AN ASSESSMENT OF CREDIT RATING AS A TOOL TO AFFORDABLE LENDING AMONG THE SME’S IN MOMBASA COUNTY

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DECLARATION

This research is my original work and has not been presented for a degree in any other University or any other award.

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DEDICATION

I wish to dedicate this work to my Wife, Daughter and Son.
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ABSTRACT

The amendment of the banking Act (Cap) 488, Legal notice Number 97 has changed how financial institutions view SME's in Kenya among other businesses and how to modify their business strategies to tap into the emerging business frontiers. Credit Reference Bureaus (CRB) are now legalised and mandated to collect financial information and rank potential consumers of credit on their credit worthiness. Information gathered by the CRB’s will be used to generate a credit score which will be assigned to a potential borrower. Credit scoring will be an alternative to collateral that has been used in the past as security to secure credit from financial institutions. The study sought to assess credit rating as a tool to affordability and accessibility of credit to SME’s in Mombasa County. Identify the nature of tools and their effectiveness in credit rating as well as establish whether consumers are aware of the benefits they can derive from this state of affairs. The target population were the 10 midtier banks within the Mombasa County as per the CBK / KBA records which constituted the sampling frame for the Portfolio relationship officers. The target population for SME’s was 226 business customers with turnovers of at least kes500,000 per month, banking at a Kenyan second tier bank and 30 portfolio relationship officers. Random sampling procedure was used to randomly select 4 banks from which a total of 9 portfolio relationship officers involved in business credit appraisals and debt management were selected. 68 SME’s were randomly selected from the target population (business customers). Both the customers and portfolio managers selected represented a sample size of 30% for each of the target population. Questionnaires were used to collect responses due to their high response rate, ability to obtain response within a short time period and to ensure anonymity of the elements. Both quantitative and qualitative methods were used in data analysis. From the findings it was concluded that CIS reduced asymmetrical information hence having an impact on accessibility of loans for the SME’s in Mombasa County. CIS was found to have an influence on pricing, turnaround time for loan applications, default rate and management of nonperforming loans. The financial institutions through their association - KBA and their regulator CBK, need to ensure that their members complied with the Government of Kenya Banking Act Cap 488, Legal Notice 97 to ensure that a full file reporting environment was attained as only negative information was being share. The government need to hasten the amendment of the SACCO Act and put in place enactments to allow utility firms and courts share information with the financial institutions of both positive and negative information. A vigorous campaign via all financial institutions and utility providing firms need to enlighten the Kenyan citizen on the benefits of CIS and the stages they are in to ensure full file reporting environment is attained. The CRB’s
should provide their credit reports twice per year to those they have a data bank for and decentralise their services to county levels as getting clearance certificates is through their Nairobi offices.
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ABBREVIATIONS

CBK ............Central Bank of Kenya
CIS.............Credit Information Sharing
CRB ............Credit Reference Bureau
FSD ............Financial Sector Deepening
KBA ............Kenya Bankers Association
KES.............Kenya shillings
OD ............Overdraft facility
SACCO.......Savings and Credit Cooperative Societies
SME...........Small Scale and Micro Enterprises.
TAT ............Turn Around Time
DEFINITION OF OPERATIONAL TERMS

**Credit rating.** An assessment of the financial status and creditworthiness of a person or company. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389,2009).

**Credit Reference Bureau.** It’s a company licensed by the CBK to collect information from a variety of sources and provide credit information on an – entity individual or company upon request of by an authorised user. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389,2009).

**Authorised user.** The Law in Kenya currently allows only data furnishers (Banks only at present) to request a report and only on a borrower who has an “active application for credit”. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389,2009).

**Credit information.** Any positive or negative information bearing on an individual’s credit worthiness, credit standing, character, credit reputation, general reputation, personal characteristics, mode of living, including but not limited to the history and or profile of an individual or entity with regard to the credit, assets and any financial obligations. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389,2009).

**Credit report.** A customer information file containing a subject’s credit history compiled by a Credit Reference Bureau. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389,2009).

**Credit facility or Loan.** Direct, indirect and contingent obligations incurred by an individual or entity with third parties and includes any loan, discount, advance, overdraft, export bills purchased, other bills receivable or purchased, import bills, customers’ liability on off
balance sheet, items or any other credit facilities extended to a customer of an institution. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 390, 2009).

**Negative information.** This refers to poor credit and transactional history with both the financial and utility providing institutions. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389, 2009).

**Positive information.** This refers to good or excellent credit and transactional history with both the financial and utility providing institutions. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389, 2009).

**Full File Information.** This refers to collected information both negative and positive which gives a more comprehensive analysis of the potential borrower. (Government of Kenya, Kenya Gazette, Legal Notice No. 97 page 389, 2009).

**Small and medium entrepreneurs.** Business entity with a minimum turnover of above half a million Kenya shillings per month.
CHAPTER ONE

1.0. Introduction

1.1. Background of the study.
Credit Information sharing is a new concept that has recently been introduced and legalised in the Kenyan Financial Institutions by the Central Bank of Kenya under the Banking Act (Cap) 488, Legal Notice Number 97. Information sharing will facilitate credit scoring that will be used as a risk management tool to borrowers of funds during the process of credit appraisal. The Act allows for the establishment and licensing of Credit Reference Bureaus who shall be regulated and audited by the Central Bank. The CRB shall be bestowed with the responsibility of collecting information from a variety of sources and provide credit information on an individual and or a company upon request by an authorised user. The exchange of information shall be between banks and other credit providers, (Government of Kenya Banking Act Cap 488, Legal Notice 97).

According to the banking act regulations mandate, negative information must be shared with other financial institutions. “This shall include but not limited to: dishonour of cheques; accounts compulsorily closed; proven frauds and forgeries; proven cheque kitting; false declarations and statements; receiverships, bankruptcies, and liquidations; credit defaults and late payments; tendering of false securities; and misapplication of borrowed funds”, (Banking Act (Cap) 488, Legal Notice Number 97). However customer information shall be furnished using a standard format. The nature of information to be shared under the regulations shall not adversely affect the rights and freedoms of the customer, (Government of Kenya, Legal Notice No. 97 page 390, 2008).

If a customer has a loan and is paying regularly and repayments are up to date, banks may share this information with other authorised institutions and this will constitute positive information. The information shall be updated regularly, at least monthly and the CRB’s are authorised to store information up to a period of seven years. Information sharing will minimise asymmetrical information in the process of credit appraisal. Previously potential consumers of credit had more information about themselves than the lenders resulting in credit providers restricting lending to only those customers known to them or have collateral to secure the loan.

According to Kenya Bankers Association, Central Bank of Kenya and Financial Sector Deepening (FSD) Kenya Report 2010, there is no standard measure of risk available in Kenya to
rate potential borrowers. Individual banks have developed their own internal score cards built on organisation or individual (judgement) expertise accumulated over time on the basis of internal data and best practices. Thus one would find a consumer of credit being denied a facility in one financial institution and given in another. Financial institutions address risk assessment challenges by either not lending or charging high interest rates (charging at a premium) to mitigate against losses as a result of default of loans that may arise in the future. Further, most financial institutions ensure the loans are secured. In case of bad debts, this affects their bottom-line due to increased provisions for doubtful debts.

The Information shared will be used to assess the ability of a potential borrower to repay a new loan. A potential borrower whose report shows that he or she has a delinquent loan is likely to be denied new credit until the delinquency is rectified. However, customers with “positive information” and in particular the small and medium entrepreneurs shall have access to “cheaply” priced loans and advances as they will be able to be rated fairly hence having the ability to negotiate interest rates. For credit rating to be an effective tool of risk management there are a number of critical prerequisites that must be addressed for the SME’S and the financial institutions to realize the potential benefits that can be derived from credit scoring, Kenya Bankers Association, Central Bank of Kenya and Financial Sector Deepening Kenya Report (FSD Kenya Report, 2010).

Most economic activities in the world come from the small and medium sized enterprises sector (Wendel and Harvey, 2006). SME’S in developing countries have limited access to formal credit. In sub-Saharan Africa, banking sector penetration is roughly one per cent (Stein, 2001). According to the Strategic Business Advisers- Africa limited –SME Banking Sector report 2007, in Kenya there are 2.2 million micro, small and medium enterprises. 88% are non-registered, of the non-registered group only 23% have bank accounts and only 10% have ever received credit from any formal source. Their size and credit demands are driven by their business needs and this has outgrown the capacity of microfinance institutions and other informal lending sources. This has led to many of the microfinance institutions seeking registration from the Central Bank to start taking deposits to boost their liquidity for lending purposes as they are losing most of their nurtured customers to more liquid financial institutions. However, the large financial institutions lack standardised risk assessment techniques hence many of the SME’s appear undesirable credit customers. This has been complicated by lack or insufficient financial documentations, records and projections that can be used at least to make informed decisions as regards to lending (FSD Kenya Report, 2010).
Credit rating is a technique applied in most developed countries in the world by financial and utility providing institutions. Credit rating has been inexistence for decades in some parts of the world since 1830's in Sweden and the United States of America, (Tullio J. and Marco P. 2005). Credit Reference Bureaus are licensed and regulated by central banks of individual countries to provide information which serves as a basis for credit rating. They collect and combine credit information on individuals and companies from various sources, share and provide that information upon request by authorised institutions. The information gathered is used to generate a credit score or rate [a number between 200 – 900] assigned to a potential borrower rating them as credit risky or not. The lower the score the higher one poses as a risk and the higher the score the less risky one is, (Sam Omukoko Managing Director Metropol East Africa Ltd, The Daily Nation, Thursday 25th 2010, page 10).

In Kenya Credit information sharing was rolled in the month of July 2010. According to the Central Bank of Kenya Report 11th April 2011, records show that over 760,000 reports have been submitted by banks. By August 2010 banks had accessed more than 442,128 reports from CRB Africa. The monthly average number of credit reports accessed by banks currently stand at 63,161. Only 865 consumers had accessed reports since the rollout of the credit information sharing mechanism.

1.2. Statement of the problem

According to World Bank Report: Doing Business, 2008 “Credit reporting...allows lenders to evaluate the borrowing capacity of clients and it lets good borrowers benefit from more and cheaper lending.” According to Wendel and Harvey, (2006) “SMEs comprise a substantial part of the economic activity of both developed and developing countries.... In developing countries, the role of SMEs is often relatively greater. For example, in Latin America, the vast majority of firms are micro or small enterprises and they employ approximately two-thirds or more of the labour force”. According to the Economic Survey (2006), the SMEs sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Oketch, (2000), Tomecko & Dondo, (1992) and Kiiru, (1991) in their studies identified lack of credit as one of the most serious constraints facing SMEs and hindering their development. According to Longenecker, et al., (2006), lack of planning, improper financing and poor management were stated as the main causes of failure of small enterprises. Securities against financing range from Bonds, Shares, Property with Title, Personal and
Corporate Guarantees and Debentures. Entities with large borrowing needs or turnovers of above specified amounts have the ability to negotiate rates among other charges. The financial institutions will be compensated by non-funded income generated from within the respective portfolio for example transactional charges and commissions.

According to the FSD Kenya Report 2010, SME’s lack sufficient “acceptable or appropriate securities” which can be pledged as collateral. The interest rates are highly priced and the costs of the facilities are high as well. Interest payments are serviced by the meagre profits and in some cases working capital. Late payment attracts stiffer penalties and threats of legal action. This is bound to liquidate a business as it’s unable to meet its recurring obligations. Finding the finance to get a new business going, or to grow an existing one is a difficult challenge. (http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/crafts-micro-enterprises/). Not much is known about credit rating and how its advantages can be maximised by both the consumers of credit and lending institutions.

1.3. General objective
To assess whether effective credit rating can be a tool to affordable and easy access of credit to the SME’s.

1.3.1. Specific objectives
1. To investigate the relationship between credit rating and access to affordable credit.

2. To establish the benefits to be derived from credit scoring.

3. To recommend suggestions and strategies that can be applied to enhance full file reporting environment in Kenya.

1.4. Research questions
1. What is the relationship between credit rating and accessibility of affordable credit?

2. What benefits can be derived from credit rating?

3. What strategies and policies have been advanced to enable a full file reporting environment in Kenya?
1.5. Significance of the study

First and foremost the information obtained was to fill the gap of knowledge that exists in conceptualising the benefits that can be derived from credit scoring, secondly the information obtained was to enable financial institutions re-strategize their approach to SME’s and formulate standard policies to enhance their credit appraisal procedures, reduce portfolios of non performing debts, reduce rates for provisions for doubtful debts and associated costs as they seek to enhance and maximise shareholders wealth. Thirdly, the research will contribute to the ongoing debate and provide descriptive findings laying the ground for further studies and research. Finally, the research is to provide insights on how to achieve full file reporting environment for consumers of credit to reap the most out of Credit information sharing mechanism.

1.6. The scope of the research

The research was carried out in Mombasa County, Kenya. The research confined itself to 9 Portfolio Relationship Officers who were sampled from the 10 mid tier banks in Mombasa who are involved in the process of credit appraisal and debt management and 68 randomly selected SME business customers with turnovers of at least kes500,000 per month, banking at a Kenyan second tier bank from a total of 226.
2.0. Literature review

2.1. Introduction

The logic underlying the existence of CRBs is to solve the problem of the informative asymmetry between lenders and borrowers regarding the creditworthiness of the latter. Issuers with lower credit ratings pay higher interest rates embodying larger risk premiums than higher rated issuers, (Marwan Elkhoury, 2008). Using macroeconomic data, Jappelli and Pagano (2000) found out that countries with higher levels of formal information sharing have greater levels of bank lending relative to GNP conversely, the risk of default was higher in countries with lower levels of information sharing. Financial institutions in particular banks have been and still use the 5 C’s of credit, (Character, Capacity, Capital, Collateral and Conditions). The ability to repay both the principle and interest constitutes the basic requirement for lending. This information is readily available from financial statements (six to twelve) month’s bank statements, audited accounts, management accounts, business profile and cash flow projections.

Collateral is held in “lien”, personal or parent company corporate guarantee is provided for comfort to the lending institution in case of default. This is a sign of commitment from the borrower and other interested parties to service the monthly payments. The perfection of the documentation in its self is both time consuming and expensive to the borrower as he or she meets those contingent costs. Information sharing and subsequent credit scoring on both existing and potential borrowers determine levels of credit worthiness and thus expected to have profound effects on credit processes and businesses at large. Bad debts and provisions for the bad debts are due to largely lack of sufficient information in regard to the borrower being correctly assessed and this exposes the lenders, Rowena Olegario (2000). To mitigate against such occurrences interest rates are maintained above certain thresholds that is base rates and or if one has to obtain funds then additional collateral has to be provided. This comes with additional costs for instance charging of property in lien, and or having a cash cover. The process can take painfully long. Moreover this can be very problematic to new firms, micro entrepreneurs’ and the SME’s.

2.2. SME’s challenges in business

The Economic Survey (2006) findings found that the SMEs sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out
of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007), Oketch, (2000), Tomecko & Dondo, (1992) and Kiiru, (1991) in their studies identified lack of credit as one of the most serious constraints facing SMEs and hindering their development. Various studies have shown that SME’s face various challenges for instance according to Longenecker, et al., (2006), lack of planning, improper financing and poor management were stated as the main causes of failure of small enterprises. Fridah Muriungi Mwobobia (2012) observed that SMEs play an important role in the Kenyan Economy such as creating jobs. However they faced serious challenges such as lack of finance, discrimination, problems with the city council, multiple duties, poor access to justice, lack of education, among others.

Oketch, (2000) Tomecko & Dondo, (1992), Kiiru, (1991) identified lack of credit as one of the most serious constraints facing SMEs and hindering their development. Micheal, Makarius & Samuel (2009), carried a study of SME’s in the central business area of Nairobi and they found competition, insecurity, debt collection, lack of working capital and power interruptions in that order were the top five challenges facing micro and small businesses. Gray (1996) observed that although inheritance laws were revised with the succession Act of 1981, women have rarely inherited land and other property in their own right. Meaning they lack title deeds which are still the most commonly preferred form of security for borrowing money. Patrick L. Onsand (2008) observed that the Kenyan banking sector is dominated by a few large firms, which focus mainly on short-term lending. The short-term nature of their lending and their policies of concentrating on a small corporate clientele implied indifference to small savers and borrowers. This meant that they exclude a large number of potential borrowers and investors from their services.

2.3. Scoring models

Currently, lending firms have developed their own internal models or customised score cards based on expertise and best practices from across the world. Other firms and in particular micro finance institutions use the group approach to lend and hence minimise the risk of default by requesting for other members to guarantee the borrower. In this case “reputational collateral” is not an option for many high quality borrowers who pay promptly with no arrears. According to Microfinance Risk Management findings 2008, a well-managed scoring system can lead to; The application of an objective, standardised, consistent and transparent measurement of risk, consumers of similar risks receiving the same credit decision, the automation of decision making for credit requests can be obvious approval or decline hence freeing up the underwriters to focus
on more complex cases, thirdly credit scoring would lower operational costs, improve underwriting effectiveness as well as improve on the turnaround time.

The lending institution and other service providers would be able to cut down bad debts and provisions’ as well as costs of debt chasing. According to Tullio Jappeli and Marco Pageno (2000), most of the literature neglects exchange of information with other lenders as an alternative way to learning one’s own customers. This exchange can be voluntary or imposed by regulation. When it occurs spontaneously, it is affected by information brokers known as “Credit Bureaus”, which operate on the principle of reciprocity, collecting, filling and distributing the information supplied voluntarily by the members. In many countries a great deal of information exchange occurs via “public credit registers”. These are generally managed by central banks with compulsory reporting of data on borrowers which are then processed and returned to the bank.

2.4. Information sharing

According to Jaffee and Rusell (1976), Stiglitz and Weiss (1981) information sharing can lead to reduction of asymmetric information to prevent inefficient allocation of credit, credit rationing and bridging the wedge between lending and borrowing rates. Development of information sharing mechanism has prompted lenders to move towards a more refined screening and monitoring practices. In Peru, according to Trivelli, Alvarado and Galarza (2001) this has been witnessed by the central role information sharing systems have taken in borrower selection. This has encouraged borrowers to shift away from exclusive reliance on collateral towards information based lending.

Information sharing about borrowers’ characteristics and their levels of indebtedness has significant effects on credit markets. On the side of the lending institution the credit appraiser is in a position to accurately predict repayment probabilities of a potential client. For instance according to Cowan and De Gregorio (2003), in Chile both positive and negative information in credit reports contributes to predict defaults. This also reduces informational rents that banks employees are supposed to extract from the client in the initial stages of loan application. Credit information sharing further acts as a discipline tool to both existing and potential borrowers. In Chile, information sharing has been an effective way of securing immediate repayment once defaulter’s names and relevant information is forwarded to the Chilean Credit Bureau – DICOM, since delinquent customers see their credit dry up with all the stores they patronize. Finally, information sharing eliminates borrowers’ incentive to become “over-indebted” by drawing and accessing credit simultaneously from many banks without either realizing.
According to Stephen J. Leonard (2011), less than 10 countries have credit reference agencies. As of June 2009, the list included Botswana, Cameroon, Cape Verde, Kenya, Lesotho, Malawi, Mauritius, Morocco, Namibia, Rwanda, South Africa and Tunisia. As domestic capital markets develop and there are more instruments to rate, it will be more attractive and cost-effective for the rating agencies to undertake ratings assessments in Africa. In a number of African countries, local rating agencies have been successfully established helping to broaden coverage of the local, (http://www.mfw4a.org/financial-infrastructure/credit-ratings.html).

On 11th July 2008, the Kenya Gazette Supplement No. 52, Legal Notice No. 97 was published to make it known to the public that the Central Bank of Kenya was to amend the banking act to allow licensing of Credit Reference Bureaus. The CRB’s were mandated to collect financial information from both individuals and businesses for the purpose of generating credit scores. Pursuant to the Banking (Credit Reference Bureau) Regulations of 2008, in February 2010, the first CRB in East Africa - CRB Africa Limited was licensed and in April the 2nd CRB, Metropol Credit Reference Bureau Limited was licensed, (CBK Press Release 11th April 2011).

2.5. Building a credit profile

Credit reference bureaus are bestowed with the responsibility of generating credit reports from various sources to build up a data base detailing a persons’ credit history, including information on a persons’ identity, credit accounts and loans, bankruptcies and late payments. Individual credit transactions from banks, credit companies, finance companies, merchants and other utility or service or product providers for instance water and electricity companies, hire purchase and Sacco’s among others. With an objective, standardised, consistent and transparent model data is calculated to allocate a credit score. The credit score ranges from 200 – 900 and a score is assigned to a potential borrower to rate how risky they are. The lower the score the higher the risk they pose and the higher the score the less risky one is. A low score is not only because of default on repayment but can also be because of lack of information on the borrower for instance first time borrowers.

According to Sam Omukoko Managing Director Metropol East Africa Ltd, the worst or lowest and the best or highest scores range between 200 and 900 with 400 being the cut-off mark. A score of less than 400 indicates one who has defaulted on payments or one who has no credit information available. From 400 upwards up to 750 indicates one who pays on time with score above that being exceptionally good. However, those with poor or bad histories can repair it by repaying their debts and this information is availed by the concerned lender to update credit
Those who are defaulters shall have their records stored up to seven years – denying them credit for that long. A good credit score can be used as a tool to negotiate fair and affordable rates from lending institutions or and use it in place for collateral.

Sam Omukoko points out that the first step in building a credit profile is to provide personal details like names, location, contacts among other. Get a credit history by authorising all lenders and utility providers to forward details of all transactions to the credit reference bureaus. However, for a potential consumer of debt to maximise on the credit score that accrue with information sharing, he or she needs to have an appropriate credit mix. One can have the instalment credit whereby one repays a facility regularly at agreed intervals for instance monthly. These kinds of loans are often advanced by financial institutions, banks, Sacco’s and microfinance. Majority of consumers of debts have this type of facilities. However having more than one type of this kind of loans increases probability of default and this negatively affects the credit score. Second form of credit is the revolving credit were one is allocated credit with a certain threshold as the limit after which the money must be repaid back before another limit is allocated. This type of credit is synonymous with letters of credit, invoice discounting, overdrafts and credit cards. When abused and the borrower is unable to repay they are structured into term loans and this damages one’s credit worthiness. In Belgium, there is a penalty for those who have arrears in that they would find it difficult to access credit before one year is over.

Third, the other type is open account credits which are mostly offered by utility firms for instance water, telephone and electricity where the consumer utilizes the services without limit. In this scenario the service provider bills the consumer monthly or after an agreed time frame. Lastly we have consignment credit where one acts as a guarantor on behalf of another so as to have access to credit. This is common with hire purchase organizations, microfinance and Sacco’s’. A good mix is key to a good credit score and overall good credit health.

2.6. Benefits of credit rating

The government through the Kenya Revenue Authority would be expected to increase their tax collections as pin certificates and national identity cards must be availed when one is building a credit history. Proved tax evasion or lack of full disclosure would contribute to loose of positive scores. The availability of quality and consistent data from the financial institutions, development of risk management and scoring infrastructure as well as investment in technology would highly enhance the success of credit scoring. By assigning credit score potential and existing consumers of credit can readily access facilities at affordable rates. This would in turn
lead to increased lending volumes among the Kenyan population. This would further enhance economic growth, business entities bottom-lines being improved as well as standards of living. Banks would be expected to heavily cut down on their bad debts and associated costs, provisions of the same thereby maximising shareholders equity which is the bottom-line for all profit oriented institutions. Further they would improve turnaround time for credit applications enhancing the quality of the services rendered. Utility firms and other service providers would also benefit from increased subscription and formalisation of details and prompt payment of bills for services as their customers seek to build a credit history.

2.7. Theoretical framework

The research was based on Game Theory – asymmetrical information and Strategic Behaviour model and the theory of interest rates with adjustments for risk premiums. The game theory has its argument on the availability of information to either of the parties in focus to influence their strategic behaviour to maximize their wellbeing- utility. The information available to either or all the party (ies) can be complete or incomplete, perfect or imperfect and or symmetrical or asymmetrical. Game Theory technics have been advanced to address practical issues in business, applied economics and public policy; as well as to demonstrate benefits of strategic thinking that incorporates uncertainties about the behaviours of other parties. Game theory involves multiple players whose actions affect others and whose fate literally depends on the other’s actions as well as their own.

Game theory brings out plans and actions to be put in place to maximize utility – that is the payoffs or benefits to be derived at the end of the game. The advantages of Game Theory in applied work are very clear in formal structures where Game Theory coerce each player to consider the actions of others when picking their strategy. The Game theory can be a very powerful tool to analyze a firm’s decisions. One of the assumptions of Game Theory is that economic agents are rational players. A rational player’s consumer goal is to maximise his well-being i.e. utility. Utility within such models have been represented by the payoffs at the end of the game. In game theory we can have various situations that can be employed by business strategists either to mitigate against forecasted losses as is in our case currently or be used to reap maxim profits – supernormal profits.

Asymmetric information is a concern to financial institutions in the process of borrowing and lending. In these markets the borrower has much better information about his/her financial state compared to the lender. The lender has difficulty in identifying with preciseness whether they
will default. The lender assesses the probability of default by looking at past credit history and evidence of supportive financial statements and audited accounts, unpaid items, average balances and salaries in case of repeat borrowers and new customers respectively. However, this only gives limited information. The consequence is that lenders will charge higher rates of interest to compensate for the risk and further request for collateral. If there was perfect information, banks wouldn't not charge high risk premium.

Irving Fisher’s theory of Interest Rates (1930) – with adjustments for Risk Premiums caters for the uncertainties that might arise in the future if a consumer of credit were to default. The provider of credit has no known history of the borrower as concerns any repayments of previously borrowed monies from other financial institutions. A risk premium is added to the nominal interest rate to compensate the provider of credit for accepting higher levels of risk; - the investor must be compensated thus making credit expensive and inaccessible. When we incorporate risk premiums into the analysis of interest rates, the nominal interest rate increases, for example;

Models

Nominal interest rate without adjustment is given by;

\[ N = r + \pi(1+r) \]

Where;

\( N \) - Nominal interest rate

\( \pi \) - Rate of inflation

\( r \) - Real interest rate

Nominal interest rate with adjustment catering for the risk premium;

\[ (1+n) = (1+r)(1+p)(1+\pi) \]

Where; \( 1+p \) - is the risk premium

Credit scoring will thus mitigate against the above occurrences. Verifiable, reliable and independent credit information will be readily available – thus risks premiums will be factored in based on individual or business past and present information. Every borrower will carry his or her own cross.
2.8. Summary of gaps to be filled by the study

Credit scoring in Kenya is a new approach spearheaded by the Kenya Bankers Association and the Central Bank of Kenya. It's not only intended to increase efficiency, effectiveness and lower operational and provisional costs for the financial institutions but also to broaden the scope of consumers of credit and lower the cost of finance to ensure access to affordable credit. No studies have been carried out in Mombasa County to assess' credit rating as a tool to affordable lending among the SME's.

2.9. Conceptual framework

*Figure 1.1: Conceptual Framework*

Positive Items

- No unpaid items, No returned items
- Authorized OD or debits, Timely paid bills,
  Advanced payments on course

Credit scoring

Credit Appraisal

Loan approval or decline

Negative items

- Inpaid items, loan default, returned items,
  unauthorized OD or debits, unpaid bills or late payments, late loan repayments

**Independent Variables**

Source: Researcher 2013

**Dependent Variable**
CHAPTER THREE

3.0. Research methodology

This chapter focuses on the researcher’s scope of methodological procedures employed in this research. These includes; Research Design, Study Locality, Target Population, Sample Size and Sampling Procedure, Data Collection Instruments, Pilot Study and Data Analysis Techniques.

3.1. Research design

The research design used in the research was descriptive study design. The descriptive study design was appropriate as it sought to explore and describe relationships between variables in their natural setting without manipulating them mainly to determine the nature of the situation as it was. It further aimed at obtaining information that would be analyzed, patterns extracted and comparison made for the purpose of clarification and provision of basis for making decisions.

Descriptive study design has been defined by Mugenda and Muganda (1999) as the systematic gathering of information from respondents for the purpose of understanding or predicting some aspects of behaviour of a population of interest. For comparison purposes both qualitative and quantitative data was obtained.

3.2. Target population

Mombasa County is an urban centre with various types of businesses, giving a fair representation of all the industries. The area is also accessible due to its well-developed infrastructures. The target population were the 10 mid tier banks within the Mombasa County as per the CBK / KBA records which constituted the sampling frame for the Portfolio relationship officers. The target population for SME’s was 226 business customers with turnovers of at least kes500,000 per month, banking at a Kenyan second tier bank and 30 portfolio relationship officers.

3.3. Sample size and sampling procedure

According to Mugenda and Mugenda (1999), a representative sample should be at least 10% of the population. Random sampling procedure was used to randomly select the 4 banks from which a total of 10 portfolio relationship officers involved in business credit appraisals and debt management were selected. 68 SME’s were randomly selected from the target population (business customers). Both the customers and portfolio managers selected represented a sample size of 30% for each of the target population.
3.4. Data collection methods

The research instruments used in the study were self-administered questionnaires involving both structured and unstructured question items. The structured items enabled the researcher to tabulate and analyze data with ease, while the unstructured items facilitated in-depth responses and opinions beyond the researcher’s scope of understand ability.

Self-administered questionnaires were since it avoided subjectivity due to absence of interviewer’s influence. It also gave respondents sufficient time on items that required consultation before responding (Bless and Achola, 1987). The questionnaire was used to collect primary data due to their high response rate, ability to gather voluminous information within a short span of time and anonymity as the nature of information sought required a high degree of confidentiality. The questionnaires were then serialized to differentiate those to be filled by different categories of respondents.

3.5. Data analysis

The data collected in the research was edited, coded and classified on the basis of similarity and then tabulated. Being a descriptive study, descriptive statistics such as percentages and pie charts were used to summarize and relate variables which were obtained from the administered questionnaires.

Table 1.1: Population and sampling sample

<table>
<thead>
<tr>
<th>Target population</th>
<th>Sampling frame</th>
<th>Sample</th>
<th>% sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio relationship officers</td>
<td>30</td>
<td>9</td>
<td>30%</td>
</tr>
<tr>
<td>SME’s</td>
<td>226</td>
<td>68</td>
<td>30%</td>
</tr>
</tbody>
</table>
CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.0. Introduction

This chapter presents the findings of the data collection exercise. The researcher used a sample of 30% of the population to enhance representation and to ensure the stated objectives had been attained.

4.1. Background Information

The main purpose of the study was to assess the relationship between Credit Information Sharing and accessibility of loans for SMEs in Mombasa County. Variables associated with CIS include pricing of the loans, turnaround time for loan applications, repayment period and loan default tendency.

4.2. Interpretation and discussion of results

4.2.1. Response rate analysis

<table>
<thead>
<tr>
<th>Responses</th>
<th>No. of Response</th>
<th>No. Of non response</th>
<th>Totals</th>
<th>Respondents %</th>
<th>Non respondents %</th>
<th>Totals %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Customers</td>
<td>60</td>
<td>8</td>
<td>68</td>
<td>88</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>Portfolio relationship officers</td>
<td>9</td>
<td>0</td>
<td>9</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above analysis, the response rate among the Business Customers was encouraging to the researcher as most respondents (88%) managed to answer and return the questionnaires. This response was good as it made the results give a true picture on the issue of Credit Rating as a tool to affordable lending for inference to the general population. There was 100% response among the portfolio managers.

Data analysis was done according to the set objectives which were three in number. They include:
4.2.2.2: The relationship between credit rating and accessibility of affordable credit

The Portfolio relationship officer’s questionnaire was aimed at determining whether CIS helps in making credit facilities be more accessible and affordable, 30% of the respondents interviewed strongly agreed while 70% of the respondents agreed that Credit rating helped in the access cheap credit facilities.

Table 1.3: Accessibility of affordable credit

<table>
<thead>
<tr>
<th>Accessibility of affordable credit</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio relationship officers</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Response %</td>
<td>30%</td>
<td>70%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100</td>
</tr>
</tbody>
</table>

In regard to CIS reducing default on credit facilities 80% of the respondents strongly agreed while 20% were in agreement. All the respondents agreed that CIS reduced the default of credit facilities. When there is low rate of credit default, customers pay promptly, hence making it easy for others to access the credit facility.

Table 1.4: Decline in default of facilities due to CIS

<table>
<thead>
<tr>
<th>Decline in default of facilities</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio relationship officers</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Response %</td>
<td>80%</td>
<td>20%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100</td>
</tr>
</tbody>
</table>

Among the Portfolio relationship officers it was noted that CIS helped in ensuring that the borrower was not over-indebted with credit facilities. 89% of the respondents strongly agreed and 11% of the respondents agreed that CIS helped in ensuring that the borrower was not over-indebted with credit facilities. This made repayment to be easier, hence reducing the rate of credit default.
Table 1.5: Reduction of over-indebtedness

<table>
<thead>
<tr>
<th>Reduction of over-indebtedness</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio officers</td>
<td>8</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Response %</td>
<td>89%</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above findings it can be concluded that Credit rating leads to accessibility of affordable credit.

4.2.3: Benefits that can be derived from credit rating

Portfolio Manager Questionnaire further aimed at identifying the immediate changes and benefits that were experienced since the introduction of Credit referencing in 2010 both from the financiers and borrowers point of view. 100% of the respondents indicated that Credit referencing led to prompt payment of loans while 70% of the respondents indicated that CIS led to reduction of Banks bad debts as shown in figure 4.2 below.

Figure 1.2: Effects of Credit Referencing

100%
70%

Effects of Credit referencing
4.2.4: Sources of capital

The Business Customers questionnaire was aimed at determining the source of capital of the respondents. Majority of the respondents (53%) got their capital from Bank loans while 47% of them got their capital from personal savings as indicated in figure 4.3 below.

Figure 1.3: Source of Capital

![Pie chart showing sources of capital: 53% Bank Loans, 47% Personal Savings]

4.2.5: Repayment of bank loans

All those who started their businesses using Bank loans indicated that they repaid the loan promptly. 52% of the respondents indicated that the major motivation behind the prompt repayment was Credit referencing, 33% of them indicated that the major motivation was Returns on Investment, while 15% of indicated that good morals were the major motivation as shown in table 1.6 below.

This indicated that majority of the respondents paid their loans promptly because of Credit referencing.

Table 1.6: Motivating factors behind prompt repayment of Bank loans

<table>
<thead>
<tr>
<th>Motivating Factor</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns on Investment</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Credit referencing</td>
<td>31</td>
<td>52</td>
</tr>
<tr>
<td>Good Morals</td>
<td>09</td>
<td>15</td>
</tr>
</tbody>
</table>

4.2.6: Reduction of asymmetrical information

Credit Information Sharing among the portfolio relationship officers was associated with the reduction of asymmetrical information among the financial institutions. Majority of the respondents (70%) strongly agreed while 20% of the respondents agreed that CIS lead to reduction on asymmetrical information as shown by table 1.7.
Table 1.7: Reduction of asymmetrical information due to CIS

<table>
<thead>
<tr>
<th>Reduction in asymmetrical information</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agreed</td>
<td>6</td>
<td>67</td>
</tr>
<tr>
<td>Agreed</td>
<td>3</td>
<td>33</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

4.2.7: Turnaround time on credit appraisal

In regard to the improvement on turnaround time on credit appraisal by Credit referencing, 45% of the respondents strongly agreed while 33% agreed that Credit rating had improved turnaround time on Credit appraisal. Only 1% disagreed. This meant the time taken by the financial institution to process a loan for a client had greatly reduced after introduction of CIS.

Table 1.8: Improvement on turnaround time on credit appraisal due to CIS

<table>
<thead>
<tr>
<th>Improvement on turnaround time</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agreed</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>Agreed</td>
<td>3</td>
<td>33</td>
</tr>
<tr>
<td>Not sure</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>9</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.8: Non-performing loan and loan recovery

Forty four percent of the respondents strongly agreed while 56% agreed that CIS had reduced non performing loans considerably. This means that all the respondents agreed with the statement. Due to the reduction of nonperforming loans, there was also a reduction of associated costs on following up non performing loans, 44% of the respondents strongly agreed while 56% of the respondents agreed that Credit rating has had a positive impact on reduction of associated costs on following up non performing loans.
Table 1.7: Reduction of asymmetrical information due to CIS

<table>
<thead>
<tr>
<th>Reduction in asymmetrical information</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agreed</td>
<td>6</td>
<td>67</td>
</tr>
<tr>
<td>Agreed</td>
<td>3</td>
<td>33</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

4.2.7: Turnaround time on credit appraisal

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Table 1.8: Improvement on turnaround time on credit appraisal due to CIS

<table>
<thead>
<tr>
<th>Improvement on turnaround time</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agreed</td>
<td>4</td>
<td>45</td>
</tr>
<tr>
<td>Agreed</td>
<td>3</td>
<td>33</td>
</tr>
<tr>
<td>Not sure</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>9</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.8: Non-performing loan and loan recovery

Forty four percent of the respondents strongly agreed while 56% agreed that CIS had reduced non performing loans considerably. This means that all the respondents agreed with the statement. Due to the reduction of nonperforming loans, there was also a reduction of associated costs on following up non performing loans, 44% of the respondents strongly agreed while 56% of the respondents agreed that Credit rating has had a positive impact on reduction of associated costs on following up non performing loans.
Table 1.9: Reduction in non-performing loan portfolio and loan recovery costs

<table>
<thead>
<tr>
<th>Reduction in non-performing loan portfolio and loan recovery costs</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agreed</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Agreed</td>
<td>5</td>
<td>56</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>9</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.2.3: Strategies and policies advanced to enable a full file reporting environment in Kenya

58% of the respondents agreed with the notion and only 15% of the respondents were not sure that the government should closely monitor the CIS bureaus to ensure that data maintained was correct and was not to be misused or manipulated.

Table 2.0: Close monitoring of CIS to facilitate a full file reporting environment in Kenya

<table>
<thead>
<tr>
<th>Close monitoring of CRB’s</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Customers</td>
<td>34</td>
<td>24</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>68</td>
</tr>
<tr>
<td>% of Business Customers</td>
<td>50</td>
<td>35</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Portfolio Relationship Officers</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>% of Portfolio Relationship Officers</td>
<td>70</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
In the previous chapter, findings on the attitude and perceptions of the Portfolio Managers and Business Customers regarding the role of credit information sharing as a tool to affordable lending among the SMEs in Mombasa County were discussed. Through the use of questionnaires, the attitude and perceptions of the individuals mentioned were tested.

5.2 Summary
Some of the significant findings of the above survey can be summarized as follows:

There are three major research questions that were answered in the research findings in the previous chapter

The Portfolio Managers Questionnaire was aimed at determining the relationship between credit rating and accessibility of affordable credit. From the findings, it was clear that Credit rating leads to cheap credit facilities. This is because Credit rating lowers the rate of credit default, and when there is low rate of credit default, customers paid promptly hence making it possible for others to access the credit facilities at affordable rates.

The below benefits can be derived from credit rating in Mombasa county and others counties in general in Kenya and beyond.

1. Timely payment of credit hence reducing credit default
2. Reduced bad debt
3. Reduction of asymmetrical information
4. Improved turnaround time on credit appraisal
5. Reduction of associated costs on following up non performing loans

In order to attain a full file reporting environment in Kenya, the below were suggested in regard to policies and strategies implementation.
1. The government should closely monitor the CIS bureaus to ensure that data maintained is correct and is not misused. This is because if financial institutions use erroneous data for Credit rating, they might end up ruining the customers image and business and also eroding the customers trust in them.

2. Financial Institutions should be regulated specifically on use of customers' credit information to combat misuse of the data. This is because the data might be used for the wrong reasons.

5.3: Conclusion
As reflected in the research findings, respondents are of the opinion that Credit rating can indeed be used as a tool to affordable lending among the SMEs in Mombasa County. This is because of the many benefits that were noted by both the Portfolio Managers and Business Customers. Despite these positive effects, the government needs to come up with policies and strategies that will regulate the CIS bureaus to ensure that data maintained is correct and not misused. Further the government through its regulatory bodies and amedment or enactment of laws which should bring on body with urgency all players from the various industries who can facilitate and enhance the financial sector to make fule file reporting a success and all parties involved to benefit if the Kenyan economy and vision 2030 goals are to be achieved.

5.4: Recommendations
1. Despite the positive effects of Credit rating, there is a great need for financial institutions to collaborate and work more closely with CRBs to ensure that the information that is fed into the bureaus is credible and can be used satisfactorily as a basis for determining the borrowers credit worthiness.

2. The fact that a borrower whose name appears in the bureaus would be consigned to financial oblivion for seven years without accessing credit from any bank calls for increased accuracy for the credit data that is collected.

3. The financial institutions through their association – KBA and their regulator CBK, need to ensure that their members complied with the Government of Kenya Banking Act Cap 488, Legal Notice 97 to ensure that a full file reporting environment was attained as only negative information was being share.
4. The government need to hasten the amendment of the SACCO Act and put in place enactments to allow utility firms and courts share information with the financial institutions of both positive and negative information.

5. Vigorous customer awareness via all financial institutions and utility providing firms need to enlighten the Kenyan citizen on the benefits of CIS and the stages they are in to ensure full file reporting environment is attained.

6. The CRB's should provide their credit reports twice per year to their customers and decentralise their services to county levels.
REFERENCES


Irving Fisher’s Theory of Interest Rates and Its Extension (1930). San Jose State University, Economics Department. (http://www.sjsu.edu/faculty/watkins/fisher1.htm)

Jane, K. (Thursday February 25th 2010). You can run but you won’t hide from your credit history, The Daily Nation, Page 10.


Appendices

Appendix 1: Sample Questionnaire

Portfolio Relationship Managers

Topic: “An assessment of credit rating as a tool to affordable lending among the SME’s in Mombasa County”

Please fill out the questionnaire below. It is an integral part of my research proposal that is aimed at assessing credit rating as a tool to affordable lending among the SME’s in Mombasa County. This questionnaire is for academic purposes only and whatever information provided shall be treated with the outmost confidentiality it deserves.

INSTRUCTIONS: PLEASE TICK WHERE APPROPRIATE

1. Role profile

Business Development Manager. ( )

Relationship Manager ( )

Credit officer / analyst ( )

2. a. Are you conversant with Credit Rating in Kenya? Yes......... No...........

b. Are you aware of the benefits that your customers can derive from Credit Rating?

Yes .......... No....... 

3. a. Are your customers aware of the establishment of Credit Reference Bureaus (CRB)?

Yes....... No........

b. Are your customers aware of the benefits that can be derived from credit referencing?

Yes ........ No....... 

4. What has your bank done to inform or educate clients about Credit Rating and the benefits to be derived?

........................................................................................................................................

........................................................................................................................................

28
5. Have you experienced any changes since credit referencing was formerly introduced in 2010?

Yes ( )    No ( )

If yes, please, state the changes.

6. Has your bank substituted credit rating for security among the SME’s?

Yes.......... No............

7. Does your bank lend to clients who have been listed by the Credit Reference Bureaus?

Yes.......... No............

8. When clients have been previously listed and they are delisted, do you lend to them?

Yes.......... No............

9. Has credit rating lowered interest rates in your bank?

Yes.......... No............ If no, why?..............................................................

10. Credit information sharing lists both positive and negative information.

Yes.......... No............

11. Information used in credit rating is based on information provided by;


Any other organisation........................................
12. Kindly fill in the below table as appropriate

<table>
<thead>
<tr>
<th>Question</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit information sharing has lead to reduction on asymmetrical information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating has improved turnaround time on credit appraisal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating has reduced non performing loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating has had a positive impact on reduction of associated costs on following up non performing loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating factors credit mix of a customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit information sharing search is a mandatory exercise before lending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating helps to access cheap credit facilities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Information Sharing reduces default of credit facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Information Sharing helps in ensuring that the borrower is not over indebted with credit facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The government should closely monitor the CIS bureaus to ensure that data maintained is correct and is not</td>
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Credit Information Sharing is an effective way of securing immediate repayment of defaulted amounts.

Credit Information Sharing reduces administration costs.

Banks should be regulated specifically on use of customers' credit information to combat misuse of the data.

Data provided by credit bureaus is erroneous and unreliable.
Appendix 2: Sample Questionnaire

Business Customers

Topic: “An assessment of credit rating as a tool to affordable lending among the SME’s in Mombasa County”

Please fill out the questionnaire below. It is an integral part of my research proposal that is aimed at assessing credit rating as a tool to affordable lending among the SME’s in Mombasa County. This questionnaire is for academic purposes only and whatever information provided shall be treated with the utmost confidentiality it deserves.

INSTRUCTIONS: PLEASE TICK WHERE APPROPRIATE

1. Is your business registered? Yes………………. No………………………

2. After registering, how long did it take you to register start the business?
   1. 1 to 2 years  2. 3 to 5 years  3. 5 to 7 years  4. More than 7 years

3. Do you have any formal training in your area of operation / business? Yes…………………
   No………………

   If yes how many years
   1. Less than 1 year  2. 2 to 4 years  3. 3 to 6 years  4. More than 6 years

4. What was your source of capital?

   Bank loan  2. Personal savings  3. Friends and family  4. Any other ………………….

5. Have you ever requested for a bank loan? Yes…………… No……………………

6. Were you requested to provide a security for the loan? Yes…………… No………………

7. What did you provide? 1. Log book  2. Title deed  3. Received Invoices
   4. Postdated cheques  5. Any other…………………

8. Did you pay the loan promptly? Yes………… No………………

9. If yes, what motivated you to pay promptly? Tick where appropriate
10. Are you aware about credit referencing bureau and credit information sharing among banks?
Yes............... No.......... 

11. How did you come to know about credit information sharing or credit bureaus?

12. Have you ever requested for your credit report from the Credit Reference Bureaus? Yes ............... No..........
Appendix 3: Directory of Commercial Banks and Mortgage Finance Companies

1. Bank of Africa Kenya Limited
2. CFC Stanbic Bank Limited
3. Chase Bank Kenya Limited
4. Commercial of Africa Kenya Limited
5. Diamond Trust Bank of Kenya
6. Family Bank Limited
7. Imperial Bank Limited
8. I and M Limited
10. Nic Bank Limited