LENDING TO SMALL AND MEDIUM ENTERPRISES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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NOVEMBER 2014

DECLARATION

I declare that this project is my original work and no part of this paper has been written or published anywhere or presented for a degree in any university

Signed…………………………………….. Date………………………………………

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This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

To My Late Dad (Benson Edwin Wambani), loving Mom (Mary Akoth Wambani) and my dear wife (Esther Akello Omondi), I would not have made it through my studies had it not been for your support. God bless you abundantly.

ACKNOWLEDGEMENT

ABSTRACT

The banking industry in Kenya is now characterized by increasing competition and innovation. This phenomenon has led to most banks adopting cutting edge technology and creating more tailor made products in different sectors especially SME sector to improve the quality of their loan portfolio. This paper tries to establish the relationship between performance of credit facilities to SMEs and other sectors and the performance of commercial banks in Kenya and to examine the credit policies of commercial banks in Kenya. The study focuses on performance of commercial banks in Kenya on lending to SMEs. The main value of this study is to establish the relationship between performances of commercial banks vis a viz lending to SMEs from a Kenyan perspective. Relevant recommendations aimed at enhancing the banking sector based on the topic of the study are also made. The study is not only useful to the policy makers and academicians, but also to entrepreneurs interested in the banking sector. The study established the relationship between lending to SMEs and performance of commercial banks in Kenya. Survey of existing literature on the subject was done and interviews were held to 23 respondents to establish the relationship between lending to SMEs and performance of commercial banks in Kenya. Data from 23 respondents was collected using questionnaire developed. Information obtained was analyzed. Correlation analysis was used to determine relationships among variables. The research study found out that the highest PAR in the consumer and Agriculture sector stood at 15% and the lowest at 0.0%. The highest PAR in the Micro Enterprises sector is 9.10% and the lowest is at 2%. In the SME sector the highest PAR is at 1.80% and lowest in the sector is at 0.0%. This means that the higher the PAR the higher the amounts to provision for write offs and this directly eats into the profits of commercial banks. The lower the PAR the better for the commercial banks since the provisioning with be of lesser amounts meaning grater performance in terms of profitability. Comparing the three sectors it is evident that SME sector is performing well with very low percentages of PAR. Results of the study reveal strong relationship between financial performance of commercial banks in Kenya and lending to SME sector as compared to other sectors like consumer and Agriculture and micro enterprises. This study had limitations. Some of the respondents did not return the questionnaires even after follow ups were done. Thirty questionnaires were issued but only twenty three were returned. There was difficulty in accessing the respondents due to their busy schedules and getting information, which they felt, was confidential. In addition to this the responses were based on the judgment of the interviewees and this could be subjective.

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LIST OF ABBREVIATIONS AND ACRONYMNS

AR   -   Abnormal returns

ASRV   -   Average Security Returns Variability

BIS   -   Bank for International settlements

CBK   -   Central Bank of Kenya

CAR   -   Cumulative Abnormal returns

CMA   -   Capital Markets Authority

DTB   -   Diamond trust Bank

IPO   -   Initial public offer

M&M   -   Modigliani and Miller

NSE   -   Nairobi Securities Exchange

SVR   -   Security Returns Variability

USA   -   United States of America 1

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The potential of small and medium scale enterprises (SMEs) in promoting economic growth and poverty alleviation in both developed and developing countries is widely accepted and documented by both scholars and policy makers. SMEs account for a sizeable share of overall employment levels in both developed and developing countries. Data collected by Ayyagari et al. (2007) for 76 developed and developing countries indicate that, on average, SMEs account for close to 60% of manufacturing employment. Likewise, in Kenya, the small and medium scale industry is seen as a key to Kenya's economic growth, alleviation of poverty and unemployment in the country. Available data shows that SMEs contribute about 40% to the country's Gross Domestic Product (Tamara, 2006). SMEs are said to be 80 percent of registered business each employing between 5 and 99 people (Ibid). Therefore, promotion of such enterprises in developing economies like Kenya is of paramount importance since it brings about a great distribution of income and wealth economic self-dependence, entrepreneurial development employment and a host of other positive, economic uplifting factors (Aremu 2004).

In recognition of the depth and breadth of the consequences of small-scale enterprises in alleviating poverty and national development, there has been a deep-self interest in recent years for development of Kenyan SMEs particularly since the adoption of the economic reform post 1985. The Government of Kenya enacted the SMEs development policy (2003-2013) with the aim of fostering job creation and income generation through creation of new SMEs and improving the performance and

competitiveness of existing SMEs. Additionally, National Strategy for Growth and Reduction of Poverty II (NSGRP II) has set targets to reduce poverty in both rural and urban areas in Kenya from 33.6 percent 2007 to 24 percent in 2015. Development of SMEs has been identified to be one among the key strategies to attain the targets of reducing poverty (URT, 2010). Moreover, the government has initiated a package of strategies, aiming to foster SMEs development by reducing various problems facing SMEs in marketing, human resources and management, technology, infrastructure, regulations, and financing (URT, 2010). One among major bottlenecks to the growth of SMEs in Kenya is access to finance especially from commercial banks. The Kenyan government has long recognized the problem and has tried to help SMEs obtain financing for more than a decade, and even raising SME financing to the national development agenda which resulted in the "National Microfinance Policy (NMP) in February 2001.

However, SMEs financing difficulties persist. Existing studies on Kenyan SMEs have consistently cited the problem of finance as principal constraint on their development and growth. In survey of 136 small firms in Kenya, Satta (2003) found that 63% of them consider difficulties in accessing finance from financial institutions as the major constraint to their development. Ayyagari et al. (2006) using sample of 80 countries including Kenya they found that access to finance is an important constraint to firm growth. They suggest for further investigation of country and firm level determinant of financing obstacles for future work. Maliyamkono (2006) noted that total credit during 2006 stood at 36% of commercial banks deposits and was concentrated on large firms. Likewise, Olomi (2009) noted that, studies consistently show that over 70% of SMEs in Kenya perceive finance to be the most serious impediment to the

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establishment and development, although banks in Kenya generally do not have liquidity problems. The phenomenon of limited access to finance by SMEs from financial institution is widely recognized in other developing countries.

1.1.1 Small and Medium Scale Enterprises Lending

SME banking is an industry in transition from a market that was considered too difficult to serve. It has now become a strategic target of banks worldwide. The "missing middle," describing the gap in financial services provided to SMEs, is shrinking. SME banking appears to be growing the fastest in emerging markets (low- and middle-income countries) where this gap has been the widest. More and more emerging market banks are developing strategies and creating SME units. Banks' committed portfolio of investments in SME financial institutions has grown dramatically over the last five years. Competition in other markets is one reason cited for commercial banks moving "downstream" to serve SMEs. Also, governments around the world now recognize the importance of the SME sector and have worked to support its access to finance, sometimes by addressing legal and regulatory barriers or building credit infrastructure. But the key to the growth of SME banking may be that banks are starting to understand the particular needs and preferences of SMEs, and are developing tailored approaches to overcome the historical challenges of high credit risk and cost to serve. One sign that banks are unlocking some of the potential in the market is that they are reporting higher returns on assets from their SME operations. For example, leading banks reported ROAs of 3–6 percent for their SME operations compared with 1–3 percent bank-wide.

Also, contrary to common perception, the SME market is served by a wide spectrum of banks, not just smaller banks with relationship-based models. Today, despite the significant challenges posed by the current (2009) global economic crisis, and the uncertainty ahead, many banks seem to be holding fast to their strong commitment to the SME sector, especially in emerging markets. While the full impact of the crisis is not yet apparent, banks maintaining their focus on SMEs often cite a strong belief in the importance of the SME sector to the national economy as a whole.

1.1.2 Financial Performance

Bessis (1998) defines financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations. Lyman and Carles (1978) also defined it as the operational strength of a firm in relation to its revenue and expenditure as revealed by its financial statements. Financial performance is characterized of a bad debt policy, sales turnover, profitability level, client's dropout rate, growth, reduction in fixed assets, and physical visitation by commercial staff, debt age analysis, and public media. Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995). Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Hempel et al., 1996). Chien and Danw (2004) showed in their study that most previous studies concerning company performance evaluation focus merely on operational efficiency and operational effectiveness, which might directly influence the survival of a company. By using an

innovative two-stage data envelopment analysis model in their study, the empirical result of this study is that a company with better efficiency does not always means that it has better effectiveness.

Elizabeth and Ellot (2004) indicated that all financial performance measure as interest margin, return on assets, and capital adequacy are positively correlated with customer service quality. Scores Mazher (2003) discussed the development and performance of domestic and foreign banks in Arab gulf countries, and showed that local and foreign banks in these countries have performed well over the past several years. Moreover, he added that banks in these economies are well capitalized and the banking sector is well developed with intense competition among the banks. Generally, the concept of efficiency can be regarded as the relationship between outputs of a system and the corresponding inputs used in their production. Within the financial efficiency literature, efficiency is treated as a relative measure, which reflects the deviations from maximum attainable output for a given level of input (English and Yaisawarng, 1992). Some other useful measures of financial performance are wound into what is referred to as CAMEL. The acronym "CAMEL" refers to the five components that are accessed: Capital adequacy, Asset quality, Management, Earning and Liquidity. Ratings are assigned for each component in addition to overall rating of banker's financial conditions (Jose, 1999).

1.1.3 Banking Industry in Kenya

Central Bank of Kenya (CBK) is tasked with formulation and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other commercial banks. The CBK ensures the proper functioning of

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the Kenyan financial system, the liquidity in the country and solvency of the Kenya shilling. The Ministry of finance is where CBK falls. To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association. Kenyan banks have realized tremendous growth in the last five years and have expanded to the East African region. The banking industry in Kenya has involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customers and globalization challenges. There has been increased completion from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholders are the ones who benefited most (Karumba and Wafula 2012).

Kenya's banking sector is the most developed in the region. Although the number of commercial banks has remained at 45 since 2008, a number of initiatives, including the rapid expansion of money transfer through telephones and electronic mobile banking services, raised the quality of financial services and expanded access. The M-PESA mobile phone-based payment system is a home-made, world-class Kenyan innovation, which is now being considered for implementation by various countries worldwide. Similarly, the M-KESHO banking and M-SHWARI lending services provide opportunities to the poor to save and borrow as little as USD 1.20 at any point in time. According to the Kenya FinAccess Survey 2013, financial exclusion dropped from 32.7% in 2009 to 25.4% in 2013, and access to formal banking increased from 40.5% to 65.9% in the same period. However, as indicated in the World Economic Forum's 2013 Global Gender Gap Report, only 39% of women have an account in a formal financial institution, compared to 46% of men. Kenya ranks fairly well in

Africa in terms of loan access, venture capital availability and financing through the equity market. Yet, a lack of collateral often prevents small businesses from accessing credit (Karumba and Wafula 2012)

1.1.4 Commercial Banks in Kenya

The companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are main regulators and governors of banking industry in Kenya. These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time. In 1995 the exchange controls were lifted after the liberalization of the banking in Kenya. As at December 2012 there were 45 licensed commercial banks and 1 mortgage finance company. Out of the 44 institutions, 31 were locally owned and 13 were foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (Karumba and Wafula 2012).

1.2. Research Problem

Banks, like other businesses, focus on value creation based on accepted and controlled risks in relation to financing SMEs. This is a study that was done by OECD 2006 and Pathrose 2005. Badulescu and Badulescu 2010 in there study on financing restrictions facing SMEs found that informational asymmetry, resulting from the lack of standardized financial information and statements provided by SMES, adding the banks limited knowledge about the company seeking a loan. The quantity and quality of information held by the entrepreneur in respect of its activities can not be accessed

in the same measure by potential creditor. Thus the creditors, the banks, are unable to make an effective discrimination between good projects.

Elizabeth and Ellot (2004) in their study of banks and SMEs indicated that all financial performance measure as interest margin, return on assets, and capital adequacy are positively correlated with customer service quality. Scores Mazher (2003) discussed the development and performance of domestic and foreign banks in Arab gulf countries, and showed that local and foreign banks in these countries have performed well over the past several years. Moreover, he added that banks in these economies are well capitalized and the banking sector is well developed with intense competition among the banks.

Kenyan banks, like other financial institutions rely heavily on interest income especially fro lending to sectors like Agriculture, SME, consumer and Micro enterprises [Financial Sector Deepening-Kenya (FSD-Kenya 2009)].

Karumba and Wafula 2012 in their study found that Leading banks report that more than 60 percent of their SME revenues come from non credit products and that banks have found ways to manage both costs and credit risk as they acquire and screen clients. Kasera (2014) also did a survey on the growth of SMEs in Kisumu vis a viz the impact on the economy.

However, not much has been studied by the papers on lending to Small and Medium Enterprises on financial performance of commercial banks in Kenya leaving a gap that forms part of my study. It is from the above observation that this research work is skewed at determining whether it as a lucrative business for banks to concentrate more on SMEs with the specific purpose of providing tailor made credit products for

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SME sector without applying credit rationing. There is a lot of scholarly literature, philosophical and empirically tested theories, on the subject of SMEs. However, this literature generally does not tell us much about the performance of commercial banks in Kenya vis a viz lending to SMEs. This research is undertaken to fill this gap by undertaking this survey to establish the financial performance of commercial banks and lending to SMEs. This study therefore seeks to answer what is the relationship between credit facilities to SMEs and performance of commercial Banks in Kenya?

1.3 Research Objectives

The research objectives of the study were:

i)   To establish the relationship between credit facilities to SMEs and performance of Commercial Banks in Kenya.

ii)   To examine the credit policies of Commercial Banks in Kenya.

1.4 Value of the Study

The study will prove important in providing information to scholars and academicians who may wish to conduct further study on this subject area and other related aspects of this study. The research will also add to the stock of existing body of knowledge, arguments and findings concerning lending to Small and Medium Enterprises on financial performance of commercial banks in Kenya. The management of commercial banks will be able to use it as a benchmark to develop tailor made products that suits and appeals to SMEs clientele. It will also help them in closely monitoring the asset quality.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

After stating the problem and setting of study objectives in chapter one, this chapter present a review of the literature on the relationship between credit rationing and financial performance of commercial banks. It gives an overview of the underpinning theories of credit rationing, empirical studies and a summary of the chapter.

2.2 Theoretical Underpinnings

The theoretical framework of a research project relates to the philosophical basis on which the research takes place, and forms the link between the theoretical aspects and practical components of the investigation undertaken. The theoretical framework, therefore, "have implications for every decision made in the research process" (Mertens, 1998). The theoretical framework helps to make logical sense of the relationship of the variables and factors that have been deemed important to the problem. It provides definitions of relationships between all the variables so that the theorized relationship between them can be understood. The theoretical framework will therefore guide the research, determining what factors will be measured and what statistical relationship the research will look for. We shall therefore look at the following theories: Credit rationing, contemporary contract theory and portfolio theory.

Credit rationing theories are based on informational asymmetries between lenders and borrowers and transaction costs of information search and monitoring. The availability of information in the decision to lend is important because it enables the

bank to evaluate the risk-return profile of the loan application and hence set the level and terms of credit to be extended to the borrower. However, according to Gorman et al. (2005) full information about the borrower's project may not always be available. This leads to a situation of information asymmetry, which occurs when one party to the lending transaction has more and/or better information than the other. Information asymmetry between SME borrowers and the banks is reflected in inability of the majority SMEs to provide up to date reliable financial information and realistic business plans. This increases the cost of lending that banks incur while dealing with these SMEs. Also limits the ability of banks to assess the credit worthiness of the individual SME borrowers. Where information asymmetry exists, literature shows that it may lead to excess demand for credit in traditional credit markets (Jaffe and Russell 1976, Stiglitz Weiss 1981 and Williamson 1986). This arises due to credit rationing which results from risks perceived by lenders because of information insufficiency in evaluating loan applications. The risks that banks face when they lack necessary information to distinguish between good and bad borrowers are moral hazard and adverse selection (Jaffeee and Russel, 1976; Stiglitz and Weiss, 1981); monitoring costs and transaction costs in issuing bank debt, such as costs of application, screening costs, bankruptcy costs, etc (Williamson, 186, 1987).

Contemporary contract theory argues that banks are not interested in granting credit to SMEs because it is particularly difficult to overcome information asymmetries and resulting screening, monitoring, and enforcement problems: clients are poor, have few assets to collateralize, they don't keep records and those who keep the quality of information is unreliable, and give rise to high transaction costs (Binswanger and Rosenzweig 1986). Banks could use interest to equilibrate the market and allocate

credit. However, bank cannot increase interest rate above certain level. An increase in the interest rate above certain level may worsen the quality of loan in a way that is unacceptable to the bank. The impossibility to use interest rates as screening technology entices lenders to use non-interest screening devices base on the characteristics of entrepreneur and attribute of enterprises (Lehmans and Neurberger, 2001). Statistical model of discrimination Arrow (1973; Phelps, 1972 as cited by Muravyev et al.2009) suggests that, as long as borrowers' demographic characteristics are correlated with their creditworthiness, lenders may use the borrower characteristics as a proxy for the risk factor associated with loans. This is the case when lenders cannot observe the risk factors or do not collect relevant information due to the cost involved. The probability that the constraint is binding for a given firm will decrease with increasing availability of signaling and/or screening devices to overcome existing information asymmetries. Apart from a sufficient performance and satisfactorily risk exposition of the credit funded project, availability of collateral, individual characteristics and skills of the borrower, relationship lending and borrower reputation are assumed to be among the most important devices to avoid credit.

Portfolio theory is used to evaluate the risk return tradeoff for assets that are held together, this theory asserts that assets should be chosen on the basis of how they interact with one another rather than how they perform in isolation. According to this theory an optimal combination will secure for the investor the highest possible returns for a given level of risk or the least possible risk for a given level of return. The main objectives of this theory are: diversification, liquidity and marketability, maintenance

of capital and to achieve portfolio growth. (Fama and French, "The cross-Section of Expected stock Returns" Journal of finance 67(1992), pp. 427-467)

2.2.1 Criticisms of the Theories

Traditionally, banks have taken an asset by asset approach to credit risk management. While each bank's method varies, in general this approach involves periodically evaluating the credit quality of loans and other credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio's expected losses. The foundation of asset-by- asset approach is a sound loan review and internal credit risk rating system. A loan review and credit risk rating system enable management to identify changes in individual credits, or portfolio trends in a timely manner. Based on results of its problem loan identification, loan review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner.

While asset by asset approach is a critical component to managing credit risk, it does not provide a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore to gain insight into credit risk, banks increasingly look to compliment the asset by asset approach with a quantitative portfolio review using a credit model. Banks increasingly attempt to address the inability of the asset by asset approach to measure unexpected losses sufficiently by pursuing a portfolio approach. One weakness with the asset by asset approach is that it has difficulty identifying and measuring concentration. Concentration risk refers to additional portfolio risk resulting from increased exposure to a borrower, or to a group of correlated borrowers. The portfolio approach on the

other hand is based on historical data which can turn out not being a good measurement of tomorrow's credit worthiness of an enterprise.

2.3 Determinants of Financial Performance of Commercial Banks.

Bessis (1998) states financial performance as a management initiative to upgrade the accuracy and timeliness of financial information to meet required standards while supporting day to day operations. Lyman and Carles (1978) also defined it as the operational strength of a firm in relation to its revenue and expenditure as revealed by its financial statements. Financial performance is characterized of a bad debt policy, sales turnover, profitability level, client's dropout rate, growth, reduction in fixed assets, and physical visitation by commercial staff, debt age analysis, and public media.

Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995). Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Hempel et al., 1996). Chien and Danw (2004) showed in their study that most previous studies concerning company performance evaluation focus merely on operational efficiency and operational effectiveness, which might directly influence the survival of a company. By using an innovative two-stage data envelopment analysis model in their study, the empirical result of this study is that a company with better efficiency does not always means that it has better effectiveness.

Elizabeth and Ellot (2004) indicated that all financial performance measure as interest margin, return on assets, and capital adequacy are positively correlated with customer service quality. Scores Mazher (2003) discussed the development and performance of domestic and foreign banks in Arab gulf countries, and showed that local and foreign banks in these countries have performed well over the past several years. Moreover, he added that banks in these economies are well capitalized and the banking sector is well developed with intense competition among the banks. Generally, the concept of efficiency can be regarded as the relationship between outputs of a system and the corresponding inputs used in their production. Within the financial efficiency literature, efficiency is treated as a relative measure, which reflects the deviations from maximum attainable output for a given level of input (English and Yaisawarng, 1992). Some other useful measures of financial performance are wound into what is referred to as CAMEL. The acronym "CAMEL" refers to the five components that are accessed: Capital adequacy, Asset quality, Management, Earning and Liquidity. Ratings are assigned for each component in addition to overall rating of banker's financial conditions (Jose, 1999).

2.3.1 Capital Adequacy

Capital adequacy is the determination of the minimum capital amount required to satisfy a specified economic capital constraint (Miccolis, 2002). Ultimately it determines how well financial institutions can cope with the shocks to their balance sheet. Thus it's useful to track capital adequacy ratios that take financial risks, foreign exchange credit and interest rate risks, by assigning risks ratios established by the Bank of International Settlement (BIS). Capital adequacy is measured in commercial banks in relation to the relative risk weight assigned to the different category of assets

held both on and off to control the incentive to take on excessive risk and to absorb a reasonable amount of losses.

2.3.2 Asset Quality

The solvency of financial institutions is typically at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non-performing loans and the health and profitability of bank borrowers. Credit risk is inherent in lending which is the major banking business. It arises when a borrower defaults on the loan payment agreement. A financial institution whose borrower defaults on their payment may face cash flow problems, which eventually affects its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts (BOU, 2002).

2.3.3 Management Quality

Management quality (approximated by cost efficiency scores) has been associated with bank failures in a number of recent studies, e.g., Barr and Siems (1994), Wheelock and Wilson (2000), and Kick and Koetter (2007). Cost efficiency is approximated by a simple ratio of Operating Expenses to Total Revenues, denoted as Efficiency Ratio, which measures management flexibility to adjust costs to changes in the business development signaled by revenues. The higher is the Efficiency Ratio, the higher is the default risk.

2.3.4 Earning Quality

The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. The evaluation of earnings performance relies heavily upon comparison on the key profitability measures (such as return on assets and return on equity) to industry bench mark and peer group norms (Federal Reserve Bank, 2002). Most bank studies emphasis is placed on profitability in terms of ROE and ROA. Profitability as a measure of performance is widely accepted by bankers, financial institutions, management, company owners and other creditors as they are interested in knowing whether or not the firm earns substantially more than it pays by way of interest (Sadakkadulla & Subbaiah, 2002). The return on investment ratio is used to determine profitability of a bank.

2.3.5 Liquidity

Initially solvent financial institutions may be driven towards closure by management of short term liquidity. Indicators should cover funding sources and capture large maturity mismatches. Liquidity is the degree to which debts obligations coming due in the next 12 months can be paid in cash or assets that will be turned into cash .The mismatching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of commercial banks. It is unusual for microfinance to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potential enhance profitability but also increase the risk of losses (The Uganda Banker, June 2001).

2.4 Empirical Review

Zambaldi et al. (2011) analyzes credit granting decisions in Brazil, with probability of loan approval as dependent variable. The findings reveal that the bank under study faces difficulties in expanding the supply of credit to small firms mainly because of transaction cost, collateral-dependency and constraints due to asymmetric information. Fatoki and Van Aardt Smit (2011) investigate the constraints to credit access by new SMEs from commercial banks. The results indicated that collateral, business information, managerial competencies and networking are important constraints to credit access from commercial banks.

Using enterprise survey data from Kosova, Krasniqi (2010) to examine the determinants of obtaining bank finance conditional upon applying. The results of the survey showed that commercial banks base their decision to loan firms primarily on the basis of collateral. But profitability as a measure of firm performance does not seem to be sufficient signaling for banks in order to allocate credits. Hashi and Toci (2010) also examined the impact of firm characteristics on SMEs perceived financing constraints in South-East Europe. They found that compared to the group of larger firms, small firms are more likely to be refused a loan and face greater difficulties in accessing both short-and long-term loans from banks.

Voordeckers and Steijvers (2008) showed that in Belgium more than 50 percent of SMEs were credit rationed. They showed that smaller, faster growing firms with insufficient financial strength and lack of collateral were more credit rationed for short-term debt. On the other hand, smaller and younger enterprises with slow growth, poor internal financial sources and deficiency of tangible assets to guarantee the

repayment of debt were subject to generally higher credit rationing of long-term debt despite their higher added value and return on assets ratio than unconstrained firms.

Han (2008) examined impact of business and entrepreneur characteristics on severity of financial problem perceived by entrepreneurs. They found that some characteristics of entrepreneur (e.g. education, experience, personal wealth) and business (e.g. size and credit card) have strong impacts on the severity of financial problems faced by SMEs in UK. Even though the aforementioned studies provides empirical evidence on SMEs credit rationing and its determinants, there are still some gaps which need to be addressed. First, the studies focused on the demand side of access to debt finance (perception of SMEs) and not the supply side (perception of commercial banks). A comprehensive survey to examine the obstacles to credit as perceived by providers of funds (commercial banks) and SMEs could help to further confirm the findings of the previous study. Second most of aforementioned studies employ data from America, Europe, Asia and only few of them refer to developing economy like Kenya. Information asymmetry has been supported by Olomi (2009) who emphasized that poorly compiled records and financial account coupled with inability of SMEs to properly express their knowledge about business opportunities aggregates the lack of adequate information in bank-SME credit transactions in Kenya.

Temu (1998) affirm that financial institutions in Kenya are reluctant to finance small and medium firms for fear of default risk due to unreliable financial plans and records. Satta (2003; 2006) amplify this argument by point out lack of adequate and reliable collateral, lack of appropriate instrument to manage risk, not being familiar with complicated information about SMEs and perceived risk make banks in Kenya become unwilling to provide the much-needed finance to SMEs.

2.5 Summary

Evidence from literature review show that in deed SME sector is actually growing and a lot of measures needs to be put in place to assist in their smooth growth. From the literature review, commercial banks must value and monitor the growth and performance of SMEs. This will help reduce the risk that emanates from the probability that borrowers will default on terms of debt, subsequently putting its capital in jeopardy. Commercial banks must now come up with tailor made products for SMEs to help them grow. This study seeks to establish the relationship between lending to Small and Medium Enterprises on financial performance of commercial banks in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the methodology that is used in the study. It spells out the design, study population, sample and the techniques and method of data collection, processing and analysis that is employed.

3.2 Research Design

The descriptive cross sectional survey was used to provide answers to the phenomenon questions underlying the study. The research involved establishing the relationship between lending to Small and Medium Enterprises on financial performance of commercial banks in Kenya. This was done using descriptive design. Cohen and Manion (1980), ascertains that the intention of survey research is to gather data at a particular point in time and use it to describe the nature of existing conditions. This was done in a descriptive nature, in the sense that the researcher sought to describe a phenomenon that in it is not totally unexplored, but not well enough elaborated on (Sekaran 1992).

3.3 Study Population

The study population comprised of 45 registered banks in Kenya (CBK 2012). According to CBK (2012) only 30 commercial banks in Kenya are actively involved in lending to SMEs. Since the unit of analysis is 30, no sampling was done hence the entire population of banks lending to SMEs was studied. The institutions were chosen because there was evidence of banks trying to concentrate so much in terms of lending to SMEs (Karumba and Wafula 2012).

3.4 Data collection

Given the nature of the study, research assistants were used since this accelerated the rate of gathering information. The study made use of both primary and secondary data. Questionnaires which are research tools that gather data over a large sample (Kombo et al. 2006) were collected from the respondents after a week having given them enough time to fill the questionnaire. This helped minimize the leading effect described by Sekaran, (1992). The interviews were administered by the researcher to the respondents who were basically Credit Managers and their responses recorded.

3.5 Validity and Reliability

Validity is the accuracy and meaningfulness of inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. The purpose of validity is to standardize research. Without standardization one cannot compare and evaluate qualitative research. To maintain a high standardization level requires research honesty. In ensuring honesty the researcher was required to reveal how relevant the research is in the form of validity.

The instruments used in the study were developed by the researcher with the guidance of experts in research methodology and lecturers from the School of Business, University of Nairobi. This enabled the researcher to develop instruments that were used to yield face and content valid data.

Reliability implies that measuring instrument should be able to give reliable and stable results or the repeatability of the research. A high reliability means that different and independent measuring of the same phenomenon gives approximately

the same result each time (Eriksson et al 2001). If it is reliable other researchers should be able to come to the same results if they use the same method. To determine the reliability a pre test was done in all the commercial banks in Kenya.

3.6 Data Analysis

The data was analyzed using descriptive and inferential statistics. This was used to determine the correlation between the variables of the research as outlined in the study objectives. The data was analyzed using analytical model. The findings to determine correlation between variables of this research was edited and summarized to give it a meaning and presented in form of tables and percentages. This provided a summary for easy interpretations of the findings.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents data analysis, results and discussions from the primary data gathered from the study respondents. Thirty commercial banks were targeted out of which 23 responded. This was a response rate of 77%. This response rate was excellent, representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a response rate of 60% is good and a response rate of 70% and over is excellent. The respondents were credit managers of the various commercial banks.

4.2 Data Presentation and Interpretations

Discussions of the results, summaries of the data findings together with interpretations have been presented by use of tables, percentages, frequencies, charts and line and bar graphs. Both primary and secondary was used to do the analysis, findings and recommendation of the study.

4.2.1 Analysis of General Information

Figure 4.1: Involvement of commercial banks in SME credit financing
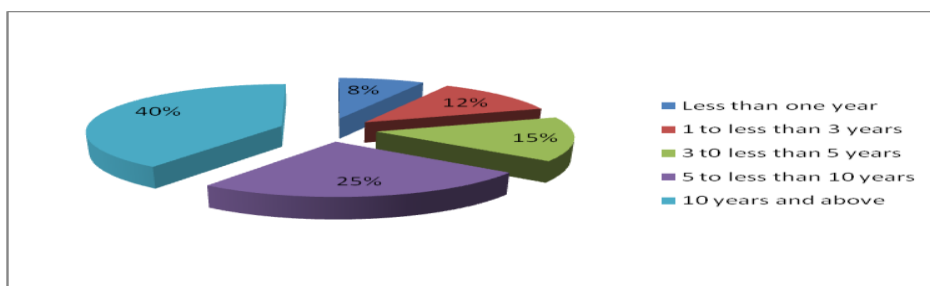
Source: Field data 2014

The pie chart above shows that according to the data collected, 40% of the commercial banks in Kenya have been involved in SME credit financing for 10 years and above, 25% of the commercial banks in Kenya have been involved in SME credit financing for 5 years to less than 10 years, 15% of the commercial banks in Kenya have been involved in SME credit financing for 3 years to less than 5 years, 12% of the commercial banks in Kenya have been involved in SME credit financing for 1 year to less than 3 years and 8% of the commercial banks in Kenya have been involved in SME credit financing for less than 1 year.

4.2.2 Main line of Small and Medium Enterprises Financing

Table A: Commercial banks main line of SME credit financing

Variable	Mean	Standard Deviation	Minimum	Maximum
Savings	5.02	0.52	4.00	5.00
Trade finance	5.45	0	5.00	5.00
Service	5.23	0.2	3.00	5.00
Others	4.41	0.66	1.00	5.00

Source: Field data 2014

A five – point Likert scale was used to interpret the respondent extent. According to the scale, main lines of SME credit financing which were strongly agreed to were awarded 5, while those which were strongly disagreed to at all were awarded 1.Within the continuum are; (4) for agree, (3) for somehow agree, and (2) for disagree. The findings therefore show that trade finance is the main line of SME credit financing

strongly agrees (5.45), service (5.23), and savings (5.02) strongly agrees while others (4.41) strongly disagrees. According to the findings trade finance is the main line of SME credit financing. This is because; trade finance not only fosters a bigger credit market but also shifts the composition of lending towards capital formation.

Standard deviation shows the level of variation or dispersion among the respondents. According to the findings standard deviation ranges from 0 to 0.66 implying that there is no common agreement in the level of significance of each of the lines of SME credit financing. This is because as much as most commercial banks consider trade finance to be the main line of SME credit lending, others equally consider service and savings as being highly significant too.

4.2.3 Staffs employed in the Small and Medium Enterprises

Figure 4.2: Staffs employed in the SME sector
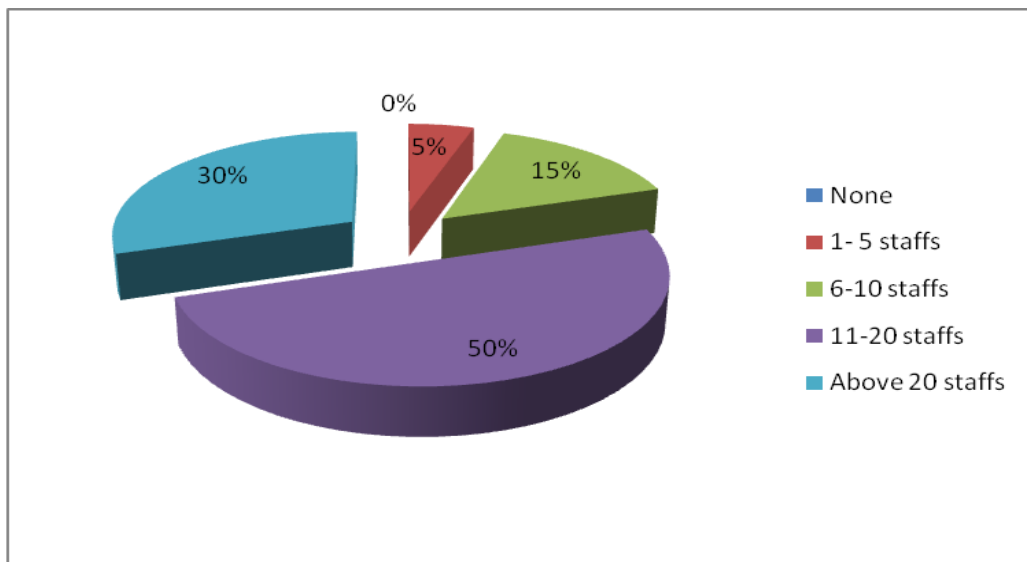
Source: Field data 2014

The findings also show that 50% of commercial bank in Kenya employs between 11 to 20 staffs in the SME sector, 30% of the commercial banks in Kenya employs above 20 staffs in the SME sector, 15% of commercial banks in Kenya employs between 6 to 10 staffs in the SME sector, and 5% of commercial banks in Kenya employs between 1 to 5 staffs in the SME sector.

4.2.4 Commercial Banks Outreach

Figure 4.3: Sources of capital for SME business
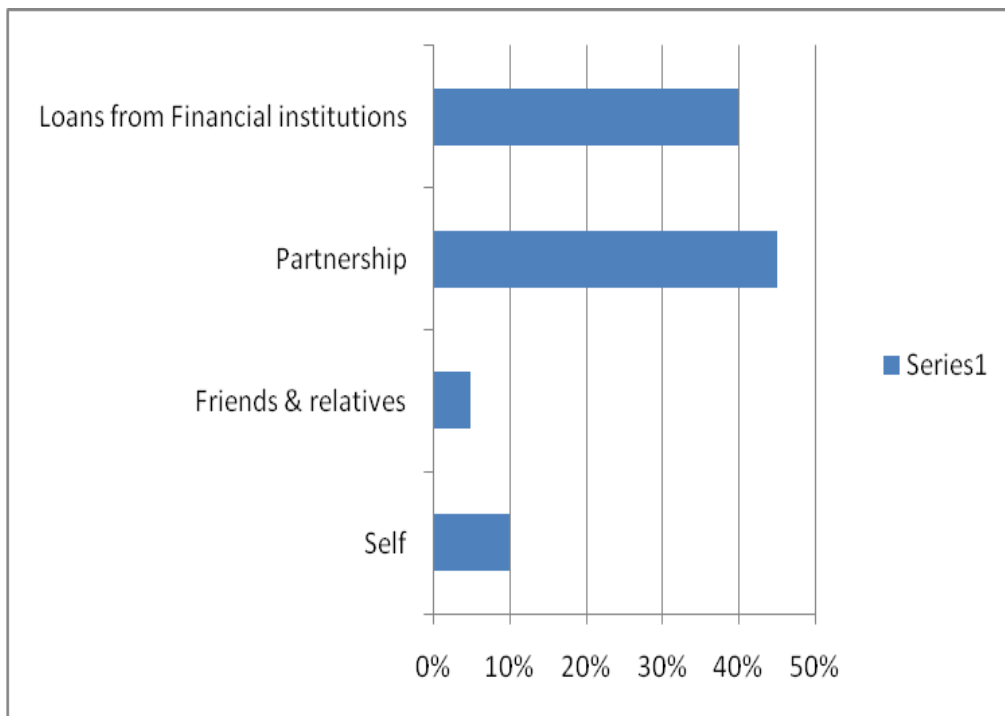
Source: Field data 2014

In terms of sources of capital, 40% of SME sources of capital are derived from loans from financial institutions, 45% of SME sources of capital are derived from partnerships, 5% of SME sources of capital are derived from friends and relatives and 10% of SME sources of capital are derived from ones self savings. We can therefore deduce that most SME businesses derive their capital mostly from partnerships and

loans from financial institutions like commercial banks. Friends and relatives also help in raising the capital but as per the above analysis it is very minimal at 5% only. Over reliance on capital raised from friends and relatives would stagnate the growth of SMEs.

4.2.5 Contribution of Banks to Small and Medium Enterprises Business

Table B: Contribution of banks to SME business

Variable	Mean	Standard Deviation	Minimum	Maximum
Training	6.42	5.91	2.00	5.00
Insurance	11.06	5.11	3.00	5.00
Assets	15.50	4.32	4.00	5.00
Financing	18.98	4.31	4.00	5.00

Source: Field data 2014

From the above data collected, we can deduce that majority of commercial banks in Kenya contribute to SME business through financing which has a standard deviation of 4.31 followed by Assets at a standard deviation of 4.32. Insurance has a standard deviation of 5.11 and training comes last with a standard deviation of 5.91. All the commercial banks contribute to all the above variables on a monthly basis with financing coming out as the strongest variable. This is because commercial banks have enough resources i.e. money to give out to SME businesses as credit facilities to

help them boost their working capital. This is followed by Asset financing where SMEs acquire assets to help them run their daily business affairs.

4.2.6 Loan up Take

Table C: Percentage loan up take

Variable (loan up take)	Mean	Standard Deviation	Minimum	Maximum
100%	11.02	5.13	2.00	5.00
75%-99%	19.12	4.33	4.00	5.00
50%-74%	15.44	4.68	3.00	5.00
< 50%	6.40	5.91	3.00	5.00

Source: Field data 2014

From the above data 75%-99% of loans applied for are granted especially for SME business with a standard deviation of 4.33. 50%-74% of loans applied with a standard deviation of 4.68 are granted. Loans of less than 50% applied for have a standard deviation of 5.91. We can therefore deduce that most loans applied for by SME business persons are always granted as per the application with the percentage loan uptake ranging from between 75% to 99%. Others are able to be granted the total amount applied for in full as exhibited by a standard deviation of 5.13 for 100%. From the above data it is very rare to apply for a loan and one is granted less than 50% of the loan applied for as shown above with a standard deviation of 5.91. This

means that proper appraisal of loans are normally done to ensure that the SME business is not over funded or underfunded.

4.3 Contribution of Small and Medium Enterprises in the Bank Profits

Figure 4.4: Contribution of SME to commercial banks loan book
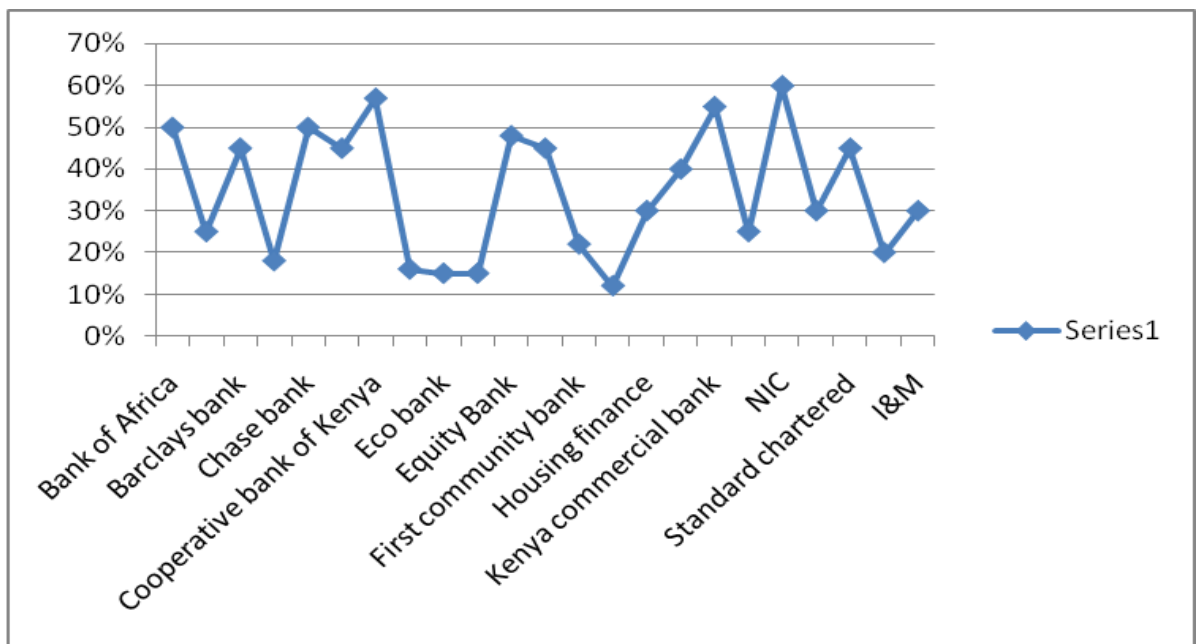
Source: Field data 2014

From the above figure it is evident that 60% of NIC bank loan book accounts for SME so far the highest whereas 12% of Guardian bank loan book accounts for the SME. There has been a tremendous increase what constitutes SME vis a viz the total loan book of the commercial banks. This means that the earnings commercial banks are receiving from the growth of SME in there loan portfolio is directly impacting on their performance. Most commercial banks have increased lending to SME as a

proportion of the loan book because it is an area that has a lot of unexploited potential.

4.3.1 Outreach Services to Small and Medium Enterprises

Globally all commercial banks engage in outreach programmes to make the customers financially literate and to be able to make sound financial decisions.

Table D: Outreach Services to Small and Medium Enterprises.

Variable	Standard Deviation (Monthly)	Standard Deviation (Quarterly)	Standard Deviation (Semi annually)	Standard Deviation (Yearly)	Standard Deviation (Never)
Credits	4.56	5.00	5.60	6.07	0
Financial	4.89	4.95	5.70	5.90	0
Management training	4.89	5.02	5.17	5.50	0
Insurance	4.72	4.89	5.09	5.14	0

Source: Field data 2014

The table above shows that credit plays a great role in outreach services to SME businesses. The outreach is to be carried on a monthly basis on the variables. The standard deviations on the monthly basis outreach service to SME prove that are suppose to be done on a monthly basis. All the commercial bank carries out the outreach services to SME on a monthly basis. The standard deviation for credit on outreach services to SME on a monthly basis is 4.56, financial 4.89, management

training 4.89 and insurance services at 4.72. This indicates that credit and insurance plays a major role in outreach services to SME.

4.4 Provision of Credit

Table E: Provision of credit

	Mean	Standard Deviation	Minimum	Maximum
Criteria of giving loans to SMEs are cumbersome in terms of documentation and procedure.	6.14	4.59	3.75	5.00
SMEs should always provide collateral/securities before accessing loans.	11.06	4.71	1.00	5.00
Lack of credit facility leads to stunted growth of SME business.	15.50	0	5.00	5.00
Collateral required are too high for SMEs.	19.57	4.25	3.00	5.00

Source: Field data 2014

A five – point Likert scale was used to interpret the respondent extent. According to the scale, criteria for the provision of credit facilities to SME which were very significant were strongly agreed to and awarded 5, while those which were not significant were strongly disagreed to at all were awarded 1.Within the continuum are; (4) for agree, (3) for somehow agree, and (2) for disagree. The findings therefore

show that lack of credit facility leads to stunted growth of SME business (0), and collateral required are too high for SMEs (4.25), and criteria to giving loans to SMEs is cumbersome in terms of documentation and procedure are strongly agreed to as hampering provision of credit to SME businesses thus affecting the financial performance of commercial banks. SMEs should always provide collaterals/securities before accessing loans was strongly disagreed to with a standard deviation of 4.71. According to the findings lack of credit facility leads to stunted growth of SME business is strongly agreed to as the hampering the growth of SMEs and in turn influencing the financial performance of commercial banks in Kenya. This is because; it not only fosters a bigger credit market but also shifts the composition of lending towards capital formation. Criteria for giving loans to SMEs are cumbersome in terms of documentation and procedure is considered   as the least in terms of lending to SMEs vis a viz financial performance of commercial banks. Standard deviation shows the level of variation or dispersion among the respondents. According to the findings standard deviation ranges from 0 to 4.71 implying that there is no common agreement in the level of significance of the provision of credit facilities to SME businesses. This is because as much as most commercial banks consider lack of credit facility leading to stunted growth of SME business to be the most significant in terms of provision of credit, others equally consider collateral requirements as being highly significant.

4.5 Rate of Utilization of Credits by SMEs

Table F: Rate of credit utilization by SMEs

	Mean	Standard Deviation	Minimum	Maximum
Credit facilities have led to financial growth of SME business.	6.31	0	5.00	5.00
Part of the credit may be used for personal needs.	9.41	0.6	3.00	5.00
Credit facility has led to asset growth of SME business.	6.31	0	5.00	5.00
Credit facility has helped SMEs employ more people.	6.31	0	5.00	5.00
Credit facility has improved on customer loyalty to SME business.	12.14	1.6	1.00	5.00

Source; Field data 2014

A five – point Likert scale was used to interpret the respondent extent. According to the scale, the rate of utilization of credits by SMEs which were very significant were strongly agreed to and awarded 5, while those which were not significant were strongly disagreed to at all were awarded 1.Within the continuum are; (4) for agree, (3) for somehow agree, and (2) for disagree. The findings therefore show that credit facilities have led to financial growth of SME business (6.31), credit facility has also led to asset growth of SME business (6.31) and credit facility has helped SMEs

employ more people (6.31) as rate of utilization of credits by SMEs are very significant. Part of credit being used for personal needs (9.41) and credit facility has improved customer loyalty to SME business (12.41) are considered to be less significant. This means that as much as provisions of credit facilities are important for a commercial bank so is the rate of utilization of these credit facilities by SMEs. Standard deviation shows the level of variation or dispersion among the respondents. According to the findings standard deviation ranges from 0 to 1.61 implying that there is no common agreement in the level of significance of provision of credit and the rate of utilization. This is because as much as most commercial banks consider provision of credit facility to SMEs, the rate of utilization also matter on the financial performance of commercial banks in Kenya.

4.6 Financial Performance of Commercial Banks in Kenya to Lending to SMEs

Figure 4.5: Commercial bank of Kenya's portfolio at risk (PAR) for SMEs, Micro enterprise and Consumer and Agriculture.
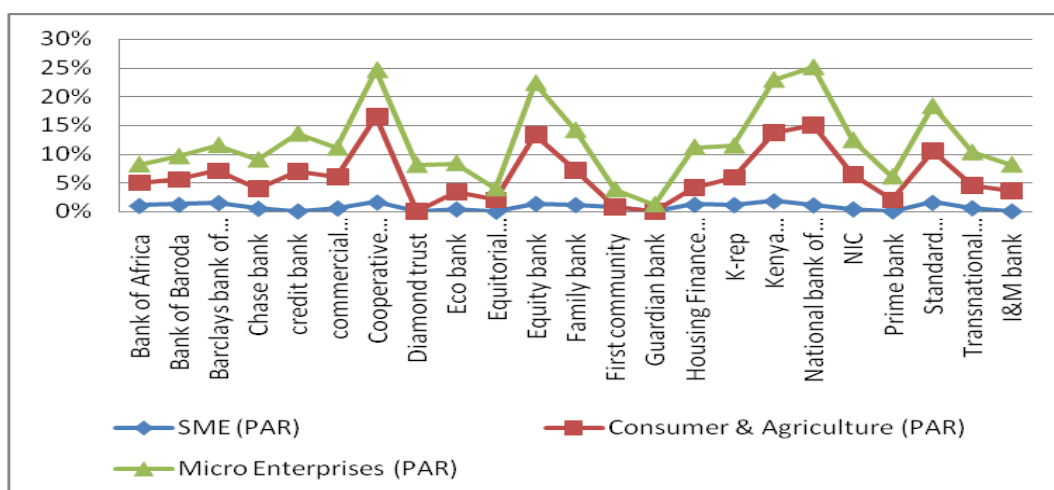
Source: Field data 2014

From the above chart we can deduce that SMEs constitute a smaller portfolio at risk (PAR) as compared to the other sectors like Micro Enterprises and Consumer and Agriculture. The highest PAR in the consumer and Agriculture sector is Cooperative bank at 15% and the lowest is Guardian, First community and Diamond trust with a PAR of 0.0%. The highest PAR in the Micro Enterprises sector is Kenya Commercial bank at 9.10% and the lowest is Equatorial Commercial bank with a PAR of 2%. In the SME sector the highest PAR is Kenya commercial bank with a PAR of 1.80% and lowest in the sector is Equatorial Commercial bank with a PAR of 0.0%. This means that the higher the PAR the higher the amounts to provision for write offs and this directly eats into the profits of commercial banks. The lower the PAR the better for the commercial banks since the provisioning with be of lesser amounts meaning grater performance in terms of profitability. Comparing the three sectors it is evident that SME sector is performing well with very low percentages of PAR.

4.7 Discussion of Findings

In this chapter, data collected from commercial banks in Kenya was analyzed and presented in form of tables, graphs and pie charts. The objective of the study was to establish the relationship between credit facilities to SMEs and other sectors and the performance of commercial banks in Kenya and to examine the credit policies of commercial banks in Kenya. The research design used was descriptive design. The results are consistent with other international studies on financial performance of commercial banks vis a viz lending to SMEs. Lack of credit facility leading to stunted growth of SMEs came out clearly and that it has an impact on the financial performance of commercial banks in Kenya.

Ccommercial banks have enough resources i.e. money to give out to SME businesses as credit facilities to help them boost their working capital. Asset financing too play a major role where SMEs acquire assets to help them run their daily business affairs. The study also found out that there has been a tremendous increase what constitutes SME vis a viz the total loan book of the commercial banks. This means that the earnings commercial banks are receiving from the growth of SME in there loan portfolio is directly impacting on their performance. Most commercial banks have increased lending to SME as a proportion of the loan book because it is an area that has a lot of unexploited potential.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents discussions of the key findings presented in chapter four, conclusion drawn based on such findings and recommendation. The objective of the study was to establish the relationship between credit facilities to SMEs and performance of commercial banks in Kenya and to examine the credit policies of commercial banks in Kenya. This chapter has three subsections, the first section introduced the summary result of the analysis and conclusion reached, the second section outlines the various limitations or constraints encountered during the study and the third section suggests the gray areas for future studies and recommendations.

5.2 Summary

The main objective of this study was to establish the relationship between credit facilities to SMEs and performance of commercial banks in Kenya and to examine the credit policies of commercial banks in Kenya. The research study found out that 40% of the commercial banks in Kenya have been involved in SME credit financing for 10 years and above, 25% of the commercial banks in Kenya have been involved in SME credit financing for 5 years to less than 10 years, 15% of the commercial banks in Kenya have been involved in SME credit financing for 3 years to less than 5 years, 12% of the commercial banks in Kenya have been involved in SME credit financing for 1 year to less than 3 years and 8% of the commercial banks in Kenya have been involved in SME credit financing for less than 1 year. The study also found out that trade finance is the main line of SME credit financing. This is because; trade finance

not only fosters a bigger credit market but also shifts the composition of lending towards capital formation. Ccommercial banks have enough resources i.e. money to give out to SME businesses as credit facilities to help them boost their working capital. Asset financing too play a major role where SMEs acquire assets to help them run their daily business affairs. The study also found out that there has been a tremendous increase what constitutes SME vis a viz the total loan book of the commercial banks. This means that the earnings commercial banks are receiving from the growth of SME in there loan portfolio is directly impacting on their performance. Most commercial banks have increased lending to SME as a proportion of the loan book because it is an area that has a lot of unexploited potential. The findings also show that 50% of commercial bank in Kenya employs between 11 to 20 staffs in the SME sector, 30% of the commercial banks in Kenya employs above 20 staffs in the SME sector, 15% of commercial banks in Kenya employs between 6 to 10 staffs in the SME sector, and 5% of commercial banks in Kenya employs between 1 to 5 staffs in the SME sector. The findings also shows that credit facilities have led to financial growth of SME business which in turn has increased the level of financial performance of commercial banks. Because of this most commercial banks are now focusing of SME funding with a higher percentage of averagely 50% SME funding contributing to most of the commercial banks loan portfolio. The performance of SME sector vis a viz other sectors like Micro Enterprises and consumer and Agriculture sectors is encouraging with PAR as low as 0.0% to 1.80%.

5.3 Conclusion

From the findings, SME funding accounts for an average of 50% of the commercial banks loan book. Focus on SMEs has been on the increase meaning the commercial banks have realised the potential that SMEs carries with them. Increased funding to SME business would mean increased interest income for the commercial banks. Therefore from the results, lending to SMEs improves the financial performance of commercial banks through increased interest income.

5.4 Recommendations

From the results obtained it is clear that lending to SMEs has a positive effect on the financial performance of commercial banks. Commercial banks need to lay a lot of emphasis on SME by coming up with products tailor made for their business needs. It therefore plays a significant role in the credit provision in Kenya. As such the regulatory authority (CBK) and other stake holders should create an enabling environment that removes all these inefficiencies to the policy concern of high cost of credit of credit to SMEs. The legal and regulatory environment should be more efficient and robust to serve as a major strategy for mitigating delays in registration of SME businesses. Commercial banks that make loans to borrowers especially SME clientele should focus increasingly on making their lending operations financially sustainable by charging interest rates that will not scare away the SME clients. Commercial banks also need to nurture the SME clients to later evolve into corporate customers.

5.4.1 Theory Building

The study will prove important in providing information to scholars and academicians who may wish to conduct further study on this subject area and other related aspects of this study. The research will also add to the stock of existing body of knowledge, arguments and findings concerning lending to Small and Medium Enterprises on financial performance of commercial banks in Kenya.

5.4.2 Management Practice and Policies

The management of commercial banks will be able to use it as a benchmark to develop tailor made products that suits and appeals to SMEs clientele. It will also help them in closely monitoring the asset quality. It will also assist policy makers in the industry both at national and county government levels come up with pieces of legislations that will promote and incentify the growth of SMEs.

5.5 Limitations of the Study

This study like any other study is bound to have limitations. Some of the respondents did not return the questionnaires even after follow ups were done. Thirty questionnaires were issued but only twenty three were returned. Another limitation encountered during the study was that the literature review section heavily relied on research conducted in the developed economies. There was difficulty in accessing the respondents due to their busy schedules and getting information, which they felt, was confidential. In addition to this the responses were based on the judgment of the interviewees and this could be subjective.

5.6 Suggestions for Further Studies

Future studies should attempt to explore how SME lending can impact on commercial banks profitability. The study was only restricted to commercial banks in Kenya. There are other financial institutions like Sacco's, Micro finance institutions and finance companies that also give out credit facilities. The researcher recommends a further study that will capture organizations that are not commercial banks.

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APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA.

1.	African Banking Corporation	16.	Family Bank
2.	Bank of Africa	17.	Fina Bank
3.	Bank of Baroda	18.	Giro Bank
4.	Barclays Bank of Kenya	19.	Guardian Bank
5.	CFC Stanbic	20.	Housing Finance Corporation of Kenya
6.	Chase	21.	I & M Bank
7.	Commercial Bank of Africa	22.	Jamii Bora Bank
8.	Co-operative Bank- Oginga Odinga Street	23.	Kenya Commercial Bank- Obote road
9.	Credit Bank	24.	Kenya Commercial Bank- Oginga Odinga Street
10.	Diamond Trust Bank	25.	Kenya Commercial Bank- United Mall
11.	Eco Bank- Oginga Odinga Street	26.	K-rep Bank
12.	Eco Bank- United Mall	27.	National Bank of Kenya
13.	Equity Bank- Oginga Odinga Street	28.	NIC Bank
14.	Equity Bank- Ang'awa Street	29.	Prime Bank
15.	First Community Bank	30.	Standard Chartered Bank

Source: (Karumba and Wafula 2012)