COMMERCIAL BANKS PERCEPTION ON THE FINANCING OF SMALL AND MEDIUM ENTERPRISES (SME)

(A Study of Western Region)

By

MIRIAM WANGUI MWANGI

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DECLARATION

I declare that this is my original work and has never been presented in any other university or college for any academic purpose.

Signature________________________ Date ________________________

Name: MIRIAMWANGUI MWANGI

REG: D61/69493/2011

This research proposal has been submitted for examination with my approval as the University Supervisor.

Signature________________________ Date ________________________

LUTHER OTIENO

LECTURER
DEPARTMENT OF FINANCE AND ACCOUNTING
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

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DEDICATION

I dedicate this research project to my parents who have given the best gift ever to me and that are education. To my dear fiancé Mutile whom I cherish his love and support. Thanks for being there for me always.

ABSTRACT

Financing is the act of providing funds for business activities, making purchases or investing (Anderson, 2004). Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals.

This study focused on perception of commercial banks on financing Small and Medium Enterprises (SMEs) in the Western Region. Among the perception of commercial banks in financing Small and Medium Enterprises (SMEs) studies that have been done, little knowledge exists on those that lay focus on commercial banks that finance the small and Medium Enterprises (SMEs).This study was then designed to bridge this knowledge gap by critically determining the perception of commercial banks in financing Small and Medium Enterprises (SMEs) and to what extent.Major findings from this study were that both internal and external perception influencing the financing of Small and Medium Enterprises to a large extent. This study revealed that whilst commercial banks do document their financing policies, effective disbursement or issuance of finances to the small and medium enterprises is a big hurdle, highlighting factors such as top management commitment, clear identification of activities to be carried out to effectively implement financing to the small and medium enterprises, existing legal requirements, existence of budgetary allocation and internal control mechanisms, as those that must be adhered to if successful financing of the small and medium enterprises by commercial banks in the western region is to take place.The study is presented in five chapters, each with various sections through which the researcher has tried to discuss the above issues. The findings of this study should be understood and evaluated in light of the limitations of the study.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Financing is the act of providing funds for business activities, making purchases or investing (Anderson, 2004). Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals. According to a World Bank study, there are many SMEs in Kenya which, despite their high potential, have been unable to access financing from existing institutions in the financial sector. Such situations may be due to the inability of the SME to offer sufficient loan collateral or to operational issues within the SME requiring more hands-on assistance than commercial banks and leasing companies, for example, are normally able to provide (Bronson, 2006). Various sources of finances are available to the SMEs from banks, micro-finance, cooperatives, government instruments, international institutions and donors as well as personal finances. These are categorized as public, private, international and personal. Industrial and Commercial Development Corporation (ICDC) ICDC has been the Government's main channel for joint venture investments and has made equity investments in many industrial and commercial ventures along with local and foreign partners. ICDC provides project and commercial financing (Bronson, 2006).

Small and Medium Enterprises (SMEs) are entities that does not have a public accountability, it publishes general purpose financial statement for external users e.g. owners are not involved in a day to day management, its debts and equity instruments are not traded in the public market (Sensoy 2010). Small and Medium Enterprises (SMEs) have been known to contribute greatly in economic growth of both developed and developing countries. The share of SMEs in employment tends to be higher in developing countries, which are typically more focused on small-scale production. As such, policy provisions remain fundamental in propelling these enterprises towards self-sustenance and realization of their full potentials in contributing towards economic growth. (Sensoy 2010)

In Kenya for instance, SME operation cut across almost all sectors of the economy and sustain majority of households. This was well recognized by the 2003, National Budget. David Mwriraria 2003, the then Minister for Finance noted that SME activities form a breeding ground for businesses and Employees, and provide one of the most prolific sources of employment. Their operations are more labor intensive than the larger manufacturers. As such, policy provisions would mean boosting not only the operations of these enterprises but the country's economy as well (Chowdhury, 2005).

Commercial banks play a major financial deepening and intermediary role between savers and borrowers. Through banking institutions savings are mobilized hence providing a major source of finance required for economic development of individuals and the country (Bricy, 1990). Commercial banks offer unsecured business loans or character loan to the Small and Medium Enterprises (SME).

Adverse selection refers to a market process in which the undesired result occurs when buyers and sellers have asymmetric information (Khandker, 1996). The stakeholders in the Small and Medium Enterprises (SMEs) choose a bad product because they don't have the proper information regarding a particular product they want in a commercial bank. Moral hazards on the other hand is, the risk to a party to a transaction has not entered into the contract in good faith, has a misleading information about its assets, liabilities or credit capacity, or has an incentive to take unusual risk in a desperate attempt to earn a profit before the contract settles (Anderson, 2004)

Unsecured business loans emerged in the 1990's in Kenya as a paradigm shift from the conventional collateralized lending as commercial banks' change of strategy to grow their loan book and increase profitability as well as increased efforts by the government to liberalize the credit market and increase credit access (caremark, 2001). Unsecured business loans target people without collateral. In most of the commercial banks, it is up to a maximum of Ksh.500, 000. Anything above that, a collateral has to be issued. Most of the applied loans by the Small and Medium Enterprises are normally rejected because SME's are affected by the downward trends in the economy and structural rigidities. This segment is considered risky although the returns are impressive due to the high interest charged on borrowers (Ferrando 2012). These loans are easily accessed by individuals helping them undertake projects that improve their living standards. The individuals will have to pay higher in terms of interest. Western region has a high number of individuals who are not salaried. Majority of the people in the region are self employed. Most of these individuals (Small and Medium Enterprises) have accessed unsecured business loans from Commercial banks. These individuals pay more in terms of interest as compared to manufacturing firms. This study seeks to establish the commercial banks perception of issues in Small and Medium Enterprises (SME) financing by carrying out a case study on different commercial banks in Western region.

1.1.1 Financing Small and Medium Enterprises (SMEs)

SMEs tend to face higher costs for bank finance. A simple comparison between small loans and very large loans shows that SMEs pay more than large companies.Another thing is that the higher rejection rates of loan applications of SMEs (Sensoy 2010). SMEs face more financing obstacles large firms and this is to be related to their financial position (Ferrando 2012). Indeed, when linking information on the financial health of SMEs with the actual financing obstacles they experience, it turns out that firms with higher leverage and interest payment burdens as well as lower profits tend to be more affected by financing obstacles than SMEs.

However, it is worth noting that in conjunction with credit constraints, several other issues have an impact on the environment in which SMEs operate. For instance, they are more affected by downward trends in the economy and structural rigidities (Anderson, 2004). For instance lack of demand for their products, high input prices, unfavorable regulation, heavy administrative burdens, and inflexible labor and product markets. Since such factors differ across countries, the financing costs of SMEs will inevitably also vary.

1.1.2 SMEs and their difficulty in accessing finances

Financing SMEs is difficult because they are opaque. Opaqueness means that it is difficult to ascertain if firms have the capacity to pay (they have viable projects) and/or the willingness to pay (due to moral hazard). This opaqueness particularly undermines lending from institutions that want to engage in the more impersonal or arms-length financing that requires hard, objective, and transparent information (Bronson, 2006).

SMEs are more likely to be informal, particularly in developing countries. This not only makes opaqueness worse, but it also poses additional obstacles and risks to SME lending. For example, banks cannot lend to SMEs as much as would be warranted if firms do not report reliably their full financial activity on their financial statements.Furthermore, informality implies that the firm has unrecorded, contingent senior liabilities to the government and its own employees (Sensoy, 2010). Faced with the risk that tax and/or labor authorities could cause such liabilities to materialize, banks would lend less to SMEs or charge a higher risk premium.

Capital markets do not compensate for these deficiencies in the banking sector as they do not have a comparative advantage in dealing with opaque and small firms (Bronson, 2006). In effect, capital market financing rests on comparatively high accounting and disclosure requirements which, by definition, opaque SMEs lack (Andersen, 2004). In addition, capital markets are typically not a source of direct funding for SMEs, given that these firms are unable to issue debt or equity in amounts sufficiently large to attract investors (who prefer liquid issues and are not willing to take too large a share of a single asset) and amortize the large issuance-related transaction costs (including compliance with complex tax)

1.1.3 SME in Western Region

Western region borders Uganda. It is the west of the Eastern Rift Valley and it is inhabited mainly by Luhya community. This region has four counties namely: Busia, Bungoma, Vihiga and Kakamega. Kenya’s second highest mountain, Mount Elgon is located in Bungoma County. The Kakamega rainforest is located in the Kakamega

County. The western region has a total population of 4,334,202 and an Area of 7,400.4 (km2). The climate is mainly tropical, with variations due to altitude. KakamegaCounty is mainly hot and wet most of the year, while Bungoma County is colder but just as wet. Busia County is the warmest, while the hilly Vihiga County is the coldest. The entire Region experiences very heavy rainfall all year round, with the long rains in the earlier months of the year (Wright, 2005).

Farming is the main economic activity in the Region. Maize is also grown for subsistence, alongside pearl millet and sorghum. Dairy farming is widely practiced, as well as the raising of poultry. There is a small but important tourist circuit, centering on the biennial circumcision ceremonies and the forest in the Kakamega County (Berger, 2004). These form the backbone activities for all micro enterprises because through these economic activities they can get something to trade with to make them earn living. According the Commission on Revenue Allocation, 53% of the inhabitants in Western region live beneath the paucity line. This is regardless of the reality that the region is gifted with productive soil and well disseminated rainfall all through the year (Wright, 2005).

Western Region experiences perennial floods from the Nzoia River in the Busia County and the dominant economic activity is fishing on Lake Victoria.Commercial farming is also practiced, mainly of sugar cane in the Bungoma and Kakamega County where the Mumias sugar company and West Kenya sugar company are located respectively. Subsistence farming of cassava is widely practiced (Berger, 2004). Despite this, living standards are generally low and social amenities like running water and electricity are not available to the majority of the region residents.

1.1.4 Commercial Banks in Western Region

A commercial bank is a type of bank that provides services such as accepting deposits, giving business loans and basic investment products (Biggs, 1996). Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public -retail banking(CBK report, 2013).

Kenya has a reasonably sophisticated banking system. Commercial banks account for much of the total deposit in the country. Some of the banks that dominate the commercial banking system in Western region are: Barclays Bank, Kenya Commercial Bank, Standard Chartered Bank, National Bank, Bank of Africa, Post bank, Eco bank, Equity bank, Family bank, Diamond trust bank and Cooperative Bank of Kenya have also opened many branches in most areas of the region. These banks engage in the general banking system although some smaller banks tend to be rather specialized in domestic trade and others in import and export finance facilities (CBK report, 2013).

The Main Facilities offered by these Banks include the following: Money telegraphic transfer by mail, Standing order payments, Foreign exchange transactions services, Discounting of bills of exchange and promissory notes, Providing documentary credit to overseas trade, Providing credit status information to customers, Offering share brokerage services, Offering business advisory services, Acceptance of various deposits like fixed and regular deposits, Providing loans and advances (CBK report, 2013).

1.2 Research Problem

The financing of small and medium enterprises (SMEs) has attracted much attention in recent years and has become an important topic for economists and policymakers working on financial and economic development. This interest is driven in part by the fact that SMEs account for the majority of firms in an economy and a significant share of employment (Hallberg 2001). Furthermore, most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper.

The recent attention on SME financing also comes from the perception among academics and policymakers that SMEs lack appropriate financing and need to receive special assistance, such as government programs that increase lending. Various studies support this perception. A number of papers find that SMEs are more financially constrained than large firms. For example, using data from 10,000 firms in 80 countries, Beck, Demirgüç-Kunt, Laeven, and Maksimovic (2006) show that the probability that a firm rates financing as a major obstacle is 39% for small firms, 38% for medium-size firms, and 29% for large firms. Furthermore, small firms finance, on average, 13 percentage points less of their investments with external finance when compared to large firms. Importantly, lack of access to external finance is a key obstacle to firm growth, especially for SMEs (Beck, Demirgüç-Kunt, and Maksimovic 2005). On the policy side, there are a large number of initiatives across countries to foster SME financing.

The analysis in this paper shows that there is a gap between the prevalent conventional view upheld in academic and policy circles and how banks are in practice interacting with SMEs. In particular, the evidence we present characterizes a different pattern of bank involvement with SMEs, which is consistent with the arguments first articulated by Berger and Udell (2006). This new pattern goes well beyond pure relationship lending and is increasingly observable even in relatively less developed countries, where relationship lending would be expected to be more prevalent. This research bridge the knowledge gap on the perception of commercial banks on the issues of financing Small and Medium Enterprises in the Western Region and answers the following questions: What is the impact of institutional and legal factors on SME in Western Region?, Are there any effects of transactional cost on the growth of SME in Western region?, What are the impacts of information asymmetric on the growth of SME in Western Region?, and finally, what are the impacts of collateral requirement on the SME in Western Region?.

1.3 Objective of the Study

The objective of this study was to determine the perception of commercial banks of issues in Small and Medium Enterprises (SME) financing in the Western Region.

1.4 Value of the Study

This study gave answers to questions that have been lingering in the day to day learning of finance students. Those in the academic realm will be able to find materials for reference as they explore more on issues related to financing Western Region and other regions in the country.

The study will also assist the government in determining the facts on the ground regarding financing and the local "mwananchi" as well as areas that proper regulations or constraints are required, for example, preventing the improper pyramid, schemes from penetrating the finance market, consequences of loan defaults and other areas. It will also assist the government to make better policies that can favor the development of the microfinance sector of the economy.

The results of this study will also offer valuable insights to investors, donors and providers of financing services in the monitoring of their activities and both by loan officers and the institutions managers for overall evaluation and assessment of their impact in the growth of micro-enterprises and general alleviation from poverty of those associated with micro credit.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This literature review forms the framework on which the research is based as it helps to develop a good understanding of and insight into relevant previous research and emerging trends. It highlights the study’s main objectives and how the impact of Commercial Banks has brought growth of small businesses in the County.

2.1 Theoretical Underpinnings of Study

2.1.1 Adverse Selection

It can also be referred to as anti-selection or negative selection. It refers to a market process in which undesired result occurs when buyers and sellers have asymmetric information (access to different information). In most cases, the bad products are what are mostly selected as compared to the good products. For example, a commercial bank that sets one price for all its checking account customers runs the risk of being adversely selected against by its low balance, high activity and hence least profitable customers. The two ways to model adverse selection is to employ signaling games and screening games (Khandker, 1996).

Adverse selection arises from the fact that risky borrowers are more eager for loans, especially at high interest rates, than safe borrowers. As Adam Smith put it, interest rates "so high as eight or ten per cent" attract only "prodigals and projectors, who alone would be willing to give this high interest." "Sober people," he continued, "who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition."

Adverse selection is also known as the "lemons problem" because a classic example of it occurs in the un intermediated market for used cars. Potential buyers have difficulty discerning good cars, the "peaches," from breakdown-prone cars, the "lemons." Sellers naturally know whether their cars are peaches or lemons. So information about the car is asymmetrical -- the seller knows the true value but the buyer does not (Buinjink, 1996). Potential buyers quite rationally offer the average market price for cars of a particular make, model, and mileage. An owner of a peach naturally scoffs at the average offer. A lemon owner, on the other hand, will jump at the opportunity to unload his heap for more than its real value. Borrowers are essentially sellers of securities called loans, the adverse selection problem in financial markets should be clear (Bronson, 2006). Lenders that do not reduce information asymmetry will purchase only lemon-like loans because their offer of a loan at average interest will appear too dear to good borrowers but will look quite appealing to risky "prodigals and projectors."

Adverse selection occurs when the seller values the goods more highly than the buyer, because the seller has a better understanding of the value of the goods. Due to this asymmetric of information, the seller is unwilling to part with the goods for any price lower than the value the seller knows it has (Pitt, 1996). On the other hand, the buyer who is not sure of the value of the goods is unwilling to pay more than the expected value of the good which takes into account the possibility of getting a bad piece. It is the asymmetric information prior to the transaction that prevents transaction from occurring. If both the seller and the buyer were uncertain of the quality, they would be willing to trade the goods based on its actual value (Berger 2004).

Customers will choose a bad product because they don't have proper information regarding that particular product. The same case applies to SMEs. They tend to pick a product being offered by the commercials banks without having any knowledge on the interest rate required to be paid back (Berger, 2004). Yet, commercial banks take advantage of that because they want to yield more profits and remain competitive in the market.

2.1.2 Moral Hazards

Moral hazard arises from the fact that people are basically self-interested. If given the opportunity, they will renege on contracts by engaging in risky activities with, or even outright stealing lenders' wealth (Udell, 2003).

. For instance, a borrower might decide to use a loan to try his luck at the blackjack table in Atlantic City rather than to purchase a computer or other efficiency-increasing tool for his business. Another borrower might have the means to repay the loan but default on it anyway so that she can use the resources to take a vacation to Aruba.

In order to reduce the risk of default due to information asymmetry, lenders must create information about borrowers. Early banks created information by screening discount applicants to reduce adverse selection and by monitoring loan recipients and requiring collateral to reduce moral hazard (Rosenthal, 2003). Screening procedures included probing the applicant's credit history and current financial condition. Monitoring procedures included the evaluation of the flow of funds through the borrower's checking account and the negotiation of restrictive covenants specifying the uses to which a particular loan would be put. Banks could also require borrowers to post collateral, i.e. property they could seize in case of default. Real estate, slaves, co-signers, and financial securities were common forms of collateral (Caremark, 2001).

The risk that a party to a transaction has not entered into the contract in good faith, has provided misleading information about its assets, liabilities or credit capacity, or has an incentive to take unusual risk in a desperate attempt to earn a profit before the contract settles (Andersen, 2004). Moral hazards can be present at any time when two parties come into agreement with one another. Each party in a contract may have the opportunity to gain from acting contrary to the principles laid out by the agreement (Wright, 2005). For example when a sales person is paid a salary at a flat rate with no commission,there's a danger that the sales person may not try any harder to sell the business goods because the wage remains the same regardless of how much or little effort the salesperson puts in. Moral hazards can somewhat be used to reduce by placing the responsibilities on both parties on the contract. In the example of a wage person, the manager can decide to pay a wage comprised of both salary and a commission (Meuwissen, 1996). With such, the salesperson will be more incentive not only to increase both the profits but also to prevent on the losses that might occur to the firm.

The commercial banks will finance SMEs with the intention of helping them grow in their small scale trades. In most cases, this does not happen. You will find that the loaned offered to them are used for a different purpose like marrying a second wife which was not the main intention of financing.

2.2 The Concept of Financing Issues by Commercial banks

2.2.1 Institutional and Legal Factors

First, many developing countries still have highly concentrated and uncompetitive banking sectors. This is often the result of restrictive government regulations. This reinforces the tendency to adopt very conservative lending policies or to charge high interest rates (Biggs, 1996). If banks can thrive with a stable pool of well-established clients, they have no real incentive to improve the range of financial products and, in particular, no incentive to go down market, to meet the needs of small businesses. (Berger 2004).

Second, insufficiently developed legal systems effectively prevent the development of certain financing instruments, including the use of collateral as a risk-mitigating element (Andersen, 2004). For instance, legal provisions regarding security interests are of crucial importance in determining the efficacy of collaterals. Likewise, if company laws offer only limited protection to minority shareholders, the development of venture capital and angel financing is inevitably negatively affected. (Udell, 2003).

Third, even when adequate legislation is available, there are often problems with enforcement. Today, transitional and developing economies often have cadastres and registers of movable assets. Nevertheless, their functioning is often less than ideal. Records are frequently missing or misplaced. There are lengthy procedures for filing mortgages and pledges, and for ascertaining the status of certain assets. There are often cases of corruption among personnel (Rosenthal, 2003)

Fourth, the information infrastructure is still largely undeveloped. There is a lack of mechanisms for collecting and exchanging information on payment performance. This inevitably exacerbates the informational asymmetries between enterprises and lenders or investors. While some of the above institutional constraints apply to all enterprises, it is clear that small businesses are likely to suffer disproportionately from their presence. (Lamoreaux 2000)

2.2.2 Transaction Costs

The biggest problem facing microcredit borrowers is the high transaction costs of accessing many small loans, which drive up the interest rates they have to pay eventually. Microfinance institutions are not able to squeeze more efficiency out of their workers to follow up as they should to cut down on loan defaults. Future cost savings, as predicted, will come through improvements in technology (Colbert, 1994).

The big contributing factor is not profit, but the administrative costs incurred in their advancement as well as the need for sustainability. The administrative cost of managing tiny loans eats up roughly two-thirds of the interest clients pay. It's not easy to get a statistical handle on whether these costs are way too high. Figuring out whether an MFI can cut its administrative costs without hurting the quality of its service requires detailed analysis of an individual MFI's circumstances and clientele (Andersen, 2004).

Wright, (2005) indicated some measures govern the sector overall: an office, startup capital and a license from the city council permitting someone to run a money lending business are all that is needed. The Banking Act precludes any institution not licensed under the Act from soliciting or accepting deposits. These are some of the cost that is a threat to the growth of Micro-enterprise in Kenya

The deficiencies in the regulatory system have added to business uncertainty and risk, and imposed additional costs on small and cottage enterprises because of delay and expensive approval procedures. Undoubtedly, a large part of the problem stems from the failure of enforcement agencies (Meuwissen, 1996).

Program level cost analysis must be performed that takes account of both the operational costs and the economic costs of subsidized operations. Evaluation of microcredit programs must also assess their self-sustainability that is, their financial, economic, and institutional viability and the viability of their borrowers (Nelson, 2002).

2.2.3 Informational Asymmetries

Informational asymmetries are always present in enterprise financing transactions. Entrepreneurs typically possess privileged information on their businesses that cannot be easily accessed or cannot be accessed at all by prospective lenders or outside investors. This leads to two problems (Wright, 2005). First, the lenders or Investors may not be able to differentiate adequately between high quality and low quality companies and projects. In that case, price variables may not work well as a screening device, because high interests may lead to an excessively risky portfolio.

Second, once the lenders or investors have supplied the funding, they may not be able to assess whether the enterprise is utilizing the funds in an appropriate way (Andersen, 2004). To mitigate these problems, bankers and outside investors may adopt precautionary measures, such as requiring that financing be collateralized. Ultimately, they may simply turn down the request for financing.

Informational asymmetries tend to pose more severe problems for SME, than for larger business. The information that SME can realistically provide to external financiers often lacks detail and rigor. This problem is often aggravated by the low level of education of small entrepreneurs, who may not be in the position to adequately articulate their case. This problem is particularly acute in developing countries (Andersen, 2004). The information supplied to bankers and outside investors by family-owned SME is often not Further, financial institutions have limited information on Indigenous business and borrowers, and are unaccustomed to dealing with them. For example, there is no bank protocol for dealing with the problems of 'proof of identity' often faced by Indigenous people. Often there are no Indigenous bank employees to assist with overcoming language and cultural barriers, and bank staff lack adequate cross-cultural training (Suder, 2009).

This creates serious problems for financial institutions in attempting to determine the credit-worthiness of Indigenous borrowers. As a result, they find it unprofitable to bear the risks of lending to Indigenous people, with Indigenous borrowers being viewed as a 'burden' that falls disproportionately on the major banks.

Merrett (1965) evaluates that within Indigenous communities a lack of access to banking services, combined with cheque-based welfare payments, means that individuals have to rely on informal finance providers. For example, Indigenous people in many communities are dependent on cheque-cashing outlets which charge high fees. In such circumstances the income of Indigenous people becomes a captive market for these informal financial service providers, such as hotels, stores, hawkers and taxi drivers.

2.2.4 Collateral Requirements

Collateral is typically an obligatory condition for granting a loan. However, small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks typically agree to accept collateral in the following form: real property, products or valuable assets. They are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral (Suder, 2009).

The large majority of the Western Region SMEs being active in trade, merchandise in inventory is the most likely asset than can be offered but its volatility or perishable character make it less desirable for banks. Still, some lending organization is said to accept inventory as collateral and even does not always require collateral so long as the borrower has demonstrated sound financial projections and has a good reputation (Suder, 2009).

Also the real property pledged by a shareholder or manager of an SME might be very difficult to realize in case it is the unique apartment to its owner third-party guarantor, because of social restrictions protecting individuals created. Cars and other means of transportation stop being registered by the Police Motor Vehicle Department from the time they become collateral, resulting in less security for the lender whose collateral can be transferred without a bona fide acquirer having notice of the surety (Suder, 2009).

Overcollateralization indicates poor enforcement: collateral is necessary, but less valuable than in Western countries, because the prospects of recovering it are dim or remote. The practice of seeking high loan coverage represents an overall reaction to risk adversity but it also is a response to the high cost of realizing collaterals in Western Region, (Andersen, 2004).

The procedure for realizing collaterals in usually very long Unless the parties have pre-agreed on the amicable settlement of disputes following default on a loan, judicial procedures take at least one year as providing evidence of a loan and default with Arbitration Court takes six months from the opening of a case and conducting an auction would require the same time. In addition the defender may easily challenge these very lengthy procedures resulting in additional delays (Merrett, 1965)

2.3 Empirical Review

Small and medium enterprises (SMEs) support the Kenyan economy in many ways, for instance, in the areas of employment, capital investment and technological innovation. When it comes to raising funds, however, SMEs often encounter various constraints not faced by major corporations. Financing available to SMEs is limited with only a small number having direct access to stock and bond markets (Andersen, 2004). Also, SMEs more often face difficulty in obtaining bank loans than do large corporations, partly because banks do not have as much management information about SMEs.

First, the author Suder (2009) emphasize the importance of companies doing business with more than one bank during normal times and keeping those banks informed of one's financial and management conditions. This, the authors say, serves as a kind of "insurance," which companies secure loans elsewhere if their main bank refuses to lend. It has been pointed out, somewhat critically, that in Kenya even small businesses deal with many different banks whereas most of their Kenyan counterparts deal with only one or two. But given the above-described point made by the three researchers, it seems quite rational for a company to deal with many different banks (Sensoy, 2010).

Second, they point out that the worse the financial condition of the main bank that has refused to lend, the greater the chance for the abandoned SME to be picked up by another bank. Suppose there are two companies whose financial conditions are equal and that Company A's loan request has been turned down by an undercapitalized main bank and

Company B's by a sound bank. According to Hosono et al. (2004), Company A has a greater chance to obtain a loan from another financial institution because there is a greater chance that refusal of the loan request stems from the poor financial condition of the lender rather than the borrower. This indicates the financial condition of the initial lending bank serves as a signal to other banks in making credit decisions on potential borrower companies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This Chapter focused on the methods that were used to collect data and analyze it. It was greatly concerned with the research design, the population to be studied, the sample selection procedures and sampling techniques to be used, data collection techniques employed, and data analysis employed. The questionnaire model was based on the COSO framework.

3.1 Research Design

This study adopted a cross sectional descriptive survey design because it focused at one point in time. Cooper and Schindler (2010) describe survey as a process used to collect information during a highly structured interview. Descriptive survey design has ability to produce statistical information about aspects of education that interest policy makers and researchers. Zikmund (2003) says surveys provide quick, inexpensive, efficient and accurate means of accessing information about the population. The method is rigid and focuses on the objectives of the study (Gay, 2009).

3.2 Population of the study

A population refers to an entire group of individuals, events or objects having a common observable characteristic (Orodho, 2003).The population of the study was on all commercial banks in western region. The research targeted the staff under the credit and advances department in all commercial banks in Western region since they are directly or indirectly involved in financing of the Small and Medium Enterprises (SMEs). There are six commercial banks in Kakamega County, four in Vihiga County, thirteen in Bungoma County and eight in Busia County totaling to thirty one commercial banks in Western Region.

3.3 Data Collection

Primary data was collected. A semi- structured questionnaire was used to collect primary data. It contained a mix of questions, allowing for both open-ended and specific responses to a broad range of questions. The questionnaire was administered through “drop and pick” later method.

Kothari (2007) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information while ensuring standardization. It is for the above reasons that the questionnaire was chosen as an appropriate instrument for this study.

3.4 Data Analysis

Data obtained was largely quantitative, hence quantitative analysis techniques was used. Therefore, both descriptive and inferential statistical tools of analysis were used. Descriptive statistics (percentages, frequencies, mean scores and modes) were used to ascertain the proportions of commercial banks indicating the perception of commercial banks in financing of SMEs and their relative potency as well as variations across commercial banks.

Inferential statistics entailed the use of factor analysis. According to Tryfos (2001), factor analysis is a data reduction technique used to study the dimensionality of a set of variables. In factor analysis, latent variables represent unobserved constructs and are referred to as factors or dimensions. Factor analysis is used mostly for data reduction purposes to get a small set of variables (preferably uncorrelated) from a large set of variables (most of which are correlated to each other). Factor analysis can be exploratory when you do not have pre-defined idea of structure or how many dimensions are in a set of variables; or confirmatory when you want to test specific hypothesis about the structure or the number of dimensions underlying a set of variables (Torres, 2010).

CHAPTER FOUR: DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the output of data analysis. The presentations are in form of tables and statements. The presentation is according to the objectives of the study.

4.2 Quantitative Data Presentation and Discussions

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, education levels, position held, age and length of service in the organization.

4.2.1 Gender Characteristics of Respondents

The study examines and describes the gender details of respondents in this study and details of their respective gender is presented in table 4.1 below

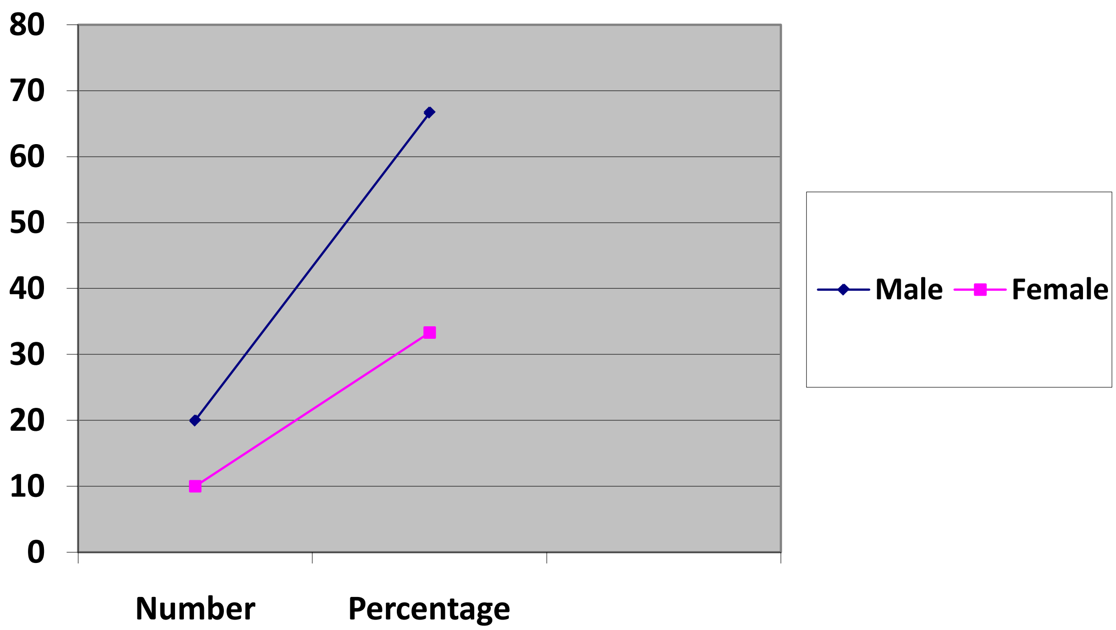
Table 4.1: Gender characteristics of respondents

Gender	**Frequency**	**Percentage**
Male	20	66.67
Female	10	33.33
Total	**30**	**100.0**

Source*: Primary data*

Table: 4. 1 above reveals that 66.67% of the respondents were males and 33.33% were female. This could indicate that there are still low levels of employment of females in commercial banks within the western region. The findings represent the conceptions of commercial banks in financing the small and medium enterprises (SME). This was necessary for the study to get a unbiased representation of the respondents' views.

Fig. 4.1: Gender Frequency



4.2.2 Education Characteristics of Respondents

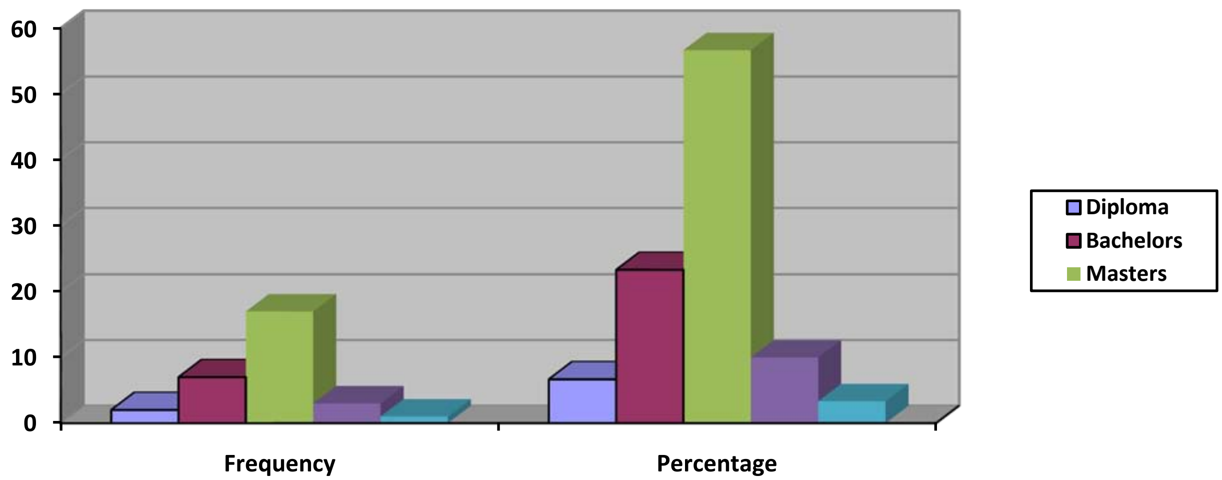
Details about the education levels of respondents were obtained as presented in the table below.

Table 4.2: Education Levels of Respondents

Qualification	**Frequency**	**Percentage**
Diploma	2	6.67
Bachelors	7	23.33
Masters	17	56.67
PhD	3	10
Other	1	3.33
Total	**30**	**100.0**

***Source**: Primary data*

Fig. 4.2: Education level of respondents



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In table 4.2 above, it can be revealed that majority of respondents who are also the employees show that they hold masters degree, followed by bachelors, PhD, diplomas and others in the orders of 6.67%, 23.33%, 56.67%, 10% and 3.33% respectively. This means that the respondents are adequately competent persons academically.

4.2.3 Description of the Positions of Respondents in the Organization

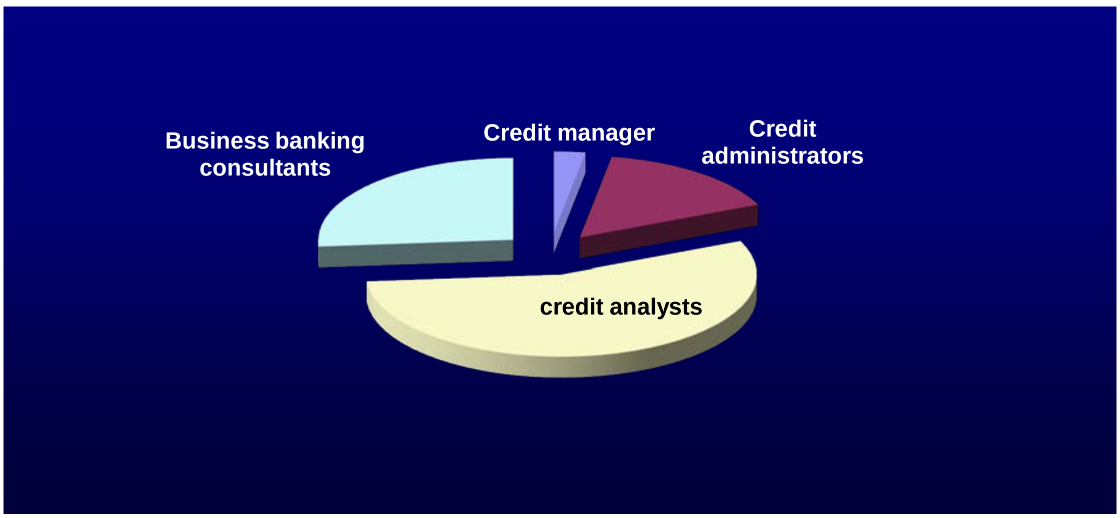
The study sought and obtained details about the positions held by the respondents in the organization for purposes of understanding their role in the variables of study. Details of the respondents and their positions are shown in table 4.3 below:

Table 4.3: Position held in the organization

Position held	**Frequency**	**Percentage**
credit manager	1	3.3
Credit administrators	4	13.33
Credit analysts	17	56.67
Business banking consultants (BBC)	8	26.67
Total	**30**	**100**

***Source**: Primary data*

Fig 4.3: Position held by respondents



The analysis results in table 4.3 show that majority of respondents in this study are credit analysts (17), followed by Business Banking Consultants (8), Credit administrators (4), andCredit manager (1). These represent 56.67%, 26.67%, 13.33% and 3.3% respectively.From the above description, it can be revealed that the majority of the respondents in this studyare those directly responsible for or directly involved in the processing and disbursement of the loans to the Small and Medium Enterprises (SME). Therefore, their responses are deemed to be a sign of what really takes place in the organization.

4.2.4 Description of Age Groups of Respondents

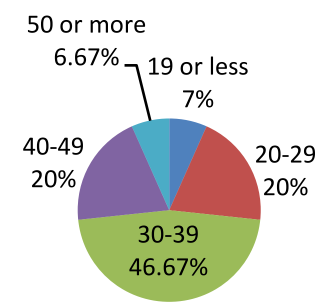
The study obtained details about the age groups of the respondents for purposes of understanding their age and possibly the experience they possess in their respective positions. Details of the findings are shown in table 4.4 below.

Table 4.4: Age Groups of Respondents

Age group	**Frequency**	**Percentage**
19 or less	2	6.67
20-29	6	20
30-39	14	46.67
40-49	6	20
50 or more	2	6.67
Total	**30**	**100.0**

Source*: Primary data*

Fig. 4.4: Age group representation



From the description above it is clearly evident that the majority of the respondents are in the age bracket of between 30-39, followed by 20-29, 40-49, 50 and more and 19 or less in the orders of 46.67%, 20%, 20%, 6.67% and 6.67% in that order. It can therefore be concluded that the greater part of the respondents are in the most prolific age brackets of their life and are reasonably knowledgeable.

4.2.5 Respondents Years of Service

The respondents' years of service were deemed important to evaluate the level of experience the respondents have in the organization. Details from the survey are given as shown on the table below.

Table 4.5 Years of service

Number of years	**Frequency**	**percentage**
Less than 3 years	6	20
4-6 years	10	33.33
7-9 years	14	46.67
10 and more years	0	0
Total	**30**	**100**

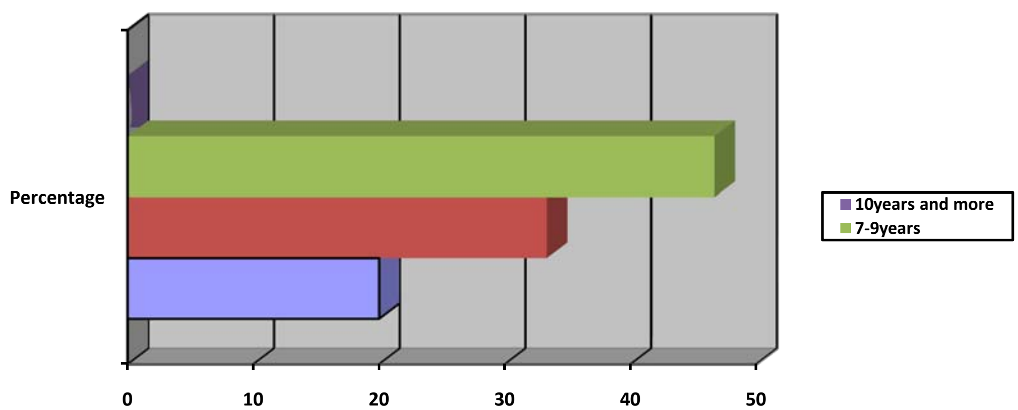


Fig 4.5: percentage years of service

From Figure 4.5 above it is evident that majority of the respondents have served in the organization for between 7 to 9 years with a representation percentage of 46.67% followed closely by those who have served in the organization for between 4-6 years at

33.33%. The number of years of service will demonstrate the experience and continuity with the financing of the Small and Medium Enterprises within the Western region.

4.3 Examining the Functionality of the Commercial Banks in Financing SMEs

The study sets to analyze and reveal how the commercial bank within western region actually issue out loans to the Small and Medium Enterprises (SMEs), and particulars are obtainable in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references.

4.3.1 Descriptive Statistics of Financing of the Small and Medium Enterprises

Variables on control environment are discussed below.

Table 4.6: Mean and Standard deviation of financing SMEs

	N	Min	Max	Mean	Standard Deviation
Accounting and Financial Management System	30	2	5	4.95	.772
Management commitment	30	2	5	4.71	.884
Organization structure	30	2	5	4.46	.964
Policies, procedures and documentation	30	1	5	3.78	.998
Delegation of duties and responsibilities	30	1	5	2.71	1.104
Management is of high integrity	30	1	5	2.61	1.004
Ethical values exists among staffs	30	1	5	2.55	1.000
Internal and independent External audit	30	1	5	2.04	1.002

***Source**: Primary data*

In table 4.5 are details of the measures of effectiveness of the control environment under different key statements obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

4.3.1.1 Accounting and Financial Management System

The study found that the respondents seem to agree that the Institution has an accounting and financial management system in place with a mean value of 4.95 which appears to be close to the maximum of 5. However, the standard deviation of 0.772 shows that there is a clear variation in the responses provided by the respondents about the existence of the accounting and financial management system.

4.3.1.2 Management Commitment on the Financing of the SMEs

Respondents seemed to agree that management is committed to the operation of the Accounting and Financial management system as reflected by the mean value of 4.71 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.884 suggests varied responses regarding management’s commitment to the Accounting & Financial management system. Management commitment to the operations of the Accounting and financial management system rhymes with Whittington and Pany’s assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. That control environment; especially management philosophy and operating style is the foundation for all other components of internal control.

4.3.1.3 Organization Structure

In Table 4.6 above, respondents provided their understanding in regard to organization structure affect implementation of the controls and their perceptions show mean of 4.46, implying that they agree with the statement. But since the mean appears so close to the actual average, then the need to closely focus on the variation. Thus, a standard deviation of 0.964 suggests significant differences in responses as regards the organization structure. The finding is in line with Mawanda (2008) who advocated for management (control environment) as the cornerstone for afinancing of the small and medium enterprises.

4.3.1.4 Policies, Procedures and Documentations in the Commercial Banks

The results as reflected in table 4.6 show a mean of 3.78. This is below the mean average, implying that respondents disagree as to the statement regarding policies and procedures of the operation of the system. Consequently, a greater standard deviation figure of 0.998 raises concerns regarding the policies and procedures of the operations of the organization system. The figure of standard deviation further reveals that the respondents had varied opinion about policies and this could also mean that besides disagreeing about policies, they could also be in disagreement with the type of policies and procedures provided by management. The results are at odds with Whittington and Pany (2001)'s requirement for management to include programs for preparing, verifying and distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

4.3.1.5 Delegation of Duties

The results of the survey in table 4.6 suggest that respondents seem to agree that appropriate action is normally taken by management to delegate duties and responsibilities in the commercial banks in case one staff is off duty or on leave, although the standard deviation of 1.104 provided by the same respondents suggests that they possess varied understanding about the aspect of the measures taken in standing in for a colleague. This could also imply that measures taken are sometimes, not communicated or formal. Management's action to correct misfeasance in the system is an indication of management's commitment to the operation of the financing of the small and medium enterprises (SMEs).

4.3.1.6 Management Integrity

The results of the survey as revealed by Table 4.6 suggest that management acts with Integrity.

This is evident when the mean of respondents as computed by the system is well above the average (i.e. 2.61). Nonetheless, the corresponding standard deviation of 1.004 suggests that respondents had a significant variation in responses on management integrity in the execution of their role. However, this could also be construed to imply that respondents might not have clearly understood the magnitude of integrity in this framework.

4.3.1.7 Ethical Values Upheld

The analysis results in table 4.6 reveal that to some extent, ethical values are upheld in all management decisions as reflected by a mean value slightly above average, 2.55. However, even then the respondents seemed to have varied responses regarding ethicalvalues in all management decisions as revealed by a standard deviation of 1.000

4.4 Risk Assessment Functionality

Risks are events that threaten the accomplishment of objectives. They ultimately impact an organization's ability to accomplish its mission. Risk assessment is the process of identifying, evaluating and determining how to manage these events.

4.4.1 Descriptive Statistics on Risk Assessment

Table: 4.7: Mean and Standard deviation of risk assessment

	N	Min	Max	Mean	Std Deviation
Existence of credit and advances Department	30	1	5	3.98	.900
Credit and advances department is adequately staffed	30	1	5	3.55	.920
Adequate system installed in the all commercial banks e.g. BFUB, Branch power e.t.c	30	1	5	2.98	.997
Employees know risk areas in defaulters	30	2	5	3.10	.899
There are properly laid down procedures on financing of SMEs	30	1	5	2.72	1.064
Decline of borrowers have been addressed by management	30	1	5	2.99	.997
There is laid down procedures on financial risk identification	30	1	5	3.05	1.101
Site visiting officers are adequate	30	1	5	3.01	.966
There is adequate involvement of all staff in financing of Small and Medium enterprises (SMEs)	30	1	5	3.22	1.021

Source*: Primary data*

In the Table 4.6, the researcher set out to examine the risk assessment function as a way of examining the efficient way in the financing of small and medium enterprises by all commercial banks within the western region. The test statements were equally ranked in terms of their mean and standard deviation. The details of the survey are discussed as follows.

4.4.1.1 Existence of Credit and Advances Department

From the results in table 4.6, it is clearly evident that respondent were in total agreement as to the existence of the credit and advances department in all commercial banks within the western region as reflected by a mean value of 3.98 However, the standard deviation of 0.900 suggests variations in responses by the various respondents. It shows that the work of credit and advances department is recognized and acknowledged in all commercial banks within the western region.

4.4.1.2 Credit and Advances Department Adequately Staffed

Results of the survey shows a mean of 3.55 which is below the average; this suggests that respondents do not believe that the credit and advances department is sufficiently staffed. However, a standard deviation of 0.920 suggests varied responses as to whether the credit and advances department is sufficiently staffed. There should be another monitoring body in what Gerrit and Mohammad (2010) refer to as a substitution effect, which means that independent board members may be measured as a substitute monitoring apparatus to the Internal Audit function.

4.4.1.3 Adequate System

Table 4.6 shows respondents seem to disagree as to whether the system software is adequate for ease of financing of small and medium enterprises (SMEs). With a mean of 2.89 which is below the average of 3. However, a standard deviation of 0.975 suggests a significant variation in the responses. Most of the commercial banks within the western region have shifted from the old system to a more revised and current systems e.g. national bank, co-operative bank, Kenya commercial bank among many others.

4.4.1.4 Employees have Knowledge of Risky Areas in Defaulters

The mean of 3.10 and standard deviation of 0.899 have shows varied response among managers which spread uncertainties as to the awareness of defaulters among employees in all commercial banks within the western region.

4.4.1.5 Loan Appraisal Procedures

Loan appraisal is the core business of commercial banks as it is the pillar of revenues in all commercial banks but managers are not in agreement as to well lay down procedures of collection because of the long laid procedures laid with a mean of 2.72 and standard deviation of 1.064 which shows the varying response to the question.

4.4.1.6 Management Address Decline of Borrowers

The response has revealed that management of commercial banks has responded to defaulters of loans disbursed to SMEs with a mean value of 2.99 although the standard deviation under the same test revealed a variation in responses generated.

4.5 Functionalities of the Financing Process

Financing process is a process which involves both manual and automated activities that help prevent or reduce the risks that can hamper accomplishment of the organization's objectives and mission. Management should establish an effective financing process to effectively and efficiently achieve the organization's objectives and mission.

4.5.1 Descriptive Statistics on Financing Process

Table 4.8: Mean and standard deviation of financing process

	N	**Min**	**Max**	**Mean**	**Std Deviation**
Approvals required for loan disbursement	30	1	5	3.42	1.244
Close supervision	30	1	5	3.08	.906
Corrective action	30	1	5	3.21	1.119

Information sharing	30	1	5	2.97	1.119
Periodic employee rotation	30	1	5	3.05	.998
Independent reconciliation of collection of the loans disbursed to the customers	30	1	5	2.51	1.197

***Source**: Primary data*

Findings of the control variable as a tool for perception of financing small and medium enterprises has been analyzed and presented as below.

4.5.1.1 Separation of Roles of Approval of Loans

The results of the survey suggest that respondents agree there is a clear approval procedure while executing their duties in the assessment and disbursement of the approved loans to the small and medium enterprises customers. This is shown by a mean of 3.32. However a significant standard deviation of 1.006 is a clear manifestation of varied responses from respondents as far as clear authorization is concerned. Mawanda (2008) has suggested that integration of approvals such that no one person should handle all aspects of a loan procedure from the induction process to the disbursement point.

4.5.1.2 Supervision by Senior Staff

The table 4.8 reveals that respondents agree that there is appropriate supervision of junior staff by their seniors managers. This is revealed by a mean value of 2.98. The standard deviation of 0.900 reveals that there were speckled responses from the respondents interviewed. Mawada (2008) says that the lack of supervision by senior staff is an indication of deficiencies in premeditated goals and targets which if not addressed may lead to a lot of loan defaulters within the commercial banks in the western region.

4.5.1.3 Correction Steps and Procedures

The respondents agree that corrective action and procedures is normally taken to tackle weaknesses as shown by a mean value of 3.11. This value is close to the mediocre position, implying that respondents were almost not certain as to whether corrective action is taken to address weaknesses. However, a significant standard deviation of 1.072 shows that there are very varied responses as far as responses to the control test is concerned. Action being taken to address weaknesses in the loan processing procedure is an indication of the dedication by administration.

4.5.1.4 Sharing of Customers Information to a 3rd Party

The respondents were almost indifferent as whether staffs have the authority to share customers' information to any 3rd party regarding the account balance, loan balance without the consent of the customer himself. This is revealed by a mean value of 2.72 although the standard deviation of 1.072 indicates the respondents varied to a great extent as far as this test was concerned. This may be an indication of oath of secrecy taken by all employees of the bank impact on the dependability of information.

4.5.1.5 Job Rotation

Senior managers as respondents were not sure as to whether controls are in place to periodically rotate employees to different locations. This is revealed by a mean value of 3.01 which is very close the average of 3 However, the deviation of 0.956 suggests varied responses to the test from the respondents interviewed. The finding could be a failure by Human Resource Section at the branch levels of the commercial banks within the western region.

4.5.1.6 Independent Reconciliation of Loans Recovery

The results of the survey as reflected in table 4.8 suggest that respondents disagree with the reconciliation of loan recovery. This is revealed by a mean value of 2.56. However, a significant standard deviation of 1.226 suggests that respondents varied significantly in their responses to the test declaration. The failure by the management to have an independent body to reconcile its collection could result to over reporting of the recovery and at times recovery twice and at times not reflecting on the pay slips of the customers.

4.6 Information and Communication

Information and communication is a perception to the financing of the commercial banks on the Small and Medium Enterprises (SMEs) and was addressed as shown here under.

4.6.1 Descriptive Statistics on Information and Communication

This item on the pre survey assessed respondents' perception and expectation on usage of information and communication in commercial banks in the western region.

Table 4.9:Channels of communication

Likert Ranking, X	1	2	3	4	5	Total
No. of response, W	7	15	3	5	0	30
Percentage response	18	50	8	24	0	100
XW	7	30	9	20	0	66
Mean score	**66/30=2.2**					

Source: Primary data

Four questions that are closely related to Information and Communication were analyzed inferentially. The results indicate that:

Majority of the credit managers, 50% being the respondents agree that there are well sophisticated information and communication strategy in the system and that the channels of communication for exposure is followed. However, there was no response who strongly disagreed on the utilization of information and communication.

In as much as there are good channels of communication, most managers strongly disagree that measures have been put in position for conducting complaints from small and medium enterprises (SMEs) and greater part of the respondents also strongly agree that complaints against employees are handled in a proficient manner with non who strongly disagrees. There were also varying response as to the appropriateness of receipt of relevant and steadfast information for decision making with 39% of the respondents being not sure as to the timeliness and 47% of them disagree that they receive timely, relevant and reliable reports for decision making.

4.7 Monitoring

This is the final perception in the financing of small and medium enterprises (SMEs) and comes after all the systems have been put in place. Monitoring involves checking to see whether the loans disbursed and the check off system put in place is working effectively.

4.7.1 Descriptive Statistics on Monitoring and Evaluation

This item on the pre survey assessed respondents' perception and expectation on monitoring of systems in the commercial banks.

Table 4.10: Reviews and monitoring of financing of the small and medium enterprises

Likert Ranking, X	1	2	3	4	5	Total
Number of respondents, W	0	3	2	10	15	30
Percentage of response	0	10	6.67	33.33	50	100
XW	0	6	6	40	75	127
Mean score	**127/30=4.32**					

Of the 30 respondents interviewed for the survey, 15 of them being represented as 50% strongly disagree that management periodically review the financing of small and medium enterprises (SMEs) with none of the respondents strongly agreeing as to the reviews. However, majority of the respondents agree that commercial banks unachieved targets are communicated in timely bases to the staff and reviews are made on those targets, with greater part of those respondents not sure as to the usage and efficacy of system monitoring mechanisms in loan repayment which have been put in place within the commercial banks in the western region.

4.8 Examining the Loan Performance (Repayment)

The loan performance (repayment) by the commercial banks was examined by analyzing data collected and computing for the mean and standard deviation of the responses. Details of these analyses are shown in table 4.9 below.

4.8.1 Descriptive Statistics on Loan Performance (Repayment)

Table 4.11: Mean and standard deviation of loan performance (repayment)

	N	**Min**	**Max**	**Mean**	**Std Deviation**
Loan repayment has improved over the year	30	1	5	4.77	1.213
Commercial banks has been hitting its target	30	1	5	2.59	.956
Target set for issuance of loan is realistic	30	1	5	2.64	1.046

Source*: Primary data*

4.8.1.1 Loan Target

From the information credit managers believe that commercial banks has not been achieving its loan target as set by the head of the board of directors in various commercial banks within the western region. This is demonstrated by the mean value of 2.46. However, a significant standard deviation value of 0.943 under the same test revealed varied responses from their response.

4.8.1.2 Realistic Target

The table shows that the target set for each commercial bank to meet over the financial year is not realistic and they strain to attain. This is shown by a mean value of 2.97 although the standard deviation of 1.062 under the same test revealed varied responses from the respondents. The loan target should be based on employee ability and sound controls.

4.8.1.3 Enhanced Loan Collection

Credit managers have demonstrated that loan collection has improved over the years even though impractical set targets have not been met, with a mean value of 4.55. However, a standard deviation of 1.112 reveals varied responses from the respondents interviewed over the same test.

4.9 Correlation Analysis

The zero order correlations were used to create the liaison between the independent and dependent variable. The Pearson's correction test was employed to execute this as shown below.

Fig 4.12: Zero-order Correlation Analysis

	1	**2**	**3**	**4**	**5**	**6**	**7**
Control Environment	**1.000**						
Control Activities	.531	**1.000**					
Risk Assessment	.330	.377	**1.000**				
Information & Communication	.416	.384	.283	**1.000**			
Monitoring	.395	.470	.426	.429	**1.000**		
loan Collection	.482	.339	.447	.317	.482	**1.000**	
Financial Systems	.512	.393	.300	.423	.460	.489	**1.000**
Correlation is significant at the 0.01 level (2-tailed)							

Source: primary Data

4.9.1 Loan Collection

The result revealed a considerable positive connection between financial Systems and loan Collection ($r=0.4489$, $P>0.01$). This means that when financial systems improve it may result into upgrading in collection of the loans issued. The study further exposed that good Financial Systems only contribute 48.9% to collection 51.1% to other factors not incorporated in this study and need further studies to expose them and their assistance.

4.9.2 Connection between the Control Environment and Loan Collection

From Table 4.9, it is revealed that there is a statistically noteworthy encouraging connection between the Control Environment and loan collection, ($r = 0.482$, $P<0.01$) was found. This implies that commercial banks should set up a resonance and hygienic Control Environment to increase its loan collection goal. The top management and board of directors should make certain that the attitude from above is excellent for all staff that implements enlargement programs. The study auxiliary exposed that Control Environment only contribute 48.2% to loan collection leaving 51.8% to other factors not incorporated in this study and need extra studies to disclose them and their offerings.

4.9.3 Affiliation between Control Activities and Loan Collection

A statistically significant positive relationship between Control Activities andloan collection in commercial banks ($r = 0.339$, $P<0.01$) was instituted. Thismeans that if control activities are adhered to, commercial banks willabsolutely achieve loan collection targets.The study further discovered that control activities only contribute 33.9% to compilation leaving 66.1% to other factors not incorporated in this study and needfurther studies to disclose them and their offerings.

4.9.4 Peril Appraisal helps Accomplish Loan Collection

There is a positive relationship between the peril appraisal and loan Collection in commercial banks in the western region ($r = 0.447$, $P<0.05$) as shown by the study. This implies that commercial banks should carry out customary peril appraisal to be proficient to discover peril that will render them to malfunction to achieve their set objectives hence malfunction to attain their target loan collection. The study further revealed that peril appraisal only contributes 44.7% to collection leaving 55.3% to other factors not incorporated in this learning.

4.9.5 The Impact of Information and Communication on the Attainment of Loan Collection

Findings further disclose that there is a direct correlation between Information and Communication and loan Collection in commercial banks ($r = 0.317$, $P<0.01$). This means that the more information is communicated in the right time and accurately the more the chance that commercial banks will collect more loans issued to the small and medium enterprises. Information must be communicated in the right time and it should be precise and essential for significant decisions to be made. The study further revealed that good information and communication systems only contribute 31.7% to loan collection leaving 68.3% to other factors not incorporated in this study and need supplementary studies to disclose them and their offerings.

4.9.6 The Impact of Monitoring on the Attainment of Debt Collection

The study demonstrated that there is a significant relationship between Monitoring and debt Collection in commercial banks ($r = 0.482$, $P<0.01$). This means that the more commercial banks carry out monitoring of its systems the more loans issued out will collect. The study further discovered that excellent monitoring systems contribute 48.2% to debt collection.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the findings of the research are summarized and discussed. This chapter also highlights on the limitations of the study and recommendations for further research and for policy and practice.

5.2 Summary and Conclusions

Commercial Banks perception on the financing of Small and Medium Enterprise firms is widely concerned with how their financing is chosen and put into effect to yield the objective goals of the firms. The objective of this study was to determine the factors influencing financing of Small and Medium Enterprise firms in Western Region, Kenya.

Results from table 4.1.2(two-tail sample t test) indicated that the higher the significance level, the higher the t value and the less the significance, the lower the t value. Given that the middle point in this case was three (3), most respondents indicated that the factors do influence financing of SME to a large extent as their scores were way above three. This then indicated that the means were statistically different from the middle point.

Results from table 4.3.1 (positions held in the organization) indicated that over 56.67%(largest %) position held in the organization are the credit analysts since they are responsible or are directly involved in the processing and disbursement of loans to the SME,they are bound to factors that influence financing of the SME within Western Region, Kenya as have been accounted for by the primary data on tables 4.3.1. Results from table 4.4.1 clearly indicated that the majority of the respondents are in the age bracket of 30-39 with 46.67%.

Results from table 4.4.2(mean and standard deviation of financing SMEs) indicated that the higher the standard deviation in the descriptions given, the more the factor contributes to the variable.

Table 4.4.3 illustrates findings from (mean and standard deviation risk assessment) the idea was to find the number factors on which the variables under investigation have high risk assessment levels. Looking at this table it was noticed that a majority of factors loaded on one component.

5.3 Limitations of the study

After evaluating the results of this study, the following limitations should be kept in mind: That conceptually, the study only focused on the perception that commercial banks has towards financing of the Small and Medium Enterprises among firms in Western Region, Kenya. Contextually, the study was limited to small firms from Western Region, Kenya, and that these findings may not represent the whole country. Methodologically, that this study relied on credit managers, credit analysts, credit administrators and business banking consultants to fill the questionnaires, and now in the absence of the interviewer, these questionnaires could have been filled by other subordinate stuff, who might not be actively involved in the financing of the SME, therefore creating a source of bias.

5.4 Recommendations

5.4.1 Recommendations for Further Research

What this research has achieved can only be considered to be little, thus requiring further research work. Future study should link financing of Small and Medium Enterprises to their Performance so as to ascertain how the two relate in respect to each other. There is need also to carry out the study in all areas where there is existence of this firms country wide, to try and find out whether the findings from one region(For instance Western) can truly represent the entire country. A replication of this study should be done after some time to find out if there are any changes that might have taken place as a result of time difference and then comparisons to be made with the current data, so that viable recommendations can be drawn.

5.4.2 Recommendations for Policy and Practice

For the Small and Medium Enterprise firms in Western region, Kenya to effectively manage their finances and keep the business running, they should fall back and look at their failures and obstacles and then change course. They should look at both the internal and external factors that derail their smooth running and hinders them from attaining the objective goals and develop policies along this line to mitigate and offer corrective measures.

Some of the factors that the Management of SME need to relook include the degree of supervision and coordination of activities in the organization, existing relationships between employees and managers, clear assignment of responsibilities to carry out the organization activities, the degree of cooperation and commitment among functional departments of the organization and the internal control mechanisms in the organization.

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APPENDIX ONE: Questionnaire

Answer all the questions that you feel are applicable to your organization either by ticking the box or filling the blank spaces provided bellow and thank you in advance.

Section One: Organization bio data.

Organization:	
Department Name:	
Gender	Male. ☐ Female. ☐
Your Name and Address *(optional).*	
Age (*Tick the appropriate one)*	☐ Below 20yrs, ☐ 20-29yrs, ☐ 30-39yrs , ☐ 40-49 yrs, ☐ 50 and above,
Date(s) of Assessment:	

Section two: Commercial banks perception in financing

1. Does your organization engage in financing activities?

YES ☐ NO ☐

2. Does your organization have documented policies in financing?

YES N

What is your role in the commercial banks financing process?

Section three: Commercial Banks Perception on Issues in financing SMEs.

The following are some of the perception on issues in financing SMEs. *Please indicate the extent to which each perception has influenced the financing of SMEs in your organization.* Use the key below and tick as appropriate.

Key:

1- Not at all; **2**- To a less extent; **3**- Moderate extent; **4**- Large extent

5- Very large extent

NO.	**PERCEPTION**	**1**	**2**	**3**	**4**	**5**
1	From the kind of activities taking place in western Region, do you agree that SME issues have an impact in commercial banking in the region?					
2	Do you think that these SME issues have any negative impact in financing? Determination of the timelines within which the loan have to be completed.					
4	Establishment of clear performance indicators(Outputs) for each loan-related activity					
5	Assigning of responsibility for carrying out the lending-assessment process					
6	Do you think that these cost associated to Micro-credit can result to a negative effects in the growth Micro-enterprise in Western Region?					
7	Has the information Asymmetries rate favors the growth					

	of Micro-Enterprises in Western Region?					
8	Contingency plans put in place to manage change among SMEs through financing					
9	Clear determination and definition of outcomes of SME financing					
10	Day-to-day decisions made by top management and their consistency towards effective financing of the SMEs					
11	Monitoring and controlling of activities by top management in implementation of finances to SMEs					
12	The degree of cooperation and commitment among the credit and advances department of the organization					
13	Organization's flexibility to changing market conditions and competitive forces					
14	Management decisions about the organization's relationship with the SMEs					
15	The degree of compatibility between the financing of SMEs and commercial banks values and beliefs					
16	Organization's rate of adoption of new and relevant technologies (BFUB, Branch power e.t.c.)					
17	The availability of affordable credit facilities to the SMEs					
18	The prevailing inflation rates in Kenya's economy					
19	The prevailing interest rates (cost of borrowing) in Kenya's financial market					
20	Existing legal and regulatory parameters within which a commercial bank must operate in					
21	Existing fair trade and anti-trust laws in Kenya					
22	Existing interest rates offered by commercial banks					
23	The prevailing political climate within the vicinity (Western Region) and the whole country (Kenya) at large.					
24	Advancements in technology					
25	Do all SMEs have access to finances in the Western Region?					
26	Is there an impact on transactional costs in the growth of Micro- Enterprises?					
27	Availability of required human resource skills within the commercial banks					

28	The relationship between the commercial banks and the surrounding community					
29	The nature of corporate social responsibility activities being carried out by the commercial banks					
30	The level of security within the Western Region and in the country					

Thank You for Time and Cooperation