THE PERCEIVED IMPACT OF CREDIT REFERENCE BEREAUS IN ACCESSING FINANCE BY SMALL AND MEDIUM ENTERPRISES (SMES) IN KENYA

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

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

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DEDICATION

This project is dedicated to my parents Mr. & Mrs. Munene for having encouraged me to study and for constantly encouraging me to strive for excellence.

To my wife Mary Wanjiku and children Carren, Collins and Alex for inspiring, challenging me to aim higher, and for keeping me company while studying. I love you all and may God the Almighty continue to shower you with everlasting blessings.

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ABSTRACT

This study was set out to evaluate the perceived impact of Credit Reference Bureaus in accessing finance by SMEs in Kenya. The study therefore sought to determine what impact does presence of credit reference bureaus have in relation to accessing finance by SMEs since the adoption of credit reporting in Kenya in 2010. All stakeholders in Kenyan markets now realise that SMEs are the "missing middle". Their size and demand for credit has outgrown the capacity of microfinance institutions (Mc Donald et al, 2007). It is therefore necessary to evaluate how credit reference bureaus affect access to finance by SMEs nationwide.

The research adopted the descriptive research design which was most appropriate in attaining the objective of the study. The target population of this study comprised of all SMEs in Kenya. The study used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions. Questionnaire was used since the study was concerned also with variables that cannot be observed such as views, opinion, perception and feeling of respondent. The sample size of this study consisted of the top 100 SMEs in Kenya in year 2011.The top SMEs in Kenya were identified through a survey carried out by KPMG and Nation Media Group.

The study found that sharing of credit information had not reduced collateral requirements for commercial/business loans by commercial banks and collateral requirement was a major obstacle that had been a constraint to accessing financing for operation and growth of their businesses. Credit bureaus could alleviate a firm financing constraints by providing information on individuals borrowing and bill paying habits. It enabled the lenders assess credit worthiness, the ability to pay back a loan, and this affects the interest rate and other terms of a loan.

Further research should be undertaken to evaluate the status and structure of the credit bureaus. Research should also be undertaken to determine perceived impact of credit reference bureaus in accessing finance by other sectors in Kenya.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER 1: INTRODUCTION

1.1 Background to the Study

Developing countries have the lowest financial penetration in the world. A lot of people in these countries are excluded from access to financial services and much greater proportion suffers from access to finance or credit. Often firms access to finance is constrained by the availability of information on their credit worthiness .The most hard-hit are the small and medium size businesses (SMES); yet, access to credit is a fundamental pre-requisite for successful take off and smooth operations of these businesses (Babatuda, 2009). A critical factor facing financial institutions in developing countries is their inability to identify good borrowing customers. They do not, realistically, know who is a good customer and who is not; they are always afraid to give loans because they lack the ability to determine the capacity and readiness for repayment by the prospective borrowers. In the developed world, this seems to have been resolved as the presences of credit bureaus have assisted in mitigating this phenomenon.

Public and private bureaus/registries exist to improve the information available on borrowing firms and individuals in an effort to ease financing constraints. According to Babatuda, developing countries needs strong credit bureau infrastructure if they will have to achieve the level of aggregate lending required to stimulate economic growth and prosperity. Evidence has been adduced to corroborate a positive correlation between presence of credit registries in an economy and access to finance. Small business and consumers are major beneficiaries of the credit bureau initiatives in terms of accessibility and fair risk asset pricing. African economies are beginning to promote the establishment of credit registries and reporting as a way to buoy access to funding for the small business.

1.1.1 Credit Referencing Bureau (CRB)

Credit bureau or registry is an agency or organisation that researches and collects individual's credit history information and sell it for a fee to creditors so that they can make a decision on granting loans. Typical clients include banks, mortgage lenders, landlords, credit card companies and other financing companies. Credit bureaus are either publicly or privately owned entities. They get the information for the report from individual lenders or creditors.A credit bureau or credit registry has been identified as a financial infrastructure capable of assisting in providing information about borrowers with a view to assisting lenders to take informed decisions.

Credit referencing on the hand refers to the report from credit agency for either a business or an individual. Credit referencing is generally used to determine the credit worthiness of a person, individual or organization. Credit bureaus are a typical response to information asymmetry problems between lenders and borrowers. Many studies have illustrated how comprehensive information helps lenders better predict default. Kallberg and Undell (2003) found that historical information collected by credit bureaus had powerful default predictive power.

1.1.2 Credit Reporting

Credit reporting describes the framework in which credit bureaus gather and store consumer credit information from credit providers and in turn make this information available to authorised users, at a fee, for a variety of uses but commonly to adjudicate lending decisions. It also extends to how the conduct of credit bureaus is regulated and how credit providers are policed by their umbrella body. One approach to facilitate lending by reducing asymmetric

information in credit markets is to establish a credit reporting system – and namely, strong credit bureaus.Galindo and Miller (2001) observed that credit reporting has gained importance in recent years, due to changes in banking systems and advances in technology.

In many countries financial systems have gone through a period of consolidation. Community-based institutions with a limited geographic focus have been acquired or closed in favour of large national, and even international, financial conglomerates. There is evidence that the process of mergers and acquisitions in a financial system results in a loss of what had been institution-specific knowledge on borrowers. These factors may increase reliance on and the importance of the standardized and easily transmitted information contained in credit registries. Parallel to the shift toward larger institutions, there has been rapid growth in computing capacity, which enables lenders to quickly and cheaply access and analyze data on massive numbers of borrowers.

1.1.3 Credit Reference Bureau and Reporting In Kenya

In Kenya, private credit bureaus struggled for several years to initiate credit reporting. Progress was hampered by the absence of a legal framework tailored to credit reporting and the unwillingness of commercial banks to share information on their clients (especially the good clients). However, the Central Bank of Kenya recognizing the importance and need for credit reporting took the initiative to amend the Banking Act, Cap 488 of the laws of Kenya in 2006. The CBK followed this up with the issuance under the Banking Act, the Banking (Credit Reference Bureau) regulations, 2008 which became effective on 2 February 2009.

There are two credit reference bureaus. The first credit registry to be authorised to conduct credit reporting was Credit Reference Bureau Africa Limited (CRBAL) which was licensed

in February 2010 and officially launched by the Governor of the CBK on 4 March 2010. The other credit bureau is Metropol East Africa Limited (MEAL) which was established in 1996 and licensed by the CBK in April 2011. Sharing of credit information was launched in July 2010. According to CBK 2011 Annual Bank Supervision Report, as at 31 December 2011 credit reports accessed by banks and individuals were over 1.3million and 6000 respectively.

1.1.4 Small and Medium Enterprises (SMEs)

There is no standardized definition of SMEs but largely it is based on either the number of employees or the annual turnover. However, what exactly an SME or Small to Medium Enterprise is depends on who's doing the defining. Different countries define SMEs differently. The European Union defines medium size business as one with a headcount of fewer than 250; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro-business. The European system also takes into account a business's turnover rate and its balance sheet. The SME department of the World Bank works with the following definitions: Small Enterprises are defined to have up to 50 employees, with total assets and total sales of up to $3 million while Medium Enterprises is one that has up to 300 employees, having total assets and sales of up to $15 million per annum (Ayyagari et al, 2003). Therefore SMEs are companies that have up to 300 employees and total assets and sales of up to $ 15 million (Aduda et al, 2012).

Small and Medium Enterprises (SMEs) play a major role in economic development, particularly in emerging countries. Studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of

SMEs operating in the informal sector. In Kenya, SME operation cut across almost all sectors of the economy and sustain majority of households. This was well recognized by the 2003, National Budget Speech day speech delivered by Hon. David Mwriraria the then Minister for Finance who noted that "SME activities form a breeding ground for businesses and Employees, and provide one of the most prolific sources of employment (Wanjohi, 2010).

1.1.5 SMEs and Access to Finance in Kenya

Much like emerging markets across the globe, access to finance remains a problem for Kenyans' SMEs mainly due to information asymmetry. Lack of information between lenders and borrowers has resulted in credit rationing and inefficient allocation of credit. Among the methods adopted to reduce information asymmetry is the use of collateral which has made access to finance difficult since majority of the SMEs do not have fixed asset that can be presented as collateral. Other methods employed include group lending, screening and monitoring.

The level of lending to SMEs is difficult to measure. In part because many business loans are consumer loans used for business purposes particularly in informal sector. Given that these loans are not recorded as business loans they are hard to separate from consumer loans and cannot be accurately be measured. Credit bureaus provide a framework where each applicant would be ranked according to their riskiness thus allowing those with good credit history to receive credit and deny those who probably default. Credit bureaus therefore serve to bridge the gap in provision of information and risk assessment making it easier for SMEs to access formal credit.

1.1.6 Impact of Credit Reference Bureaus in Access to Finance

Credit Bureaus ease the flow of information and access to finance constraints. Information sharing institutions have a positive impact on the amount of credit granted by the financial sector, enable a wider range of borrowers to access credit, and have reduced the level of non-performing loans and default rates in a number of countries (Jappelli and Pagano, 1999), World Bank (2005) and others).

Credit bureaus have the potential to impact on access to finance by: reducing asymmetric information in credit markets and increase access to credit by providing financial institutions with information (with excellent predictive power) to determine the borrowers' ability to repay loans, reducing loan default rates, reducing the sensitivity of a firm's decision to finance investment based on cash flow/internal funds availability, extending the terms of credit for firms and allow them not to depend on short-term (trade or suppliers credit).

Credit bureaus can also impact access to finance by easing credit constraints in the small and new business loan market by providing standardized information on borrowers and easing the cost and time needed by banks to assess such loans. Love and Mylenko (2003) found that 40 percent of firms were able to obtain bank credit in countries with bureaus versus 28 percent in countries without a bureau. Credit bureaus also encourage borrowers to repay loans in order to build "reputation collateral" for future borrowing. This point captures the important "educational" role that Credit Bureaus can play, as borrowers who know that their credit reports will be shared among creditors, are motivated to pay off their debts regularly.

1.2 Research Problem

Since developed countries have used credit bureaus, among other measures, to increase credit penetration and access to finance, it follows that Kenya's adoption of credit reporting represents a practical step to mitigate financial exclusion and deepen its credit market. Credit bureaus collect and distribute factual data on payment performance as well as other relevant information used to access credit worthiness of borrowers. The information sharing mechanism may able to lower information asymmetry and support larger lending volumes thus softening financing constraints faced by firms and individual borrowers (Love and Mylenko, 2003). Formal financial institution in Kenya shy away from SME's because they consider them too risky to serve. Lack of working capital, access to credit and access to markets for their products have been established as the major constraints that causes business closures for MSEs (Rukwaro, 2001). There is evidence of an increase in number of credit reports accessed by banks since 2010, meaning that credit bureaus are now a key prayer in the credit market in Kenya. The role played by CRB cannot therefore be ignored.

Ideally credit reference bureaus should increase access to finance by SME by addressing the information asymmetry problem. However access to credit by SMEs still remains a problem in Kenya. Even with the adoption of credit reporting system in Kenya in year 2010 access to finance still remain an issue. Although banks have realised significant increases in small and micro business loans in their portfolios besides the reduction in the level of non-performing loans since 2010 there is need to determine whether this is attributed to existence of credit bureaus. In view of this discrepancy there is a need to determine how credit bureaus affect access to finance by SME.

Studies on the benefits of information sharing instructions (Credit bureaus) and their impact on credit markets have been scarce. The only research sighted on credit reporting in Kenya is entitled "Implementation of Kenyan Credit Information Sharing System: Progress and Challenges" done in 2008 by Political and Economic Research Council, a US based profit research institute. They investigated the progress and challenges faced by financial institutions in their preparation for credit reporting. Another study by Aduda, Magutu and Githinji (2012) sought to determine the relationship between credit scoring practices by commercial banks and access to credit by SMEs in Kenya. This study did not focus on credit reference bureaus. There is absence of a local study with specific focus on impact of credit referencing bureaus in accessing finance by SMEs. There is therefore evidence of a gap in literature that this study intends to fill. The study therefore sought to determine what impact does presence of credit reference bureaus have in relation to accessing finance by SMEs since the adoption of credit reporting in Kenya in 2010. All stakeholders in Kenyan markets now realise that SMEs are the "missing middle". Their size and demand for credit has outgrown the capacity of microfinance institutions (Mc Donald et al, 2007). It is therefore necessary to evaluate how credit reference bureaus affect access to finance by SMEs nationwide.

1.3 Objective of the Study

To determine the perceived impact of credit reference bureaus in accessing finance by SMEs in Kenya.

1.4 Research Questions

The study was guided by the following research questions:

I. What is the relationship between credit reference bureaus and access to finance by SMEs in Kenya?

II. How does sharing of credit information of SMEs by credit reference bureaus (CRB) affect loan processing and assessment time?

III. How does sharing of credit information of SMEs by CRB affect default rate?

IV. How does sharing of credit information of SMEs by CRB affect loan repayment?

V. How does sharing of credit information of SMEs by CRB affect cost and pricing (interest rate) of loans?

VI. How does sharing of credit information of SMEs by CRB affect term of credit?

VII. How does sharing of credit information of SMEs by CRB affect competition among commercial banks?

VIII. How does sharing of credit information by CRB influence use of external funding by SMEs?

1.5 Importance of the Study

The study will contribute valuable knowledge to the field of credit reporting in general. The study will be beneficial to commercial bank managers as its focus is on credit reporting and access to finance where credit is the core source of business for many banks. The banks will be able to know how effective to handle the issues of credit reporting.The research will provide valuable information regarding the financial sector. The academicians will be furnished with relevant information regarding credit reporting and its impact on access to finance. It will contribute to the general body of knowledge and form a basis for further

research. Researchers will use this study as a form of reference for future studies, the study will also suggest future research activities that can be explored.

Finally, the study will contribute to the broader realm of business and academic research. In business, through its recommendations, the study will add value to better credit reporting practices in businesses and service quality. In academia, the study will add value to academic research in the broader area of credit management, credit referencing and access to financing.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter explores theoretical and empirical literature related to the impact of credit referencing bureaus and access to finance. The literature covers both the independent (credit reference bureaus) and dependent (access to financing) variables of this study, and attempts to bring to the fore the nature of the relationships among these variables as established by theory and empirical research.

2.2 Theoretical Literature Review

The central role played by information in credit markets has been the focus of a significant theoretical literature, including Jaffee and Russell (1976) and Stiglitz and Weiss (1981). These papers show how asymmetric information between borrowers and lenders makes it impossible for price to serve a market clearing function. Stiglitz and Weiss suggest that the structure of the credit market will determine the extent to which either lenders or borrowers benefit from greater transparency of information. While greater access to information should increase the quantity of lending, Stiglitz and Weiss caution that it may not necessarily reduce the price of loans unless the credit market is competitive and information can be transferred between institutions.

Pagano and Jappelli (1993) provide the first rigorous treatment of information sharing mechanisms, such as credit registries. They discuss only how information sharing can affect the problem of adverse selection. Pagano and Jappelli also find that the structure of the credit market drives the impact of information sharing on lending; in a competitive market,

informational rents fall and lending increases, whereas such benefits do not necessarily accrue when competition is lacking. Padilla and Pagano (1997) show that moral hazard can also be reduced when information sharing is present by imposing discipline on credit users.

There is near consensus in the conceptual literature that credit reporting enhances access to finance. McDonald and Schumacher (2007) highlight the fear of non-performing and delinquent credits as the most significant reason for banks' refusal to grant credit. This then presupposes that where banks have a high level of confidence that they will achieve loan repayment or that they could easily enforce contracts in case of default, there is bound to be an increase in access to credit. Pasricha (2008) found that benefits of credit bureaus are clear and include an increase in financial sector competition, decreased lender risk and an increase in credit approval rates. Technology adaptations are allowing even smaller institutions to access bureaus using lower-cost methods such as web services or batch services via internet, email or FTP. In the U S, so-called 'alternative' credit bureaus are incorporating new kinds of data into credit reports such as salary information, rental payments or mobile phone payment history to create files for consumers who previously would have been classified as uncreditworthy.

Jappelli and Pagano (2000) observe that the usefulness of credit bureaus is reduced in developing countries where large informal sectors exist in which enforcement of repayment compliance is difficult. They suggest that granting credit bureau access to informal lenders would increase the credit bureau's usefulness for both formal and informal lenders, due to the economies of scale that defines the industry. The two also argue that better information may lead banks to shift from collateral-based lending policies to more information-based ones.

2.2.1 Power Theory of Credit

There is the need to introduce legislations that protect the right of creditors and enhance the quality of procedures that lead to repayment. This is the power theory of credit. It supports the establishment or the introduction of legislations, schemes, processes and or institutions that makes it easy to enforce payment or realize or seize collateral, in case of default. A credit bureau is one of those financial infrastructures that must necessarily be in place to achieve this laudable objective. The major and instant beneficiaries of credit bureau infrastructure in an economy are the consumers and small businesses, who ordinarily find it difficult to access bank loans and other forms of credit. Yet, micro, small and medium enterprises are very significant for the growth of any economy, with their specific contributions to employment generation, export earnings and adaptation of local technology, among others. There have been factual statistics to support the positive relationship between the existence of credit bureau and the growth in access to finance as well as growth in productivity. Countries with private credit bureaus enjoyed higher financial penetration with higher private credit to the Gross Domestic Product (GDP) ratio. The World Bank, in a study of 5,000 firms in 51 countries conducted in 2003 revealed that the percentage of small businesses reporting high financing constraints reduced from 49 per cent to 27 per cent with the introduction of credit bureaus. The same report confirmed that the probability of obtaining a bank loan for small firms increased from 28 per cent to 40 per cent with the introduction of credit bureau. In specific, in Ecuador, between 2002 and 2007, the number of micro entrepreneurs that obtained a loan increased from 60,000 to 719,000, representing 1,098 per cent increase over a 5 – year period (World Bank, 2005).

Furthermore, it has been established that the poor do not have access to credit because they are regarded as unbankable and lack necessary collateral to back up their request. This phenomenon produces information asymmetries because the practical microfinance bankers to the poor have demonstrated that the poor value their name and integrity and that reputational collateral can be an effective tool to enhance access to credit. But reputational collateral requires access to repayment history which can only be given by a credit registry. Essentially, credit bureaus enhance reliance on reputational collateral than on physical collateral and therefore ease the chances of access to credit for small businesses with impeccable historical repayment records. Thus, by ameliorating information challenge on small businesses, credit bureau enables more entrepreneurs to obtain external finance thereby impacting positively on the poor.

2.2.2 The Information Theory of Credit

Banks will increase the amount of credit to small businesses and consumers where they could better predict the payment probability by their potential borrowers. The information theory of credit asserts that "the more lenders know about the credit history of prospective borrowers, the deeper the credit markets would be" (McDonald and Schumacher, 2007). Credit bureaus are a typical response to information asymmetry between lenders and borrowers.

The theory predicts that information sharing institutions alleviate problems of asymmetric information in the following four ways. Firstly, by countering adverse selection-by reducing information asymmetry between lenders and borrowers, credit bureaus allow loan to be extended to safe borrowers who had previously been priced out of the market, resulting in higher aggregate lending (Pagano and Jappeli ,1993). Secondly, by countering moral hazard.

Credit –sharing institutions can increase borrowers' cost of defaulting, thus increasing debt repayment (Padilla and Pagano, 2000). Thirdly, by countering information monopoly. Conversely sharing of credit related information has the addition benefit of reducing the information monopoly a lender has on its borrowers. For example banks with long standing relationships with their borrowers know the credit history of those borrowers, while other lending institutions do not have access to this information. This allows the banks to charge higher interest rates and extract other rents from those high quality borrowers (Padilla and Pagano, 1997). Finally by reducing over-indebtness. Information sharing between lenders reveals borrowers debt exposure to all participating lenders, eventually reducing aggregate indebtedness as highly indebted individuals receive less credit (Bennardo, Pagano and Piccolo, 2009).

Although the theory is ambiguous on the impact that information sharing will have on the credit market, empirical evidence has provided plenty of evidence supporting the claim that credit sharing institutions have a positive effect on lending to the private sector. For instance, Japelli and Pagano (2002) show that strong credit sharing institutions are positively related to the size of credit market. Evidence also supports the theory that information sharing reduces moral hazard. Doblas-Madrid and Minetti (2009) find that if lenders enter credit information sharing institution, their borrowers improve their repayment performance-delinquent payment on leases and loans decrease.

2.2.3 Adverse Selection Theory

The adverse selection theory of credit markets originates with the paper by Stiglitz and Weiss (1981). The theory rests on two main assumptions: that lenders cannot distinguish between

borrowers of different degrees of risk, and that loan contracts are subject to limited liability (i.e, if project returns are less than debt obligations, the borrower bears no responsibility to pay out of pocket). The analysis is restricted to *involuntary* default, i.e, it assumes that borrowers repay loans when they have the means to do so. In a world with simple debt contracts between risk-neutral borrowers and lenders, the presence of limited liability of borrowers imparts a preference for risk among borrowers, and a corresponding aversion to risk among lenders. This is because limited liability on the part of borrowers implies that lenders bear all the downside risk. On the other hand, all returns above the loan repayment obligation accrue to borrowers. Raising interest rates then affects the profitability of low risk borrowers disproportionately, causing them to drop out of the applicant pool. This leads to an adverse compositional effect — higher interest rates increase the average riskiness of the applicant pool. At very high interest rates, the only applicants are borrowers who could potentially generate very high returns (but presumably with small probability). Since lenders' preferences over project risk run counter to those of borrowers, they may hold interest rates at levels below market-clearing and ration borrowers in order to achieve a better composition and lower risk in their portfolio. Excess demand in the credit market may persist even in the face of competition and flexible interest rates.

In the adverse selection theory, the interest rate may not rise enough to guarantee that all loan applicants secure credit, in times when loanable funds are limited. In general, the volume of credit and level of effort is less than first-best. Borrowers who have greater wealth to put up as collateral obtain cheaper credit, have incentives to work harder, and earn more income as a result. Existing asset inequalities within the borrowing class are projected and possibly magnified into the future by the operation of the credit market, a phenomenon that may cause

the persistence of poverty. By exchanging information about their customers banks can improve their knowledge of applicants' characteristics and past behaviour. In principle, this reduction of informational asymmetries can reduce adverse selection problems in lending, as well as change borrowers' incentives to repay, both directly and by changing the competitiveness of the credit market. Pagano and Jappelli (1993) show that information sharing reduces adverse selection by improving bank's information on credit applicants. In their model, each bank has private information about local credit applicants, but has no information about non-local applicants. If banks exchange information about their client's credit worthiness, they can assess also the quality of non-local credit seekers, and lend to them as safely as they do with local clients. Information sharing can also create incentives for borrowers to perform in line with banks' interests. Klein (1982) shows that information sharing can motivate borrowers to repay loans, when the legal environment makes it difficult for banks to enforce credit contracts. In his model borrowers repay their loans because they know that defaulters will be blacklisted, reducing external finance in future.

2.2.4 Credit Rationing Theory

The theory advance that borrowers who are considered to be too risky are excluded from credit markets due to credit rationing. Insufficient institutional frameworks imply moral hazard which in turn causes the rationing of credit. Market structure has no direct effects on credit rationing but affects the availability of credit through client-maximizing cross-subsidization. Risk is costly in credit markets where players are risk averse. In competition, the increased cost from higher risk is normally compensated by a high price (interest rate) until equilibrium is achieved, where supply equals demand. The concept was introduced in

some form as early as 1965 by Freimer and Gordon and comprehensively by Stiglitz and Weiss in 1981.

Credit markets rarely follow the law of supply and demand. If they did, agents unable to borrow money at the market rate would be able to do so by paying a higher price, i.e. interest rate. However, that is not the case in many credit markets. Let us assume that the lender's pay-off from a certain borrower is increasing in risk. The riskier the project is, the higher interest rate the borrower will be prepared to pay. Hence, at high interest rates, only borrowers investing in very risky projects are prepared to borrow money. Thus, the interest rate a player is prepared to pay reveals his risk class. Due to adverse selection described above, only riskier players will want to borrow at very high interest rates. Banks will suspect borrowers willing to pay high interest rates of being very risky. Moreover, the interest rate charged affects the risk of the borrower. A high interest rate adds to the burden of repayment, which has moral hazard implications on the incentives of the borrower. For these reasons, banks often choose to ration their credit. Due to credit rationing, the optimal interest rate is above the equilibrium interest rate. The risk of default increases disproportionately among the borrowers willing to accept worsened loan conditions. Because of this profit maximizing solution, demand and supply will not always clear the market. The level of the profit maximizing interest rate depends on the risk of the borrowers, the cost of capital for the bank and the supply of credit.Understanding the effects of credit rationing is important when developing methods to increase the outreach of formal credit markets. Credit rationing is of two different forms; quantity constraints *micro* credit rationing, which places credit limits on borrowers (below first-best levels), and *macro* credit rationing, which randomly denies access to *any* credit to a fraction of borrowers. The second form involves

asymmetric treatment of otherwise identical agents. The second form of rationing gains in importance when information flow within the lending community is poor (so that defaulters have a fair chance of escaping detection).

Credit bureaus exist to address the issue of credit rationing. In extending a loan, a lender aces the problem that only a borrower precisely knows his or her intention and capacity to repay. The lender must, therefore, infer the risk profile of the borrower. Such assessments are crucial because a loan involves an agreement to pay in the future, a fact that has far-reaching consequences for lending markets. When lenders can assume only the average risk for any given borrower, borrowers of above-average quality will over time be driven out and will threaten the viability of the market. One long-run consequence is that credit in loan markets can be rationed because of insufficient information, meaning that given borrowers with identical risk profiles, one will receive a loan and another will not. Given these information asymmetries, banks rely on a combination of pricing (interest rates) and rationing to maximize returns. However, higher interest rates, while covering the risk of borrower default, are also likely to result in adverse selection. That is, higher interest rates attract borrowers seeking to make risky investments with the potential for high rates of return. This is the classic moral hazard problem. However, the extent to which these results occur depends on the structure of credit reporting, bureau ownership structure, and the kinds of information reported, as empirical studies have shown.

2.3 Credit Reporting

Credit reporting is one of the most important frameworks in a modern financial system; however, it has been largely ignored until recently. Credit reporting systems can be

instrumental in expanding the breadth and depth of the financial sector, by providing opportunities for new financial products in existing consumer segments, or by enabling financial institutions to successfully serve consumers who were previously ignored or underserved. Of particular interest for policy makers and development specialists, as well as for many private sector lenders is the role that credit reporting can play in reaching marginal borrowers such as micro, small and medium enterprises (SME's) and low income consumers (Miller, 2003). Since these borrowers often lack physical collateral that can be used as a loan guarantee, credit reporting can help them create "reputational capital" which can be more valuable in the credit market. In this way, credit reporting can be seen as part of a strategy to open up financial systems, increasing opportunities for poorer borrowers to participate and contribute to more equitable economic growth (Miller, 2003).

Information collated by lenders through monitoring and screening can be shared among credit providers creating a credit market environment with lower informational asymmetries and leading to more efficient allocation of credit. These information sharing mechanisms may be able to lower information asymmetries and support larger lending volumes, thus softening financing constraints faced by firms and individual borrowers (Love and Mylenko, 2003).

The success of both the U S and Canadian economies is traceable to the demand for goods and services generated by the use of retail credit. This large volume of retail credit is referred to as "mass credit" and is reliant on the availability of information related to demographics and experience of individuals and SME's in the maintenance of their credit obligations. The

standard of living in both these countries is among the highest in the world and is anchored on the availability of retail credit.

Africa remains the region of the world with the least developed credit reporting systems. However, both private and public credit-reporting institutions operate in the formal sectors of many African countries. African countries with a public credit registry include Angola, Burundi, Madagascar, Mozambique, Nigeria and Rwanda. Additionally, a public credit registry operating in western Africa is overseen by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), a central bank representing the West African nations of Benin, Burkina Faso, Cote D'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. As of 2009, private credit bureaus existed or were in the process of development in Benin, Botswana, Burkina Faso, Cote D'Ivoire, Ghana, Kenya, Mali, Niger, Nigeria, Namibia, Rwanda, Tanzania, The Gambia , Togo Senegal, South Africa, Swaziland, Uganda and Zambia (World Bank 2010).

2.3.1 Credit Bureau

A credit bureau (U.S.) or credit reference agency (UK) is a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. It is an organization providing information on individuals borrowing and bill paying habits. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating. Consumers with poor credit repayment histories or court adjudicated debt obligations like tax

liens or bankruptcies will pay a higher annual interest rate than consumers who don't have these factors (Miller, 2003).

In the U.S., credit bureaus collect and collate personal information, financial data, and alternative data on individuals from a variety of sources called data furnishers with which the bureaus have a relationship. Data furnishers are typically creditors, lenders, utilities, debt collection agencies and the courts (i.e. public records) that a consumer has had a relationship or experience with. Data furnishers report their payment experience with the consumer to the credit bureaus. The data provided by the furnishers as well as collected by the bureaus are then aggregated into the credit bureau's data repository or files. The resulting information is made available on request to customers of the credit bureau for the purposes of credit risk assessment, credit scoring or for other purposes such as employment consideration or leasing an apartment. Given the large number of consumer borrowers, these credit scores tend to be mechanistic. To simplify the analytical process for their customers, the different credit bureaus can apply a mathematical algorithm to provide a score the customer can use to more rapidly assess the likelihood that an individual will repay a given debt given the frequency that other individuals in similar situations have defaulted. Most consumer welfare advocates advise individuals to review their credit reports at least once per year, in order to ensure that the reports are accurate. Consumers can do so at no cost. They are entitled to a free annual credit report from each of the three nationwide consumer reporting agencies, Equifax, Experian and TransUnion.

2.3.2 SMEs Access to Finance and the Role of Credit Bureaus

McDonald and Schumacher (2007) highlighted the fear of non - performing and delinquent credits as the most significant reason for banks refusal to grant credit. This then presupposes that where banks have a high level of confidence that they will achieve loan repayment or that they could easily enforce contract in case of default, there is bound to be increase in access to credit.

Access to finance remains a key constraint to SME development in emerging economies. Macharia (2011) observe that, the SMEs find it extremely hard to access credit or finance; this often nips them in the buds, making their 'infancy mortality' very high. Constrains in access credit makes their meager retained earnings and informal savings as the only readily available sources of capital. Comprehensive data on the SME finance gap is still to be more consistently collected and monitored over time; however various data sources and studies indicate that small firms rely on internal financing much more than large firms do, and that the likelihood of a small firm having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm. Other sources of SME finance, such as leasing and factoring, are also less developed in emerging countries. A recent study by the IFC and McKinsey and Company (McKinsey) suggests that there are close to 365-445 million micro, small, and medium enterprises in emerging markets of which 25-30 million are formal SMEs and 55-70 million are formal micro enterprises, while the rest (285-345 million) are informal enterprises and non-employer firms. According to the same study, close to 45 to 55 percent of the formal SMEs (11-17 million) in the emerging markets do not have access to formal institutional loans or overdrafts despite a need for one.

The finance gap is far bigger when considering the micro and informal enterprises – 65-72 percent of all MSMEs (240-315 million) in emerging markets lack access to credit. The proportional size of the finance gap varies widely across regions and is particularly daunting in Asia and Africa. Financial institutions have always shied away from SMEs due to the perceived high risk of default among them. SMEs in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

In Kenya, banks find it not prudent to grant loans to these "risky" investors rather they opt for either well established businesses or government securities. SMEs have continued to face challenges related to accessing credit. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing, borrowing from friends or using expensive short term financing (Aduda et al, 2012). Commercial banks are still bargaining with the issue of collateral. SMEs with no transaction history are considered by banks as too risky because their ability to repay loans is not yet known. These unbanked SMEs may also not have collateral to credit. They might not have skills to run business professionally, lack proper bookkeeping procedures, inventory systems, business plans, income statements making it hard for banks to evaluate them. According to ILO report published in 2008: 'Factors affecting Women Entrepreneurs in Micro and Small Enterprises in Kenya,' women make up nearly half of all Small and Medium Enterprises owners and 40 percent of smallholder farm managers, yet they have less than 10 percent of the available credit and less than 1 percent of agricultural credit. Despite the fact that some provisions have been made towards gender mainstreaming, there is much more that could be put in place.

2.3.3 Challenges of Credit Bureau Operations in Africa

The success or otherwise of a credit bureau is dependent on a number of factors. A bureau relies on a robust level of information technology infrastructure and software, adequate data availability, appropriate regulatory and legal framework, commercial viability and consumer education and awareness. A credit bureau must be supported by relevant and appropriate software, technology and technical support and personnel. Such technology must be able to support large data base, efficient data management and information processing, adequate data security and flexibility of bureau members' legacy systems to adapt and conform to bureau requirements. It is also important for data to be available in the format that a bureau would be able to convert, merge and match for its own use. Furthermore, a credit bureau is a specialized institution and requires special skills, competencies and a high level of integrity of personnel. These pose serious challenges in emerging economies where banks have been using various banking solutions and arranging their customer data in various ways to further meet regulatory and their own information requirements. In addition, these countries also face a lot of challenge in the provision of infrastructure to aid business efficiency and cost reduction. In Kenya, for example, electricity supply is still epileptic and telecommunications infrastructure, which is a major requirement for running uninterrupted bureau operations, are not at their optimum level of efficiency.

Closely related to the above is the quality of information and customer identification. Most African countries do not have unique identification such as social security number, national identity card, etc. The available sources of identification such as drivers' license or international passport are possessed by only a handful of the adult population. This is more so, when it is remembered that Africans bear similar names, spell the same name differently,

do not have comprehensive and reliable demographic records such as birth register, death register, street addresses, etc. And because a lot of the work force is engaged in the informal sector, they also do not have documented and traceable workplace addresses. All these have implications for quality of data and identification, the scenarios that are unusual in the advanced countries.

Credit bureau also requires information sharing, consumer protection, and dispute resolution mechanisms. This implies that appropriate guidelines and legislations are required to safeguard the interest and confidentiality of the information of the consumers and protect the business of the credit bureaus too. These legislations are not available in most African countries. The few African countries that are presently introducing credit bureaus have had to start with rudimentary legislation in form of general guidelines because the presence of credit bureaus has been more or less demand driven. In Nigeria, the Central Bank of Nigeria was mandated by Section 57 of the Central Bank Act (2007) to license and regulate the activities of credit bureaus. Consequently, the Central Bank in October 2008, released the "Guidelines for Licensing, Operations and Regulation of Credit Bureaus in Nigeria". This is the only law in force in Nigeria presently and may not be sufficient to assure efficient operations of credit bureaus in Nigeria. In Kenya the Central Bank issued under the Banking Act, the Banking (Credit Reference Bureau) regulation 2008 which become effective on 2nd February 2009. The position in Morocco and Egypt are similar to the situation in Nigeria.

A credit bureau's success is also dependent on the quantum of data availability. Illiteracy is high in Africa, and so is absence of financial education. In an atmosphere of low financial education, there is the need to provide robust financial awareness for the population which

comes with its own associated cost. In the absence of adequate awareness about activities and impact of credit bureaus to access to finance, there has been reported misinformation about the involvement of credit bureaus in the credit process. In South Africa, there had been incidences of consumer protests and agitations blaming the credit bureaus for lenders refusal to grant credit facilities.

Furthermore, for an effective functioning and to make impact, a credit bureau requires large volume of data from as many sources as possible especially entities that are in lending business or sell their products and services for deferred receipts of revenue and from public sources. Most new bureaus commence only with data of borrowers. At the initial stage, these information and data are not always available because only a tiny proportion of the populations have had the opportunity to enjoy credit services in the past. In addition, the public utility that could have supported with historical records of payment of utility bills particularly for electricity, water and telephone do not have the capacity and the resources to produce these data. This phenomenon is further accentuated by the high level of informal nature of economic transactions with little records of documentation. The implication is that the response of African economies to the adoption of credit bureau may not produce the instant impact that have always been associated with the introduction of credit bureau in a typical advanced economies due to the limited information available.

2.4 Empirical Review

Hitherto, empirical research on the benefits of information sharing institutions, and on their impact on credit markets, has been scarce. At the macro level, this has been due to a lack of cross-country data on the nature of different credit reporting systems. At the micro level, the

confidential nature of credit registry information, much of it held by private firms, has limited access to the data for research purposes. In the last few years, however, several new papers have been written, using both macro data on credit reporting systems and data from credit registries themselves. In terms of micro level analysis, several of the papers forthcoming in Credit Reporting Systems and the International Economy (MIT Press, 2002) use data from credit registries to probe the importance of this information in lending decisions. Barron and Staten (2003) use consumer credit data provided by Experian and run simulations of credit scoring programs with full and restricted data sets. Barron and Staten find that greater availability of information reduces default rates and increases access to credit.

Pagano and Jappelli (2002) offer the first empirical investigation of the existence and impact of credit bureaus in various economies around the world. They find that the presence of private credit bureaus or public credit registries is associated with broader credit markets and lower credit risk. Moreover, the existence of a credit bureau may improve credit access for the poorest borrowers. Assuming that credit markets are competitive, information sharing lowers lender costs through lower default rates. This implies that in zero-profit equilibrium, borrowers with lower levels of initial assets become added to micro-lender portfolios.

Brown and Zehnder (2007) find empirical evidence that the lending market would collapse in the absence of information sharing institution and reputation banking. However their study also showed that establishing a credit registry encouraged borrowers to repay their loans by allowing lenders to identify lenders with good payment history. Kallberg and Udell (2003) use data from Dun & Bradstreet (D&B) to evaluate whether credit registries containing firm-

level data are important predictors of small business loan quality. They find that the credit information produced by D&B has substantially greater predictive power than the data contained in financial statements.

Jappelli and Pagano (2000) vindicate the findings of Turner and Varghese. They report that the most sophisticated information-sharing arrangements include positive borrower data in addition to the negative data. Positive data may include the debtor's overall loan exposure and guarantees, data from past credit history other than defaults and arrears, and debtor characteristics such as employment, income or line of business. The sharing of positive information allows for the debtor to create "reputation collateral" often in the form of a credit score, which can provide valuable information to the credit market, and signal a borrower's individual credit worthiness to a large pool of lenders. As shown in McIntosh and Wydick (2004), the sharing of positive information helps to mitigate borrower over-indebtedness, lower default rates in the overall credit market, and (in competition) to reduce equilibrium interest rates.

Miller (2003) presents a comprehensive study of credit reporting systems in nearly 80 countries around the world. She discusses credit registries in both public and private credit sectors, investigates the view of credit reporting by borrowers and derives international trends in development of credit registries. She offers the first comprehensive source for the impact of credit reporting. Credit reporting addresses a fundamental problem of credit markets; asymmetric information between borrowers and lenders that leads to adverse selection and moral hazard. The heart of a credit report is the record it provides of a consumer or firm's payment history. Since one of the best predictors of future behaviour is

past behaviour, data on how a potential borrower has met obligations in the past enable lenders to more accurately evaluate credit risk, easing adverse selection problems. At the same time, credit reports strengthen borrower discipline and reduce moral hazard, since late or non payment with one institution can result in sanctions by others.

Jappelli and Pagano (1999) developed their own survey of credit registries as part of the Inter-American Development Bank's Willingness to Pay research project. Their paper suggests that the performance of credit registries, proxied by the number of years they have operated and the type of information that they share (positive, negative or both) has a significant positive impact over the amount of consumer credit (relative to GNP) granted by the financial sector and the total amount of credit as well, and a negative impact over nonperforming loans.

In a theoretical model of information sharing, Jappelli and Pagano (1993) show that exchange of information on borrower type decreases default rates and reduces average interest rates. In a related paper Padilla and Pagano (1997) show that information sharing among borrowers would lead to lower interest rates and increased lending. Empirically testing these predictions Jappelli and Pagano (2001) find that credit information sharing is associated with higher lending, measured by private credit to GNP ratio, and lower defaults.

2.5 Chapter Conclusion

From the literature review it is clear that credit reference bureaus play an important role in development of any economy by reducing constraints that hamper access to finance. Empirical studies have provided plenty of evidence supporting the claim that credit sharing institutions have a positive effect on the lending to the private sector. Although several

studies have been done in other countries on the impact of credit bureaus in accessing finance by private sector, none has been done in Kenya and particularly in relation to SMEs. A gap therefore exists that this study intends to fill by seeking to establish the impact of credit reference bureaus in access to finance by SMEs in Kenya.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction.

This chapter outlines the methodology that was used in conducting the study. The study design and population has been described in each respective section including the sample and sampling procedure and the instruments and procedures used in data collection.

3.2 Research Design

Research design refers to the way the study is designed, that is, the method used to carry out a research. Descriptive Research is the investigation in which quantity data is collected and analysed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time. Descriptive research design was chosen because it enables the researcher to generate knowledge that may be used to describe or develop a profile of what is being studied..

3.3 Target Population

The target population of this study comprised of all SMEs in Kenya.

3.4 Sample design

The sample size of this study consisted of the top 100. SMEs in Kenya in year 2011(see appendix II). The top SMEs in Kenya were identified through a survey carried out by KPMG and Nation Media Group. The top 100 SMEs were chosen because these were the fast growing SMEs in Kenya, they had succeeded in progressively growing their market position in the industries they operate in and contributed significantly to wealth & job creation in

Kenya. They were the most likely SMEs to seek credit to expand their enterprises. The greatest impact of credit reference bureau in access to finance was therefore felt by these SMEs.

3.5 Data Collection

The study used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions (see appendix I). Questionnaires were used since the study was concerned also with variables that could not be observed such as views, opinion, perception and feeling of respondent. Such information is best collected through questionnaires (Touliatos & Compton, 1998). The sample size (100) was large and given time constraints, questionnaires was ideal for collecting data. The target population was also largely literate and was unlikely to have difficulties responding to questionnaire items. The questionnaires were administered on a drop and pick method. Secondary data was collected by use of desk search techniques from published reports and other documents. Secondary data included the banks publications, journals, and periodicals.

3.6 Data Analysis

The collected data was thoroughly examined and checked for completeness and correctness. The data was then summarized, classified, coded and tabulated. The coded data was entered into the Statistical Package for Social Sciences (SPSS version 17) for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Descriptive data analysis techniques were used to analysis the data. This involved descriptive tools such as means, mode, variance, standard deviation and frequency distribution.

Data presentation was done by the use percentages and frequency tables. This ensured that the gathered information will be clearly understood.

3.7 Variables

The Independent Variable is Credit Reference Bureaus while the Dependent Variable is Access to finance. There was no model because this was a descriptive study.

3.8 Reliability and Validity Assurance

The bad news for communication research is that it has some error (Cooper and Schindler, 2009). These errors can take the form of interviewer error, participant error or response-based error. To obtain full participant cooperation, the researcher obtained letters of introduction from the university. Piloting was carried out to test the validity and reliability of the instrument. Participant errors were expected to be minimal because the respondents possessed the information, understood their role as respondents and were given adequate motivation to cooperate. Response-based errors were outside the control of the researcher. However, only few errors were expected because the target respondents had the relevant skill, knowledge and ability to answer the questions.

CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a detailed discussion of the research findings in an attempt to achieve the research objectives. Data analysis was carried out based on the objectives of the study.

4.2 Response Rate

100 questionnaires were distributed to the top 100 SMEs in Kenya which were identified through a survey carried out by KPMG and Nation Media Group. However, only 80 questionnaires were collected from the top 100 SMEs in Kenya, representing an 80.00% response rate.

4.3 General information of the Respondents

4.3.1 Gender of the Respondents

The study sought to find out the gender of the respondents. Table 4.1 captured the gender of the respondents.

Table 4.1: Gender of the Respondents

	Frequency	Percent
Male	56	70.00
Female	24	30.00
Total	80	100.00

The table above shows that 70.00% of the respondents were male while 30.00% were female. This is an indication that most of the SMEs are owned, managed or controlled by the male gender.

4.3.2 Age Groups of the respondents

The study sought to establish the age of the respondents. Table 4.2 captures the responses.

Table 4.2: Age Groups of the Respondents

	Frequency	Percent
35 – 44 Years	40	50.00
45 – 54 Years	20	25.00
25 – 34 Years	15	18.75
55 – 64 Years	5	6.25
Total	80	100.00

From table above it is evident that most of the respondents were aged between 35 and 44 years with 50.00% followed by 45 to 54 years with 25.00% of the respondents in this category, while 18.75% of the respondents were aged 25 to 34 years, with the rest 6.25% indicating 55 to 64 years respectively.

4.3.3 Level of Education

The study sought to find out the level of education of the respondents, which is captured in table 4.3 below.

Table 4.3: Level of Education

	Frequency	Percent
Degree	56	70.00
Masters	16	20.00
Diploma	8	10.00
Total	80	100.00

It is evident that most (70.00%), of the respondents had Degree level of qualifications with 20.00% having masters qualifications and only 10.00% with diploma qualifications.

4.3.4 Respondents Current Designation

The study sought to find out the current designation of the respondents, which is captured in table 4.4 below.

Table 4.4: Respondents Current Designation

	Frequency	Percent
Financial Controllers	64	80.00
Managing Directors	12	15.00
Branch Manager	4	5.00
Total	80	100.00

It was observed that most (80.00%), of the respondents were financial controllers with 15.00% being the managing directors and 5.00% indicated branch manager

4.3.5 Length of Period in the Industry

The study sought to find out how many years the respondent has been in the current industry, which is captured in table 4.5 below.

Table 4.5: Length of Period in the Industry

	Frequency	Percent
6 to 10 Years	36	45.00
1 to 5 Years	20	25.00
11 to 15 Years	16	20.00
16 years and above	8	10.00
Total	80	100.00

It is evident that most (45.0%), of the respondents had been in the industry for a period of 6 to 10 years with 25.0% indicating they had been in the industry for 1 to 5 years; and 20% for

a period of 11 to 15 years. The rest, 10.0% indicated they had been in the industry for 16 years and above.

4.3.6 Period the Firm/Business Has Been In Existence

The study sought to find out how long the firm/business has been in existence, with the results indicated in table 4.6 below.

Table 4.6: Period the Firm/Business Has Been In Existence

	Frequency	Percent
6 Years and above	77	96.25
3-5 Years	3	3.75
Total	80	100.00

It is evident that most (96.25%), of the firms/businesses had been in existence for 6 years and above, with only 3.75% having been in existence for a period of between 3 and 5 years.

4.4 Regulatory, Operational and Awareness Assessment

The objective of the study was to determine awareness of regulatory and operational environment of credit reference bureaus in Kenya.

4.4.1 Operations of Credit Bureaus

The study sought to find out how the credit bureaus should carry out their operations which is captured in table 4.7.

Table 4.7: Operations of Credit Bureaus

	Frequency	Percent
Be regulated by the central bank	48	60.00
Be self regulated	32	40.00
Total	80	100.00

From the table above it is evident that most of the respondents (60.00%) believed that operations of credit bureaus should be regulated by the Central Bank with the rest, 40.00% indicating that they should be self regulated.

4.4.2 Awareness about the Credit Bureau Regulations

The study then sought to find out whether the respondents were aware of the credit bureau regulations which are captured in table 4.8 below.

Table 4.8: Awareness about the Credit Bureau Regulations

	Frequency	Percent
Yes	80	100.00
Total	80	100.00

All the respondents indicated that they were aware of the credit bureau regulations. This can be attributed to the wide spread sensitization of the credit bureaus among the SMEs.

4.4.3 Clearness on the Credit Reference Bureau Regulations

The study then sought to find out how credit reference bureau regulations were clear to the respondent which is captured in table 4.9.

Table 4.9: Clearness on the Credit Reference Bureau Regulations

	Frequency	Percent
Clear	56	70.00
Very Clear	20	25.00

Not Clear	4	5.00
Total	80	100.00

From the table above it is evident that most of the respondents (70.00%) were clear about the credit reference bureau regulations with 25.00% indicating that they were very clear and the rest 5.00% indicating they were not clear.

4.4.4 Adequacy of Credit Bureau Regulations

The study sought to find out the adequacy of credit bureau regulations and the results are as shown in table 4.10 below.

Table 4.10: Adequacy of Credit Bureau Regulations

	Frequency	Percent
Yes	80	100.00
Total	80	100.00

Majority (80%) of the respondents indicated that they believed that the credit bureau regulations were adequate with only 20% indicating that the regulations were inadequate.

4.4.5 Absolute Ownership of the Credit Data on the Credit Bureau Database

The study then sought to find out who should have absolute ownership of the credit data in the credit bureau database. Their responses were captured in table 4.11 below.

Table 4.11: Ownership of Credit Data on the Credit Bureau Database

	Frequency	Percent
Bankers Association of Kenya	40	50.00
Central bank of Kenya	20	25.00

Credit bureau	15	18.75
Kenya Credit Information Sharing Initiative	5	6.25
Total	80	100.00

From the table above it is evident that most of the respondents (50.00%) believed that absolute ownership of the credit data on the credit bureau database should be owned by the Bankers Association of Kenya, 25.00% indicated absolute ownership should be with Central Bank of Kenya. 18.75% indicated that absolute ownership should be with the Credit Bureau with the rest 6.25% indicating absolute ownership should be with the Kenya Credit Information Sharing Initiative.

4.4.6 Greater Benefits Accruing To Credit Reporting

The study then sought to find out whether greater benefits will accrue to credit reporting if both positive and negative credit data are stored. Their responses were captured in table 4.12 below.

Table 4.12: Greater Benefits Accruing To Credit Reporting

	Frequency	**Percent**
Yes	70	87.50
No	10	12.50
Total	80	100.00

From the table above it is evident that most of the respondents (87.50%) believed that greater benefits would accrue to credit reporting if both positive and negative credit data are stored with the rest, 12.50% indicating that greater benefits would not accrue if both positive and negative credit data are stored.

4.4.7 Submission of Credit Data to a Credit Bureau

The study then sought to find out who should submit credit data to a credit bureau. Their responses were captured in table 4.13 below.

Table 4.13: Submission of Credit Data to a Credit Bureau

	Frequency	Percent
Commercial banks	40	50.00
Utility companies	20	31.25
Non bank financial institutions (including MFI's and SME's)	15	18.75
All of the above	5	6.25
Total	80	100.00

From the table above it is clear that most of the respondents (50.00%) believed that commercial banks should submit credit data to a credit bureau with 31.25% indicating that it should be submitted by Utility Companies while 18.75% indicated the submission should be done by Non-bank financial institutions (including MFI's and SME's) with the rest 6.25% indicating submission should be done by all of the above institutions.

4.4.8 Effectiveness of Credit Bureaus With Regard To Their Ownership

The respondents were then asked to rate the effectiveness of Credit bureaus with regard to their ownership. Their responses were captured in table 4.14 below.

Table 4.14: Effectiveness of Credit Bureaus and Ownership

	Strongly agree	Moderately agree	Agree	Total	Mean
	Frequency	Frequency	Frequency		
Credit bureaus are more effective as private ventures	40	25	15	80	5.81

	Strongly Disagree	Moderately Disagree	Agree	Total	Mean
	Frequency	Frequency	Frequency		
Credit bureaus would be more effective if Government-owned	50	20	10	80	1.88

The respondents were then asked to rate on a scale of 1 to 5; (1 = Strongly disagree, 2 = Moderately Disagree, 3 = Agree, 4 = Moderately agree, 5 = Strongly agree) the effectiveness of Credit bureaus with regard to ownership. It is evident from Table 4.12 that credit bureaus are more effective as private ventures as indicated by the mean of 5.81 which depicts strongly agree as opposed to credit bureaus would be more effective if Government-owned which got a mean of 1.88 indicating moderately disagree.

4.4.9 Public Awareness of the Need for Credit Reporting

The study then sought to find out the public awareness of the need for credit reporting. Their responses were captured in table 4.15 below.

Table 4.15: Public Awareness of the Need for Credit Reporting

	Frequency	Percent
Yes	60	75.00
No	20	25.00
Total	80	100.00

From the table above it is manifested that most of the respondents (75.00%) believed that the public was aware of the need for credit reporting with only 25.00% of the respondents saying the public was not aware of the need for credit reporting.

4.4.10 Rating of the Credit Bureaus' Reputation in the Market

The study then sought to find out the rating of the credit bureaus' reputation in the market. Their responses were captured in table 4.16 below.

Table 4.16: Submission of Credit Data to a Credit Bureau

	Frequency	Percent
Weak	35	43.75
Strong	25	31.25
Moderately strong	15	18.75
Very strong	5	6.25
Total	80	100.00

From the table above it is evident that most of the respondents (43.75%) believed that rating of the credit bureaus' reputation in the market was weak, 31.25% indicated that it was strong; 18.75% indicated it was that its reputation was very strong.

4.5 Impact of Credit Reference Bureaus in Access to Finance by SMEs

4.5.1 Sharing Of Credit Data and Expansion of Lending To SMEs

The study sought to find out whether sharing of credit data by credit bureaus has expanded lending to SMEs by commercial banks. The responses are captured in table 4.17 below.

Table 4.17: Sharing Of Credit Data by Credit Bureaus and Lending To SMEs

	Frequency	Percent
Yes	45	56.25
No	20	25.00
Not sure	15	18.75
Total	80	100.00

From the table above it is clear that most of the respondents (56.25%) indicated that sharing of credit data by credit bureaus has expanded lending to SMEs by commercial banks while rating 25.00% indicated that sharing of credit data by credit bureaus did not expand lending to SMEs by commercial banks with the rest; 18.75% indicating that they were not sure whether sharing of credit data by credit bureaus had expanded lending to SMEs by commercial banks.

4.5.2 Sharing Of Credit Information from Informal Sector Has Greatly Expanded Access to Credit For Small and Medium Size Enterprises

The respondents were asked whether sharing of credit information from informal sector had greatly expanded access to credit for small and medium size enterprises. Their responses are as indicated in table 4.18 below.

Table 4.18: Sharing Of Credit Information from Informal Sector Has Greatly Expanded Access to Credit For Small and Medium Size Enterprises

	Frequency	Percent
No	64	80.00
Yes	16	20.00
Total	80	100.0

Majority (80.00%) indicated that it had not expanded access to credit for small and medium size enterprises; with the rest, 20.00% indicating that it had expanded access to credit for small and medium size enterprises.

4.5.3 Existence of Credit Bureaus and Reduction of Financing Constraints to Access to SMEs

The study further sought to find out whether the existence of credit bureaus had reduced constraints related to access to financing by SMEs. Table 4.19 shows their responses.

Table 4.19: Existence of Credit Bureaus and Financing Constraints

	Frequency	Percent
No	60	75.00
Yes	20	25.00
Total	80	100.0

From the table above it is evident that most of the respondents (75.00%), indicated that the existence of credit bureaus had not reduced constraints related to access to financing by SMEs while 25.00% indicated that the existence of credit bureaus had reduced constraints related to access to financing by SMEs in Kenya.

4.5.4 Existence of Credit Bureaus and Helping SMEs Access Finance More Than Large Firms

The respondents were asked whether existence of credit bureaus could help SMEs access finance more than large firms. The results are as shown in table 4.20 below.

Table 4.20: Existence of Credit Bureaus and Helping SMEs Access Finance More Than Large Firms

	Frequency	Percent
No	70	87.50
Yes	10	12.50
Total	80	100.0

Majority of the respondents (87.50%) disagreed indicating that the existence of credit bureaus could not help SMEs access finance more than large firms with only 12.50% agreeing that the existence of credit bureaus could help SMEs access finance more than large firms.

4.5.5 Sharing Of Credit Information and Collateral Requirements for Commercial/Business Loans by Commercial Banks

The study then sought to find out whether sharing of credit information reduced collateral requirements for commercial/business loans by commercial banks. Table 4.21 shows their responses.

Table 4.21: Sharing Of Credit Information and Collateral Requirements

	Frequency	Percent
No	70	87.50
Yes	10	12.50
Total	80	100.0

From the table above it is evident that most of the respondents (87.50%) indicated that sharing of credit information had not reduced collateral requirements for commercial/business loans by commercial banks while only 12.50% indicated that sharing of credit information had reduced collateral requirements for commercial/business loans by commercial banks in Kenya.

4.5.6 Obstacles to Accessing Financing for Operation and Growth of Business

The respondents were asked to indicate the extent to which listed obstacles had been a constraint to accessing financing for operation and growth of their businesses. Their responses were captured in table 4.22 below.

Table 4.22: Obstacles to Accessing Financing and Growth of Business

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Total	Mean
Collateral requirement	5	5	10	60	80	3.56
Financing	10	5	15	50	80	3.31
Interest rate	3	17	20	40	80	3.21
Infrastructure	5	10	35	30	80	3.13

The respondents indicated that collateral requirement was a major obstacle that had been a constraint to accessing financing for operation and growth of their businesses which they ranked first with a mean of 3.56. Financing, interest rate, and infrastructure considered moderate obstacles as indicated by their means of 3.31, 3.21, and 3.13 respectively.

The respondents further indicated that credit bureaus alleviate a firm financing constraints by providing information on individuals borrowing and bill paying habits. It enables the lenders assess credit worthiness, the ability to pay back a loan, and this affects the interest rate and other terms of a loan. Borrowers with poor credit repayment histories or bankruptcies then have to pay a higher annual interest rate than consumers who don't have these factors

4.5.7 Existence of Credit Bureaus and Access to Credit by Firms

When the respondents were asked whether existence of credit bureaus makes it easier for older firms to access credit than new ones, their responses are indicated in table 4.23 below.

Table 4.23: Existence of Credit Bureaus and Access to Credit by Old/New Firms

	Frequency	**Percent**
Yes	68	85.00
No	12	15.00
Total	80	100.0

As indicated in the table above, majority (85.00%) indicated that credit bureaus made it easier for older firms to access credit than new ones. On the other hand, only 15.00% indicated that credit bureaus did not make it easier for older firms to access credit than new ones. This can be attributed to the fact that historical information is available for the older firms as compared to the new ones.

4.5.8 The Effects of Sharing Of Credit Information By Credit Bureaus

The respondents were then asked to rate various factors relating to sharing of credit information by credit bureaus. The results are as indicated in the table 4.24 below.

Table 4.24: Effect of Sharing Of Credit Information by Credit Bureaus

	Strongly Agree	Moderately Agree	Agree	**Total**	**Mean**
	Frequency	**Frequency**	**Frequency**		
Sharing of credit information has reduced interest rates charged on loans by commercial banks	60	15	5	**80**	**4.69**
Existence of credit bureaus has	60	15	5	**80**	**4.69**

increased incentives by SMEs to repay their loans					
Sharing of credit information has reduced loan processing costs and increased lending volume significantly	50	20	10	**80**	**4.50**
Sharing of credit data has significantly reduced the time taken to assess and process loans.	55	10	15	**80**	**4.50**
Credit information sharing has extended terms of credit(loan repayment period)	45	25	10	**80**	**4.44**
Sharing of credit information has increased incentives by SMEs to use external funding	60	15	5	**80**	**4.44**
Existence of credit bureaus has increased competition in the credit market among financial institutions	40	30	10	**80**	**4.38**
Sharing of financial credit information of SMEs has improved equitability in the credit market in Kenya	40	20	20	**80**	**4.25**
Existence of credit bureaus has reduced loan default rate by SMEs	40	15	25	**80**	**4.19**
Sharing of credit data has increased incentives by banks to lend more to SMEs	30	20	30	**80**	**4.00**

They were required to indicate the extent they agreed or disagreed with the various statements on a ranking scale of 1-5; Where1= strongly disagree, 2 =disagree 3= Agree, 4

=Moderately Agree, 5 = strong agree. Means for the factors were established in order to provide a generalized feeling of all the respondents. Strongly disagree responses were coded 1, disagree responses were coded 2, agree responses were coded 3, moderately agree responses were coded 4 and strongly agree responses were coded 5. Means closer to one implied that the factor was rated strongly disagree by most respondents, Means closer to 2 implied that most respondents rated that the factor disagree, Means closer to 3 implied that most respondents rated that the factor agree, Means closer to 4 implied that most respondents rated that the factor Moderately agree while means closer to 5 implied that the factor was rated as strongly agree by the respondents.

The respondents indicated that they strongly agreed that sharing of credit information had reduced interest rates charged on loans by commercial banks and existence of credit bureaus had increased incentives by SMEs to repay their loans with a means of 4.69 each. They indicated that they moderately agreed that sharing of credit information had reduced loan processing costs and increased lending volume significantly as well as sharing of credit data had significantly reduced the time taken to assess and process loans with means of 4.50 each. The respondents indicated they moderately agreed that credit information sharing has extended terms of credit (loan repayment period) with a mean of 4.4, followed by sharing of credit information had increased incentives by SMEs to use external funding with a mean of 4.4. They also indicated that they moderately agreed that existence of credit bureaus had increased competition in the credit market among financial institutions with a mean of 4.38, as was the case with sharing of financial credit information of SMEs had improved equitability in the credit market in Kenya with a mean of 4.25, followed by existence of

credit bureaus had reduced loan default rate by SMEs with a mean of 4.19 and finally sharing of credit data had increased incentives by banks to lend more to SMEs with a mean of 4.00.

4.6 Chapter Summary

This chapter presented a detailed discussion of the research findings while answering the research objectives. Data analysis is carried out based on the objectives of the study. Descriptive statistics such as means, and frequency distribution were used to analyze the data. Data presentation was done by the use of percentages and frequency tables.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter discusses the results gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the interview. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

5.2 Summary of the Findings

100 questionnaires were distributed to the top 100 SMEs in Kenya which were identified through a survey carried out by KPMG and Nation Media Group. However, only 80 questionnaires were collected from the top 100 SMEs in Kenya, representing an 80.00% response rate. The findings indicated that 70.00% of the respondents interviewed were male and most of the respondents were aged between 35 and 44 years with 50.00% response rate. It is evident that most (70.00%), of the respondents had Degree level of qualifications and it was observed that most (80.00%), were financial controllers. It is evident that most (45.0%), of the respondents had been in the industry for a period of 6 to 10 years and that most (96.25%), of the firms/businesses had been in existence for 6 years and above.

The respondents believed that operations of credit bureaus should be regulated by the Central Bank and they indicated that they were aware of the credit bureau regulations. Most of the respondents (70.00%) were clear about the credit reference bureau regulations and believed the credit bureau regulations were adequate. They however stipulated that absolute ownership of the credit data on the credit bureau database should be owned by the Bankers

Association of Kenya and that greater benefits would accrue to credit reporting if both positive and negative credit data are stored. The respondents believed that commercial banks should submit credit data to a credit bureau and the credit bureaus would be more effective as private ventures. They believed that the public was aware of the need for credit reporting and the rating of the credit bureaus' reputation in the market was weak.

5.2.1 Perceived Impact of Credit Reference Bureaus in accessing finance by SMEs in Kenya

The respondents indicated that sharing of credit data by credit bureaus has expanded lending to SMEs by commercial banks and it had greatly expanded access to credit for small and medium size enterprises. They also indicated that the existence of credit bureaus had not reduced constraints related to access to financing by SMEs while they disagreed that the existence of credit bureaus could help SMEs access finance more than large firms. However most of the respondents (56.25%) indicated that sharing of credit data by credit bureaus had expanded lending to SMEs by commercial banks with majority (80.00%) also indicating that sharing of credit information from the informal sector had not expanded access to credit for small and medium size enterprises. Most of them (75.00%), indicated that the existence of credit bureaus had not reduced constraints related to access to financing by SMEs.

Further they indicated that sharing of credit information had not reduced collateral requirements for commercial/business loans by commercial banks and collateral requirement was a major obstacle that had been a constraint to accessing financing for operation and growth of their businesses. They also stated that credit bureaus alleviate a firm financing constraints by providing information on individuals borrowing and bill paying habits. It

enables the lenders assess credit worthiness, the ability to pay back a loan, and this affects the interest rate and other terms of a loan. Borrowers with poor credit repayment histories or bankruptcies then have to pay a higher annual interest rate than consumers who don't have these factors. Majority (85.00%) indicated that credit bureaus made it easier for older firms to access credit than new ones and they strongly agreed that sharing of credit information had reduced interest rates charged on loans by commercial banks and existence of credit bureaus had increased incentives by SMEs to repay their loans.

5.3 Conclusions

The study focused on the perceived impact of credit reference bureaus in accessing finance by SMEs in Kenya. A credit bureau is a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. It is an organization providing information on individuals borrowing and bill paying habits. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating. Consumers with poor credit repayment histories will pay a higher annual interest rate than consumers who don't have these factors.

In Kenya, private credit bureaus struggled for several years to initiate credit reporting. Progress was hampered by the absence of a legal framework tailored to credit reporting and the unwillingness of commercial banks to share information on their clients. There are two credit reference bureaus. The first credit registry to be authorised to conduct credit reporting

was Credit Reference Bureau Africa Limited (CRBAL) and the other is Metropol East Africa Limited (MEAL).

It can therefore be concluded that lack of information between lenders and borrowers has resulted in credit rationing and inefficient allocation of credit. Credit Bureaus have eased the flow of information and access to finance constraints. Information sharing institutions have had a positive impact on the amount of credit granted by the financial sector, enabled a wider range of borrowers to access credit, and have reduced the level of non-performing loans and default rates among SMEs. Credit bureaus have also impacted on access to finance by easing credit constraints in the small and new business loan market by providing standardized information on borrowers and easing the cost and time needed by banks to assess such loans. They have also increased access to credit by providing financial institutions with information. Credit bureaus have also encouraged borrowers to repay loans in order to build reputation collateral for future borrowing. Credit Bureaus have influenced borrowers who know that their credit reports will be shared among creditors to pay off their debts regularly.

5.4 Policy Recommendations

Finance plays a central role in enterprise development but this is only possible if it is accessible and reasonably priced. While SMEs are increasingly seen as playing a strategic role in economic growth and development, they suffer from liquidity problems. Furthermore, they usually experience difficulties in accessing loans from the banking sector and other financial intermediaries to finance working capital and to provide credit for a smooth transition through liquidity cycles. Some of the reasons why SMEs find difficulties in accessing finance are internal to SMEs and they include limited management and technical

skills, lack of collateral, poor technology, and lack of credible financial accounts. Reasons that are external to SMEs include poor physical infrastructure and limited market.

Where SMEs succeed in accessing financial resources, the cost of funds (interest rates) is high, sometimes leading to non-performing loans. Therefore, while finance, would play a crucial role to enhance enterprise development, both the countries within which SMEs are located and SMEs themselves need to overcome constraints that would impede their access to financial resources. Countries such as Kenya, therefore, should create the necessary policy, legal, and regulatory environment. Credit bureau should be supported by the establishment of effective information dissemination systems to provide information on the credit history of borrowers.

It is clear from the above discussion that currently, there is enormous amount of work to be done in sensitizing the stakeholders about the credit bureaus. The main focus should be on good data capture, good data mining, education for both lenders and consumers; and proper legal framework to avoid any abuse of the system. If one obtains clean and comprehensive data from the credit bureau, it is possible then to leverage it optimally. For this, it is crucial that credit bureaus regulation and leveraging is optimal. It is one area where alot of focus should be given since developing optimally efficient credit bureaus can be a great challenge.

5.5 Limitations of the study

These study findings have to be viewed in account of the following shortcomings that occurred in the course of the conduct of the study. The respondents studied in this research were from one sector i.e SMEs and conclusions drawn from this study may not be representative and therefore they cannot be generalized to other sector. The study also only

captured the members of the one focus group (top 100 SMEs) thus excluding other important stakeholders like the members of the public from giving their views.

5.6 Suggestions for Further Research

The following are suggestions of further studies that can be carried out. The study should be extended to evaluate the status and structure of the credit bureaus. Research should also be undertaken to determine perceived impact of credit reference bureaus in accessing finance in other sectors in Kenya. May be also banks should be asked on their views, whether or not credit reference bureaus have helped them reduce non-performing loans (NPL), have caused them to reduce collateral demanded from borrowers among others.

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APPENDICES

Appendix I: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

21 June 2012

TO WHOM IT MAY CONCERN

[illegible] Muriuki, Rogers

[illegible] D61/8940/2006

[illegible] Master of Business Administration (MBA) degree [illegible]

[illegible] coursework assessment a research project report on a management problem. We would [illegible] the students to do their projects on real problems affecting firms in Kenya. We would therefore, appreciate your assistance to enable him/her collect data [illegible] your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS 21 JUN 2012 MBA OFFICE P.O. Box 30197 - 00100, NAIROBI

[illegible]
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix II: Questionnaire

PART A: Demographic Information

1. Gender:

Male ( ) Female ( )

2. Age group:

25 – 34 years ( ) 35 – 44 years ( ) 45 – 54 years ( )

55 – 64 years ( ) 65 years and above ( )

3. What is your highest qualification achieved?

Diploma ( ) Degree ( ) Masters ( )

Others (please specify) _____

4. What is your current designation in your firm?

Owner ( ) Financial Controller ( ) Branch Manager ( )

Managing Director ( )

Others (please specify) _____

5. How many years have you been in the current industry?

1 – 5 years ( ) 6 – 10 years ( ) 11 – 15 years ( )

16 years and above

6. How many years has your firm/business been in existence?

0-2 year ( ) 3-5 years ( ) 6 and above ( )

SECTION B: Regulatory, Operational and Awareness Assessment

1. Operations of credit bureaus should

Be regulated by the central bank ( ) Be self regulated ( )

2. Are you aware about the credit bureau regulations?

Yes ( ) No ( )

3. How clear to you are the credit reference bureau regulations?

Don't know ( ) Not clear ( ) Clear ( ) Very clear ( )

4. Are the credit bureau regulations adequate?

Yes ( ) No ( ) Don't Know ( )

5. Who should have absolute ownership of the credit data on the credit bureau database?

Central bank of Kenya ( )

Credit bureau ( )

Bankers Association of Kenya ( )

Kenya Credit Information Sharing Initiative ( )

6. Greater benefits will accrue to credit reporting if both positive and negative credit data are stored?

Yes ( ) No ( )

7. Who, in your opinion should submit credit data to a credit bureau?

Commercial banks ( )

Non bank financial institutions (including MFI's and SME's) ( )

Utility companies ( )

All of the above ( )

8. Please indicate (√) the extent to which you agree with the following statements on effectiveness of Credit bureaus with regard to ownership, using a scale of 1–5 where: 1 = Strongly disagree, 2 = Disagree, 3 = Agree, 4 = Moderately agree, 5 = Strongly agree

	1	2	3	4	5
Credit bureaus are more effective as private ventures					
Credit bureaus would be more effective if Government-owned					

9. The public is aware of the need for credit reporting

Yes ( ) No ( )

10. How do you rate the credit bureaus' reputation in the market?

Weak ( ) Strong ( )

Moderately strong ( ) Very strong ( )

C **The Impact of Credit Reference Bureaus in Access to Finance by SMEs in Kenya**

1. Has the sharing of credit data by credit bureaus expanded lending to SMEs by commercial banks?

Yes ( ) No ( ) Not sure ( )

2. Sharing of credit information from informal sector has greatly expanded access to credit for small and medium size enterprises.

   Agree ( ) Disagree ( )

3. Does existence of credit bureaus reduced constraints related to access to financing by SMEs.?

   Yes ( ) No ( )

4. Existence of credit bureaus could help SMEs access finance more than large firms

   Agree ( ) Disagree ( )

5. Does sharing of credit information reduced collateral requirements for commercial/business loans by commercial banks

   Yes ( ) No ( )

6. How have the following obstacles been a constraint to accessing financing for operation and growth of your business.

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle
Collateral requirement				
Interest rate				
Financing				
Infrastructure				

7. How do credit bureaus alleviate a firm financing constraints?

   .....

   .....

   .....

8. Does existence of credit bureaus makes it easier for older firms to access credit than new ones?

   Yes ( ) No ( )

9. Kindly rate the extent you agree or disagree with the following statements on a ranking scale of 1-5 where;

   1= strongly disagree, 2 =disagree 3= Agree, 4 =Moderately Agree, 5 = strong agree

	1	2	3	4	5
Sharing of credit information has reduced loan processing costs and increased lending volume significantly					
Sharing of credit information has reduced interest rates charged on loans by commercial banks					
Sharing of credit data has significantly reduced the time taken to assess and process loans.					
Existence of credit bureaus has increased competition in the credit market among financial institutions					
Credit information sharing has extended terms of credit(loan repayment period)					
Existence of credit bureaus has reduced loan default rate by SMEs					
Sharing of credit data has increased incentives by banks to lend more to SMEs					
Sharing of credit information has increased incentives by SMEs to use external funding					
Sharing of financial credit information of SMEs has improved equitability in the credit market in Kenya					
Existence of credit bureaus has increased incentives by SMEs to repay their loans					

THANK YOU FOR YOUR TIME

Appendix III: Top 100 SMES In Kenya In Year 2011

1 JUNGLE MACS EPZ LTD
2 PENTAPHARM LTD
3 KEMA E A LTD
4 PG BISON KENYA LTD
5 MUKURWEINI WAKULIMA DAIRY
6 SOFTWARE TECHNOLOGIES LTD
7 KENTONS LTD
8 SBO RESEARCH LTD
9 LEE CONSTRUCTION LTD
10 SATGURU TRAVELS AND TOURS SERVICES LTD
11 DAWA LTD
12 TRANS BUSINESS MACHINES
13 UNES LTD
14 HEALTH CARE DIRECT
15 PRINT FAST LTD
16 GAP MARKETING LTD
17 RADAR LTD
18 SPICE WORLD LTD
19 VICTORIA FURNITURES LTD
20 MURANGA FORWARDERS LTD
21 INVESTEQ CAPITAL LTD
22 CANON ALUMINIUM FABRICATORS LTD
23 KENBRO INDUSTRIES LTD
24 LANTECH AFRICA LTD
25 CHEMICALS & SCHOOL SUPPLIES LTD
26 OASIS LTD
27 SEASONS RESTAURANTS & HOTELS LIMITED
28 CHARLESTON TRAVEL LTD
29 SHEFFIELD STEEL SYSTEMS LTD
30 SUNPOWER PRODUCTS LTD
31 BISELEX KENYA LTD
32 PLANNING INTERIORS LTD
33 FURNITURE INTERNATIONAL
34 MASTER POWER SYSTEMS LTD
35 BBC AUTO SPARES LIMITED
36 TRANSPORT & LIFTING SERVICES
37 GENERAL ALUMINIUM FAB LTD
38 COMPUTER PLANET LTD
39 VAJRA DRILL LTD
40 AVTECH SYSTEMS LIMITED
41 TYREMASTERS LTD
42 COMPLAST INDUSTRIES LTD
43 HEBATULLAH BROTHERS LTD
44 OPTIWARE COMMUNICATIONS LIMITED
45 GANATRA PLANT & EQUIPMENT LTD
46 AFRICA TEA BROKERS LTD
47 SAI PHARMACEUTICALS LTD
48 SILVERBIRD TRAVEL PLUS
49 WARREN ENTERPRISES LTD
50 PELICAN SIGNS LTD
51 NAIROBI GARMENTS ENTERPRISES LIMITED
52 CHEMSERVE CLEANING SERVICES LIMITED
53 GINA DIN CORPORATE COMMUNICATIONS
54 MADHUPAPER KENYA LTD
55 KEVIAN KENYA LTD
56 BIODEAL LABORATORIES LTD
57 VIVA PRODUCTLINE LTD
58 CAPITAL COLOURS CREATIVE DESIGN LTD
59 KINPASH ENTERPRISES LIMITED
60 FARAM EA LTD
61 THE PHOENIX LTD
62 KANDIA FRESH PRODUCE SUPPLIER LTD
63 DALCO KENYA LTD
64 UNION LOGISTICS LIMITED
65 CREATIVE EDGE LTD
66 MARKETPOWER INTERNATIONAL LTD

67	WAUMINI INSURANCE BROKERS LTD
68	STOIC FLEET WATCH
69	R & R PLASTICS LIMITED
70	EAST AFRICAN ELEVATOR COMPANY LIMITED
71	ALPINE COOLERS LTD
72	SPECIALIZED ALUMINIUM RENOVATORS LIMITED
73	PANESAR'S KENYA LTD
74	NATIONWIDE ELECTRICALS INDUSTRIES LIMITED
75	TOOLCRAFTS LIMITED
76	CIRCUIT BUSINESS SYSTEMS
77	SAHAJANAND ENTERPRISES LTD
78	WINES OF THE WORLD LTD
79	AIRTOUCH COOLING SYSTEMS
80	HARDWARE AND WELDING SUPPLIES
81	LIMELIGHT CREATIONS LIMITED
82	AXEL ENGINEERING AND MANUFACTURING LTD
83	VIRGIN TOURS LTD
84	SKYLARK CREATIVE PRODUCTS LTD
85	EGGEN JOINEX LTD
86	DESBRO ENGINEERING LTD
87	TIGER BRANDS KENYA LTD
88	CATALYST TRAVELS LIMTED
89	PROFESSIONAL CLEAN CARE LTD
90	PREMIER INDUSTRIES LTD
91	CHUMA FABRICATORS LIMITED
92	PRAFULCHANDRA & BROTHERS LTD
93	PARAPET LIMTED
94	RONGAI WORKSHOP & TRANSPORT LIMITED
95	ZAVERCHAND PUNJA LTD
96	TRAVELSHOPPE COMPANY LTD
97	EUROCON TILES PRODUCTS LIMITED
98	GLOBAL TRADE MARKET PLACE
99	RANGECHEM PHARMACEUTICALS LTD
100	VARSANI BRAKELINING LTD

Source: The Survey http://www.kenyatop100.co.ke/section.asp

Appendix IV: Budget

The following is a budget proposal of the total amount of money to be spent:

Item/Activity	Estimated Cost (Kshs)
Stationery	2,000
Printing/Photocopying	3,000
Transport	3,000
Binding	8,000
Data analysis	7,000
Miscellaneous	2,000
Total cost	25,000

Appendix V: Time Schedule

Time Frame for Research Proposal and Study

	2011/2012							
ACTIVITY	01-Feb 15-Feb	16-Feb 28 - Feb	01-Mar 31-March	01-April 30-April	01-May 31-May	01-June 15-June	16-June 30-June	01-July 15-July
PROBLEM IDENTIFICATION								
TOPIC SELECTION								
TOPIC APPROVAL BY THE UNIVERSITY								
PROPOSAL WRITING								
LITERATURE REVIEW								
QUESTIONNAIRE PERFECTION								
PROPOSAL PRESENTATION								
DATA COLLECTION								
DATA ORGANIZATION AND ANALYSIS								
REPORT WRITING								
FINAL REPORT								
PRESENTATION								