

**INFLUENCE OF CREDIT REFERENCE BUREAUS ON ACCESS  
TO CREDIT BY SMALL AND MEDIUM ENTERPRISES IN  
KITALE MUNICIPALITY, TRANS-NZOIA COUNTY**

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## **DECLARATION**

This Research project is my original work and has not been presented for the award of any degree in any other university.

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

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## **DEDICATION**

This project is dedicated to my family members, my dear husband, Mr. Manacha Oonge Nyabuto for the encouragement and financial support, my father, Mr. Livingstone Saliku for his inspiration to excel further my studies. My dear mother, Rose Saliku who has been so helpful and supportive and to my sisters and brothers who have given me undying love, encouragement and unwavering support. Lastly, I dedicate to my children, Lisa, Zannel, Tracy and Isaac whose generosity and joy is my pride.

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## ABSTRACT

The Credit Reference Bureaus (CRBs) were introduced into the banking industry by the Central bank of Kenya in order to ascertain the credit worthiness of customer for loans. Thus, in Kenya, access to credit has in the past been complicated due to stringent conditions imposed by commercial banks and credit providers. This study therefore sought to establish the influence of CRBs on access to credit by small and medium enterprises in Kitale Municipality, Trans-Nzoia County. The study was guided by the following objectives: to investigate how credit reference bureaus policies, influence access to credit facilitates by SMEs; to investigate how CRBs procedures influence access to credit facilities by SMEs; to determine how financial base of CRBs influence access to credit facilities by SMEs; to establish how the nature of CRBs influence access to credit facilities by SMEs. It was hoped that the findings of the study would give valuable information to institutions within the Ministry of Finance, Attorney General office and Ministry of Trade that are directly linked to SME's on how CRB's were perceived by the SMEs. The study utilized a descriptive survey design. The target population comprised of 500 SME's registered with Kitale Municipal Council. Respondents were grouped in strata of Small and Medium enterprises owners' and Krejcie and Morgan formula was used to determine a sample size of 289 SME's. Random sampling technique was used to get the intended respondents in each stratum. Data was collected by use of questionnaires. Piloting of the study was carried out in the neighboring Eldoret Municipality to ascertain the validity and reliability of the instruments. Data analysis included the use of descriptive and inferential statistics. Descriptive statistics involved the use of frequency tables, percentages. The findings revealed that the CRBs have policies that guide their operations and that the Policies of CRBs have great influence on their daily operations however, many lenders do not know that there are policies that guide their access to credit facilities .This accounted for 55% of the respondents. On the hand the lack of knowledge on application of procedures may have led to frustrations on access of credit facilities as many may think nothing is happening or that it's taking too long to access credit. This was as shown by 37% of the respondents. On the financial base 20% of the respondents did not know the influence of the financial base to credit facilities. A further 24% disagreed that the nature of CRBs influenced access to credit facilities. The researcher recommended that the procedures be clearly explained to the clients to enable decision making on whether they were willing to go on with the process; the CRBs should ensure they have a sound financial base to ensure that they are buffered financially in case of defaulting by the SMEs. And that the legality of the CRBs should be displayed at all times for ease of client view and understanding.

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## **LIST OF ABBREVIATIONS AND ACCRONYMS**

CB	Credit Bureaus
CBK	Central Bank of Kenya
CRB	Credit Reference Bureaus
CRM	Credit Risk Management
KBA	Kenya Bankers Association
SMEs	Small and Medium Enterprises

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Credit Reference Bureau is defined as a legal entity established as a company that allow financial institutions to exchange information on their clients' repayment history and debt profiles and which compiles a database that collects, stores, consolidates and processes information related to persons, companies and enterprises (FIA, 2004). Credit Bureaus (CB) are information brokers. They may be set up by lenders and operated by them or they may be for-profit institutions that provide detailed data. In some cases, mostly in continental Europe and in Latin America, the central bank or another regulatory agency creates a compulsory mechanism of public credit registrars or risk centrals that usually provide aggregated data on major business borrowers (Guillermo Bolaños, 2000).

In all economies, developing and developed ones, easy access to credit is a very important factor in accelerating investments, job creation, transforming small businesses into strong enterprises. For example, despite the United Kingdom having one of the best banking and financial systems in the world, successive governments have made this possible by working closely with lenders and consumer advisers. This has resulted in a system that gives consumers access to credit at any time of day or night, every day of the year. Consumers can apply for credit over the phone or on the internet and get a decision almost instantly (Merton & Poll, 2008). However, the role of MFI credit data bank that could be shared within the industry is not available hence creating long procedures that need the CBs to seek information from the players in this field. Also, the lack of micro finance industry regulatory body where control can be centralized is missing and hence a problem when it come to credit access.

Merton & Poll, 2008 further observe that Credit bureaus have long existed and are considered an integral part of the credit approval processes in a majority of developed economies such as those in North and South America, Australia, Europe and Asia. Countries like New Zealand and Hong Kong have adopted credit bureaus since the 1980s while bureaus in the United States of America go back to the 1960s.

Traditionally, in many African countries, access to credit was mainly the reserve of corporate bodies, leaving out individuals and small enterprises even though they constitute a huge mass of consumers and whose micro-investments can have a great bearing on the whole economy. Thus, in African, CB's were introduced in countries like Egypt, Nigeria and Libya among others to enable individuals and small enterprises to get credit facilities in banks. For example, Credit Reference Bureau (CRB) managed by Compuscan was introduced and launched in Uganda on 3<sup>rd</sup> December 2008 with an aim of availing information about borrowers to lenders. Compuscan collects information on individuals and business from various sources including financial institutions, non-bank lenders, telecoms, courts and many others. The information is then merged and analyzed to form a comprehensive credit history record for each borrower and is sold to lenders, and other companies in the form of credit reports and other formats.

In Kenya too, access to credit has in the past been complicated due to stringent conditions imposed by commercial banks. In order to make banks more confident, and reward 'good' borrowers, the Credit Information Sharing mechanism was launched in Kenya following the gazetting of the Banking (Credit Bureau) Regulations 2008 on 11th July 2010. The Regulations were issued pursuant to an amendment to the Banking Act passed in 2006 that made it mandatory for the Deposit Protection Fund and institutions licensed under the Banking Act to share information on Non Performing Loans through

credit reference bureaus licensed by the Central Bank of Kenya. In addition, the amendment to the law also provides for sharing of information on Performing Loans (FSD Kenya, 2008).

Currently two CB's have been licensed by the CBK, namely CRB Africa Limited and Metropolis CRB. This was the culmination of many years of deliberations between the Kenya Bankers Association (KBA), the Central Bank of Kenya (CBK), the Ministry of Finance and the office of the Attorney General aimed at finding a solution to various challenges facing the lending environment in Kenya.

Credit bureaus are supposed to act as social accountability mechanisms that guide people's sense of right and wrong behaviour, work to reward good behaviour while punishing bad behaviour and protects against deliberate default Pandey, (2010). A key concern that was expressed about lending in Kenya prior to the introduction of the CB's was the ability for borrowers to take out loans at multiple institutions, sometimes even at the same institution across different branches, and declare different information about themselves allowing them to get credit easily, without fear of being declined and this had made Credit Risk Management (CRM) difficult. With the introduction and institution of the credit bureau at Diamond Trust Bank, they have been able to reduce these exposures. The credit bureau is assisting to highlight risks where other exposures are and how they are being managed by the borrowers concerned. They can also see how well or not these debts are being repaid and can use this information to make further quality decisions Njuguna Ndung'u, (2009).

Banks would always seek to maximize their risk adjusted rate of return by maintaining credit risk exposure with acceptable parameters. Credit risk is raised due to the use of collateral substitutes, heavy sector and geographical loan concentration and the

effect of defaults For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk or counterparty risk in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions Hennie Van Greuning, (1999)

Local Small and Medium Enterprises (SMEs) are expected to be ranked by their credit history in a new rating system that is to be used by banks and other financial institutions. The credit rating system was formulated by Metropol Corporation to establish credit quality and the probability of default on a financial obligation. SMEs will be required to have been in business for at least two years to build a substantial borrowing history to receive a credit rating. The credit rating system among other benefits is expected to allow more SMEs to apply for financing in a banking sector that regards small businesses as high risk borrowers. Banks have often complained that the high mortality rates of SMEs and high cost of lending have deterred them from lending to the sector. It is estimated that SMEs in Kenya account for about 18 % of the total GDP and over 80 % of the jobs in the entire Kenyan economy Pandey, (2010).

Specifically, the reasons given for supporting SMEs are basically to increase their access to financial markets and other services; and to reduce policy induced bias against them. The Kenya government and other institutions have made significant strides to accelerate the development of markets for financial and non-financial services suited to SMEs by promoting innovation in products and delivery mechanism and by building institutional

capacity. However, even with this support, the SMEs have to overcome some of the challenges they face. The main financial challenge facing SMEs is access to affordable credit over a reasonable period. This is determined by the financing needs of SMEs and the action of investors. SME financing needs reflect their operational requirements, while the action of investors depends on their risk perception and the attractiveness of alternative investment.

Credit is provided in the context of information asymmetry on both sides Fischer (1995) and can be resolved by demonstrating creditworthiness and project viability. However, because of poor accounting practices and record keeping, many SMEs are unable to do so Cook & Nixon (2000); Binks, Ennew, and Reed (1992). This increases the risks and transaction costs (for monitoring and screening) of SME lending. Banks require collateral to manage this risk. These issues exacerbate other managerial problems of SMEs. For example, they determine not just the level but also the nature of technology investment Cobham (1999). Even with sound management and strong product demand, the lack of credit constrains their capacity to respond to the market and expand production Cook and Nixon (2000).

## **1.2 Statement of the problem**

SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty Kayanula and Quartey (2000); Mead and Liedholm (1998); Fischer (1995). Despite of their importance in the Kenyan economy they need credit facilities from banks in order to grow. Thus banks have to take credit risks with the SME's despite credit risks being one of the major causes of bank failures. This is majorly due to among others, the incomplete credit information regarding borrowers. Credit reference bureau gathers information about how borrowers

use credit. This information is then used by credit providers to decide whether or not to grant credit to borrowers.

These minimize their credit provision risk and have confidence when extending credit (Kohn 2003). The CBK introduced CRB's to solve the problem of information asymmetry that had existed between lenders and borrowers. But, despite the importance of CRB's in solving the problem of CRM, no study known to the researcher has been conducted to determine the effect of CRB's on access to credit by small and medium enterprises. This study attempted to address this knowledge gap by providing research-based evidence on the effect of CRB's practices and policies on small and medium enterprises (SMEs) on access to credit in Kitale Municipality, Trans-Nzoia County.

### **1.3 Purpose of the study**

The main purpose of the study was to investigate the influence of credit reference bureaus on access to credit by small and medium enterprises in Kitale Municipality, Trans-Nzoia County.

### **1.4 Objectives of the Study**

The objectives of the study include:

- i) To investigate how credit reference bureaus policies influence access to credit facilitates by SMEs in Kitale Municipality, Trans-Nzoia County
- ii) To investigate how credit reference bureaus procedure influence access to credit facilitates by SMEs in Kitale Municipality, Trans-Nzoia County
- iii) To determine how financial base of credit reference bureaus influence access to credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County.
- iv) To establish how the nature of credit reference bureaus influence access to credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County.

## **1.5 Research Questions**

The following research questions will guide the study:

- i) How does credit reference bureaus policies influence access to credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County?
- ii) How does credit reference bureaus procedure influence access to credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County?
- iii) How does financial base of SMEs influence access to credit facilities in Kitale Municipality, Trans-Nzoia County?
- iv) How does the nature of credit reference bureaus influence access to credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County?

## **1.6 Significance of the Study**

The findings of this study would be useful to the Commercial Banks in Kenya as it will help the banks in formulating effective policies related to credit access in Kenya. Also, the findings of the study would also be useful to the microcredit institutions as it would be insightful on how microcredit institutions can increase and control credit distribution to their clients. The study contributed to literature and form part of empirical review and may inspire prospective researchers to explore more dimensions in the effect of credit reference bureaus on credit access and would therefore form the basis for future research. The study is expected to bring to the fore the rise of credit reporting bureaus in Kenya and their effect on access to credit by small and medium enterprises.

It is also hoped that the findings of the study will give valuable information to institutions within the Ministry of Finance, Attorney General office and Ministry of Trade that are directly linked to SME's on how CRB's are perceived by the SME. This information can be used to prepare practical guidelines and policies for the Trade Unions,

SME managers, policy makers in the Ministry of trade, Attorney general's office and Ministry of Finance, researchers and professional organizations. This study is expected to provide data and information that can be used by other researchers in small and medium enterprises on Credit Reference Bureaus so as to foster further research.

### **1.7 Assumptions of the Study**

The study proceeded on the following basic assumptions: - All SME's in Kitale Municipality, Trans-Nzoia County were aware of the CRB's policies and practices. All credit accessed by SME's is directly linked to CRB's. Lastly it was assumed that data of all SME's within Kitale Municipality, Trans-Nzoia County had been captured by the CRB's in Kenya.

### **1.8 Limitations of the Study**

Though there are other methods which creditors use to arrive at a decision on whether to lend or not, the study will only focus on CRB's. This may affect the findings of the study since some of the factors may be linked to CRB's.

Given that CRB's gathers information about how borrowers use credit in the event of a default. The CRB's might have incomplete credit information regarding borrowers which may affect the SME's perception of the CRB's.

### **1.9 Delimitations of the study**

The study was concentrated in Kitale municipality and despite having big business people, the respondents who took the study also looked at the influence of the CRBs on the SMEs and not all the other players in business.

## 1.10 Definition of Significant Terms

**Credit Reference Bureau:** is a legal entity established as a company that allows financial institutions to exchange information on their clients' repayment history and debt profile and which compiles a database that collects, stores, consolidates and processes information related to persons, companies and enterprises

**Credit:** is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit).

**Small and Medium Enterprises:** These are businesses that employ between 1-50 employees. [Small enterprise employs 1-20 while medium employs 30-50 employees]

**CRB policies** – Policies are plans of action agreed or chosen by an institution. For example some of the CRB policies include written statement of contract for insurance, asset holding, guarantor requirement, or bank statement.

**CRB procedures**-Procedures are the correct, official or formal order of doing things in law and policies.

## 1.11 Organization of the study

The study was organized in five chapters. Chapter one formed the basis of the study. The chapter highlighted the introduction of the study, the background of the study, statement of the problem, purpose of the study, research objectives, and significance of the study,

the scope and limitations. Definition of the significant terms has also been pounded. Chapter two was the literature review; it looked at the background of CRBs and the origin of the CRBs. This was in reference to the works of other scholars who had carried out studies in a similar field. The theoretical framework guided the study and explained the concepts under study. The researcher also formulated a conceptual frame work that guided the study as it identified the indicators to be analyzed and measured. Chapter three, on the other hand looked at the research design and methodology, the target population, sampling design and sample size, data collection instruments and procedures, data analysis and ethical consideration.

In chapter four was on data analysis and presentation whereby the data collected from the respondents was presented and analyzed using both quantitative and qualitative analysis was done. The findings were then presented in the tables using frequencies and percentages. The findings were further discussed and the voice of the scholar added to the findings based on scholar's knowledge of the study topic.

Lastly in chapter five the researcher summarized the findings and gave the conclusions. Recommendations were also made the contributions to the body of knowledge were made and areas of further research were suggested by the scholar.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Credit Reference Bureau is defined as a legal entity established as a company that allows financial institutions to exchange information on their clients' repayment history and debt profile and which compiles a database that collects, stores, consolidates and processes information related to persons, companies and enterprises Financial Institutions Act (2004). Credit Reference Bureau collects information on individuals and business from various sources including financial institutions, non-bank lenders, telecoms, courts and many others.

The information is then merged and analyzed to form a comprehensive credit history record for each borrower and is sold to lenders, and other companies in the form of credit reports and other formats. Banks and other credit providers would always seek to maximize their risk adjusted rate of return by maintaining credit risk exposure with acceptable parameters. Credit risk is raised due to the use of collateral substitutes, heavy sector and geographical loan concentration and the effect of defaults

#### **2.2 Credit Reference Bureau**

The first known credit bureau, the Mutual Information Society, was established in 1803 in London by a group of tailors to exchange references on the paying habits of their customers. The first credit bureau in the United States was established in Brooklyn in 1869. Credit bureaus are now operating in over 50 countries and their presence is increasing rapidly Guillermo Bolaños, (2000). Credit markets present asymmetric information problems.

Lenders know neither the past behavior and the characteristics, nor the intentions of credit applicants. This creates a moral hazard problem that causes lenders to make credit decisions based on the average characteristics of borrowers rather than on individual characteristics Rothschild & Stiglitz, (1976). Moral hazard implies a lower average probability of payment, making credit more expensive. Higher interest rates exacerbate another informational problem, adverse selection, because only higher risk borrowers are willing to accept loans at high interest rates Stiglitz & Wise, (1981). Additionally, precisely those borrowers that have defaulted with a particular lender are the ones looking for alternative credit sources Akerlof, (1970). This increases the average risk of lending and the corresponding interest rate.

Credit is hence allocated to excessively risky projects, and low risk borrowers face tighter credit constraints. The liberalization and the volatility of financial markets, increased competition, and diversification expose banks to new risks and challenges, requiring the continuous innovation of ways to manage business and its associated risks in order to remain competitive. The increasing market orientation of banks has also necessitated changes in the approach to regulation and supervision Sonja, Brajovic, Bratanovic, (1999). It is against this theory that the Central Bank of Kenya initiated and introduced the CRB as a policy to be implemented by all commercial banks in Kenya with a view of improving credit risk management in the banking sector.

### **2.2.1 The function CRBs and public registries of credit information in Kenya**

The basic function of a credit bureau is to enable banks share information about borrowers for business decision making i.e. credit granting decisions. The bureau also keeps a credit history record of the borrower and can even assign a score related to the credit history. Good credit scores can ease access to more credit which could be an

opportunity for SMEs to access credit without the restrictive collateral requirements. Thus the main functions of the credit reference bureaus and public registries of credit information are:

**a) Coordination of lenders**

Coordination among lenders to share information about their clients' past behavior alleviates asymmetric information problems. This is the function of credit bureaus and public registries of credit information (CB). These institutions provide references about the past payment behavior of individual borrowers; they gather, organize and consolidate information from many lenders, who become associates and users of the bureau by providing information to such aggregate databases.

Then, at the request of a user, bureaus provide credit reports that contain particular individuals' credit history. The database of the sharing mechanism is the sum of all associates' databases. Hence, access to such a database mitigates the adverse selection problem. Also, as borrowers realize that there is an institution monitoring their behavior, they have an incentive to pay back their loans, mitigating moral hazard Padilla & Pagano, (1977). Consequently, information sharing results in lower outstanding payments, lower interest rates, and a better allocation of resources.

**b) Credit information sharing mechanisms**

Credit information sharing institutions provide information on the past payment behavior of individual borrowers. They also collect, organize and consolidate information from many lenders, who associate with the bureau by providing access to their databases. Such information is updated frequently, usually every month. Then, at the request of a user, bureaus provide credit reports that contain particular individuals' credit history.

The databases of bureaus are the sum of all the associates' databases. Consequently, access to such an aggregated database mitigates the adverse selection problem. Also, as borrowers realize that there is an institution that monitors their behavior, they have an incentive to pay back loans, thus reducing moral hazard Padilla & Pagano, (1977).

Essentially, the information sharing mechanisms allow the formation of borrowers' reputation. We could conceptualize bureaus as information brokers because they create a market for such information. Credit bureaus are needed mainly because of moral hazard from borrowers and from bureaus' potential associates. On the one hand, if there were a reliable way for borrowers to provide their full past records to potential lenders, credit bureaus would be unnecessary. However, that is not the case: potential borrowers would only show lenders the information that is convenient for them.

On the other hand, it is unlikely that lenders would exchange information bilaterally between them because they may feel threatened by their competitors. That is, third-party bureaus can solve the neutrality problem in bilateral agreements. Bureaus are not just neutral to any associate, but they must have the capacity to coerce its associates to report their information truthfully, completely and timely Padilla & Jappelli, (1997). There is an additional reason for the existence of information sharing mechanisms. Bureaus create a network of information where the database of an associate can be accessed by all other associates. That is, associates' databases complement each other; hence, lenders become nodes in a network.

Therefore, even if bilateral agreements were feasible, it would be inefficient to set multiple bilateral agreements at the expense of the network economies that characterize this industry. Such economies provide positive externalities to all bureau subscribers.

Obviously, the more extensive the network, the greater the positive externalities generated. The positive externalities are related to an important peculiarity of credit information: it is an excludable public good in the sense that it is non-rival. That is, the fact that a lender knows information about a certain client does not preclude the use of the same information by other lenders.

By reducing informational problems and imposing discipline on borrowers, information sharing generates social benefits like interest rates reduction, credit expansion Pagano & Jappelli, (1993) and better credit allocation. However, these benefits are not distributed evenly across groups. Sharing information benefits good payers and those individuals who apply for credit for the first time, while high-risk clients are negatively affected.

### **2.2.2 The objectives Credit Reference Bureau and public registries of credit information (CB) in Kenya**

The objective of CRB's are: to collect information on clients' borrowing status and history from a range of credit sources and prepare credit reports; reduce information differences between borrowers and lenders through a system that enables information sharing among participating institutions; provide the necessary infrastructure to ensure information integrity, security and up-to-date information on borrowers; reduce over-indebtedness and risky multiple borrowing that often result in loan default and lastly to increase the number of borrowers as more people become eligible for financial services.

### **2.2.3 Justification of Credit Reference Bureau**

With the absence of the Credit Reference Bureau, financial institutions find it hard to check and share information on the credit risk of borrowers, they find themselves exposed to high credit risk on account of inadequate information on borrowers'

creditworthiness. Borrowers can take out loans at multiple institutions, sometimes even at the same institution across different branches, and declare different information about themselves allowing them to get credit easily, without fear of being declined. However, safe extension of credit depends on complete and accurate information regarding every detail of the borrower's credit standing Sonja Brajovic Bratanovic, (1999).

According to its commercial bank examination manual, the U.S. Federal system cited incomplete credit information as one of the signs of a distorted credit culture. It states that complete credit information is the only reasonably accurate method of determining a borrower's financial capacity. The existence of such credit information as a basis for extending credit should be made clear in the bank's credit files, and should include adequate financial statements.

### **2.3 Credit Reference Bureau and Credit Risk Management**

Credit risk is the most common cause of bank failures, causing virtually all regulatory environments to prescribe minimum standards for credit risk management. The financial information relating to a borrower is so crucial to a successful credit risk management of any commercial bank. The lack of complete and reliable financial information about a borrower increases the credit risk of the lender. But when the lender obtains credit information from a reliable source in a timely manner, it reduces the credit risk the bank would have been exposed to in absence of that information.

According to Hennie Van (1999), the safe extension of credit depends on complete and accurate information regarding every detail of the borrower's credit standing. This means the credit risk increases whenever there is any inadequacy as regards the credit information on borrowers. In absence of sufficient credit information on borrowers, Banks resort to delaying loan processes, increasing borrowing rates in

order to compensate for the poor payment behavior of a few borrowers, asking collateral with high value, granting short term loans, refusing to grant some loans among others.

With availability of Credit reference bureaus, borrowing becomes easier as borrowers with a good loan record may not always be required to provide big securities like land titles to get a loan. Not only that, even loan providers will know more about borrowers and may offer lower interest rates or even larger loans (Reuters Africa, April 2011). Still it quickens the process of granting loans, reduced borrowing rates and a long term loans. It reduces the volume of nonperforming loans, and reduces default rates. All this facilitates increased loan volume which increases the profitability of the bank. Credit Reference Agency UK, Journal, August (2009)

#### **2.4 Influence of Credit References Bureau policies on access to credit facilities by SMEs.**

A policy is a deliberate system of principles to guide decision and achieve rational outcomes. A policy is a statement of intent, and is implemented as a procedure or protocol (Gerald & Phil, 2000) .All organizations require policies that can guide or channelize thinking in decision making (Weilinch, Cannice & Koontz, 2008). CRBs which are legal entities established as companies that allow financial institutions to exchange information on their clients repayment history and debt profile require effective and solid policy framework so that they can operate effectively and efficiently (Rosemary, Barako & Bokea, 2010).

Policies are generally adopted by the board of or senior governance body within an organization whereas procedures or protocols would be developed and adopted by senior executive officers. Policies can assist in both objective and subjective decision making (Howard, 2005) Policies to assist in subjective decision making would usually

assist senior management with decisions that must consider relative merit of a number of factors before making decisions and as a result are often hard to objectively test e.g. work life balance policy.

In contrast policies to assist in objective decision making usually operational in nature and can be objectively tested e.g. password policy Nakumanara (1987). Established the credit worthiness of a client by credit reference bureau is a complicated process that will entail both subjective and objective decisions. This will be assisted by an effective policy framework that defines an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to an before they become problems, make it unnecessary to analyze the same situation every time it come up and nullify other plans, thus permitting managers to delegate authority and still maintain control over what other subordinates do.

There are many types of policies, examples that can be adopted by credit reference bureaus include living only university trained workers, encouraging employee suggestions for improved cooperation, encouraging best practices in customer service, promoting from within, conforming strictly to a high standard of business ethics, setting competitive prices Weilich, Cannice & Koontz, (2008), with such policies CRBS are able to achieve their set objective are of which is to facilitate the access to credit of a many person as possible.

The term policy may apply to government, private sector organizations and groups, as well as individuals. Presidential executive orders. Corporate privacy policies and parliamentary rules of order are all examples of policy. Policy differs from rules or law, while law can compel or prohibit behaviours (e.g. a law requiring the payment of taxes on income), policy is merely likely to achieve a desired outcome Plunkett, Attner

& Allen, (2008). One very critical objective of CRBs is to reduce the credit risks that potential lender are exposed to and this objective can only be achieved by implementing effective policies. Policy or policy study may also refer to the process of making important organizational decision, including the identification of different alternatives such as programs or spending priorities, and choosing among them on the basis of the impact they will have policies can be understood as political management, financial and administrative mechanism arranged to reach explicit goals. Credit reference bureau has clearly states explicit goals like serving clients as professionally and diligently as possible (Dye, 2006).

### **2.5 Influence of CRB procedures on the access to credit facilities by SMEs.**

Procedures are plans that establish a required method handling future activities (Weilunch, Cannice & Kootz, (2008). They are a chronological sequence of required actions credit reference Bureaus must necessarily undertake a lot of actions to achieve their stated objectives. Credit reference bureau complement the central role played by banks and other financial institutions in extending financial services within an economy CRBS help lender make faster and more accurate credit decisions. They collect, manage and disseminate customer information to lender within a provided regulatory framework in Kenya, the Banking Credit reference bureau regulations, (2008) which was operationalised effective 2<sup>nd</sup> February 2009.

The CRBS are therefore a reality and their operations must be based on clearly stated procedures (Sonja, 2005). Procedures are guides to action, rather than to thinking, and they detail the exact manner in which certain activities must be accomplished. Procedures often cut across departmental lines. For example in a manufacturing company, the procedure for handling orders may involve the sales department (for the original order)

the fiancé department (for acknowledgement or receipt of funds and for customers credit approval), the production department (for order to produce the goods or the authority to release them form stock) and the shipping department (for determination of shipping mean sand route Hammer & Champy, (1993).

A few examples illustrate the relationship between procedures and policies. Company policy may grant employees vocations; procedures established to implement this policy will provide for scheduling vocations to avoid disruption of work, setting rates of vocation pay and methods for calculating them, maintaining records to ensure each employee o a vacation and spelling out the mean for applying for leave Weihrich, Cannice & Kootze (2008).Procedures relating to the operations of the credit reference bureaus are clearly laid out in the banking (credit reference bureau(CRB) regulations of 2008 Banking, credit reference bureau,(2008).

## **2.6 Influence CRBs financial base on the access to credit facilities by SMEs**

Capital establishes the financial base of any organization. No organization can operate without capital. Capital is the money contributed or borrowed b the owners of a business to start and run the business or expand it Robert & Doughlas (2000).Capital is used in starting, running and expanding a business. Capital needed to start a business can be used to pay for Business license which is issued every year; Rent for the building or room where the business will be operating from ;Tools machinery, equipping, and furniture needed for use in the business; Raw materials for making goods to sell and pay salaries and allowances clearly the financial base of an organization is critical; capital that is the financial base of many organization can be obtained from the following sources: personal contribution, trade credit, borrowing and profits Robert and Douglas, (2000).

According to Prasonna (2010) a firm can raise equity and debt equity form both public and private sources. Capital raised from the public sources is in the form of securities offered to public through an offer document filed at an appropriate authority. These securities can be a trade on public secondary market like the New York stock exchange, the national Stock exchange of India or the Nairobi Stock Exchange which are recognized stock exchange that facilitate the trading of public securities.

Private capital comes either in the form of loans given by banks or financial institutions or in the form of securities like equity shares, preference shares which are privately placed with a small group of sophisticated investors like venture capital firms, financial institutions, insurance companies, mutual funds and wealthy individual Prasanna, (2010) whatever the source of financial resources it is absolutely necessary for accredit reference bureau to have a sound and stable financial base to support its operations is as to facilitate as many SMES as possible to access credit to the lender.

## **2.7 Influence of nature of CRBs on access to credit facilities by SMEs.**

Trust and confidence are important because they constitute the basis of sustainable and long lasting relationship between parties. The nature of an organization will determine the level of confidence that parties that deal with it, will have. The more trust and confidence parties have in an organization the more they will want to relate with it. Saleeni, (2010). In low an organization can be created in three ways generally a sole proprietorship. How an organization is created will determine is nature and characteristic A sole proprietorship is an entity that is formed, owned and controlled by one person. As such the business owner cannot be legally separated from the entity. The entity and the owner are legally not separate. Clients will therefore deal with an entity that is not separate from the owner.

When they have issues they will be directed to the owner of the entity and not the entity. They cannot sue the entity but the owner. The entity cannot also sue any of its clients a sole proprietorship can be created upon fulfilling the following legal requirements; Obtain a business certificate, the owner must have the building checked by health inspectors who give a certificate to enable the business owner to obtain a license from the appropriate office after paying a set license fee Robert & Douglas (2000).It is important that the partners get some qualified person or an advocate to help the write a partnership agreement. Such an agreement is usually used in court in case of disputes arising Saleemi, (2010). Person can also form a company which can either be a private company or a public company. In many cases a company will be created by registration under the companies Act such companies are limited.

A limited company comes into existence by complying with provision of Companies Act (Cap 486) a private limited person but is not allowed to call upon the public for funds in the form of shares and debentures. A public limited company can be registered by seven or more person and it can offer its shares to the general public freely. For a company to be formed there must be some people who bring out the idea of forming one and setting it in operations such founder members are known as promoters. To form a private company two promoters are required, and to form a public company seven promoters are required. The promoters are required to submit to the registrar of companies the following documents: Memorandum of Association; Articles of Association; List of directors' declaration that all necessary requirements have been duly complied with and the directors agree to act as such.

When the required documents are presented to the Registrar of companies an everything is found satisfactory a certificate of incorporation may be issued. This brings

the company into existence a separate legal entity. The company also needs as a trading license which is issued by the licensing authority in an area to carry out a particular business in a specified area. A private company can commence its business as soon as it is in possession of a certificate of incorporation and a trading license a public limited company cannot commence business until a certain minimum amount of capital has been raised Salemi, (2010), Robert & Douglas, (2000).

The level of confidence and trust in an organization will be influenced by its legal nature. Salemi, (2010,) credit reference bureaus that have been created so far are companies created under the companies Act. Such companies are separate legal entities from their owners. They will contract as legal entities and also be sued. Generally speaking clients who deal with credit reference bureaus that are companies feel that they are protected more by the law. Clearly the nature of an organization will influence the relationship between itself and those who deal with it.

## **2.8 Theoretical Framework**

This section explores the various theories related to access to credit by SMEs.

### **2.8.1 Financial Inclusion Theory**

The financial inclusion theory was advocated Chakrabarty (2011). Financial inclusion refers to the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by mainstream institutional players. An inclusive financial sector that provides access to credit for all bankable people and firms, to insurance for all insurable people and firms, to savings and payment services for everyone United Nations, (2006). Inclusive finance does not require that everyone who is eligible use each of the services,

but they should be able to choose them if desired. Kempson et al (2004) reported that financial exclusion is most prevalent amongst those on low incomes. Unemployed people living on social security payments from the state are therefore especially vulnerable, as are low income households from ethnic minority communities who may also have relatively low levels of engagement with the financial services industry.

Kempson et al.(2004), supported by evidence from the Family Resources Survey 2002-2005, report that uptake of financial products and services are lowest amongst African-Caribbean, Black, Pakistani and Bangladeshi households in UK. However for some members of these groups religious beliefs may provide a partial explanation for this apparent exclusion. World Bank (2008) has classified financial access barriers into four main categories; physical barriers, lack of documentation barriers, affordability barriers and lack of appropriate products and services. For geographic access, branches have been the traditional bank outlet, hence geographic distance to the nearest branch, or the density of branches relative to the population can provide a first crude indication of geographic access or lack of physical barriers to access Beck, Dermirguc-Kunt& Martinez, (2007).

### **2.8.2 Imperfect Information Theory**

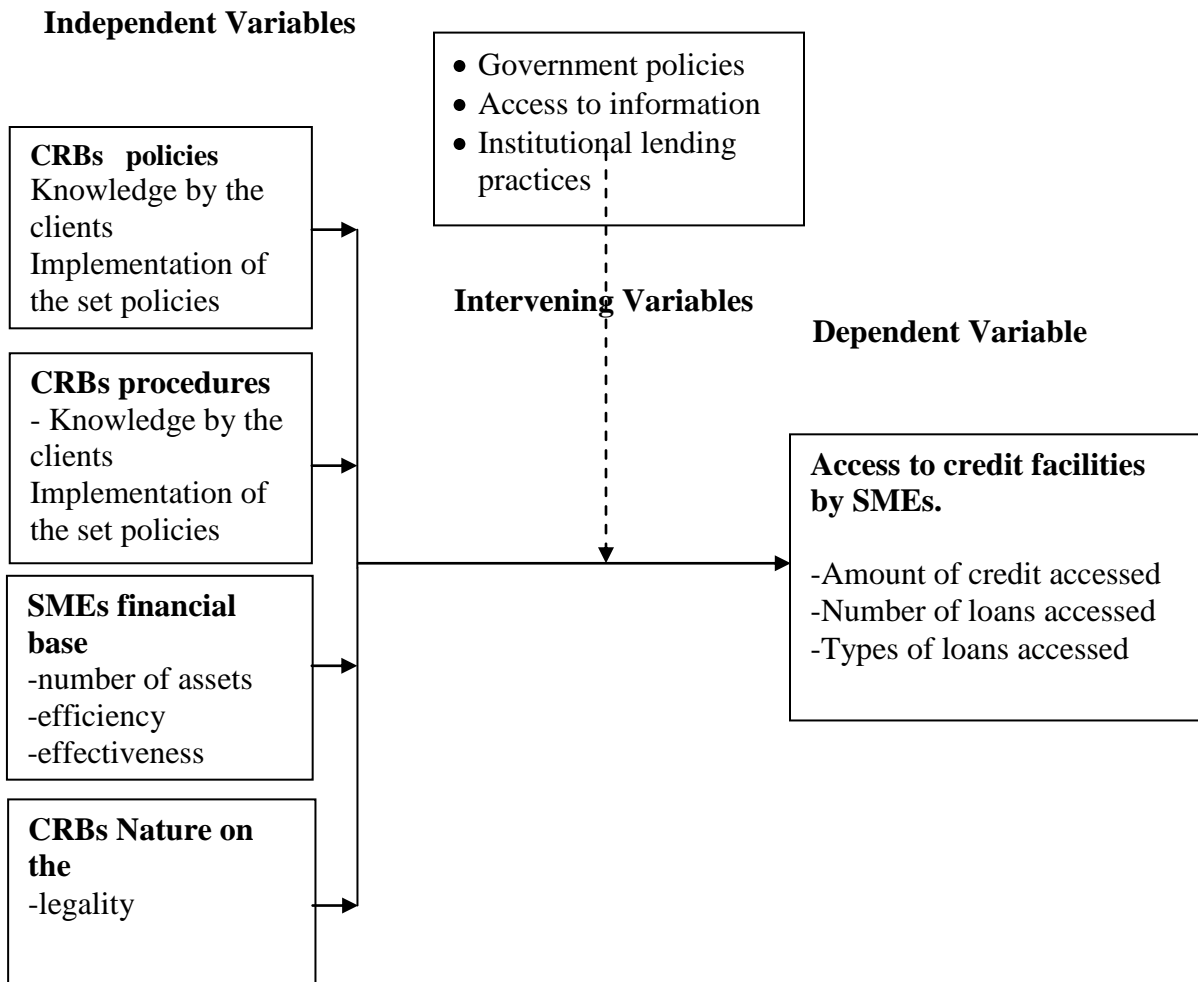
According to Robinson (2001), this theory is based on the assumption that Banks can not differentiate cost effectively between low risk and high risk loan applicants. In addition, it is thought that formal financial institutions are unable to compete successfully with informal lenders because such lenders have access to better information about credit applicants than formal institutions can obtain cost effectively. Imperfect information theory suggests that it would be difficult for banks to both operate profitably in developing countries credit markets and to attain extensive outreach. On the basis of this

model, it would be difficult for economists, bankers, financial analysts, donors and government decision makers to muster much enthusiasm for advocating entrance of commercial banks into micro credit markets.

## 2.9 Conceptual Framework

This study utilized a conceptual framework that describes the process banks take when giving out loans to their clients.

**Figure 2.1** Summary of the conceptual framework.



## 2.10 Knowledge gap

Variable	Source	Finding	Gap
CRBs policies on access to credit facilities by SMEs.	Plunkett, Attner & Allen, (2008).	“A policy is merely likely to achieve a desired outcome”	The study was carried out in developed world where policies guide everything the researcher needed to find out if the SMEs in Kenya knew what policies were and how they affected their access to credit.
CRBs procedures on the access to credit facilities by SMEs.	Sonja, (2005).	In his findings he found out that CRBs were therefore a reality and their operations must be based on clearly stated procedures	The researcher needed to ascertain if the SMEs knew about the procedures followed by SMEs
CRBs financial base on the access to credit facilities by SMEs	Prasanna, (2010)	“Whatever the source of financial resources it is absolutely necessary for a credit reference bureau to have a sound and stable financial base to support its operations is as to facilitate as many SMES as possible to access credit from the lender.”	The researcher needed to find out if the SMEs seeking access to credit facilities were aware of this.
CRBs Nature on the access to credit facilities by SMEs	Saleemi, (2010)	Credit reference bureaus that have been created so far are companies created under the companies Act.	The researcher needed to determine if the respondents understood this and why it was important to seek credit facilities from such institutions.

## **2.11 Summary**

The analysis of the above literature shows that credit risk is still the major single cause of bank failures. This is because more than 80% of a bank's balance sheet generally relates to this aspect of risk management. For years, credit risk management function has posed a great challenge to individual bank managers and the banking system as a whole. Technological advancements, liberalization of the banking sector, the volatility of financial markets, increased competition and diversification have all contributed to the complexity of the task of managing credit risk.

It therefore requires continuous innovation of ways such as the introduction of to manage credit risk effectively in order to remain competitive. It is against this challenge that the CBK introduced the system of credit referencing as one of the latest innovations. On the basis of the above analysis, it becomes necessary for the researcher to carry out the study to find out the effect of CRB's practices and policies on small and medium enterprises (SMEs) on access to credit.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provided the framework within which data was collected. It mainly highlighted the proposed research design to be adopted, the study area, the target population, sample size and procedures for selection of the sample. Also included in this chapter are research instruments, piloting, data reliability and validity and methods that were employed in data collection and analysis.

#### **3.2 Research design**

The study utilized a descriptive survey design. A research design is the structure of research that is said to be the glue that holds all the elements of the study together. Kothari (2004) describes it as ;“the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This design was considered an appropriate tool for collecting information when the goals of the research call for quantitative and qualitative data Polland, (2005). This study collected data on SME’s access to credit facility which was essentially qualitative. Descriptive research is concerned with conditions or relationships that exist, practices that prevail, processes that are ongoing, attitudes that are held or trends that are developing (Best, 1970). The design facilitated the collection of information on how CRB’s influence SME’s loan accessibility. Surveys are one of the popular research method used in educational research because information from a small sample can be generalized to a large population Suntasukwongchote, (2004). This study yielded descriptive and inferential information that was useful in making generalizations.

### 3.3 Target population

The target population comprised of the 500 registered SME's. These were traders who are registered with the Municipal Council, Kitale. Although there were many other traders who were not registered but operate within Kitale Municipality, Trans-Nzoia County, the researcher only targeted those who are registered by the Municipal Council, Kitale because their number and locations are known.

**Table 3.1:** Target population

<b>Respondents</b>	<b>Target population</b>
Small enterprises	360
Medium enterprises	140
<b>Total</b>	<b>500</b>

### 3.4 Sample size and Sampling procedures

#### 3.4.1 Sample size

A sample is a set of respondents selected from a larger population for the purpose of a survey. (Kothari 2004) confirms that a sample size is part of the population that took part in the study. A sampling frame has the property to identify every single element and include it in the sample. For this study, the sample frame that was used was a list of representative population. The sample size for this study was identified from the Krejcie and Morgan tables. Using the Krejcie and Morgan table of determining sample size Krejcie and Morgan, (1970) a total sample of 258 SME's was obtained for the study. From this sample probability to proportion size was used to come up with the number of each respondent in each stratum.

**Table 3.2:** Sampling frame

<b>Respondents</b>	<b>Target population</b>	<b>Sample size</b>
Small enterprises	360	186
Medium enterprises	140	103
<b>Total</b>	<b>500</b>	<b>289</b>

### **3.4.2 Sampling Procedure**

This is the process of selecting number of individuals from the population such that the selected group contains elements representative of the characteristics found in the entire group called a sample. (Kothari 2004) consequently samples can be selected by a sampling design. Stratified random sampling technique was used to determine the sample size. Respondents were grouped in strata of Small and Medium enterprises owners and random sampling technique used to get the intended respondents in each stratum. These lead to 186 small enterprises and 103 medium enterprises making a total of 289 SME respondents.

### **3.5 Data collection instruments**

The questionnaires were used for the purpose of data collection as the data to be collected was quantitative and this was the most preferred instrument. A questionnaire is a document that consists of a number of questions that is written or typed in a definite order or a form or set of forms. This instrument was preferred because it up holds confidentiality, saves on time, lack interviewer bias and enables collection of data from a large sample and from various regions of the study. The instrument was divided into two parts. The first part A, gave the respondents demographic data while the second Part B

had closed-ended questions to enable the respondents to express themselves in their own words. The researcher used documents record review.

### **3.5.1 Piloting of the study**

A pilot was done on five randomly sampled SME owners in Kitale Municipality. These SME's were then not to be included in the main study. A data entry screen was developed using these questionnaires and their data keyed and analyzed. Results were used to make necessary adjustments to the instruments Polland, (2005). The main aim of piloting was to determining the accuracy and consistence of the instrument before they were used for actual data collection. This also helped the researcher to establish to what extent the instruments measured accurately the attributes under investigation.

### **3.5.2 Validity of the instruments**

Validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. Kothari (2004); there are three types of validity. Content validity is the extent to which a measuring instrument provides adequate coverage of the topic under study. The researcher ensures that the questions in the questionnaire were framed in such a way that they brought out the answers to the research questions. Criterion-related validity relates to the ability to predict some outcome or estimate the existence of some current condition. The researcher made a pre-visit to the study area in order to familiarize oneself with the location. On the other hand Construct validity is the degree to which scores on a test can be accounted for by the explanatory constructs of a sound theory.

### **3.5.3 Reliability of the instruments**

Reliability of the instrument refers to a measure of how consistent the results from a test are. In this study, reliability is achieved by doing test re-test on the study sample in

the pilot study. The following was ensured during this process. All the initial conditions were kept constant and the same tests were administered to the same subjects. The respondents were then given three weeks before the same test was administered again to the same respondents. Correlations were done on the scores from both testing periods to determine the coefficient of reliability and if a high coefficient of 0.7 were gotten this implied that the instrument would yield data with high test re-test reliability. This were done on all the sub groups of the population and ensured that the results are consistent hence reliability of the instrument. Kathuri & Pals, (1993).

### **3.6 Data collection procedures**

On approval of the proposal by the Department of Finance and the school of Human resource, the researcher got an approval letter from the Department of extra-mural Studies of University of Nairobi. The letter was used by the researcher to acquire a research permit from the National Council of Science and Technology. The questionnaires was hand delivered by the researcher and one hired research assistant to the SME owners and given time of around 15 minutes to respond to the questions. The questionnaire was administered in a period of two weeks.

Given that managers of financial institutions that provide credit to SME's are few in number the interviews were only conducted by the researcher. Before the interview the respondents were given an initial introductory and motivating talk by the researcher to prepare them psychologically and also to inform of them the rationale for the study. The researcher was however as brief as possible to avoid boredom.

### **3.7 Methods of data analysis**

The quantitative data were analyzed using statistical methods and expressed in the form of tables, frequencies and percentages. With qualitative data, categories were formed, themes established, coded and data entered in the computer. Inferences and interpretation of the data is done using Descriptive statistical components like the Statistical program for social sciences (SPSS) was used to process and analyse the data, which were presented using frequency tables and percentages. After data analysis, the researcher compiled a final report and presented the same for approval by the Faculty Board upon completing of defence.

### **3.8 Ethical Consideration**

Permission to conduct the study was sought from Research and Ethics Committees of the University of Nairobi and consequently obtained a permit and authorization letter from the National Council of Science and Technology, Ministry of Education Science and Technology Permission was sought from Kitale Municipality, Trans-Nzoia County administration for entry into the research area. There was no coercion of any nature to the respondents e.g. promising what the researcher could give to the respondents and Consent would be sought from all the participants after explaining the aims, methods, anticipated benefits and potential hazards if any. Participants were then assured that data collected from the study would be kept confidential and used only for purposes of this study. This was also on voluntary basis and participants were free to withdraw from the study at any time. Any information sought would not reveal the identities of the participants.

### 3.8 Operational definition of variables

The researcher found it necessary to break down the table in to various variables and bring out the indicators, measurements, scale used and the tools of analysis.

Objectives	Variables	Indicators	measurements	Scale	Tools of analysis
<b>The influence of credit reference bureaus on access to credit by small and medium enterprises in Kitale Municipality, Trans-Nzoia County.</b>	<b>Dependent</b> variables access to credit by small and medium enterprises in Kitale Municipality, Trans-Nzoia County	Availability of credit facilities for the SMEs	Ability to access the credit facility by SMEs	Ordinal	Descriptive analysis; frequency %age, cross tabulation.
<b>Influence of Credit References Bureau policies on access to credit facilities by SMEs.</b>	<b>Independent</b> variables Credit References Bureau policies	-awareness of what policies are -awareness of use of policies in organizations	-how policies determine access to credit by SMEs -application of policies on organizational operations by CRBs	Ordinal	Descriptive of analysis
<b>Influence of Credit References Bureau procedures on the access to credit facilities by SMEs</b>	<b>Independent variables</b> - Credit References Bureau procedures	-Availability of set systems	Consistency in use of the set systems.	Ordinal	Descriptive analysis
<b>Influence of Credit References Bureau's financial base on the access to credit facilities by SMEs</b>	<b>Independent variable</b> Credit References Bureau's financial base	SMEs assets and liabilities	-saving ability -Business records	Ordinal	Descriptive analysis

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<b>Influence of Credit References Bureau's Nature on the access to credit facilities by SMEs</b>	<b>Independence variable</b> Nature of Credit References Bureau's	-legality CRBs	of	By analysis of registration documents.	Nominal	Description analysis
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## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter included data analysis, presentation, interpretation and discussions. Data was categorized and interpreted in the basis of each research objective. This was a quantitative research, therefore only descriptive statistics were applied namely frequency distribution and related percentage. Analyzed findings were tabulated, analyzed, presented and interpreted. Discussions were then made by comparing and contrasting the findings with those of other scholars. The purpose of the study was to investigate the influence of credit reference bureau on access to credit by SMEs in Kitale Municipality, Trans-Nzoia County.

#### **4.2 Response return rate**

From the sample size, all the 289 (100%) questionnaires were sent out to the respondents in the study area to fill. Of these questionnaires, 250(86%) were returned for analysis. However, 03 (01%) questionnaires were incomplete and therefore could not be analyzed. The remaining 247 questionnaires account for 85% response rate. According to Mugenda and Mugenda (1999) a response rate of 70% and above is sufficient and hence it allowed for data analysis.

#### **4.3 Background characteristics of respondents**

Information about background characteristics of respondents of Kitale Municipality had varied backgrounds. The researcher found it necessary to analyze this data. It includes gender, age, education level and, position in society

### 4.3.1 Gender distribution of respondents

The researcher analyzed the gender of the respondents by determining whether they were male or female. This was important as it was to determine if the sample size was well represented by both gender and hence it could be generalized to the population.

**Table 4.1 Gender distribution**

<b>Sex</b>	<b>Frequency</b>	<b>%age</b>
Male	156	<b>63</b>
.Female	91	<b>37</b>
	<b>247</b>	<b>100</b>

**Source: Researcher**

The study found that 156(63%) of the respondents were male and 91 (37%) of the respondents were female this implied that there were more male entrepreneurs than female entrepreneurs undertaking small and medium enterprises. It also implied that the male gender were more entrepreneurs than the female gender. Hence the findings would be associated with the male gender more than the female gender.

### 4.3.1 What is your marital status?

**Table 4.2 Marital Status**

<b>Status</b>	<b>Frequency</b>	<b>%age</b>
Married	109	44
Single	138	56
	<b>247</b>	<b>100</b>

Findings showed that 44% of the respondents were married and 56% of the respondents were single. This implied that the more of the singles had engaged in

business as a form of earning an income. This was attributed to the rampant unemployment situation in the country amongst the youths; this led them to think of alternative sources of income of which businesses was amongst them.

#### **4.3.2 Age bracket of respondents**

The researcher found it necessary to analyze the age bracket of respondents as it would help the researcher to infer whether the information given is credible or not.

**Table 4.3 Age distribution**

Age	Frequency	%age
50 and above	56	23
40-49	55	22
30-39	71	29
20-29	65	26
	<b>247</b>	<b>100</b>

The analysis indicated that 56(23%) of the respondents were 50 years and above. While 55(22%) of the respondents were between 40 and 49 years of age. 71(29%) of the respondents were between 30 and 39 years while 65(26%) of the respondents were between 20 and 29 year of age. The analysis showed most of the respondents 55% of the respondents were youths. This implied that the respondents were engaged in small enterprises as alternatives to white collar jobs that were scarce. The respondents who were 50 years and above 23% of the respondents were almost retiring and had started enterprises as a form of ensuring stable income on retirement. However, it also showed that they had worked in white collar jobs and therefore the enterprises were a substitute to

their income. The ones between 40-49 years showed that they had engaged in businesses earlier as youths or as a substitute to their incomes.

#### **4.3.3 Level of education of the respondents**

Level of education was analyzed to help determine the level of authority of the respondents. It was assumed that the respondents were in their respective careers.

**Table 4.4 Education level**

<b>Levels</b>	<b>Frequency</b>	<b>%</b>
Masters	07	03
Bachelors	65	26
Diploma	90	37
Certificate	85	34
	<b>247</b>	<b>100</b>

The data analysis revealed that 07(03%) of the respondents had master’s degree. 65(26%) of the respondents had bachelor’s degrees while 90(37%) of the respondents had diplomas in various disciplines. The rest which were 85 (34%) of the respondents had certificates. This implied that respondents who had attained different levels of education were likely to understand the policies and procedures being applied by the CRBs. This accounted for 66% of the respondents. 34% of the respondents however had the rest as their level of education which accounted for levels below certificate course. This therefore implied that they would not understand the policies and procedures followed by CRBS and may therefore affect their access to credit facilities.

#### **4.4 Influence of credit reference bureau policies on access to credit facilities by SMEs.**

The researcher found it important to analyze the Influence of credit reference bureau policies on access to credit facilities by SMEs. This helped to bring out the indicators of policies such as the availability of policies and the application of the said policies in the operations of the organization. This was important as it helped to determine if the policies were available in the CRBs and if they were being applied as expected. This was necessary because presence of policies without their application would not have the required influence.

**Table 4.5 CRB policies on access to credit facilities by SMEs.**

Statements	Description	SA	A	UD	D	SD	Total
Do you agree that a credit reference bureau requires policies in order for it to operate effectively and efficiently	Frequency	25	85	02	105	30	247
	%	10	34	01	43	12	100
Policies are plans that guide or channelize thinking in decision making	Frequency	95	21	15	82	34	247
	%	38	09	06	33	14	100
Policies held decide issues before they become problems	Frequency	63	40	03	39	102	247
	%	26	16	01	16	41	100
Policies make it unnecessary to analyze the same situation every time it comes up	Frequency	172	15	13	25	22	247
	%	70	06	05	10	09	100
Policies enable the delegation of authority	Frequency	73	125	12	22	15	247
	%	30	50	05	09	06	100
It is the policy of a CRB to enable lenders to determine the credit worthiness of their borrowers	Frequency	54	92	13	56	32	247
	%	22	37	05	23	13	100
It is the policies of a CRB to reduce the credit risk that lenders face.	Frequency	34	21	15	82	95	247
	%	14	09	06	33	38	100
Do you agree that CRBs policies will influence access to credit by SMES?	Frequency	102	40	03	39	63	247
	%	41	16	01	16	26	100

When the respondents were asked whether they agreed that a credit reference bureau requires policies in order for it to operate effectively and efficiently 25(10%) of the respondents strongly agreed, 85(34%) of the respondents agreed, 02(01%) of the respondents were undecided while 105(43%) of the respondents disagreed with 30(12%) of the respondents strongly disagreeing. This implied that the respondents had different

views on the use of policies in CRBs or organizations at large. When the respondents were asked whether Policies are plans that guide or channelize thinking in decision making, 95(38%) of the respondents strongly agreed, 21(09%) of the respondents agreed, while 15(06%) of the respondents were undecided. 82(33%) of the respondents disagreed while 34(14%) of the respondents strongly disagreed.

This implied that some of the respondents did not know what policies were and their roles in organizational operations. This showed that some of the respondents 38% of the respondents strongly agreed with the findings of Weilin, Cannice & Koontz, (2008), who in their study found out that all organizations require policies that can guide or channelize thinking in decision making however 14% of the respondents strongly disagreed about the same. This implied the 14% of the respondents did not understand what policies were and this was attributed to the level of education amongst the SMEs. Although Howard, (2005) found out that Policies are generally adopted by the board of or senior governance body within an organization whereas procedures or protocols would be developed and adopted by senior executive officers.

Policies can assist in both objective and subjective decision making. However the respondents were asked whether Policies helped decide issues before they become problems, 63(26%) of the respondents strongly agreed, 40(16%) of the respondents agreed while 03(01%) of the respondents were undecided. 39(16%) of the respondents disagreed with 102(41%) of the respondents strongly disagreeing. This implied that a total of 63% of the respondents did not understand that their access to credit facilities was a decision making process. This was in direct contrast with the findings of Rosemary, Barako & Bokea, (2010) whose findings revealed that CRBs which are legal entities established as companies that allow financial institutions to exchange information on

their clients repayment history and debt profile require effective and solid policy framework so that they can operate effectively and efficiently .This was a clear indication of the role of policies in handling organizational problems.

When the respondents were asked whether Policies make it unnecessary to analyze the same situation every time it comes up, 172(70%) of the respondents strongly agreed while 15(06%) of the respondents agreed to the same .13(05%) of the respondents were undecided while 25(10%) of the respondents and 22(09%) of the respondents disagreed and strongly disagreed respectively. This implied that some respondents did not understand that policies apply to all situations and therefore no need of analyzing a similar situation every time it comes up but rather applying the findings before. On the issue that Policies enabled the delegation of authority, 73(30%) of the respondents strongly disagreed while 125(50%) of the respondents. On the other hand, 12 (05%) of the respondents were undecided while 22(09%) of the respondents and 15 (06%) of the respondents disagreed and strongly disagreed respectively. This further showed the lack of understanding on the role of policies in organizations.

When asked if It is the policy of a CRB to enable lenders to determine the credit worthiness of their borrowers, 54(22%) of the respondents strongly agreed while 92(37%) of the respondents merely agreed. 13(05%) of the respondents were undecided while 56(23%) of the respondents disagreed. The remaining 32(13% of the respondents strongly disagreed. When asked if It is the policies of a CRB to reduce the credit risk that lender face, 32(14%) of the respondents strongly agreed. 21(09%) of the respondents agreed to this while 15(06%) of the respondents were undecided. However, 82(33%) of the respondents disagreed, with 95(38%) of the respondents strongly disagreeing. When asked whether they agreed to the idea that CRBs policies will influence access to credit

by SMES, 102(41%) of the respondents strongly agreed, 40(16%) of the respondents agreed while 03(01%) of the respondents were undecided. On the other hand, 39(16%) of the respondents disagreed with 63(26%) of the respondents, strongly disagreeing.

Consequently the responses implied that the respondents did not understand what policies were, the role of policies and how they affect the operations of organizations. . Nakumanara (1987) however, contrasted with this when the findings revealed that established the credit worthiness of a client by credit reference bureau is a complicated process that will entail both subjective and objective decisions. This will be assisted by an effective policy framework that defines an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to an before they become problems, make it unnecessary to analyze the same situation every time it come up and nullify other plans, thus permitting managers to delegate authority and still maintain control over what other subordinates do. This implied that despite the organizations having policies that were supposed to guide them at all times and in a duplicated manner, this was not the issue.

#### **4.5 Influence of CRB procedures access to credit facilities by SMEs**

The researcher found it necessary to analyze the CRB procedures on the access to credit facilities by SMES. Procedures are plans that establish a required method handling future activities Weilunch, Cannice & Kootz, (2008). This was necessary to determine if there were any procedures that guided the vetting of SMEs in determining their access to credit facilities. This was also because lack of knowledge on the procedures followed would lead to frustration by the SMEs due to lack of understanding of the steps that need to be undertaken before a credit facility is awarded to them.

**Table 4.6 CRB procedures on access to credit facilities by SMEs**

<b>Statements</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>	<b>TOTAL</b>
procedures are plans that establish a required method of handling future activities	F	105	42	30	18	52	247
	%	43	17	07	07	21	100
Procedures are a chronological sequence of required actions	F	35	42	23	75	72	247
	%	14	17	09	30	29	100
It is a procedure for CRBS to obtain and receive customer information	F	70	93	05	64	15	247
	%	28	38	02	26	06	100
It is a procedure for CRBS to collect and disseminate the customer information to subscribers	F	22	51	15	71	88	247
	%	09	21	06	29	36	100
It is a procedure for CRBs to compile and maintain a database and generate reports required	F	90	75	10	53	19	247
	%	36	30	04	21	08	100
It is a procedure for CRBs to assess the credit worthiness of customer	F	69	75	12	21	70	247
	%	28	30	05	09	28	100
It is a procedure for CRBs to sell to institutions specialized literature and other information material related to their activities	F	99	79	09	23	46	247
	%	40	30	03	08	19	100
It is a procedure for CRBs to undertake relevant research of increased effectiveness	F	41	39	13	83	71	247
	%	17	16	05	34	28	100
Procedures influence access to credit facilitates by SMES	F	122	76	09	23	17	247
	%	49	31	03	09	07	100

When the respondents were asked if procedures are plans that establish a required method of handling future activities 105(43%) of the respondents strongly disagreed while 42 (17%) of the respondents agree. On the other hand, 30(12%) of the respondents

were undecided. 18(07%) of the respondents and 52(21%) of the respondents disagreed and strongly disagreed respectively. This showed that 28% of the respondents contrasted with the findings of Weilunch, Cannice & Kootz, (2008). Who found out that Procedures are plans that establish a required method handling future activities? Although these disagreed, 60% of the respondents agreed and therefore made the work of CRBs much easier. This implied that majority of the respondents knew what a procedure was.

However, there were few that did not know what a procedure was. On whether Procedures are a chronological sequence of required actions 35(14%) of the respondents strongly agreed. 42(17%) of the respondents agreed while 23(09%) of the respondents were undecided. 75(30 %) of the respondents and 72(29%) of the respondents disagreed and strongly disagreed respectively. The findings showed that 59% of the respondents disagreed with Weilunch, Cannice & Kootz, (2008), who further said that procedures were a chronological sequence of required actions that CRBs must necessarily undertake a lot of actions to achieve their stated objectives. However 31% of the respondents agreed to it being a chronological sequence. This implied that some respondents understood that a procedure had to be followed at any one time when they needed to access credit while some of the respondents had no idea. This can be attributed to the differences in the application of procedures by different players where others informed the clients on the procedures that were to be undertaken while other CRBs did not.

On whether it was procedural for CRBs to obtain and receive customer information 70(28%) of the respondents strongly agreed, 93(38%) of the respondents agreed while 05(02%) of the respondents were undecided. 64(26%), of the respondents disagreed while 15(06%) of the respondents strongly disagreed. This implied that 32% of the respondents contrasted with the findings of Sonja, (2005). Who said that CRBS

collect, manage and disseminate customer information to lenders within a provided regulatory framework in Kenya. This was according to the Banking (Credit reference bureau) regulations, 2008 which were operationalised effective 2<sup>nd</sup> February 2009.

On the other hand the majority of the respondents, 56% of the respondents agreed to Sonja's findings. This implied that that some of the respondents did not know the procedures that were followed by CRBs despite the regulations given by the regulatory frame work in 2008. Asked if it was a procedure for CRBS to collect and disseminates the customer information to subscribers, 22(09%) of the respondents strongly agreed, 51(21%) of the respondents agreed while 15(06%) of the respondents were undecided. 71 (29%) of the respondents disagreed and 88(36%) of the respondents strongly disagreed. 65% of the respondents contrasted the findings by Sonja, (2005) who found out about the regulatory framework of CRBs where information was supposed to be disseminated to the lenders. This implied that the CRBs did not play their role and by so doing, affected the operations of the CRBSs and the access to credit facilities by SMEs.

On whether It was a procedure for CRBs to compile and maintain a database and generate reports required, 90(36%) of the respondents strongly agreed, 75(30%) of the respondents agreed while 10(04%) of the respondents were undecided. On the other hand 53(21%) of the respondents disagreed while 19(08%) of the respondents strongly disagreed. This further implied that the regulatory frame work was not followed fully and that some SMEs still did not understand how the CRBs operated. It was clear that information on the operations of the CRBs had not been disseminated to them hence the lack of the said knowledge by 29% of the respondents. On if it was a procedure for CRBs to assess the credit worthiness of customer, 69(28%) of the respondents strongly agreed, 75(30%) of the respondents agreed while 12(05%) of the respondents were undecided.

On the other hand, 21(09%) of the respondents disagreed with 70(28%) of the respondents strongly disagreeing. This implied that 58% of the respondents knew about this and that most likely they had experienced the vetting process.

However, besides the experience they still did not know how the procedures of CRBs were carried out. The others who had not had an experience with vetting 37% of the respondents did not understand and therefore did not know if that was part of the procedure. On the overall the implication was that the procedures were not put into practice at all times and in all situations, consequently, the CRB looked at other factors as well and not just credit worthiness. On if it was a procedure for CRBs to sell to institutions specialized literature and other information material related to their activities, 99(40%) of the respondents strongly agreed, 79(30%) of the respondents agreed with 09(03%) of the respondents were undecided. 23(08%) of the respondents disagreed with 46(19%) of the respondents strongly disagreed. This further contrasted with the Banking (Credit reference bureau) regulations, 2008 which seeks to collect, manage and disseminate customer information to lender which was operationalised effective 2<sup>nd</sup> February 2009.

However, six years down the line, 26% of the respondents still did not know about the procedures yet their very being as entrepreneurs depended on the access to credit facilities. Further asking the SMEs if It is a procedure for CRBs to undertake relevant research of increased effectiveness, 41(15%) of the respondents strongly agreed 39(16%) of the respondents agreed and 13(06%) of the respondents were undecided. On the other hand 83(34%) of the respondents disagreed while 71(29%) of the respondents strongly disagreed. The findings showed that 63% of the respondents disagreed. This went further to imply that the clients to the CRBs did not have any information on what

was happening at the CRBs as nobody informed them if a study was being done. However, this could also be ingrained in the contract document where few clients of CRBs fail to read as it is always on the dotted lines.

It could also be attributed to low levels of education where despite reading it as difficult to understand the technical language used. Consequently, the Procedures influenced access to credit facilities by SMES, this was evident from the findings which showed that 122(49%) of the respondents strongly agreed, 76(31%) of the respondents agreed while 09(03%) of the respondents were undecided. 23(09%) of the respondents disagreed with 17(07%) of the respondents strongly disagreeing. 80% of the respondents agreed to the procedures influencing their access to credit. This is despite the SMEs not knowing what the procedures were. This implied that the procedures were only known the CRBs and were also applied by the same CRBs without the customer (SMEs) knowing what they were.

#### **4.6 Influence of financial base of credit reference bureau on access to credit facilities by SMEs.**

It was necessary to analyze the financial base of CRBs to determine their ability to offer credit facilities to the SMEs. The financial base played a role in determining whether the laid down policies and the procedures would be followed and adhered to. A low financial base would strictly lead to the adherence of both the application of policy and procedure in the giving credit to the SMEs. On the other hand a high financial base would have loopholes as ability inhibits the access to credit facilities while a high financial base encourages the access to credit facilities.

**Table 4.8 Financial base of CRBs on access to credit facilities by SMEs**

<b>Statements</b>		<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>	<b>Total</b>
Do you agree that an organizations financial base supports operations	Frequency	91	99	07	15	35	247
	%	37	40	03	06	14	100
A strong financial base will support the recurrent expenditure operations of CRBs	Frequency	89	101	05	25	27	247
	%	36	41	02	10	11	100
A strong financial base will facilitate effectiveness and efficiency of CRBSs	Frequency	87	58	09	43	50	247
	%	35	23	04	17	20	100
Do you agree that the financial base of CRBs will influence access to credit facilitates by SEMs?	Frequency	89	93	08	25	32	247
	%	36	38	03	10	13	100

Respondents were asked if they agreed that an organizations financial base supports operations, the analysis revealed that 91 (37%) of the respondents strongly agreed, 99(40%) of the respondents agreed while 15(06%) of the respondents and 35(14%) of the respondents disagreed and strongly disagreed respectively. This was in agreement with the findings of Robert & Douglas (2000), who said that no organization can operate without capital. However, it was not only for the recurrent expenditure but for the general acquisition of assets.

As was the case when respondents were asked if a strong financial base will support the recurrent expenditure operations of CRB the analysis of data revealed that, 89(36%) of the respondents strongly agreed. On the other hand when respondents were asked to comment on whether a strong financial base would facilitate effectiveness and efficiency of CRBSs, 87(35%) of the respondents strongly agreed,58(23%) of the

respondents agreed while 09(04%) of the respondents were undecided. A further 43(17%) of the respondents disagreed with 50(20%) of the respondents strongly disagreeing.

This agreed with the findings of Prasanna, (2010) who found out that whatever the source of financial resources it is absolutely necessary for accreditation reference bureau to have a sound and stable financial base to support its operations so as to facilitate as many SMES as possible to access credit from lender. However for efficiency and effectiveness the policies and procedures had to be applied as the financial base alone was not important. This implied that having a strong financial base does not automatically lead to efficiency and effectiveness.

When the respondents were also asked if they agreed that the financial base of CRBs will influence access to credit facilities by SEMS, 89(36%) of the respondents strongly agreed, 93(38%) of the respondents agreed while 08(03%) of the respondents were undecided. 25 (10%) of the respondents and 32(13%) of the respondents disagreed and strongly disagreed respectively. This implied that a strong financial base by CRBs does not guarantee a direct access to credit facilities by SMEs.

#### **4.7 Influence of nature of CRBs on the access to credit facilities by SMEs**

It was of great importance to analyze the influence of the nature of CRBs on the access to access facilities by SMEs. This determined how legal structures carried out their operations which included access to credit facilities by SMEs.

**Table 4.9 Nature of CRBs on the access to credit facilities by SMEs**

<b>Statements</b>	<b>Description</b>	<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>	<b>Total</b>
Do you agree that the legal nature of a CRB will influence its operations?	Frequency	102	83	05	31	26	247
	%	41	34	02	13	11	100
CRBs in Kenya are created under the Banking of (Credit Reference Bureau) regulations 2008.	Frequency	91	99	07	15	35	247
	%	37	40	03	06	14	100
The Banking (CRB regulations, 2008 govern the licensing, operations and supervision of CRBS by the central bank of Kenya.	Frequency	89	101	05	25	27	247
	%	36	41	02	10	11	100
The legal status of CRBS under the banking (Credit reference bureau) regulations of 2008 protects potential borrower and lender	Frequency	87	58	09	43	50	247
	%	35	23	04	17	20	100

The findings revealed that 102(42%) of the respondents strongly agreed that the legal nature of a CRB will influence its operations. A further 83(34%) of the respondents agreed to the same while 05(02% of the respondents were undecided. 31(13%) of the respondents disagreed with 26(11%) of the respondents strongly disagreeing. This implied that trust and confidence were very important for the SMEs as they constituted the basis of sustainable and long lasting relationship between them and the CRBs. This was in agreement with the findings of Saleeni, (2010) who further said that the more trust and confidence parties have in an organization the more they will want to relate with it. When the respondents were also asked if CRBs in Kenya are created under the Banking regulations 2008, 91(37% of the respondents strongly agreed, 99 (40%) of the respondents agreed while 07(03%) of the respondents were undecided. 15 (06%) of the respondents disagreed with 35(14%) of the respondents strongly disagreeing. This implied that 20% of the respondents were not aware whether the institutions they dealt

with were legally registered or, it also implied that the policies and procedures had not been adhered to therefore leading some of the clients to lack the information.

The respondents were asked if the banking CRB regulations,( 2008) govern the licensing, operations and supervision of CRBS by the central bank of Kenya. The analysis revealed that 89(36%) of the respondents strongly agreed while 101 (41%) of the respondents agreed to the same. On the other hand, 05(02%) of the respondents were undecided while 25(10%) of the respondents and 27(11%) of the respondents strongly disagreed and disagreed respectively. These findings were in agreement with the findings on whether the CRBs were created using the CRB regulations 2008. Agreeably 21% disagreed with the same concurring with the findings. On the legal status of CRBS under the banking regulations of 2008 and whether it protected potential borrower and lender, 87(35%) of the respondents strongly agreed, 58(23%) of the respondents agreed while 09(04%) of the respondents were undecided. 43 (17%) of the respondents agreed while 50(20%) of the respondents strongly disagreed.

These implied that 37% of the respondents still did not understand the policies and procedures of the CRBs as they had not been made known to them. This therefore disagreed with the findings of Weihrich, Cannice & Kootze (2008) who said all the procedures for operations of the CRB regulations were laid down in the banking (credit reference bureau()) regulations of 2008 (Banking, credit reference bureau, 2008).The general implication was that some of the respondents did not understand how the CRBs are governed and by whom. This further meant that most of the respondents operated without knowing exactly what affects the CRBs and in essence their access to credit facilities.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This chapter discusses summary, conclusion, recommendations, contribution to the body of knowledge and suggested areas for further research in the following sub themes. Chapter five was on the summary of findings, which were presented in themes as per the objectives and the indicators. These were presented below.

#### **5.2 Summary of findings**

Based on the data and other information obtained and analyzed to answer the research questions of the study, a number of research findings were presented in chapter four. The findings are summarized in this section

##### **5.2.1 Demographic characteristics of respondents**

The gender of respondents showed that 63 % of the respondents were male and 37% of the respondents were female this implied that there were more male entrepreneurs than female entrepreneurs undertaking small while on their marital status, it was found out that 55 % of the respondents were married and 45 % of the respondents were single. This implied that the respondents faced different challenges on the regulation by CRBs.

##### **5.2.1.1 The age bracket of respondents**

The analysis indicated that 56(23%) of the respondents were 50 years and above. While 75(30%) of the respondents were between 40 and 49 years of age. 61(25%) of the respondents were between 30 and 39 years while 55(22%) of the respondents were between 20 and 29 year of age. This implied that the respondents were in different stages

of their enterprises and therefore would be differently affected by the influence of CRBs policies and procedures.

### **5.2.1.2 Education level of respondents**

The findings showed that 07(03%) of the respondents had master's degree. 65(26%) of the respondents had bachelor's degrees while 90(37%) of the respondents had diplomas in various disciplines. The rest 85(34%) of the respondents had certificates. This implied that the respondents were learned at different levels and therefore viewed the matter differently. This further implied that their knowledge on the operation of CRBSs would be different based on their level of understanding.

## **5.3 Summary of findings**

### **5.3.1. Influence of credit reference bureau policies on access to credit facilities by SMEs**

On the Influence of credit reference bureau policies on access to credit facilities by SMEs the findings revealed that the respondents had different views on the use of policies in CRBs or organizations at large. This implied that some of the respondents did not know what policies were and their roles in organizational operations. This was a clear indication of the lack of understanding of the role of policies in handling organizational problems.

Consequently, some respondents did not understand that policies apply to all situations and therefore no need of analyzing a similar situation every time it comes up but rather applying the findings before in summary the findings showed the lack of understanding on the role of policies in organizations despite some members knowing what policies were. Generally, the implication was that the policies were either not available and if they were then they were not followed at all times. It also implied that

there was a possibility that the policies were being followed yet the respondents did not know that it was a policy.

### **5.3.2 Influence of credit reference bureau procedures access to credit facilities by SMEs**

On the Influence of credit reference bureau procedures access to credit facilities by SMEs, the findings revealed that most of the respondents knew what procedures were. However, some of the respondents did not know what procedures were and therefore these were the respondents who most likely had a difficult time with the CRBs procedures. This implied that despite the respondents knowing what a procedure was, they still did not know that it follows a chronological order.

This also implied that some of the respondents did not know the procedures that were followed by CRBs and also the CRBs did not have such procedures or that they did not put the procedures into practice. This is as shown by the number of respondents who disagreed and strongly disagreed. Generally, the implication was that the procedures were either not available and if they were then they were not followed at all times. It also implied that there was a possibility that procedures were being followed yet the respondents did not know that there was a procedure.

### **5.3.3 Influence of financial base of credit reference bureau on the access to credit facilities by SMEs.**

On the influence of financial base of credit reference bureau influence access to credit facilities by SMEs, the findings showed that all the respondents were aware that it was difficult to run an organization without finances. They also agreed that having a strong financial base did not automatically lead to efficiency and effectiveness of the CRBs hence mistakes were bound to be made on some occasions leading to an influence

in the access of credit facilities. The influence on the access to credit ultimately influences the performance of the SMES. This would further determine if they would grow or not.

#### **5.3.4 Influence of nature of CRBs on the access to credit facilities by SMEs,**

On the influence of nature of CRBs on the access to credit facilities by SMEs, the findings showed that some of the respondents did not understand how the CRBs are governed and by whom. This further meant that most of the respondents operated without knowing exactly what affects the CRBs and in essence their access to credit facilities. This may have therefore affected their access to credit facilities as some of the CRBs open offices before the legal process is complete therefore limiting their ability to access credit to those SMEs that seek credit facilities from them.

#### **5.4 Conclusions of findings**

On influence of credit reference bureau policies on access to credit facilities by SMEs, he researcher concluded that CRBs have policies that guide their operations and that the Policies of CRBs have great influence on their daily operations however, many lenders do not know that there are policies that guide their access to credit facilities and to what extend and as a result, the access to access is affected but they do not understand the reason behind it.

On the influence of credit reference bureau procedures access to credit facilities by SMEs, the researcher concluded that as much as many respondents know what a procedure is, some do not know what it is. Even worse is that those who know what a procedure is still do not know that a chronological order has to be followed in its application. This lack of knowledge may lead to frustrations on access of credit facilities as many may think nothing is happening or that it's taking too long to access credit.

On the influence financial base of credit reference bureau on access to credit facilities by SMEs, the researcher concluded that the financial base influences the access to credit facilities by SMEs. However, it does not affect the effectiveness and efficiency of the bureau. Therefore affecting the time it takes to access credit facilities by lenders

On influence of nature of CRBs on the access to credit facilities by SMEs, the researcher concluded that a lack of understanding on how the CRBs are governed and by whom affected the access to credit facilities by SMEs. This is because; most of the respondents operated without knowing exactly what affects the CRBs and in essence their access to credit facilities.

## **5.5 Recommendations**

On the influence of credit reference bureau policies on access to credit facilities by SMEs, the researcher recommended that policies be made aware to the SMEs clients seeking credit facilities and why it was necessary that the policies be adhered to at all times. It was also recommended that the SMEs be informed in why the policies have to be adhered to at all time to safe guard the operations of the CRBs which eventually also influence the operations of the SMEs.

On the influence of credit reference bureau procedures access to credit facilities by SMEs, the researcher recommended that the procedures be clearly explained to the clients to enable decision making on whether they were willing to go on with the process. The researcher also recommended that the SMEs be taken through a training process for them to understand the importance of following procedures at all times and why some procedures were longer than others. The researcher also recommended that the process be shortened to enable faster completion of credit vetting. Another recommendation was that the CRBs provided a one stop office where the SMEs would go for personal vetting

before embarking on the journey to seek for credit, wait for a long time only for them to be disappointed later in the process.

On the influence of financial base of CRBs influence access to credit facilities by SMEs, the researcher recommended that the CRBs should ensure they have a sound financial base to ensure that they are buffered financially in case of defaulting by the SMEs.

On the influence of nature of CRBs on the access to credit facilities by SMEs, the researcher recommended that carry out capacity building to create awareness to its clients in order for them to empower SMEs for nation building.

## 5.6 Contributions to the body of knowledge

**Table 5.1 Contributions to the body of knowledge**

<b>Objectives</b>	<b>Contributions</b>
Influence CRBs policies on access to credit facilities by SMEs	Plunkett, Attner & Allen, (2008). Found out that “A policy is merely likely to achieve a desired outcome” the researcher however found out that as much as policies were important in CRBs, if they were not put to use, then they would not help in the achievement of the intended result as per the regulations of CRB 2008.
Influence of CRBs procedures on access to credit facilities by SMEs	Sonja, (2005), found out that CRBs were a reality and their operations must be based on clearly stated procedures. The researcher on the other hand found out that not all the members were aware of the presence of procedures and therefore the operation of CRBs was still a mystery to the SMEs
The influence of financial base of CRBs on the influence access to credit facilities by SMEs	Prasanna, (2010) found out that it was absolutely necessary for a credit reference bureau to have a sound and stable financial base to support its operations is as to facilitate as many SMES as possible to access credit to the lender. The researcher found out that the respondents were not aware of this and that this led to lack of efficiency and effectiveness.

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Influence of nature of CRBs on the access to credit facilities by SMEs

Saleemi, (2010) found out that Credit reference bureaus that have been created so far are companies created under the companies Act. It was important as it helped to determine the nature of CRBs and why the SMEs had to find out the nature of CRBs before engaging them to access credit facilities. These were aware of the importance of legality of CRBs before engaging them to access credit facilities.

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### **5.7 Suggested areas for further research**

The researcher suggested the following further areas of research

1. The researcher further suggested that a similar study be carried out in a different division within Trans-Nzoia or beyond to determine if the findings will concur.
2. The researcher also suggested that a study be carried out on the influence of type of SMEs on the operations of CRBs
3. The researcher further suggested that a study be carried out on the influence of financial base of SMEs on the operations of CRBs

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## APPENDICES

### APPENDIX I: TRANSMITTAL LETTER

Mary Saliku  
P.O Box 102-30205  
**Matunda**  
Mobile: 0721772631  
20<sup>th</sup> April, 2015

The Secretary National Council of Science and Technology (NCST)

P.O BOX.....,

**NAIROBI.**

Thru'

The Course Director,

Kitale Extra Mural Center /University Of Nairobi

Dear Sir/Madam,

#### **RE: REQUEST TO PARTICIPATE IN A RESEARCH PROCESS**

I am a student at the University of Nairobi pursuing a Master of Arts degree in Project Planning and Management. I am undertaking a research titled influence of CRBs on access of credit facilities by SMEs in Kitale Municipality, Trans-Nzoia County, Kenya. I kindly request you to participate in this study and your responses to items in the questionnaire will be treated with uttermost confidentiality, and will not be used for any other purposes except for this study.

Yours faithfully,

Signature.....

Mary Saliku

Reg No: **L50/73866/2014**



The purpose of this questionnaire is to collect data on the influence of credit reference bureaus on access to credit by small and medium enterprises in Kitale Municipality, Trans-Nzoia County. Your enterprise been sampled to take part in the survey. Please feel free to answer the questionnaire as frankly as possible. Responses to these questions will be treated confidentiality. Do not write your name anywhere on this paper.

Please tick ( ✓ ) on the appropriate choice(s) which you think is the answer (s) or more correct response(s) to the questionnaire.

**Indicate your feelings about each of the statement by ticking on any of the options**

SA-Strongly Agreed, A-Agreed, U-Undecided, D- Disagreed, SD- Strongly disagreed.

**PART B: To investigate how credit reference bureau policies influence access to credit facilities by SMES**

	SA	A	UD	D	SD
Do you agree that a credit reference bureau requires policies in order for it to operate effectively and efficiently					
Policies are plans that guide or channelize thinking in decision making					
Policies held decide issues before they become problems					
Policies make it unnecessary to analyze the same situation every time it comes up					
Policies enable the delegation of authority					
It is the policy of a CRB to enable lenders to determine the credit worthiness of their borrowers					
It is the policy of a CRB to enable lenders to determine the credit worthiness of their borrowers					
It is the policies of a CRB to reduce the credit risk that lender face.					
Do you agree that CRBs policies will influence access to credit by SMES?					

**PART C: To investigate the influence of credit reference bureau procedures on the access to credit facilities by SMES**

Statements	SA	A	U	D	SD
procedures are plans that establish a required method of handling future activities					
Procedures are a chronological sequence of required actions					
It is a procedure for CRBS to obtain and receive customer information					
It is a procedure for CRBS to and disseminate the customer information t subscribers					
It is a procedure for CRBs to compile and maintain a database and generate reports required					
It is a procedure for CRBs to access the credit worthiness of customer					
It is a procedure for CRBs to sell to institutions specialized literature and other information material related to their activities					
It is a procedure for CRBs to undertake relevant research of increased effectiveness					
Procedures influence access to credit facilitates by SMES					

**PART D: To determine the influence of financial base of CRBs on the access to credit facilities by SMES.**

Statements		SA	A	U	D	SD	Total
Do you agree that an organizations financial base supports operations							
A strong financial base will support the recurrent expenditure operations of CRS							
A strong financial base will facilitate effectiveness and efficiency of CRBS							
Do you agree that the financial base of CRBS will influence access to credit facilities by SEMS?							

**PART E: To investigate how the influence of nature of CRBs on access to credit facilities by SMES**

Statements	SA	A	U	D	SD
Do you agree that the legal nature of a CRB will influence its operations?					
CRBs in Kenya are created under the Banking of (Credit Reference Bureau) regulations 2008.					
The Banking (Credit reference bureau) regulations, 2008 govern the licensing, operations and supervision of CRBS by the central bank of Kenya.					
The legal status of CRBS under the banking (Credit reference bureau) regulations of 2008 protects potential borrower and lender					

**APPENDIX III: KREJJCIE AND MORGAN TABLE FOR FINDING SAMPLE SIZE**

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

## **APPENDIX IV: PERMITS**