SMALL AND MEDIUM SIZED ENTERPRISES ACCESS TO FINANCE AS A GROWTH CONSTRAINT CASE STUDY: CHASE BANK’S ASSET FINANCING

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

SPRING, 2014
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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Award of the Degree of Master in Business Administration (MBA)

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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ___________________________ Date: ___________________________

Eunice Wanjiru Maina (Student ID. 637675)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Dr. George Achoki

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ABSTRACT

The general objective of this research was to establish why many Small Medium Enterprises fail to qualify for credit with a keen focus on asset finance as a source of financing. The study was guided by the following specific objectives: to establish the significance of lending institutions and selection criteria adopted; to analyze the effects of information asymmetry and adverse selection on SMEs access to finance and finally to examine alternative sources of asset financing available to SMEs that could reduce the financing gap.

The research adopted an exploratory design. This was achieved by the use research questions pointed towards demonstrating the depth of knowledge and understanding held by SMEs regarding the structures put in place by financial institutions and the government to enhance financial access. The target population was comprised of 75 SME clients banking with Chase Bank within Nairobi branches out of which 45 SME clients responded. The respondents were identified through non-probability sampling in the form of purposive sampling. The collection of data was conducted through the use of questionnaires and thereafter analyzed through descriptive statistics so as to be able draw conclusions. Data coding was first done then followed by data presentation presented in tables and figures.

The findings on the significance of lending institutions and selection criteria adopted, revealed that SMEs concur that Chase Bank’s lending criteria is based more on the characteristic of the business than on the personal characteristics of the owner. The findings on the effects of information asymmetry and adverse selection on SMEs access to finance revealed that majority of the respondents agree that Chase Bank has tailor-made and incentivized products offering for SMEs. There is a large degree of full disclosure both on the bank’s side and SME. Finally the findings on an alternative sources of asset financing for SMEs reveals that indeed leasing has provided an alternative source of financing to SMEs.

The study concludes by a confirmation that the age of a firm is an important selection tool with younger firms facing greatest difficulties due to lack of experience required. The characteristics of the sector an SME operates in is also a crucial selection tool with Chase Bank preferring to lend to firms with growth business proposals operating in
vibrant sectors. The location of an SME though not a major factor, influences the selection criteria with Chase Bank being averse to those firms in marginalized and deprived areas. Past credit worthiness of the business owner and the economic factors prevailing are significant selection tools. Information asymmetry has reduced significantly which can be attributed to two factors namely; stiffened competition among commercial banks and the evolving information era. Adopting leasing as an alternative source of asset financing has helped in freeing up funds thereby improving liquidity as well as transferring the risk of obsolete assets to the owner.

The SMEs sector being a vibrant sector in Kenya as well as the whole world brings about the need for careful examinations of various ways of making it more competitive and therefore profitable. The study recommends that lending institutions should continuously monitor and review their lending infrastructure to make it more accessible. The government can also support SMEs by developing policy frameworks that will remove barriers to information access by SMEs as well as information sharing among commercial banks. In this line the study recommends that policy recommendations aimed at solving access to finance challenges should revolve around good financial and legal framework which presents a conducive environment for the entry, growth and survival of SMEs.
ACKNOWLEDGEMENT

I wish to express my sincere gratitude to all those who in one way or another contributed to the success of this research project. I thank the Almighty God for his blessings and unmerited favour throughout this research study. I also acknowledge the support extended by my family, friends and colleagues at work.

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DEDICATION

This research study is dedicated to my dear mum Rosemary Maina for her constant support and encouragement, to my best friend Nicholas for his intuitive counsel and enthusiasm for every challenge I tackle.

I honour you for your unwavering belief in my capabilities especially throughout this research study.
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LIST OF ABBREVIATIONS

ASEAN: Association of South Eastern Asian Nations

CMA: Capital Markets Authority

GDP: Gross Domestic Product

OECD: Organization for Economic Co-operation and Development

SME: Small and Medium Enterprises

WEBS: World Business Environment Survey
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Gitman and Hennessey (2008) define financing as the need to start a business and ramp it up to profitability. The financing decisions are decisions concerned regarding the method that are used to raise funds which would be used for making acquisitions. The sources of finance are usually comprised of a combination of debt and equity financing. When the projects are financed through equity is less risky with respect to cash flow commitments. Ganbold, (2008) explains that the cost of equity is always higher than the cost of the debt. The equity financing may result in an increased hurdle rate which will offset any reduction in the cash flow risk. The management of the company must match the financing mix to the asset that is being financed.

Brealey, Myers and Marcus (2008) demonstrated that one of the theories as to how the firms make their financing decisions is the Pecking Order Theory. Under this theory the firms should avoid external financing if they have an availability of internal financing option. They also avoid equity financing if they have an option of debt financing at lower interest rates. Another theory which helps firms in financial decision is the Trade-off theory as proposed by Green, (2003) where firms are assumed to trade-off the tax benefits of debt with the bankruptcy costs of debt when making their decisions. The type of finance chosen depends on the nature of the business, purpose, time period and amount needed. Large organizations are able to use a wider variety of finance sources than are smaller ones.

Asset financing is a form of debt financing which normally takes the form of hire purchase. It comprises of principal and interest component normally repaid in installments. Hire Purchase as defined by Maina (2013) is a credit facility offered by the Bank to facilitate acquisition of movable assets. It is available to all Chase Bank clients and eligible, prospective clients. This form of financing is normally asset backed which acts as collateral in case of default. Further it is prudent to insure assets because of the uncertainties involved therefore the bank offers a product alongside hire purchase called insurance premium financing. Insurance premium financing is a form of financing available to facilitate payment of insurance premiums for various policies. Chase Bank
pays the premium on behalf of the client allowing the client to repay the bank in easy installments Sundeeep (2013).

A recent study conducted by CMA (2010) found out that more than 99% of all enterprises in the world are SMEs. SMEs consist of firms varying widely in size and characteristic, namely from very small start-up firms in an infant stage of development to established SMEs already listed on the stock market. It is agreed that most SMEs heavily depend upon bank loans and generally experience a financing gap, even in developed countries. Economic Survey (2009) estimates that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country. Access to finance is a major constraint that impedes the growth of SMEs. Deakins, Baldock and Whittam (2008) found out the factors fueling this constraint are; Poor returns, lack of good financial records, and lack of collateral eroding the credit worth of SMEs.

For the purpose of this study, the theoretical framework adopted is Information Asymmetry. Stiglitz and Weiss (1981) defined Information Asymmetry as the study of decisions in transactions where one party has more or better information than the other. Several factors are at the root of this information asymmetry between entrepreneurs and bankers. Most SMEs evolve in the informal sector and are therefore not in a position to give banks the minimum information they generally require (contact details, legal documents, financial statement). Moreover, it may be in the interest of entrepreneurs to disseminate extremely limited or even erroneous information in order to evade taxes. Start-up SMEs are more likely to be affected by information asymmetry problems. Deakins et al. (2008) argued that information asymmetries are more acute in new and technology-based propositions. Especially with manufacturing or technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. Asymmetric information is a more serious problem in SMEs than in larger firms. The entrepreneur has access to better information concerning the operation of the business and has considerable leeway in sharing such information with outsiders.

Stiglitz and Weiss (1981) argued that agency problems and information asymmetries are the major reasons why SMEs have constrained access to finance. They argued that only
SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk. If the SMEs can make this information available to the lenders, it would place the bank manager in a better place to evaluate the financial position, credibility and repayment ability.

Chase Bank (Kenya) is a medium size financial services provider in Kenya, with an estimated asset valuation in excess of $590 million (KES: 49.7 billion), as of December 2012. At that time, shareholders' equity was valued at about US$60.5 million (KES: 51.1 billion). At the end of 2012, Chase Bank (Kenya), was ranked 14th in size by assets, out of 43 commercial banks operating in the country at that time. (Chase Bank (K) Ltd [CBK], 2012).

CBK has been in operation in the country for the last 17 years offering specific tailor-made solutions to key economic drivers in Kenya. The bank’s vision being to be the premier pan African relationship bank offering one stop financial solution to its customers. To fulfill this vision Chase Bank a wholly owned local Bank has continuously evolved its strategy to remain in the cutting edge of financial services provision. It is through this evolution that the bank in the last 5 years began focusing on tailor making solutions to the ballooning SME market segment in Kenya (Kamau, 2013).

Kamau (2013) demonstrates how Chase Bank has strategically positioned itself as a SME bank. The bank has various product offerings which include affordable checking and savings products, treasury services, robust trade finance solutions and assorted credit products. The varied array of product and services, a concentration to a rapidly growing market has spurred the Bank’s growth both in profits and assets. The bank’s branch network has rapidly expanded from one branch in 1996 to 30 branches strategically spread through-out Kenya by 2013. Chase bank has been recognized by its peers and industry analysts as a market leader in offering solutions to the SME market segment in Kenya. This has been through various accolades which culminated in the Bank being named the best SME bank in the year 2012.

One of the most vibrant credit products offering to the SME market remains Asset Finance which has been at the heart of the business development teams at Chase Bank (Maina, 2013). This is because the product is straightforward and the bank has taken the
necessary marketing strategies to ensure it offers the best competitive rates in the market in comparison with other banks. Chase Bank prides itself as an SME bank and therefore has tailor made products that will meet the different needs of their clientele.

Lein (2013) states that the Asset finance department has consistently surpassed the targets set for both Hire purchase and Insurance premium financing even with several upward revisions of the budget. The budgeted figures for October were at Kes.33.8M and as at week 2 Kes.16.9M had been achieved giving a negative variance of Kes.16.8M. The YTD budget is Kes.231M and so far Kes.267.8M had been realized giving a positive variance of Kes.36.3M. Total disbursements were at Kes.174.4M for Hire Purchase and Kes.13.3M for Insurance Premium Financing as compared to figures of Kes.74M and Kes.5.3.M respectively in the first week of October. Cumulative disbursements for the year to date were at Kes.2.1B for Hire Purchase and Kes.171M for Insurance Premium Financing. The department ensures it remains competitive in the market both by offering competitive rates, impressive turnaround times, as well entering into strategic partnerships with Motor vehicle dealers to strategically position themselves in the market.

Access to finance had been singled out as one of the major challenge impeding the survival and growth of start-up SMEs around the globe. Significantly low figures of start-up SMEs who apply for financing succeed in getting financing. According to Maas and Herrington (2006), quite a significant number of entrepreneurs are of the opinion that, although there seems to be sufficient funds available it remains difficult to access these funds, especially for start-up SMEs. The ability of SMEs to grow depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance.

1.2 Statement of the Problem

Most research previously done have generalized finance without appreciating that there are various sources of financing and that it would be important to break it down to a specific source of finance. Lefilleur (2009) studied financing SME in a context of strong information asymmetry but did not explain what constitutes financing and also confined the study to a specific theoretical framework. Beck and Kunt (2003) explored SME access to finance as a growth constraint but again did not break down the constituents of finance or provide alternative sources of finance available.
This study shall focus on Asset Finance as a source of finance for various reasons. Teece (2003) explains that assets form a great component of a company’s operations, without assets a company cannot execute the idea no matter how great it from the simplest ideas to the most complex ideas. Assets require a substantial amount of money to acquire them.

As earlier explained by Maina (2013), Asset Financing is a straightforward source of financing and in fact most lending institutions are inclined to this type of financing as the asset serves as collateral and as long as a company can show evidence of experience in the industry, the bank will more often than not disburse the funds being sought. This study seeks to establish why many SMEs fail to qualify and also determine the percentage SMEs account for in the large disbursement figures as seen in Chase Bank.

1.3 General Objective of the Study

The general objective of this study was to establish why many SMEs fail to qualify for credit with a keen focus on Asset Finance as a source of Financing.

1.4 Specific Objectives

1.4.1 Significance of lending institutions and selection criteria adopted.

1.4.2 Effects of information asymmetry and adverse selection on SMEs access to finance.

1.4.3 Alternative sources of asset financing available to SMEs that could reduce the financing gap.

1.5 Importance of the Study

Key stakeholders to benefit from this study include:

1.5.1 Lending Institutions e.g. banks:

The lending institutions will be better placed to evaluate the repayment ability of an SME more objectively based on a particular SME as opposed to using generalized criteria. By understanding how an SME operates, the bank will discover there actually lies more opportunities that the bank can exploit, for example, other than financing by way of loans, the bank can extend to include offering insurance services to the particular SME. More specifically, Chase bank will learn how the asset finance uptake is in the market and any possible ways to modify to be more competitive.
1.5.2 Government:

The government stands to benefit in terms of revenue through taxes paid by the SMEs. Increase in turnover will increase the tax paid to government generating a source of income to support government development activities.

The growths of SMEs will also increase the country’s GDP because SMEs remain a key participant in the country’s economy. They support a country’s economy by contributing significantly to creating employment among other benefits. By supporting local industries, import will reduce and ultimately improve the country’s balance of trade and payments.

1.5.3 Entrepreneurs

Kenya and the world at large is endowed with citizens with entrepreneurial skills, most of whom are professionals. The findings will help them when starting their own ventures by opening their minds to the various financing opportunities available to them and how to position themselves so that they can qualify for financing. It will help them to know what kind of information banks are looking for, that full disclosure is necessary and how presenting manipulated financial statements and projections often result to disqualification because lenders interpret the numbers differently.

1.5.4 Academicians and Researchers

The availability of external finance for small and medium enterprises (SMEs) is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe. Any research being conducted needs background of the problem being tackled. SMEs provide many areas of study and it would be good for a researcher to refer to previous studies done by other researchers to broaden their knowledge and gain a deeper understanding on the subject being covered.

1.6 Scope of the Study

This scope of the study was seventy five clients SME who bank with Chase Bank within the Nairobi branches and as a greater representative of all Chase bank clients. The study was limited to SME clients within Nairobi branches due to the proximity with the researcher. However the researcher did ensure that the study is well represented in terms of industries the SMEs are operating under. The data will be collected over a period of 1 month being 20th Feb 2014-21st March 2014.
1.7 Definitions of Terms

1.7.1 Small and Medium-sized Enterprise

SMEs are defined as formally registered businesses with 5-100 employees and annual turnover of between 6-100 million (Kenya Association of Manufacturers, 2007).

1.7.2 Enterprise

This is a term that is frequently used for company, concern, business firm or even industry depending on the context or author (Konosuke and Minoru, 2003).

1.7.2 Financing Gap

Bannock and Manser (2003) define financing gap as the lack of funding available from the financial sector for small and medium-sized enterprises.

1.7.3 Collateral

Bester (1987) defines collateral as borrower’s pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default - that is, any borrower failing to pay the principal and interest under the terms of a loan obligation.

1.7.4 Agency Problems

A conflict arising when people (the agents) entrusted to look after the interests of others (the principals) use the authority or power for their own benefit instead (Morck and Yeung, 2010).

1.7.5 Hire Purchase

Beck& Kunt (2003) define hire purchase as a form of asset financing where a borrower pays a certain percentage of the cost of an asset and the other percentage is financed by a bank which the borrower repays in fixed installments after which the ownership of the asset is transferred to the borrower at the end of the loan period.

1.7.6 Assets

Teece (2003) defines assets as the economic resources of the enterprise that are recognized and measured in conformity with generally accepted accounting principles (GAAP). They are classified into two main sections, namely current assets and non-current assets.
1.8 Chapter Summary

From the above study it is apparent that SMEs contribute significantly to a country’s GDP, however the greatest challenge remains access to financing which constraints their startup, survival and growth. This chapter has demonstrated that there exists a knowledge gap that is both felt by the lender and borrower. The borrower is not aware of the information being sought by the lender neither of the various cheaper forms of financing that could benefit them immensely in form of cost savings if exploited. On the other hand, the lender has no access to information that could place him in a better place to evaluate an application. It is agreed that access to finance has been cited as one of the major constraint to growth.

Chapter 2 dwelves deeper into understanding the lending process with an aim of establishing how a lender judges the success of an application within the first five to ten minutes once the same is received. Several alternative sources of financing available to borrowers will be identified and explained with a demonstration of and how they still remain unexploited despite the fact that they are very profitable. The next chapter will aim to establish the government’s contribution in reducing the financing gap that indeed exists.

Subsequently Chapter 3 identifies the target population and by use of formula narrows down to a population sample which will be used to collect data for the purpose of the study. The data will be conducted in form of questionnaires administered to SMEs operating in Industrial area. This data will then be analyzed to establish the relationship between finance accessibility and growth capability.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION
This chapter presents a review of the literature on the topic of SMEs access to finance as a growth constraint with a keen focus on Chase Bank’s Asset Financing. This chapter is structured on the basis of the research objectives: significance of lending institutions and selection criteria adopted effects of Information asymmetry on SMEs, justification of the existence of a financing gap and finally some remedies in form of alternative sources of funding available to SMEs that can mitigate the challenges explored.

2.2 Significance of Lending Institutions and Selection Criteria Adopted

Beck and Kunt (2006) concluded that in emerging markets, commercial banks form the main source of external finance for SMEs. This is because proprietors of SMEs exhaust their internal sources in probably starting up the venture and thus hit a ceiling on internal sources of finance thereby seeking for funding externally. The selection criteria adopted by banks separate successful applicants from unsuccessful applicants based on various factors considered when evaluating an application.

2.2.1 Role of Financial Institutions in Asset Financing

Wegner and Davis (2006) reveal that the existence of rigidities of a macroeconomic, institutional and regulatory nature may bias the banking system against lending to SMEs. Such rigidities could favour large domestic firms e.g. industrialization and/or import substitution therefore locking out SMEs to accessing credit. Credit availability to enterprises, but especially to SMEs, depends on the infrastructure that supports financial transactions, including the legal system and the information environment.

Firms in countries with higher levels of financial institutional development report significantly lower financing obstacles than firms in countries with less developed financial institutions. Small firms not only suffer more from market frictions than large firms but these market frictions have a disproportionately larger effect on small firms in countries with less developed institutions. Financial developments thus help close the gap between small and large firms (Beck and Kunt, 2006).
Haas and Naaborg (2005) suggest that in many cases most banks are state owned (which is contrary to Kenya) hence allocations/approvals are pegged on government guarantees/special programmes to support targeted sectors leaving the bank with weak balance sheets as well as locking out many SMEs not affiliated to the government. Financial systems dominated by the government-owned banks seem less effective in providing credit to SMEs. Consequently, if the formal banking shows little attention to lend to SMEs there is little incentive for these firms to produce credible accounts and operate transparently.

On a global level, a model of market-based banking has gained acceptance under which banks’ management and boards are accountable for achieving high returns to shareholders and maintaining high prudential standards. This is based on the shareholder’s wealth maximization goal as proposed by (Poitras, 1994). As this model is applied and as the business environment becomes more competitive, banks have stronger incentives to find means to overcome the difficulties in SME lending. However, many emerging markets have been comparatively slow in implementing this model, which may be reflected in low volumes in SME lending. Lending to the SME sector would still be, in any case, subject to agency problems and the phenomenon of incomplete markets Thompson and Lumpkin, (2006).

A study of a common phenomenon in most advanced countries, Kauffman and Celine (2005), demonstrated that banks in these advanced countries will not dismiss SMEs financing as high risk financing but are adopting strategies to reduce the risk of lending to SMEs. They are investing considerable resources in seeking to overcome information asymmetry problems by using credit scoring models and other sophisticated techniques to discriminate between high and low-risk borrowers. These lending mechanisms enable banks to identify businesses likely to survive and expand, and with which it is worthwhile to develop a long-term relationship. Banks are also altering the nature of their products. Banks in developing countries are also gradually adopting this phenomenon.

Maina (2013) explains how Chase Bank has altered one of its product offerings by ensuring its rates for Asset Finance are competitive in comparison with other banks in the industry as well as negotiating partnerships with dealers which have a net saving for the customer on the total costs incurred. An increasing proportion of bank revenue now
comes from fees for services such as interest income from Hire Purchase, interest income from Insurance Premium Financing which favours lending to entities such as SMEs.

2.2.2 Legal and regulatory framework and Asset Financing

Laeven and Woodruff (2003) found out that proper contract enforcement and the protection of creditor rights are key determinants for easing access to credit. Impartial legal systems that can help settle contract disputes, commercial law reform, and drafting and clarifying land titles, as well as effective bankruptcy procedures are vital for the growth of the business sector. These factors provide a conducive legal environment for the banks to operate in hence banks will be willing to extend credit as their rights are well protected.

Love and Mylenko (2003) proposed that governments can create incentives for small entrepreneurs to enter the formal economy by simplifying taxes for small firms. Governments should also make sure that they pay SMEs promptly, since public contracts are vital to the financial security of these firms. SMEs’ difficulty in obtaining financing will be compounded when the business environment lacks transparency, when the legal system is weak, and when monopolies are present.

Wegner and Davis (2006) demonstrated that banks will only seek to develop the SME market as a source of profit if the economic and business framework is calibrated to transmit reliable economic signals and the legal regulatory institutional setting enables banks to lend with confidence. The legal system should have a strong regime to protect property rights, including creditor rights and be relatively efficient in resolving cases of delinquent payments and bankruptcy. Additionally, the tax and regulatory framework should encourage firms to operate in a transparent manner. If these conditions are absent, the tendency to exclude SMEs from lending will be more pronounced.

South Africa passed two laws in early 2005 to expand the banking system to include savings and loan institutions and cooperative banks while easing banking regulations so the newcomers could still be flexible in providing loans. In many countries, commercial banks are also setting up their own micro-credit service markets (Thompson and Lumpkin, 2006).

Maina (2013) explains that Chase Bank has well defined protector rights which are entrenched in the hire purchase and Insurance premium financing contracts. For hire
purchase, in the event of default the bank has the right to repossess the asset which is then disposed of and the bank can recover both on the principal and interest. In the case of insurance premium financing the bank has a right to terminate the cover in the event of default. Thus the lender is aware of his rights and protection thereof whereas the borrower is aware of the consequences.

**2.2.3 Lending Infrastructure and Asset Financing**

An additional area of concern regarding SME credit availability is the lending infrastructure of a nation, which defines the rights and flexibility of financial institutions to fund SMEs using the lending technology that best fits the institution and the borrower. This infrastructure includes commercial and bankruptcy laws which affect creditor rights and their judicial enforcement (Shleifer and Vishay, 2004). The lending infrastructure as well as the infrastructures that affect equity markets and other parts of the financial system are quite heterogeneous across both developed and developing nations and are important on the capacity of financial institutions and markets to provide finance in these nations.

Information infrastructure, including the accounting standards to which potential borrowers must comply as well as the organizations and rules for sharing information; the taxes that directly affect credit extension; and so forth that provide the economic environment in which financial institutions may lend in a given nation (Brierley, 2003).

For example when applying for hire purchase in Chase Bank there are several standard requirements listed at the back of the application form. These are in form of audited financial accounts, cash flow projections, management accounts and others. These form the lending infrastructure that companies in general must submit for consideration. These financial reports must be presented in the widely acceptable accepted accounting standards which make it easier for banks to interpret the content (Maina, 2013).

**2.3 Information Asymmetry on SMEs access to asset Finance.**

**2.3.1 Effects of Information Asymmetry on SMEs access to asset Finance**

Meghana, Kunt and Maksimovic (2006) pointed out information asymmetry as a key determinant of any decision to extend a loan and the conditions attached. This could be considerably reduced by adopting clear accounting standards, setting up independent, competent, and reputable accounting firms and creating more credit registries that supply
data on the solvency of firms. This has led to the evolution of credit bureaus. Credit bureaus allow commercial banks to share information on the credit worthiness of different clients by listing defaulters. Clients who are listed cannot access credit until they have cleared the amount leading to the listing and where the amounts are significant the banks are reluctant to extend credit because they feel such clients would be troublesome hence not credit worthy.

A prerequisite for the efficient allocation of resources by market forces is that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders. The lenders are faced with uncertainty both with respect to the expected rates of return of the project they are financing and with respect to the integrity of the borrower. This uncertainty increases with the length of the loan (Beck and Kunt, 2006).

Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure. The problem of asymmetric information will be more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk; small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Green, 2003).

Asymmetric information makes it impossible to distinguish between good and bad borrowers. The two main problems associated with asymmetric information are adverse selection and moral hazard, both of which may affect the quality of the loan. Adverse selection refers to the fact that the probability of default is increasing with the interest rate: the quality of the borrower pool worsens as the cost of borrowing rises (Stiglitz and Weiss, 1981).

Information asymmetry is experienced by both the lender and borrower. Maina (2013) explains that this makes it hard for a bank to judge the viability of an application. This may translate to a viable application being declined because some critical information is missing that would otherwise place the loan officer in a better place to evaluate an application. For example an applicant may have very healthy turnovers reflecting in the bank statement but in the absence of business contracts, invoices and or agreements it would be very hard for a loan officer to determine the source of such debits and credits.
The applicant when asked for such information may feel infringed or reluctant to obtain the same thereby failing to understand the importance to the bank and repercussion to him or herself.

2.3.2 Impact of Moral Hazard on Asset Financing

Arrow (1963) elaborates a moral hazard as a situation where a party will have a tendency to take risks and transfer the costs of the risk involved to another party. In other words, it is a tendency to be more willing to take a risk, knowing that the potential costs or burdens of taking such risk will be borne, in whole or in part, by others. Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of those actions. Moral hazard results to asymmetric information after the contract has been entered hence the other party that will bear the risk has no control on the behaviour of the party to which the risk is attributed to.

Moral hazard is a special case of information asymmetry, a situation in which one party in a transaction has more information than another. In particular, moral hazard may occur if a party that is insulated from risk has more information about its actions and intentions than the party paying for the negative consequences of the risk. More broadly, moral hazard occurs when the party with more information about its actions or intentions has a tendency or incentive to behave inappropriately from the perspective of the party with less information (Paul, 2009).

Insurance policies vary from policies taken to cover assets, medical, fire, theft and so on. In insurance markets, moral hazard occurs when the behavior of the insured party changes in a way that raises costs for the insurer, since the insured party no longer bears the full costs of that behavior. Maina (2013) gives an instance where the bank is exposed to moral hazard as a result of asset financing, a person with insurance against automobile theft may be less cautious about locking their car because the negative consequences of vehicle theft are now (partially) the responsibility of the insurance company. A party makes a decision about how much risk to take, while another party bears the costs if things go badly, and the party insulated from risk behaves differently than how it would if it were fully exposed to the risk.
Nyman (2003) suggests that two types of moral hazard exist: efficient and inefficient moral hazard. Efficient moral hazard is the viewpoint that the over consumption of medical care brought forth by insurance does not always produce a welfare loss to society. Rather, individuals attain better health through the increased consumption of medical care, making them more productive and netting an overall benefit to societal welfare. Nyman also suggests that individuals purchase insurance to obtain an income transfer when they become ill, as opposed to the traditionalist stance that individuals diversify risk via insurance.

2.3.3 Impact of Adverse selection on Asset Financing.

Adverse selection is the problem created by asymmetric information before the transaction occurs (Stiglitz and Weiss, 1981). It occurs when the potential borrowers who are the most likely to produce an undesirable (adverse) outcome – the bad credit risks – are the ones who most actively seek out a loan and are thus most likely to be selected.

Financial intermediaries are key players in the financial markets hence play a vital role in reducing adverse selection. Due to the risk exposure as a result of adverse selection, financial intermediaries, like banks, become experts in producing information about firms, so it can sort out good credit risks from bad ones. Because the bank lends mostly to good firms, it is able to earn a higher return on its loans than the interest it has to pay to its depositors. The resulting profit that the bank earns gives it the incentive to engage in this information production activity (Blumberg and Holahan, 2009).

Financial Intermediaries hold a large portion of non-traded loans, play a greater role in moving funds to corporations than security markets do. Banks avoid the free-rider problem by primarily making private loans rather than purchasing securities that are traded in the open market. Because a private loan is not traded, other investors cannot watch what the bank is doing and bid up the loan’s price to the point that the bank receives no compensation for the information it has produced. For this reason, banks are the most important source of external funds for financing businesses (Blumberg et al. 2009).

Maina (2013) explains that Chase Bank still incurs the risk of adverse selection as some clients may look good based on their turnovers but have no intention of repaying the loan thereby exposing the bank to the risk of default. However Chase Bank is continuously
collecting as much information as possible both from the client, other banks, credit bureau as well as conducting site visits to ascertain nature of business. Banks have an obligation to share information with each other about clients as long as the same is treated with confidentiality.

### 2.3.4 The relationship between information asymmetry and risk

Green (2003) argued that Commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. Most of them are considered as such startups hence perceived as very risky. For example the relative labor intensity of small firms implies a high debt-to-asset ratio if loans are made.

Furthermore, theories of information asymmetry suggest that credit rationing may reflect risk. Brierley (2003) argued that the willingness of financial institutions to provide finance to venture capital firms that invest in SMEs will depend ultimately on the risk-reward relationship, that is, the extent to which such investments are likely to provide returns commensurate with the risks involved. Moreover, it is argued role of the banks is in fact to discriminate based on risk. Thus, it is not clear whether a gap based on the dimension of risk is material to a societal efficient allocation of financial resources.

Based on the arguments put forward in the credit rationing theory as proposed by Stiglitz and Weis (1981), information asymmetries derived from failure to ascertain the relative riskiness of a proposed investment will result in a financial gap.

In developing and emerging economies, the disadvantage of small firms with regard to risk perception is aggravated by a number of factors. Many small enterprises have evolved in the informal economy, making it difficult for them to document their business history and demonstrate their economic potential. Additionally, small entrepreneurs in emerging economies are typically less skilled in book keeping, marketing and management than their counterparts in industrial countries, adding to the risk perception with regard to their projects. This is exacerbated by inadequate legal frameworks, which make the enforcement of contracts difficult for lenders.
2.4 Alternative source of Asset Financing.

2.4.1 Leasing

Leasing is a common source of funding which can be an alternative to asset financing. In a typical lease agreement, an owner (lessor) of machinery or equipment grants the user (the lessee) the right to use the equipment for an agreed period of time in exchange for a series of specified payments (Thompson and Lumpkin, 2006).

There are two main types of leases (Atkinson, 2005).

2.4.1.1 Finance Leases

Under a finance lease, the finance company owns the asset throughout and the agreement covers a set period – considered to be the full economic life of the asset. Often, there is an option to continue leasing at a reduced, or ‘peppercorn’ rate, at the end of the contracted period. Since the lessee does not own the asset, he/she cannot sell the asset during the rental period. The finance company can claim the writing-down allowances and pass this benefit to you in reduced rentals.

2.4.1.2 Operating Leases

An operating lease runs for less than the full economic life of the asset, and the lessee is not liable for the financing of its full value. The lessor carries the risk associated with the residual value of the asset at the end of the lease. This type of lease is often used when the asset is likely to have a resale value, for example, aircraft and vehicles. The customer gets the use of the asset, sometimes along with other services. Operating leases are particularly attractive to companies that frequently update or replace equipment and want to use equipment without ownership. The most common form of operating lease in motor finance is contract hire, particularly in the provision of vehicle fleets.

2.4.1.3 Advantages of Leasing to SMEs.

Coyle (2000) explains the advantages of leasing as follows:

Leasing converts what would otherwise be a large, lumpsum expenditure into a series of smaller expenditures, thereby freeing up funds for investment in inventory, working capital, or other shorter term assets. In this way the saving in capital or financial resources can be used for other productive purposes e.g. purchase of inventories.
Leasing is a more practical funding alternative to loans from commercial banks, as leasing firms typically use less stringent underwriting criteria hence enabling more SMEs to qualify for leasing in the case where the bank offers leasing.

Leasing helps SMEs reduce the risk of obsolescence of assets by avoiding purchasing assets that are subject to becoming obsolete due to changes in the technology. Therefore firms can acquire such assets through leasing and avoid the headache associated with disposing off such assets which more often than not do not fetch high value.

Leasing provides flexibility and convenience. The lease agreement can be tailor-made in respect of lease period and lease rentals according to the convenience and requirements of all lessees.

Leasing facilitates planning cash flows. Leasing enables the lessee to plan its cash flows properly. The rentals can be paid out of the cash coming into the business from the use of the same assets.

Leasing improves liquidity by enabling the lessee to adopt the sale and lease back technique.

Leasing is cheaper in terms of maintenance as the lessor incurs the costs associated with servicing and repair of assets. Thus the SMEs can have a net saving on such expenditure.

The researcher explains that Chase Bank has set up a leasing department to work closely with the Asset Finance department to serve the needs of the clients who need assets that they do not necessarily need to own and also to meet the present unmet demand in the market. The department already has clients on board especially those dealing with heavy machinery and aircrafts.
Table 2.1 Difference between Lease Financing and Hire Purchase

<table>
<thead>
<tr>
<th>BASIS</th>
<th>LEASE FINANCING</th>
<th>HIRE PURCHASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>A lease transaction is a commercial arrangement, whereby an equipment owner or manufacturer conveys to the equipment user the right to use the equipment in return for a rental.</td>
<td>Hire purchase is a type of instalment credit under which the hire purchaser agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of principal as well as interest, with an option to purchase.</td>
</tr>
<tr>
<td>Option to user</td>
<td>No option is provided to the lessee (user) to purchase the goods.</td>
<td>Option is provided to the hirer (user).</td>
</tr>
<tr>
<td>Nature of expenditure</td>
<td>Lease rentals paid by the lessee are entirely revenue expenditure of the lessee.</td>
<td>Only interest element included in the HP instalments is revenue expenditure by nature.</td>
</tr>
</tbody>
</table>

Source: (Thompson and Lumpkin, 2006).

2.4.2 Hiring

Hiring as explained by Maina is also an alternative to asset financing which is similar to leasing but is mostly short term. This is normally proposed to clients who do not qualify for asset financing for various reasons such as: Low turnovers to support facility, startups lacking in experience. For example a potential client in the construction
industry may seek to purchase a tipper but may not have adequate balances to support ability to pay, Chase Bank therefore proposes that such clients can hire the tipper for say 3 months while maintain records of expenses and income associated after which he can then approach the bank for consideration even if is a lower percentage.

This provides an alternative which often results to those customers qualifying for asset financing. Though the costs of hiring are borne by the client hiring the tipper it normally results to net savings when the client finally qualifies for asset financing. Hiring can therefore be seen as an intermediate process to asset financing.

2.5 Chapter Summary
Access to finance has been cited as one of the major challenges impeding the startup, growth and survival of SMEs. Financial and legal institutions play an important role in relaxing this constraint and innovative financing instruments can help facilitate the SMEs access to finance even in absence of well-developed institutions. The overall legal, institutional and regulatory framework is most the critical determinant of SMEs access to finance

Information asymmetry which is a constituent of many other factors often leads to credit rationing which locks out SMEs to accessing finance. SMEs have significant gaps in information and skills needed to access external finance. This information asymmetry spurs a vicious effect which is the finance gap which is also fuelled by other factors. Several alternatives do exist for SMEs asset financing which if well explored can considerably reduce the financing gap felt.

The next chapter focuses on the research methodology to be used.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that the researcher used to answer the research questions raised. It covers the research design, its characteristics and why it was preferred over other research designs. It also provides information on the population of the study, some background and key characteristics of the organization under study. The chapter examines the sample frame and sample selection. It also provides information on the data collection instruments used in the survey. The chapter looks at the research procedure including the pre-testing and administration of the questionnaire.

3.2 Research Design

A qualitative research approach was used to collect data. According to Yin (1994) the type of questions asked dictates the choice of research. The research questions posed by the research pointed towards detailed examination of views held by management and proprietors of SMEs concerning the lending infrastructure used by financial institutions. This demonstrated the depth of knowledge and understanding held by SMEs regarding the structures put in place by financial institutions and the government to enhance financial access. This led to the choice of an exploratory research technique which is a qualitative approach.

The exploratory research provided insights, concepts, general possible explanations on why SMEs are constrained in their access to finance which deters their growth. This study was not conclusive but requires subsequent study in an effort to streamline the financing of SMEs noting that it is a vibrant sector with immense opportunities and growth. The research design used in this study was a survey design.

A survey is a method of collecting information about a human population. The reason behind the use of a survey is that it allows an in-depth collection of information from one or several respondents in a cost-effective manner without compromising the overall output of the data required. It is also time-effective and allows for flexibility of various avenues that may emerge.
3.3 Population and Sampling Design

3.3.1 Population

According to Cooper and Schindler (2000), a population is the total collection of elements about which we wish to make inferences. The target population in the study was comprised of 75 SME clients banking with Chase bank within Nairobi branches.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Cooper and Schindler (2003) define a sampling frame as a list of sampling units from which the sample will be drawn. The sample was selected from the list of SME clients banking with Chase Bank within the Nairobi branches. This was obtained from the internal list of Chase Bank clients.

3.3.2.2 Sampling Technique

The sampling technique refers to the part of the research plan that indicates how cases are to be selected for analysis. Punch (1998) points out that the strategy enables the researcher to capture possible variations among the cases being studied. Berg (2009) describes purposive sampling as a technique that allows the researcher to use their special knowledge about some group to select cases that represent a population. The study specifically targeted SME clients banking with Chase Bank within the Nairobi branches. These respondents were better placed to give more information on SME’s access to asset financing. The total of 75 cases to be selected for observation. These were the representative sample to be studied.

3.3.2.3 Sample Size

Denscombe (2003) explains that the sample must be carefully selected to be representative of the population and the researcher also needs to ensure that the subdivisions in the analysis are accurately catered for.

To obtain a sample size that has an adequate size relative to the goals of the study, the researcher will distribute 5 questionnaires per the 15 branches.

A sample size of 75 respondents was used to analyze and achieve the specific objectives of the study.
Table 3.1: Sample Size Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Population</th>
<th>Percentage of sample size to the Total Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management SMEs</td>
<td>100</td>
<td>50%</td>
<td>50</td>
</tr>
<tr>
<td>SMEs Owners/ Proprietor</td>
<td>50</td>
<td>50%</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.4 Data Collection

The study relied on primary data. Primary data is data observed or collected directly from first-hand experience (Davies, 2002). In this study data was obtained from a sample of 75 SME clients banking with Chase bank within the Nairobi branches. The bank has 15 branches within Nairobi hence five questionnaires will be distributed per branch.

For data collection a formal list of questionnaire was prepared. The questionnaire is divided into two sections. Section A consists of questions regarding SMEs. The other sections have questions categorized into various themes according to the research objectives where respondents are required to indicate the weight they attach to each factor perceived to be affecting their growth.

The questionnaire consisted of both open ended and closed ended questions covering factors that affect SMEs access to asset finance as a growth constraint. The open ended questions allowed for in-depth understanding of the subject by providing flexibility on other various avenues that may emerge not covered by the closed ended questions.

3.5 Research Procedures

Prior to the actual field data collection, the researcher first carried out a pilot test the questionnaire. Pilot testing is important in ascertaining the validity and the reliability of the questionnaire. The pilot testing also helped the researcher to identify errors in the questionnaire, to identify areas where the respondents found difficulty in answering. The testing was also to determine ease or difficulty of answering questions by the respondents. Pilot testing is important as it determined the success of the study.
testing is expected to take one day. Three questionnaires will be tested. After the pilot testing, the researcher made necessary adjustments to the questionnaire and prepare for actual fieldwork.

The respondents were required to complete questionnaire as honestly and as completely as possible. The researcher made use of assistants to distribute by hand the questionnaires completed by the selected respondents. Upon completion, the research assistants collected the questionnaires and ensure high completion rate and return of the completed questionnaires. The researcher used drop and pick method to give the respondents enough time as possible to fill the questionnaire.

3.6 Data Analysis

Data collected was sorted, classified and coded then tabulated for ease of analysis. The data was summarized and categorized according to common themes. This data was analyzed using frequency distribution tables and descriptive statistics. Data was also analyzed using correlation analysis to establish the relationship between finance accessibility and growth capability.

3.7 Chapter Summary

The researcher focused on SME clients banking with Chase Bank within Nairobi. Asset Financing is a straight forward product which begs the question why SMEs still fail to qualify even when under such circumstances. The researcher reviewed the various reasons for Chase Bank declining Asset Finance applications.

Data collection method to be employed was semi structured questionnaires with both open ended questions to elicit more information from respondents and closed ended questions for easy coding and analysis. The researcher did sort, classify and code the data which was analyzed using frequency distribution tables and descriptive statistics as well as using correlation analysis to establish the relationship between finance accessibility and SMEs growth.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results and findings of the study on the research questions with regards to the data collected from the respondents. The first section provides the background information with regards to the respondents; consequently the section two looks at significance of lending institutions and selection criteria adopted; the third section provides coverage of the effects of information asymmetry and adverse selection on SMEs access to finance while the last section assesses alternative sources of asset financing available to SMEs that could reduce the financing gap. A total of 75 questionnaires were issued, and 45 of the questionnaires were returned, indicating 60 percent response rate.

4.2 Background Information
The background information has indeed been considered meaningful by the researcher, this is because of the role it plays in enabling the understanding of the logic of the responses given by the respondents of each respective SME.

4.2.1 Position in the Firm
Table 4.1 provides a summary of the respondents with regards to their position in the firm as obtained in the responses provided by the respondents. As indicated in the table, majority of the respondents were male while the minorities were female. The table shows that 59 percent were proprietors while the remaining 41 percent were top management. This clearly demonstrates that most SME firms are operated by the owners.

Table 4.1 Distribution of Respondents by Position in the Firm

<table>
<thead>
<tr>
<th>Position in the Firm</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Top Management</td>
<td>19</td>
</tr>
<tr>
<td>Proprietor</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>
4.2.2 Years in Existence

Table 4.2 provides the study findings with regards to the number of years the business has been in operation. The table reveals that majority of the SMEs are less than 10 years old with very few over 10 years old. Specifically, 54 percent of the firms have been in operation in less than 1 year, 18 percent of the firms have been in operation between 1-2 years, 7 percent of the respondents have been in operation between 3-5 years, 11 percent of the respondents have been in operation between 6-10 years, while 10 percent are above 10 years.

Table 4.2: Distribution of SMEs by Years in Existence

<table>
<thead>
<tr>
<th>Number of Years in Existence</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>24</td>
</tr>
<tr>
<td>1– 2 years</td>
<td>8</td>
</tr>
<tr>
<td>3-5 years</td>
<td>3</td>
</tr>
<tr>
<td>6-10 years</td>
<td>5</td>
</tr>
<tr>
<td>10 years and over</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>45</td>
</tr>
</tbody>
</table>

4.2.3 Number of Years Banking with Chase Bank

Table 4.3, provides the study findings with regards to number of year the SMEs have been banking with Chase Bank. Specifically, 12 percent of the SMEs have been banking with Chase Bank for less than 1 year, while 24 percent between 1-2 years, 44 percent between 3-5 years and the remaining 20 percent have been banking for 6-10 years.

Table 4.3: Distribution of SMEs by Number of Years Banking with Chase Bank

<table>
<thead>
<tr>
<th>Number of Years Banking with Chase Bank</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>6</td>
</tr>
<tr>
<td>1– 2 years</td>
<td>10</td>
</tr>
<tr>
<td>3-5 years</td>
<td>20</td>
</tr>
<tr>
<td>6-10 years</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>
4.2.4 Major Source of Capital

Table 4.4 provides a summary of respondents’ source of capital as obtained in the responses provided. As indicated in the table, majority of the SMEs obtain capital through debt financing while the minorities use equity financing. The table shows that 55 percent rely on debt while the remaining 45 percent utilize equity financing. This clearly demonstrates that most SME firms are debt financed.

Table 4.4: Distribution of SMEs by Major Source of Capital.

<table>
<thead>
<tr>
<th>Major Source of Capital</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Equity</td>
<td>15</td>
</tr>
<tr>
<td>Debt</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
</tr>
</tbody>
</table>

4.3 Selection Criteria for Lending

The second objective sought to establish the significance of lending institutions and selection criteria adopted. This subsection presents a summary of the findings with regards to the responses given by each SME.

4.3.1 Personal Characteristic of the Business Owner

Figure 4.1 presents a summary of the findings with regards to Chase Bank’s asset financing selection criteria based on the personal characteristics of the business owner. From the figure 8 percent of the respondents strongly agree, 4 agree, 52 percent strongly disagree, 24 percent disagree, while 12 percent are neutral that Chase Bank’s asset financing selection criteria is based on personal characteristics of the business owner.
Figure 4.1: Respondents’ Effect of Personal Characteristic of SME Owner

4.3.2 Age of the Firms

Figure 4.2 presents a summary of the findings with regards to how Chase Bank’s asset financing selection criteria is based on age of the firm. As clearly seen in the figure, 36 percent of the respondents strongly agree, 20 percent of the respondents agree, 6 percent of the respondents strongly disagree, and 10 percent of the respondents disagree while 28 percent of the respondents are neutral that Chase Bank’s asset financing selection criteria is based on age of the firm. This implies that in indeed the age of a firm can be a barrier to the access to finance.

Figure 4.2: Respondents’ Age of the Firm

4.3.3 Characteristics of the Sector the SME Operates in.

Figure 4.3 presents a summary of the findings with regards to how Chase Bank’s asset financing selection criteria is based on SMEs’ sector characteristics. As seen in the figure, 24 percent of the respondents strongly agree 28 percent of the respondents agree,
12 percent of the respondents strongly disagree, and 10 percent of the respondents disagree while 20 percent of the respondents are neutral about how Chase Bank’s asset financing selection criteria is based on SMEs’ sector characteristic. This implies that indeed if the sector portrays limited growth ability, the SMEs will rather find it hard to access finance.

![Figure 4.3: Respondents’ Effect of Characteristics of the Sector the SME Operates in.](image)

### 4.3.4 Location of the SME

Figure 4.4 presents a summary of the findings with regards to how Chase Bank’s asset financing selection criteria is based on location of the SME. As seen in the figure, 35 percent of the respondents strongly agree 28 percent of the respondents agree, 14 percent of the respondents strongly disagree and 10 percent of the respondents disagree while 13 percent of the respondents are neutral if location of an SME is an important tool employed by Chase Bank during asset financing selection criteria. Majority of the respondents agree that location is an important evaluation tool.

![Figure 4.4: Respondents’ Effect of Location of the SME](image)
4.3.5 Past Credit Record of SMEs.

Figure 4.5 presents a summary of the findings with regards to how Chase Bank’s asset financing selection criteria is based on past credit record held by SMEs. As seen in the figure majority of the respondents 60 percent strongly agree that Chase Bank’s asset financing selection criteria is based on past credit record. Additionally 30 percent agree, 5 percent disagree, 4 percent strongly disagree while the remaining 1 percent is neutral if Chase Bank’s asset financing selection criteria is based on past credit record.

![Figure 4.5: Respondents’ Effect of Past Credit Record](image)

4.3.6 Economic Factors

Figure 4.6 presents a summary of the findings with regards to how Chase Bank’s asset financing selection criteria is based on economic factors such as inflation rate, the Central Bank rate. As seen in the figure majority of the respondents 54 percent agree that indeed Chase Bank’s asset financing selection criteria is based on economic factor. This was also the case for 31 percent of the respondents. On the contrary 6 percent (3%+3%), of the respondents disagreed while 9 percent remained neutral. This therefore may limit the potential of a firm to access financing as they might find it too expensive.

![Figure 4.6: Respondents’ Effect of Economic Factors](image)
4.4 Effects of information asymmetry and adverse selection on SMEs access to finance

The study further sought to establish the effects of information asymmetry and adverse selection on SMEs access to finance. This sub section presents a summary of the findings with regards to the respondents’ views.

4.4.1 Concessionary Rate Applied to SME’s Loans

As seen in the figure 4.7, 56 percent of the respondents strongly agree, 32 agree, 3 percent strongly disagree, 4 percent disagree, while 5 percent are neutral that a concessionary rate is applied by Chase Bank on SME’s loans as an incentive for growth.

Figure 4.7: Respondents’ Use of Concessionary Rate

4.4.2 Tailor-Made Products for SMEs

Figure 4.8 reveals that indeed 49 percent of the respondents strongly agree, 38 agree, 4 percent strongly disagree, 2 percent disagree, while 7 percent are neutral on whether banks have tailor-made products for SMEs which are well known to SMEs.

Figure 4.8: Respondents’ Understanding of Existence of Tailor-Made Products for SMEs
4.4.3 Information is readily available on how SMEs

Figure 4.9 further shows that 60 percent of the respondents strongly agree, 28 percent agree, 5 percent strongly disagree, 3 percent disagree, while 4 percent are neutral if information is readily available on how SMEs can acquire different sources of asset finance.

Figure 4.9: Respondents’ Effect of Information Availability

4.4.4 SMEs Full Disclosure of information

Figure 4.9 shows that 58 percent of the respondents strongly agree, 30 percent agree, while 5 percent are uncertain on whether SMEs will make full disclosure of information pertaining to the business. On the contrary 4 percent of the respondents disagree, while 3 percent strongly disagree.

Figure 4.10: Respondents’ Effect of Full Disclosure of Information
4.4.5 Demand and Supply of Credit influence SMEs Access to Finance

Figure 4.10, reveals that indeed 10 percent of the respondents strongly agree 20 percent of the respondents agree, 60 percent of the respondents strongly disagree and 5 percent of the respondents disagree while 5 percent of the respondents are uncertain if the forces of demand and supply of credit influence SMEs access to finance.

![Pie chart showing the distribution of respondents' views on demand and supply of credit influence SMEs access to finance.]

**Figure 4.11: Respondents’ Effect of Demand and Supply of Credit**

4.4.6 Correlation Analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Access to Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>45</td>
</tr>
<tr>
<td>Information Asymmetry</td>
<td>Pearson C.</td>
</tr>
<tr>
<td></td>
<td>.511*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.394</td>
</tr>
<tr>
<td>N</td>
<td>45</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed)

As seen in the table there is a significant positive relationship between information asymmetry and access to finance (.511). This is a clear indication that indeed information sharing leads to increased access to finance by SMEs.

4.5 Alternative Sources of Asset Financing for SMEs

The study further sought to explore alternative sources of asset financing available to SMEs that could reduce the financing gap. Figure 4.11 reveals that indeed leasing has provided an alternative source of financing to SMEs based on the majority respondents
who were in agreement. From the individual roles played by leasing, 84 percent of the respondents agreed that leasing helps in improving liquidity, 86% agreed that leasing helps in freeing up funds for investment in inventory, working capital, or other shorter term assets. Majority of the respondents (79 percent) also agreed that leasing helps SMEs reduce the risk of obsolescence of assets. In the same regard, 76 percent of the respondents agreed that they have a wide choice for credit facilities. Finally, 82 percent of the respondents agreed that leasing indeed provides an alternative source of asset financing.

Figure 4.12: Respondents’ Benefits of Leasing
CHAPTER FIVE
5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter consists of four sections, namely summary, discussion, conclusions, and recommendations following that order. The initial section provides a summary of the important elements of the study which includes the study objectives, methodology and the findings. The following subsequent section discusses the major findings of the study with regards to the specific objectives. Section three discusses the conclusions based on the specific objectives, while using the findings and results which are obtained in the fourth chapter. The last sub-section provides the recommendations for improvement based on the specific objectives. It also provides the recommendations for further studies.

5.2 Summary
The general objective of this research was to establish why many SMEs fail to qualify for credit with a keen focus on Asset Finance as a source of Financing. The study was guided by the following specific objectives: to establish the significance of lending institutions and selection criteria adopted; to analyze the effects of information asymmetry and adverse selection on SMEs access to finance and finally to examine alternative sources of asset financing available to SMEs that could reduce the financing gap.

The research adopted a descriptive design with a target population of SMEs operating in Nairobi from which a sample size of 75 respondents was selected out of which 45 responded. The respondents were identified through non-probability sampling in the form of random sampling. The collection of data was conducted through the use of questionnaires and thereafter analyzed through descriptive statistics so as to be able draw conclusions. The research procedure begun with a pilot survey, this helped to identify the questionnaire’s suitability in terms of ability to answer the questions at hand and meet my overall objective. Adjustments and recommendations from the pilot survey were then incorporated to come up with a final questionnaire. Data coding was first done then followed by data presentation via tables and, figures.
The findings on the significance of lending institutions and selection criteria adopted, revealed that Chase bank’s financing criteria is based more on the characteristic of the firm than personal characteristics of the owner. 56 (30+26) percent of the respondents agree that age of firm is an important selection tool with younger firms facing greatest difficulties due to lack of experience required. The findings also reveal that 52 (28+24) percent of the agree that the sector an SME operates is critical in the selection process and further Chase Bank requires an SME to come up with a growth business proposal to support the application. Location of the firm is also considered during the evaluation process with Chase Bank being averse to firms in marginalized rural and deprived areas as confirmed by 63 (35+38) of the respondents. 90 (60+30) percent of the respondents agree that past credit worthiness of SMEs as well as economic factors such as monetary factors prevailing in an economy are also some of the significant factors that influence the lending process.

The findings on the effects of information asymmetry and adverse selection on SMEs access to finance revealed that majority of the respondents, 86 (55+31) percent agree that indeed a concessionary rate is applied on SME’s loans as an incentive for growth while 87(49+38) percent agree that banks have tailor-made products for SMEs which are well known to SMEs. The findings further reveal that the government offers incentives such as Women Enterprise Fund to promote SMEs start up, survival and growth. Additionally it was revealed that credit risk affects the lending viability of the SMEs. Majority of the respondents, 88 (50+38) percent agreed that SMEs will make full disclosure of information pertaining to the business especially present borrowing/ commitments and finally the forces of demand and supply of credit influence SMEs access to finance.

Finally the findings on alternative sources of asset financing for SMEs reveal that indeed leasing has provided and alternative source of financing to SMEs. Additionally 82 percent of the respondents agreed that leasing helps in freeing up funds for investment in inventory, working capital, or other shorter term assets. Majority of the respondents (79 percent), have also agreed that leasing helps SMEs reduce the risk of obsolescence of assets. In the same regard, 76 percent of the respondents agreed that they have a wide choice for credit facilities. Finally, 84 percent of the respondents agreed that leasing improves liquidity.
5.3 Discussion

5.3.1 Significance of Lending Institutions and Selection Criteria Adopted

The findings based on the background information on the major source of capital which was seen to be debt agree with Beck and Kunt (2006) who concluded that in emerging markets, commercial banks form the main source of external finance for SMEs. This is because proprietors of SMEs exhaust their internal sources in probably starting up the venture and thus hit a ceiling on internal sources of finance thereby seeking for funding externally.

The findings concur to Green (2003) who demonstrated that commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high. These firms are, by their very nature, often relatively young and consequently lack a financial history and a track-record of profitable projects. Most of them are considered as such startups hence perceived as very risky. Younger firms were reported to having the greatest difficulties in accessing finance due to the lack of experience required.

The selection criteria adopted by banks separate successful applicants from unsuccessful applicants based on various factors considered when evaluating an application. This proposition by Beck and Kunt (2006) is further affirmed by the findings on the significance of lending institutions and selection criteria adopted which revealed that Chase bank’s financing criteria is based more on the characteristic of the firm than on personal characteristic of the business owner that is age, gender and race. Business characteristics that have a bearing on the selection process adopted by Chase Bank include the following. The sector in which a firm operates in also influences choice of SME to advance financing to with Chase Bank having a preference for firms operating in vibrant sectors with growth business proposals. Location of a firm was also seen to be a factor with Chase Bank being averse to businesses operating in marginalized rural and deprived areas. Finally the past credit worthiness of SMEs as well as economic factors such as monetary factors play a vital role in the selection process.

The findings also affirm that firms in countries with higher levels of financial institutional development report significantly lower financing obstacles than firms in
countries with less developed financial institutions. Small firms not only suffer more from market frictions than large firms but these market frictions have a disproportionately larger effect on small firms in countries with less developed institutions. Financial developments thus help close the gap between small and large firms (Beck and Kunt, 2006).

The findings also agree with a study of a common phenomenon in most advanced countries. Kauffman and Celine (2005) demonstrated that banks in these advanced countries will not dismiss SMEs financing as high risk financing but are adopting strategies to reduce the risk of lending to SMEs. They are investing considerable resources in seeking to overcome information asymmetry problems by using credit scoring models and other sophisticated techniques to discriminate between high and low-risk borrowers. These lending mechanisms enable banks to identify businesses likely to survive and expand, and with which it is worthwhile to develop a long-term relationship. Banks are also altering the nature of their products. Banks in developing countries are also gradually adopting this phenomenon. This is demonstrated by the findings on how SME clients in Chase Bank are aware of the tailor made and incentivized products at their disposal.

It was also revealed in the study that indeed the lending criterion is crucial to access to financing by SMEs. This indeed agrees with Laeven and Woodruff (2003) findings that proper contract enforcement and the protection of creditor rights are key determinants for easing access to credit. Impartial legal systems that can help settle contract disputes, commercial law reform, and drafting and clarifying land titles, as well as effective bankruptcy procedures are vital for the growth of the business sector. These factors provide a conducive legal environment for the banks to operate in hence banks will be willing to extend credit as their rights are well protected.

Finally the findings also affirm findings by Love and Mylenko (2003) who proposed that governments can create incentives for small entrepreneurs to enter the formal economy by simplifying taxes for small firms. Governments should also make sure that they pay SMEs promptly, since public contracts are vital to the financial security of these firms. SMEs’ difficulty in obtaining financing will be compounded when the business environment lacks transparency, when the legal system is weak, and when monopolies are present. This is consistent to the findings which reveal that majority of the SMEs
believe that the government offers incentives such as Women Enterprise Fund to promote SMEs start up, survival and growth. This finding further challenges Haas and Naaborg (2005) suggestion that in many cases most banks are state owned hence allocations/approvals are pegged on government guarantees /special programmes to support targeted sectors leaving the bank with weak balance sheets as well as locking out many SMEs not affiliated to the government.

5.3.2 Effects of Information Asymmetry and Adverse Selection on SMEs Access to Finance

The findings on the effects of information asymmetry and adverse selection on SMEs access to finance revealed that majority of the respondents agree that indeed a concessionary rate is applied on SME’s loans as an incentive for growth and that banks have tailor-made products for SMEs which are well known to SMEs. The findings further reveal that the government offers incentives such as Women Enterprise Fund to promote SMEs start up, survival and growth. Additionally it was revealed that credit risk affects the lending viability of the SMEs. Majority of the respondents agreed that SMEs will make full disclosure of information pertaining to the business especially present borrowing/commitments and finally the forces of demand and supply of credit influence SMEs access to finance. This plays a vital role in the lending process as proposed by (Meghana, Kunt and Maksimovic 2006).

Information asymmetry has reduced significantly which can be attributed to two factors namely stiffened competition among commercial banks and the evolving information era. Due to increased competition for customers among commercial banks, Chase Bank has had to come up with tailor made products, offer incentives such as concessionary rate and disseminate this information to its customers to place them better placed in making business decisions particularly involving financing. On the other hand, customers are seeking for knowledge and information that could improve the viability of their finance applications and therefore understand the importance of full disclosure on their part. Customers also use this information to negotiate for better which compels banks to offer competitive products (Wheelen and Hunger, 2004). This finding reveals that information asymmetry could be considerably reduced by adopting clear accounting standards, setting up independent, competent, and reputable accounting firms and
creating more credit registries that supply data on the solvency of firms. Meghana et al. (2006).

The findings therefore affirm that asymmetric information makes it impossible to distinguish between good and bad borrowers. The two main problems associated with asymmetric information are adverse selection and moral hazard, both of which may affect the quality of the loan. Adverse selection refers to the fact that the probability of default is increasing with the interest rate: the quality of the borrower pool worsens as the cost of borrowing rises (Stiglitz and Weiss, 1981). In this regard therefore information asymmetry is experienced by both the lender and borrower.

Maina (2013) explains that this makes it hard for a bank to judge the viability of an application. This may translate to a viable application being declined because some critical information is missing that would otherwise place the loan officer in a better place to evaluate an application. For example an applicant may have very healthy turnovers reflecting in the bank statement but in the absence of business contracts, invoices and or agreements it would be very hard for a loan officer to determine the source of such debits and credits. The applicant when asked for such information may feel infringed or reluctant to obtain the same thereby failing to understand the importance to the bank and repercussion to him or herself.

5.3.4 Alternative Sources of Asset Financing available to SMEs

The findings on alternative asset financing for SMEs reveal that indeed leasing has provided an alternative source of financing to SMEs. Additionally respondents agreed that leasing helps in freeing up funds for investment in inventory, working capital, or other shorter term assets. Majority of the respondents have also agreed that leasing helps SMEs reduce the risk of obsolescence of assets. In the same regard, respondents agreed that they have a wide choice for credit facilities. Finally, majority of the respondents agreed that leasing improves liquidity. The findings indeed show that easing is a common source of funding which can be an alternative to asset financing. In a typical lease agreement, an owner (lessor) of machinery or equipment grants the user (the lessee) the right to use the equipment for an agreed period of time in exchange for a series of specified payments (Thompson and Lumpkin, 2006).
The findings very largely agree with Coyle (2000) who argues that leasing converts what would otherwise be a large, lump sum expenditure into a series of smaller expenditures, thereby freeing up funds for investment in inventory, working capital, or other shorter term assets. In this way the saving in capital or financial resources can be used for other productive purposes e.g. purchase of inventories. Additionally easing is a more practical funding alternative to loans from commercial banks, as leasing firms typically use less stringent underwriting criteria hence enabling more SMEs to qualify for leasing in the case where the bank offers leasing. Coyle also argues that leasing helps SMEs reduce the risk of obsolescence of assets by avoiding purchasing assets that are subject to becoming obsolete due to changes in the technology. Therefore firms can acquire such assets through leasing and avoid the headache associated with disposing off such assets which more often than not do not fetch high value. Leasing also provides flexibility and convenience. The lease agreement can be tailor-made in respect of lease period and lease rentals according to the convenience and requirements of all lessees. Finally leasing facilitates planning cash flows. Leasing enables the lessee to plan its cash flows properly. The rentals can be paid out of the cash coming into the business from the use of the same assets.

Finally the findings agree with Maina (2013) who argued that hiring is also an alternative to asset financing which is similar to leasing but is mostly short term. This is normally proposed to clients who do not qualify for asset financing for various reasons such as: Low turnovers to support facility, startups lacking in experience. For example a potential client in the construction industry may seek to purchase a tipper but may not have adequate balances to support ability to pay, Chase Bank therefore proposes that such clients can hire the tipper for say 3 months while maintain records of expenses and income associated after which he can then approach the bank for consideration even if is a lower percentage.

5.4 Conclusions

5.4.1 Significance of Lending Institutions and Selection Criteria Adopted

The findings on the significance of lending institutions and selection criteria adopted, revealed that Chase bank’s financing criteria is based more on the characteristic of the firm than personal characteristics of the owner. Age of firm is an important selection tool with younger firms facing greatest difficulties due to lack of experience required. The
findings also reveal that the sector an SME operates is critical in the selection process and further Chase Bank requires an SME to come up with a growth business proposal to support the application. Location of the firm is also considered during the evaluation process with Chase Bank being averse to firms in marginalized rural and deprived areas. Past credit worthiness of SMEs as well as economic factors such as monetary factors prevailing in an economy are also some of the significant factors that influence the lending process.

5.4.2 Effects of Information Asymmetry and Adverse Selection on SMEs Access To Finance

The findings on the effects of information asymmetry and adverse selection on SMEs access to finance lead to a conclusion that majority of the respondents agree that indeed a concessionary rate is applied on SME’s loans as an incentive for growth; Banks have tailor-made products for SMEs which are well known to SMEs; information is readily available on how SMEs can acquire different sources of asset finance; Government offers incentives such as Women Enterprise Fund to promote SMEs start up, survival and growth. Additionally it was revealed that credit risk affects the lending viability of the SMEs. As well majority of the respondents agreed that SMEs will make full disclosure of information pertaining to the business especially present borrowing/commitments and finally the forces of demand and supply of credit influence SMEs access to finance.

5.4.3 Alternative Sources of Asset Financing available to SMEs

Finally the findings an alternative sources of asset financing for SMEs lead to a conclusion that indeed leasing has provided and alternative source of financing to SMEs. Additionally leasing helps in freeing up funds for investment in inventory, working capital, or other shorter term assets. Majority of the respondents, have also agreed that leasing helps SMEs reduce the risk of obsolescence of assets. In the same regard, respondents agreed that they have a wide choice for credit facilities. Finally, it can be concluded that leasing improves liquidity.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Significance of Lending Institutions and Selection Criteria Adopted

The SMEs sector being a growing sector in Kenya as well as the whole world brings about the need for careful examinations of various ways of making it more competitive and therefore profitable. The researcher believes that efforts should be made to open ways to enhance access to finance by enhancing selection criteria.

5.5.1.2 Effects of Information Asymmetry and Adverse Selection on SMEs Access To Finance

The study acknowledges that indeed information asymmetry is crucial to adverse selection and access to finance. The study therefore recommends that banks need to develop strategies that will enhance access to finance by SMEs. The government can also support SMEs by developing policy frameworks that will remove barriers to information access by SMEs.

5.5.1.3 Alternative Sources of Asset Financing available to SMEs

The study acknowledges that indeed there are other alternative sources of asset financing for. Additionally SMEs can also develop certain strategies to enhance growth. In this line the study recommends that SMEs should make use of networks, strategic alliances, legal and regulatory framework, innovation, diversification as well as market research and development. These strategies should be implemented to the later in order to ensure that high growth levels are achieved.

5.5.2 Recommendations for Further Studies

The main limitation of the study was incompleteness of responses sought through distribution of questionnaires. Some of the respondents were not available to provide feedback while others were hesitant to disclose information regarding the selection criteria at Chase Bank because they felt like such disclosure would work against them in future. The researcher therefore recommends that since the SME sector is still experiencing growth, there is need to enhance creativity and innovation as a tool of not only facilitating competitive advantage and profitability but also streamlining the sector to suit into the millennium development goals. In this regard therefore the researcher
recommends that there is need to have additional studies conducted in this area especially by professional bodies as this would guarantee feedback making the study well represented by all the players in the SME sector.
REFERENCES


APPENDIX 1: LETTER OF INTRODUCTION

March, 2014

United States International University

MBA Programme

P.O BOX 14634-00800

Nairobi, Kenya

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a student of the United States International University, pursuing a Master of Business Administration degree. In partial fulfillment of the requirements for this degree, I am required to carry out a management research project on a real topic in my area of study. I am conducting a survey on “SMEs access to finance as a growth constraint” A case study of Chase Bank’s Asset Financing as a source of financing.

You have been selected to form part of this study. I kindly request you to provide the required information to the best of your knowledge by filling out the attached questionnaire. The study is strictly for academic purposes only and will be treated in the strictest confidence.

Yours faithfully,

Eunice Wanjiru Maina

Dr. George Achoki

Sign……………………

Sign……………………

Date……………………

Date……………………

(Researcher) 

(Supervisor)
APPENDIX II: QUESTIONNAIRE:

SECTION A: BACKGROUND INFORMATION

1. What is the nature of business ……………………..

2. What position do you hold in the firm ……………………..
   Top Management
   Middle Management
   Owner/ Proprietor

3. How long has the business been in existence?
   Less than 1 year
   1-2 years
   3-5 years
   6-10 years
   Over 10 years

4. How long have you been banking with Chase Bank?
   Less than 1 year
   1-2 years
   3-5 years
   6-10 years
   Over 10 years

5. Which of the two comprises the major source of capital for the business? Please indicate the percentage.
   Equity
   Debt
SECTION B: SELECTION CRITERIA FOR LENDING

Is Chase Bank’s asset financing selection criteria based on the following? Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Personal characteristic of the business owner, age, gender and race;</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>that is, young, female and business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Age of firm, with younger firms facing greatest difficulties.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>3) Sectoral characteristics; that is, manufacturing and new technology</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>firms with growth business proposals.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) Location: that is with business owners in rural and deprived areas</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5) Past credit worthiness of SMEs</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>6) Economic factors such as monetary factors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

7) What are other variable(s) can be used to determine if a SME is viable for Asset financing lending?
Please rank them in order of importance.

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

52
Is credit information readily available both to Chase Bank and its SME clients? Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1= strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) A concessionary rate is applied on SME’s loans as an incentive for growth</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2) Banks have tailor-made products for SMEs which are well known to SMEs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>3) Information is readily available on how SMEs can acquire different sources of asset finance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>4) The Government offers incentives such as Women Enterprise Fund to promote SMEs start up, survival and growth</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5) Credit risk affects the lending viability of the SMEs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>6) A country’s economy influences the startup, growth and survival of SMEs hence the funds available for lending.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>7) SMEs will make full disclosure of information pertaining to the business especially present borrowing/commitments.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>8) The forces of demand and supply of credit influence SMEs access to finance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
9) List any information that you feel is withheld by Chase bank but could be of use when considering applying for asset financing from the bank.

……………………………………………………………………………………
……………………………………………………………………………………

10) State some of the requirements that Chase bank normally requires before processing an asset application that you consider not necessarily important. Briefly explain why.

……………………………………………………………………………………
……………………………………………………………………………………

SECTION D: ALTERNATIVE SOURCES OF ASSET FINANCING

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Leasing has provided an alternative source of financing to SMEs</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2) Leasing helps in freeing up funds for investment in inventory, working capital, or other shorter term assets</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>3) Leasing helps SMEs reduce the risk of obsolescence of assets</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>4) I have a wide choice for credit facilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5) Leasing improves liquidity</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>7) A disconnection exists between banks and SMEs with many SMEs preferring to seek financing informally.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
8) What other factor(s) influences the role Chase Bank plays in the lending process. Please rank them in order of impact

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

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

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

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

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


9) Suggest some recommendations on how the various variables listed in (Section C) above can be remodelled/reviewed to promote SMEs access to asset finance

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

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

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

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

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

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

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

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

THANK YOU FOR YOUR TIME
APPENDIX III

THE SCHEDULE OF ACTIVITIES

<table>
<thead>
<tr>
<th>PROJECT ACTIVITIES</th>
<th>TIME FRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proposal Development</td>
<td>23&lt;sup&gt;rd&lt;/sup&gt; Sep, 2013- 12&lt;sup&gt;th&lt;/sup&gt; Dec, 2013</td>
</tr>
<tr>
<td>2. Data Collection (Fieldwork)</td>
<td>20&lt;sup&gt;th&lt;/sup&gt; Feb, 2014- 21&lt;sup&gt;st&lt;/sup&gt; March, 2014</td>
</tr>
<tr>
<td>3. Data Analysis &amp; Interpretation</td>
<td>24&lt;sup&gt;th&lt;/sup&gt; Mar, 2014- 7&lt;sup&gt;th&lt;/sup&gt; April, 2014</td>
</tr>
<tr>
<td>4. Report Writing &amp; Dissemination</td>
<td>10&lt;sup&gt;th&lt;/sup&gt; April, 2014- 17&lt;sup&gt;th&lt;/sup&gt; Apr, 2014</td>
</tr>
</tbody>
</table>
APPENDIX IV

APPENDIX VII: RESEARCH BUDGET

<table>
<thead>
<tr>
<th>ITEM</th>
<th>COSTS IN KSHS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Proposal Development</strong></td>
<td></td>
</tr>
<tr>
<td>- Materials</td>
<td>3,000</td>
</tr>
<tr>
<td>- Printing</td>
<td>2,000</td>
</tr>
<tr>
<td>- Photocopying</td>
<td>500</td>
</tr>
<tr>
<td>- Binding</td>
<td>500</td>
</tr>
<tr>
<td><strong>2. Data Collect (Fieldwork)</strong></td>
<td></td>
</tr>
<tr>
<td>- Photocopying</td>
<td>1,000</td>
</tr>
<tr>
<td>- Travelling</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>3. Data Analysis &amp; Interpretation</strong></td>
<td>--------</td>
</tr>
<tr>
<td><strong>4. Report Writing &amp; Dissemination</strong></td>
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<td><strong>TOTAL</strong></td>
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