of the US government defines a small business as one with less than 500 employees. The World Bank uses 300 employees as the upper limit for an SME, UNDP pegs it at 200 employees while African Development Bank puts it at 50 employees (Gibson and Vaart, 2008). In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Besides the definitional differences in the SME sector, there is need to recognize possibility of differences among the enterprises therein. Gibson and Vaart (2008) argue that there are obviously substantial differences in needs and functionality between the SMEs and micro enterprises and large firms, however, such differences are barely noticeable between small and medium enterprises.

Since independence, the Kenyan government has expressed commitment to supporting entrepreneurship and particularly the small and medium enterprises. Numerous efforts have been made including policies targeting the small enterprises. The Government spelt out its policies towards the small and "Jua Kali" enterprises in various Sessional papers. In these papers, the government stressed the critical role of small enterprises in the national economy and outlined the policy interventions needed to enhance their growth. According Sessional paper No.2 of 1992, SMEs are critical to employment creation, enhance the participation of indigenous Kenyans in the economy, and promotes local savings and investments. According to Meghana et.al, (2007) the roles of SMEs include: ensuring a sustained global and regional economic recovery, employment and wealth creation, promotes competition, foster entrepreneurship and innovation.

2.5 Challenges facing banks in lending to SMEs

The economics literature on enterprise financing has identified three main challenges that may prevent SMEs from obtaining adequate financing. These challenges are as follows: The existence of marked informational asymmetries between small businesses and lenders, or outside investors; the intrinsic higher risk associated with small scale activities; the existence of sizeable transactions costs in handling SME financing. A fourth problem very often cited in the literature (and loudly lamented by small entrepreneurs) is the lack of collateral that typically characterizes SME (Roberto 2008). There are two major challenges in financing SMEs which are lack of supportive governance framework and lack of adequate access to credit (Wasonga2008).

A number of institutions provide credit to the small and microenterprise sector in Kenya. These include commercial banks, non-bank financial institutions, nongovernment organizations, multilateral organizations, business associations, and savings and credit cooperative societies. Many financial institutions, especially commercial banks, rarely lend to small and microenterprises (SMEs) since they emphasize collateral, which most SMEs lack. Few enterprises are able to provide the marketable collateral and guarantee requirements of commercial banks, with the result that SMEs lacking such requirements have not been able to obtain credit from banks. Most of them therefore rely on their own savings and informal credit (Oketch et al., 1995). Commercial banks have a wide branch network that can reach most SMEs but Banks view SMEs as being very risky and have no formal collateral. Banks therefore find it difficult to offer credit facilities to SMEs because of the difficulty in loan administration Duncan (2008).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology used in this study. The section covers research design, population and sample description, model specification, data collection and data analysis.

3.2 Research Design

The study was carried out through a descriptive survey design. This research design was considered appropriate as it deals with many members in a population where it is not possible to study all of them and hence calling for sampling in order to come up with a generalizations and inferences about the whole population. Similar studies that have successfully used this research design are Gakuo (2003) and Mwangi (2002).

3.3 Population and Sample

The population of this study comprised of forty one banks registered by CBK and with branches within CBD. The target respondents comprised of credit managers, credit analysts and credit officers from all the banks within the CBD that offer SME financing. There was one respondent from each bank.

3.4 Model Specification

In analyzing credit appraisal techniques adopted by Kenyan banks in lending to small and medium sized borrowers, multivariate statistics was used. This was used to find out whether various independent variables influence changes in creditworthiness of SMEs. A typical multivariate regression model is in the form of:

$$Y= a+b_1x_1+b_2x_2+b_3x_3+b_4x_4+E$$

Where Y= Creditworthiness

b= the slope/gradient represents the degree in which the creditworthiness of SMEs change as the appraisal technique change

X_i = appraisal technique where i=1, 2 ,3, 4

Where X_1= real estate lending

X2= financial statements lending

X3= Asset based lending

X4= relationship lending

a= the y intercept of the regression equation which represents the creditworthiness when no credit appraisal technique is used.

3.5 Data Collection

Primary data was collected by means of semi-structured questionnaires. The questionnaire consisted of both closed and open-ended questions. It sought information on the credit appraisal techniques adopted by commercial banks when lending to small and medium sized enterprises and the challenges facing banks in using the applicable

credit appraisal techniques. The target respondents were credit analysts, credit managers and credit officers of the banks.

3.6 Data Analysis

The research used both quantitative and qualitative approaches to data analysis. To determine the credit appraisal techniques adopted by commercial banks and to establish challenges facing banks in using the applicable credit appraisal techniques, the researcher used descriptive statistics which included measures of central tendency and standard deviation. Content analysis was also used to analyze data that was qualitative in nature. The researcher used Pearson coefficient of correlation to establish the relationship between the applicable credit appraisal techniques and creditworthiness.

3.7 Data Validity and Reliability

Validity refers to the extent to which the research truly measures that which we actually intended to measure. Validity is based on the adequacy with which the items in an instrument measure the attributes of the study. The questionnaire used in this study covered all the possible scenarios hence ensured content validity.

Reliability refers to the extent to which any measuring procedure yields the same results on repeated trials (Neuman, 2000). The researcher used a questionnaire and considered that the same procedure will easily be applicable to the respondents and render the same results. In this study, a pilot test of the questionnaire was carried out and changes made to make the questionnaire reliable.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study as observed from the data that was collected and analyzed. The study sought to establish the factors that affect the nature of lending decisions that are made in banks. The main objectives of the study were to determine the credit appraisal techniques used by commercial banks in Kenya to evaluate the creditworthiness of SMEs and to establish challenges facing banks in using the applicable credit appraisal techniques. The findings have been represented by use of frequency tables and pie charts to indicate the weight given to each of the factors by the respondents.

4.2 Years worked in the bank

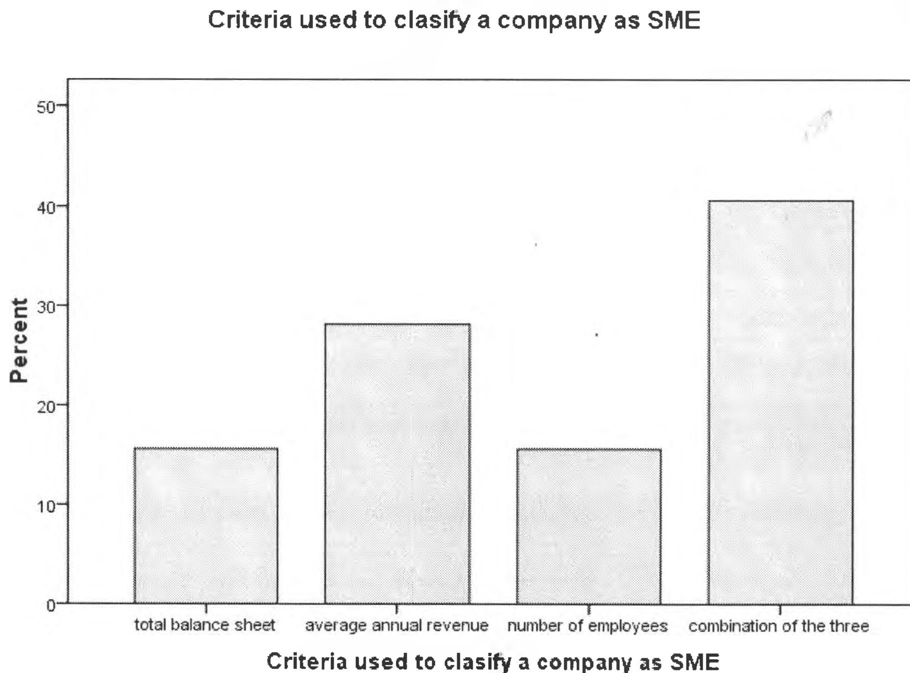
The researcher sought to establish the number of years the respondents had worked in the bank. This was meant to ascertain whether they had enough experience to enable them give reliable information concerning the problem under investigation. The findings as tabulated below indicate that 75% of the respondents had worked in the bank for more than four years. This duration can be considered to be enough for one to have gained enough knowledge and understanding in credit issues and operations.

Table 4.1 Years worked in the bank

Age	Frequency	Percentage
1-3 years	8	25
4-6 years	10	31.3
7-9 years	8	25
10 years and above	6	18.8
Total	32	100

4.3 Criteria used to classify a company as SME

The study sought to establish the criteria that most banks use to rate an organization as an SME. It is evident from the pie chart shown below that more than 40% of the respondents indicated that they apply a combination of all the three factors i.e. total balance sheet, average annual revenue and number of employees in rating an organization.



4.4 Strength of Income Statements

The study sought to evaluate whether banks attached importance to the strength of income statements was such an important attribute that banks consider when making loan appraisal decisions. The findings as represented in the table below indicate that 15.6% of respondents generally agree that banks use income statements to a large extent while 46.9% of the respondents agree that banks use income statement to a very large extent in making loan appraisal decisions. This is as shown in table 4.2 below

Table 4.2: Strength of Income Statements

Importance	Frequency	Percent
to a small extent	2	6.3
medium extent	10	31.3
a large extent	5	15.6
a very large l extent	15	46.9
Total	32	100

Source: Researcher (2011)

4.5 Strength of Balance Sheet

The researcher wanted to know whether the balance sheet was considered by banks as an important document in making loan appraisal decisions. The table of findings below confirms that 21.9% and 46.9% of the respondents agree to a large extent and very large extent respectively that banks attach a lot of weight in the balance sheet strength when making loan appraisal decisions. This is shown in table 4.3 below

Table 4.3: Strength of balance sheet

Importance	Frequency	Percent
to a small extent	2	6.3
medium extent	8	25
a large extent	7	21.9
a very large extent	15	46.9
Total	32	100

Source: Researcher (2011)

4.6 Small firms with long trading history

The study sought to investigate whether small firms with long trading history was an important attribute to consider when conducting an appraisal for an SME loan application. The findings indicate that 84.4% of the respondents agreed that a small firm with long history is an important attribute that must be looked at when conducting an SME loan appraisal. This is shown in table 4.4 below

Table 4.4: Small firms with long histories

Importance	Frequency	Percent
to a small extent	3	9.4
medium extent	2	6.3
a large extent	6	18.8
a very large extent	21	65.6
Total	32	100

Source: Researcher (2011)

4.7 Quality of the collateral offered as security for the loan

The researcher sought to establish if the quality of the collateral offered as security for the loan being applied for was an important attribute that banks considered before making a lending decision to SMEs. The frequency table below indicates that 50% of the respondents agree that banks do consider the quality of the collateral to a larger extent. It can however be noted too that 46.9% of the respondents think that banks do not give a lot of consideration to the quality of collateral though they have to take a collateral when lending. This is shown in table 4.5 below

Table 4.5 Quality of the collateral offered as security for the loan

Importance	Frequency	Percent
to a small extent	1	3.1
medium extent	15	46.9
a large extent	5	15.6
a very large extent	11	34.4
Total	32	100

Source: Researcher (2011)

4.8: Quality of account receivable and inventory

The research wanted to find out whether the quality of accounts receivable and inventory played any significant role in making SME loan appraisal decisions in commercial banks. It is evident from the findings represented in the table below that most banks put a lot of importance on accounts receivable and inventory in making lending decisions to SMEs. This is represented by 46.9% of the respondents. This is shown in table 4.6

Table 4.6: Quality of account receivable and inventory

Importance	Frequency	Percent
to very small extent	8	25
to a small extent	3	9.4
medium extent	6	18.8
a large extent	15	46.9
Total	32	100

Source: Researcher (2011)

4.9 Credit scores

The study sought to establish whether banks in Kenya considered credit scores as important attributes in making appraisal decisions when lending to SMEs. The findings as tabulated below confirm that 75% of the respondents agreed that banks consider credit scores to a large and very large extent when making lending decisions.

Table 4.7: Credit scores

Importance	Frequency	Percent
to a small extent	1	3.1
medium extent	7	21.9
a large extent	8	25
a very large extent	16	50
Total	32	100

Source: Researcher (2011)

4.10 History of the principal owner of the business enterprise

The researcher sought to know if the history of the principal owner of the business enterprise was a significant attribute to consider when appraising loan applications. The findings indicate that most of the banks consider the history of the principal owner to a very large extent when making lending decisions to an SME.

4.11 Information from suppliers

The study sought to investigate if banks attached any significance to information from suppliers when making appraisal decisions concerning SME loan applications. The findings as tabulated below indicate that 40.6% of the banks attach significance to a large extent on information from suppliers.

Table 4. 8: Information from suppliers

Importance	Frequency	Percent
to a small extent	4	12.5
medium extent	3	9.4
a large extent	12	37.5
a very large extent	13	40.6
Total	32	100

Source: Researcher (2011)

4.12 Transparency of firms through provision of certified financial statement

The researcher wanted to establish whether transparency of firms was an important attribute to be considered in making appraisal decision pertaining to SME loan applications in banks. The findings represented in the table below indicate that majority of the respondents agree to a large extent and very large extent that this is a very important attribute in appraisal of SMEs.

Table 4.9: Transparency of firms by way of certified financial statement

Importance	Frequency	Percent
to a small extent	2	6.3
medium extent	8	25
a large extent	7	21.9
a very large extent	15	46.9
Total	32	100

Source: Researcher (2011)

4.13 Credit appraisal techniques

The study sought to establish whether banks make use of real estate appraisal technique of lending as they appraise SMEs for loans. The research findings indicated that 56.3% of the respondents agreed that banks use this technique in SME appraisal to a large extent. The researcher also wanted to establish whether banks make use of small business credit scoring when appraising SMEs. The findings as indicated in table 4.10 below show that 40.6% of the respondents agree that banks use this technique but not to a large extent.

The study also sought to establish whether equipment lending is among the techniques that are used by banks in appraisal of SMEs. From the findings it is evidence that 40.6% of the respondents admitted that banks use this method to a medium extent. Asset based lending is also used as a technique of appraisal when making lending decisions to SMEs by Kenyan banks. It is evident from the findings in table 4.10 below that 50% of the respondents were in agreement that it is indeed used to a very large extent. The study also sought to investigate the extent to which factoring technique of appraisal is used by banks when appraising SMEs in Kenya for lending purposes. The findings as represented in the table 4.10 below indicate that 37.5% of the respondents believed that banks use this method to a very small extent.

Table 4.10: Credit appraisal techniques

Credit appraisal techniques	**Extent %**					
	Very small	small	medium	large	Very large	%
Real estate	3.1	9.4	31.3	31.3	25	100
Financial ratios	-	-	31.3	31.2	37.5	100
Equipment lending	15.6	3.1	40.6	25	15.6	100
Small business credit scoring	3.1	25	40.6	15.6	15.6	100
Asset based lending	15.6	-	25	9.4	50	100
Factoring	37.5	15.6	37.5	-	9.4	100

Source: Researcher (2011)

4.14 Challenges faced by banks when using the underlying appraisal technique

The researcher wanted to establish challenges faced by commercial banks when using various appraisal techniques. The study sought to establish whether collection of soft information by credit officers was a challenge. The findings indicated that 75% of the respondents believe that this is not a major challenge. The researcher also sought to evaluate how easy it was to verify soft information by other bank officials and if this was a challenge. The findings indicated that 34.4% of the respondents agree to a medium extent that the information may not be easily verified by others. The study also tried to establish if it was easy to transmit soft information to others and if this was a challenge in using the underlying appraisal technique. The findings tabulated in table 4.11 indicated that 43.8% of the respondents agree that it was actually not easy to transmit soft information to others.

The researcher wanted to establish whether lack of proper financial statements was a challenge in using the underlying appraisal technique. It is evident from the findings represented in the table 4.11 below that 78.2% of the respondents believed that lack of proper financial statements is not a challenge as appraisal technique. The study also wanted to evaluate whether inaccurate financial statements can pose a challenge to the use of a given method of appraisal. It can be noted from the findings tabulated below that 40.6% of the respondents agreed that lack of accurate financial statements actually poses a challenge to the use of the underlying appraisal technique. The researcher also sought to find out whether concealing of borrower's condition by bank officials due to personal

friendship with the owner was a challenge when conducting the appraisal using a given technique. The findings as represented in the table below indicate that 62.5% of the respondents felt that this was possible only to a medium extent.

The study also sought to investigate whether delegation of authority to loan officers in banks offering relationship appraisal may exacerbate agency problems between the loan officer and the bank as a whole because of differing incentives. The findings from table 4.11 indicate that 53.1% agreed on average that this may be true.

The researcher sought to establish if emergence of illegal kickbacks was a challenge to the use of a given technique of appraisal.

The study sought to investigate whether non-disclosure of financial interest in the firm could be a challenge during the appraisal process. The table 4.11 below confirms that this is true on average. The researcher sought to evaluate if presentation of fake real estate documents by the clients was a challenge during the appraisal process. It is evident from the findings tabulated below that 53.2% of the respondents agree to a large extent that this is a challenge.

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Table 4.11: Challenges faced by banks when using the underlying appraisal technique

Challenges	Extent %					
	Very small	Small	Medium	Large	Very large	%
Collection of soft information by credit officers is difficult	-	9.4	75	15.6	-	100
The soft information may not be easily verified by other bank officials	9.4	25	34.4	29.9	6.3	100
The soft information may not be easily transmitted to other bank officials	9.4	15.6	31.3	43.8	-	100
Lack of proper financial statements	31.3	25	21.9	-	21.9	100
Inaccurate financial statements	9.4	18.8	9.4	40.6	21.9	100
Concealing of borrower's condition by bank officials due to personal friendship with the owner	9.4	18.8	62.5	9.4	-	100
Agency problems as a result of delegation of authority to loan officers in banks	9.4	12.5	53.1	21	-	100
Emergence of illegal kickbacks	12.5	31.3	9.4	31.3	15.6	100
Non-disclosure of financial interest by the firm	9.4	9.4	50	15.6	15.6	100
Lack of accurate credit scores	9.4	12.5	21.9	25	31.3	100
Presentation of fake real estate documents by the clients	28.1	18.8	21.9	-	31.3	100

Source: Researcher (2011)

4.15 Method used in debt recovery

The study sought to find out how often informal workout was used as a debt recovery method. The findings as in table 4.12 indicate that this method is used more often. This is represented by 75% of the respondents who agreed that it is used as a debt recovery method. The study also sought to establish if debt rescheduling is one of the debt recovery methods used by banks. It is evident from findings in table 4.12 that 78.1% of the respondents agreed that it is used as a debt collection method. The researcher wanted to find out if sale of credit to a third party was a debt recovery option used by banks. The findings from the table below indicate that this is not among the options used by banks.

The researcher sought to know whether non judicial foreclosure or execution is used as a debt recovery method. The findings represented in the table below shows that 50% of the respondents use the method whereas another half do not. The study sought to find out if judicial foreclosure of immovable assets is widely used as a debt recovery method. The table of findings below confirms that 68.8% of the respondents agree that this one of the methods used in recovery of debts.

The researcher wanted to know whether judicial proceedings are among the favorable debt recovery methods. From the findings in the chart above, it is evident that 65.6% of the respondents agree that the method is used for debt recovery purposes. The study tried to investigate if liquidation proceedings for instance bankruptcy are used in debt recovery. The findings tabulated below confirm that it is used. 56.3% of the respondents supported this. The researcher also sought to establish whether conversion of debt to

equity was a debt recovery alternative used by banks. It is evident that from the findings that 62.5% did not support this idea. It therefore means that this is not used by majority of the banks.

Table 4.12: Method used in debt recovery

Credit recovery approach	Yes	No
	%	
Informal workout	75	25
Debt rescheduling;	78.1	21.9
Non-judicial foreclosure or execution;	50.0	50.0
Judicial foreclosure (immoveable assets);	68.8	31.2
Judicial proceedings and execution (moveable assets);	65.6	34.4
Liquidation proceedings (e.g., bankruptcy);	56.3	43.7
Conversion of Debt to equity;	37.5	62.5
Sale of credit to a third party;	0	100

Source: Researcher (2011)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the summary of findings, discussions conclusions and recommendations are given. The study aimed to achieve the following objectives: to determine the credit appraisal techniques used by commercial banks in Kenya to evaluate credit worthiness of SMEs and to establish the challenges facing commercial banks in using the applicable credit appraisal techniques.

5.2 Summary, discussions and Conclusions

In this section, the findings of the study have been discussed in summary and their conclusions given in line with the research objectives. The study considered various attributes which must be considered when making appraisal decisions. It emerged that the following attributes were considered to be of great importance: strength of income statements, strength of the balance sheet, small firms with long histories, quality of accounts receivable and inventory, history of the principal owner and transparency of firms through provision of certified financial statements.

The above mentioned attributes were given a lot of weight by majority of the respondents. This therefore means that they play a major role in making decisions pertaining to credit appraisals. The other important objective that the study aimed to achieve was to establish the techniques which are commonly used by Kenyan banks in

conducting credit appraisals for SMEs. The findings from the study indicate that there are quite a number of techniques that are used by banks in appraising SMEs. They include asset based lending which seems to be widely used, equipment lending, small business credit scoring lending and real estate appraisal. Among the above techniques, real estate and asset based lending emerge as the techniques with the highest percentages thus indicating that they are used more often than the other techniques.

The study also had an objective of establishing the various challenges that Kenyan banks face while trying to apply the various techniques of lending that have already been mentioned above. Several issues were considered but a few were given a lot of weight and therefore emerged as the major challenges faced by banks. The challenges include: difficulty in transmitting soft information to other bank officials during credit assessment, lack of proper financial statements, loan officer's interest to hide a deteriorating borrower's condition because of a personal friendship with the owner, agency problems in the case of relationship lending as a result of delegation of authority to loan officers in banks, presentation of fake real estate documents by borrowers as security for loan as well as lack of accurate credit scores.

The study finally sought to establish the various debt recovery techniques that are used by Kenyan banks in their efforts to recover non performing loans in their portfolios. The findings indicate that there are a number of methods that banks apply in their debt recovery efforts. The debt recovery techniques given much weight are: debt rescheduling with the highest percentage of 78.1%, informal workout and judicial proceedings and

execution. These appear to be the most commonly used debt recovery methods by most banks. It was also noted that 50% of the banks also use non judicial foreclosure or execution as a method of debt recovery.

5.3 Limitations of the study

The banking industry in Kenya currently is characterized by very stiff competition. Banks information is treated with utmost confidence. This made it difficult to collect all data. Some respondents could hold back some information because of confidentiality.

5.4 Recommendations

Based on the findings, the study came up with the following recommendations:

5.4.1 Recommendations for policy or decision making

Kenyan banks should adopt debt rescheduling and informal workout as debt recovery methods since the same are popular among banks that were involved in the investigation. Banks in Kenya should find solutions to the following major challenges: difficulty in transmitting soft information between bank officials, improper financial statements and agency problem arising due to personal friendship between customer and bank officer.

5.4.2 Recommendations for further research

This study had a major objective of establishing the techniques and challenges used by Kenyan banks in appraising SMEs. There are however several other issues that have emerged as well as some other gaps that need to be filled. A study can be carried out to

establish the reasons that make Kenyan banks to prefer some techniques of appraisal over others as it has been witnessed from the study. A comparative study can be carried out to establish the differences in appraisal practices in Kenya and another country and this same study can also be replicated after certain duration to establish whether the findings will be the same.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

The University of Nairobi,

School of Business

P.O. Box 30197 - 00100

Nairobi-Kenya

Telephone: +254 (020) 732160

TO WHOM IT MAY CONCERN

The bearer of this letter……………………registration number……………. is an MBA student at the University of Nairobi.

The student is required to submit, as part of the course work, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The result of the report will be used solely for the purpose of the research and in no way will your organization be implicated in the research findings.

A copy of the report can be availed to the interviewed organization(s) on request. Thank you.

The co-coordinator, MBA program.

APPENDIX II: RESEARCH QUESTIONNAIRE

SECTION A

PERSONAL INFORMATION

1. Name of your organization (optional) -----------------------------------

2. Please state your position in the bank. -------------------------------------

3. How long have you worked in the bank? Tick as appropriate

Below one year [ ]

1-3 years [ ]

4-6 years [ ]

7-9 years [ ]

10 years and above [ ]

SECTION B

CREDIT APPRAISAL TECHNIQUES

1. In your own opinion, what criteria do you use to classify a company as SME? Tick as appropriate

Total balance sheet assets [ ]

Average annual revenue [ ]

Number of employees [ ]

All of the above [ ]

2. Do you attach any importance on financial statements when appraising a client for a bank loan?

Yes [ ] No [ ]

3. If yes in 2 above, indicate the reasons why you attach the importance

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4. Using a scale of 1-5, where 5= to a very large extent, 1= to a very small extent, indicate the extent to which you consider the following attributes when making a decision to lend and set the terms of the loan contract

Attribute	1	2	3	4	5
Strength of income statements					
Strength of balance sheet					
Small firms with long histories					
Quality of the available collateral					
Quality of accounts receivable and inventory					
credit scores					
History of the principal owner.					
Information from suppliers					
Transparency of firms by way of certified audited financial statements					
financial ratios					

5. What other attributes do you consider in making appraisal decision?

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6. Using a scale of 1-5, where 5= to a very large extent, 1= to a very small extent, indicate the extent to which you make use of the following credit appraisal techniques

Appraisal techniques	1	2	3	4	5
Real-estate appraisal					
Relationship lending					
Financial statement lending					
Small business credit scoring lending					
Equipment lending					
Asset-based lending					
Factoring					
Others (specify)					

7. Using a scale of 1-5, where 5= to a very large extent, 1= to a very small extent, indicate the extent to which the following challenges are faced by the banks when using the underlying appraisal technique

Challenges	1	2	3	4	5
Collection of soft information by credit officers is difficult					
The soft information may not be easily verified by other bank officials					
The soft information may not be easily transmitted to other bank officials					
Lack of proper financial statements					
Inaccurate financial statements					
Loan officer's interest to hide a deteriorating borrower's condition because of a personal friendship with the owner					
Agency problems as a result of delegation of authority to loan officers in banks					
Emergence of illegal kickbacks					
Non disclosure of financial interest in the firm					
Lack of accurate credit scores					
Presentation of fake real estate documents by the clients					

8. Please indicate any other challenges faced by banks when using the underlying appraisal technique

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9. Please suggest ways in which the challenges faced by the banks when using the underlying appraisal technique can be mitigated

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10. What are the interest rates charged on each of the above types of lending? ....

11 a) Do you encounter of non-performing loans (NPLs) in your institution on an annual basis for the past 5 years? Tick as appropriate

Yes [ ] No [ ]

11 b) If yes, please indicate the level by percentages.

Percentage---

12. Indicate the method used in debt recovery (tick as appropriate)

Credit Recovery approach	Yes	No
Informal workout		
Debt rescheduling;		
Non-judicial foreclosure or execution;		
Judicial foreclosure (immoveable assets);		
Judicial proceedings and execution (moveable assets);		
Liquidation proceedings (e.g., bankruptcy);		
Conversion of Debt to equity;		
Sale of credit to a third party;		
Others (specify)		

APPENDIX III: LIST OF BANKS IN KENYA

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Chase Bank (K) Ltd.
8. Citibank N.A Kenya
9. Commercial Bank of Africa Ltd.
10. Consolidated Bank of Kenya Ltd.
11. Co-operative Bank of Kenya Ltd.
12. Credit Bank Ltd.
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank (K) Ltd.
15. Dubai Bank Kenya Ltd.
16. Eco bank Kenya Ltd
17. Equatorial Commercial Bank Ltd.
18. Equity Bank Ltd.
19. Family Bank Ltd
20. Fidelity Commercial Bank Ltd
21. Fina Bank Ltd
22. First community Bank Limited
23. Giro Commercial Bank Ltd.
24. Guardian Bank Ltd
25. Gulf African Bank Limited
26. Habib Bank A.G Zurich
27. Habib Bank Ltd.
28. I & M Bank Ltd
29. Imperial Bank Ltd.

30. Jamii Bora Bank Ltd.
31. Kenya Commercial Bank Ltd
32. K-Rep Bank Ltd
33. Middle East Bank (K) Ltd
34. National Bank of Kenya Ltd
35. NIC Bank Ltd
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Prime Bank Ltd
39. Standard Chartered Bank (K) Ltd
40. Trans-National Bank Ltd
41. Victoria Commercial Bank Ltd
42. UBA Kenya Bank Ltd.