EVALUATION OF MARKET AWARENESS OF CREDIT REFERENCING IN KENYA AMONG SMALL AND MEDIUM ENTERPRISES: A CASE OF BUSINESS NETWORK INTERNATIONAL KENYA

BY

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree Master of Science in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2017
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 - Africa in Nairobi for academic credit.

Signed: __________________________ Date: __________________________

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

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Dean, Chandaria School of Business,
ABSTRACT

This study sought to establish the nature and extent of the information that small and medium business owners have about credit referencing, the causes of the asymmetry of the information and suggest meaningful and substantial ways in which market awareness can be improved so that the majority of those seeking credit can fully understand their rights and obligations in the credit information sharing system. This research study was guided by the following three research questions. The first research question sought to answer what the level of familiarity of the three licensed CRB’s among SMEs is in Kenya. The second research question was to investigate if information asymmetry had an impact on the SMEs looking to access credit from formal financial institutions in Kenya. The third and final research question aimed to find out the impact of information asymmetry on SMEs looking to access credit from formal financial institutions in Kenya.

This study used descriptive survey as the research design with a population comprised of members of the Business Network International (BNI) hub which has about 750 members in its Kenya network. The simple random sampling technique was used as it is highly economical and allowed for easy comparison so that the sample result could be projected to the target population of BNI members. The sample size of 120 respondents was calculated using the Yamane formulae and the sample consisted of member business owners who have been in business for more than 1 year with an annual turnover of over 1 million Kenya shillings. The Data was collected using interview administered questionnaires and analyzed using data analysis software (SPSS version 22). Interpretation of the statistical outputs was done and discussed in the presentation of results and findings.

For the first research question, the findings established that most of the respondents are familiar with the CRBs in Kenya and have heard of credit information sharing. Even though some respondents had negative perceptions about CRBs there is room to take advantage of the positive perception held by the majority in regards to maintaining a good credit report and history so as to access credit at cheaper terms. The findings from the second research question noted a reported lack of benefits to the SME business owners from the CIS mechanism as indicated by a large number of the respondents. The responses from the last research question found that the impact of the CIS mechanism among SMEs in Kenya has
resulted in most viewing it as a barrier to access credit as lender institutions have resorted to using it as a debt collection tool threatening borrowers with being listed negatively at the CRB.

The study concluded that among SME business owners in Kenya, not much is known about the potential functions and benefits of credit information sharing to consumers. From the results obtained and in regards to the first research question, the researcher recommended an increase in sensitization activities across all sectors of the credit market in Kenya, through the implementation of an effective CIS communication strategy. In line with the second research question, the researcher recommended that there is a need to educate all stakeholders about the use of credit reports and the process of effective participation in CIS. Furthermore, in response to the third research question, the researcher recommended that the system be made more consumer friendly by sharing full comprehensive data and reducing the period in which the CRBs retain names of non-performing loans which is currently seven years. Lastly it was recommended that the regulation of CRBs be improved by the Central Bank of Kenya and a clear legislative mechanism implemented so as to ensure a clear and accessible dispute resolution channel.
ACKNOWLEDGEMENT

I acknowledge the presence of God the Almighty in my life. For giving me the strength and wisdom to have been able to prepare for the execution of this research project and finalizing the research paper.

My sincere gratitude goes to my supervisors Prof. Francis Wambalaba, Mr. Kepha Oyaro and Prof. Peter Kiriri for their guidance, advice and effective timely response at each stage in the preparation and execution of this research project for examination. Thank you for your unwavering support and continuous inspiration.

I would also like to thank my dear family, friends and USIU-Africa class members & other Supervisors for their understanding, resource input and endless encouragement throughout the Research Project execution to the end.

Not to forget the business owners interviewed for without their co-operation the completion of this research paper would not have been possible.

Last but not least my Research Assistants for assisting in the questionnaire execution at the pre-test and actual research data collection time. Not to forget my data entry and analysis team. Thank you once again.

May God bless you all.
DEDICATION

I dedicate this paper to my family for their continued support during my study and the USIU – Africa fraternity for their constructive criticism and oversight in preparation of this research paper.
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CHAPTER ONE

1.0. INTRODUCTION

1.1. Background of the Problem

The concept of credit reporting agencies came about in the USA around the late 1800’s to help traders keep track of the credit histories of their customers. Historically, the Kenyan banking sector from the 1980’s to the 1990’s was bearing the weight of significant non-performing loans (NPLs) which subsequently let to the failure and closure of quite a number of financial institutions. Serial defaulters who took advantage of the environment where there was no “information symmetry” are to blame.

To improve the efficiency of financial intermediation it is crucial to develop a sustainable information sharing mechanism. In working to achieve this, banking sector stakeholders came together in 2008 and developed the Banking (Credit Reference Bureau) Regulations 2008, which governed the sharing of credit information on borrowers between providers of credit. Initial regulations provided for the sharing of only negative information but in 2013 they were revised to provide for both positive and negative information. Section 31(4) of the Kenyan Banking Act, mandates the Central Bank to license and supervise CRBs.

According to The Central Bank of Kenya, a Credit Reference Bureau (CRB) is an entity licensed for the collection and collation of credit information on both businesses and individuals from various sources; and provides that information when requested mainly by licensed credit providers in the form of a credit report.

Jappelli and Pagano, (1999) infer that CRBs assist in making credit accessible to more people therefore reducing financial risks among lenders by allowing borrowers use their credit histories across different financial institutions, thereby making lending more competitive and credit more affordable. They go on to say that sharing of information between financial institutions in respect of customer borrowing behavior has a positive impact on the economy.

One of the customer benefits arising from credit information sharing is that it is easier for those with a good credit status to distinguish themselves from persistent defaulters and therefore attract favourable loan terms. In addition since financial institutions have online
access to credit reports generated by the CRBs this result in less paperwork for the customer and faster processing of loans. This also allows customers to easily switch between financial institutions and take advantage of competition to secure better credit terms.

SMEs in Kenya play a crucial role in job and wealth creation and although most of these enterprises are informal; they account for the majority of new jobs created. The recent annual publications of the 2016 Economic Survey (Kenya) indicate that the informal sector continues to provide the majority of additional jobs thus making the informal sector critical to the economy. This sector is estimated to have created 713,600 new jobs in 2015 accounting for 84.8 per cent of all new jobs (Economic survey 2016 report, KNBS). Furthermore, the crucial role of SMEs is underlined in Kenya’s Vision 2030 which is the development blueprint which seeks to transform Kenya into a, “middle-income country providing a high quality life to all its citizens by the year 2030”. Vision 2030 underscores the need to deal with the informal economy through measures aimed at raising productivity, generation of jobs, owner’s incomes and public revenues. It also recognizes the need for appropriate financial lending services for SMEs.

Up until September 2016, the Central Bank of Kenya had licensed three CRBs: (1) Credit Reference Bureau Africa (trading as TransUnion), licensed on February 9, 2010; (2) Metropol Credit Reference Bureau Limited, licensed on April 11, 2011, and (3) Creditinfo Credit Reference Bureau Limited, licensed on April 29, 2015. TransUnion credit bureau recently extended the extent of its activities to mobile credit reference services in Kenyan emerging micro-lending disbursed through mobile phones, particularly the M-Pesa (the mobile money platform in Kenya). In August 2015 TransUnion launched a mobile-based credit reference service by the name of “Nipashe” using the SMS short code platform that enables Kenyans convenient access to their credit information by providing consumers with accurate information about their credit rating. Whether credit reporting is shared by CRBs online or otherwise, its legal basis in Kenya is set out in four pieces of legislation: (1) the Banking Act, Cap.488,23 (2) Microfinance Act 2006,24 (3) Kenya Deposit Insurance Act 2012,25 and (4 ) Sacco Societies Act 2008.26. The other important source of law for credit information sharing in Kenya is the Banking Regulations 2014 which govern licensing, operation, and supervision of CRBs, replacing the Banking Regulations 2008 (Kenya
Banking (Credit Reference Bureau) Regulations (2008). These Regulations are made under the authority provided in the Microfinance Act (The Microfinance Act, 2006). The scope of the CRB Regulations 2014 is broad. They apply to private incorporated CRBs and their agents. They also apply to any other participant of the credit reporting system. Substantively, the CRB Regulations regulate credit reporting of information about a non-performing loan of a customer, any other negative information about a customer as well as positive information about customers. Some of the important definitions in the CRB Regulations include a “credit report” is any information by a credit reference bureau relating to a person’s creditworthiness. “Customer information” is credit information, or any other positive or negative information provided by a customer or obtained from an institution, a third party, or public record information that may be exchanged pursuant to the Regulations. A “database” is a set of customer information collected, managed, and disseminated by a bureau (Credit Reference Bureau Regulations, 2008).

Information asymmetry creates difficulties for banks when it comes to assessing credit risk and thus leads to credit rationing. This is where credit information sharing can make a significant contribution: It will make it possible for banks to lend to SMEs using reputation collateral as well as address the concerns that are continually raised about the high interest rates prevailing in the Kenyan market.

The Daily Nation newspaper on Wednesday May 2011 reported that Parliament had been petitioned by Mr. Peter Kimani Runo to amend the Banking Act to stop the use of credit reference bureaus. (Daily Nation, 2016) Kenya’s first CRB, Credit Reference Bureau Africa Limited t/a TransUnion was licensed on 9th February, 2010 in what was expected to lead to lower commercial lending rates by improving credit information sharing availability in the banking sector.

Despite the creation of a credit information pool, commercial banks are yet to pass on the benefits, critics say. The petitioner propagates that CRBs have listed more than 700,000 individuals in their database as defaulters and this is causing a lot of anguish to the named individuals as they are unable to access financial facilities from local banks and other financial institutions.
1.2. **Statement of the Problem**

Financial Institutions before the creation of credit referencing were without access to credible information about borrowers or their repayment histories which led to information asymmetry. Information asymmetry implies that a group of people are in the know about information that another group does not have. So the borrower has more knowledge than the lender about why they require and are accessing credit. So as to bring about a reduction in the credit risks associated with asymmetric information, lenders always require collateral in form of fixed assets such as property and land ownership title deeds etc. According to Munene (2012), who conducted a study on the impact of CRBs in accessing finance by SME’s in Kenya and discovered that they stop the obstructions faced by providing information repayment histories and credit worthiness. This eventually affects the interest rate and other loan terms and conditions.

As at October 2016, Kenya had 3 licensed CRB companies namely CRB Africa Limited, Metropol Limited and CreditInfo Limited. Recent theoretical research suggests one of the effects of lenders exchanging information on the credit history of borrowers (Pagano and Jappelli, 1993) is to provide borrowers with an incentive to pay. This illustrates a major roles of CRB’s, which is to reduce moral hazard by developing a credit culture where borrowers become aware of their credit history and are in the know about the rewards or punish due to them accordingly (Sullivan and Sheffrin 2003). However, despite licensing of CRBs in Kenya and their facilitation of data sharing, no study has ever been undertaken to determine their effect on market penetration and consumer knowledge. In view of the background information above, this study sought to fill this gap in literature and determine the market awareness of credit referencing among Small and Medium Enterprises (SMEs) in Kenya. It will also aim to gauge the contributions made by CRB’s to educate consumers on the benefits of knowing their credit scores and the effect of that knowledge in helping them access credit.

1.3. **Purpose of the Study**

The purpose of this study was to investigate the market awareness levels of credit referencing in Kenya among SME business owners so as to evaluate if they were aware of the significance, benefits and pitfalls associated with credit referencing in their access to credit from formal financial institutions in Kenya.
1.4. **Research Questions**

1.4.1 What is the market awareness level of the three licensed CRBs among SMEs in Kenya?

1.4.2 Does information asymmetry have an impact on the SMEs looking to access credit from formal financial institutions in Kenya?

1.4.3 What is the effect of credit information sharing on the SMEs in Kenya?

1.5. **Significance of the Study**

Credit information, especially positive data sharing, enables consumers to receive the credit that they deserve. When consumers understand the value of positive data, they start to negotiate better terms such as better interest rates on their loans and see CRBs in a much more positive light. Credit Information Sharing together with the CRBs should position the credit information sharing, in a positive light with consumers. Yet very little has been done in terms of research to investigate the market awareness levels of credit information sharing among consumers in Kenya, in this case among the SME’s looking to grow and access credit to facilitate this.

1.5.1 Kenyan Business Owners

This study is significant to Kenyan consumers as individuals and more so those small and medium sized business owners looking to access credit from formal financial institutions as it will give them insight into the credit referencing system in Kenya.

1.5.2 Credit Reference Bureaus

It is also useful to management of the CRB companies in Kenya so as to shed light on the levels of market awareness for their companies and guide discussions around creating strategic marketing campaigns to educate consumers on the importance and benefits of knowing ones credit rating before access credit in Kenya.

1.5.3 Students and USIU-Africa faculty

The students and faculty of the USIU-Africa fraternity and also worldwide will be educated on credit referencing in Kenya and its impact on SMEs access to credit. This will contribute to the general body of knowledge and form a basis for further academic research. In addition
researchers will be able to use this study as a form of reference for future studies that can be undertaken.

1.6. Scope of the Study
The focus of this study was to establish the nature and extent of the information which small and medium sized business owners had about credit referencing and information sharing in Kenya. In addition the study evaluated the level of market awareness and asymmetry of information with a view to improving consumer knowledge of CRB’s locally. The study included interviews from small business owners all operational in business hubs in Nairobi County. The September 2016 Micro, Small and Medium Establishment (MSME) survey done by the Kenya National Bureau of Statistics indicated that Nairobi County had the highest proportion of small sized establishments at 14.8 per cent which is over 200,000. It was not possible to interview different samples from the other 41 counties in Kenya due to logistical shortcomings. The study was conducted over 8 weeks starting in January 2017. It mainly consisted of an interview with 100 business owners who are members of the Business Network International (BNI) community in Nairobi and had been in business for over 1 year and made a turnover of Kenya shillings 1 million annually. The interview questionnaires contained open ended questions that were answered within 15 minutes.

1.7. Definition of Terms

1.7.1. Brand Image
Is a consumer’s perception of the brand, as reflected by brand associations held in a consumer’s memory (Keller, 1993).

1.7.2. Brand Equity
Is a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from value provided by a product or service to a firm and/or to that firm’s customers (Aaker, 1991).

1.7.3. Credit Reference Bureau
Is a privately owned, profit-making establishment that as a regular business collects and compiles data regarding the solvency, character, responsibility, and reputation of a particular individual or business in order to furnish such information to subscribers, in the form of a
report allowing them to evaluate the financial stability of the subject of the report (Central Bank of Kenya, 2016).

1.7.4. Credit Information Sharing
Is a process where credit providers (such as banks, microfinance institutions, saccos, etc.) exchange information on their outstanding loans and advances through licensed Credit Reference Bureaus (CRBs) that are licensed by the Central Bank of Kenya. CIS is also referred to as Credit Referencing or Credit Reporting, among other terms (Central Bank of Kenya, 2016).

1.7.5. Small and Medium Enterprise
In Kenya a small enterprise is defined as one which employs 6-10 people while a medium one is expected to have 11-100 employees (Kenya National Bureau of Statistics, 2016).

1.8. Chapter Summary
This chapter gave a background of credit referencing in Kenya, its current impact on consumer lending, its challenges and market awareness levels that were studied. The problem statement focused on the rationale for measuring market awareness among the SME segment. It also gave the specific research questions and objectives which provided a focus on the issues of concern in the study. This project was carried out once the proposal was marked and deemed sufficient to carry out a survey and eventually the findings were tabulated and presented. Statistical analysis was done once the initial data was evaluated. Finally it provided the definition of the key words. The next chapter looked at the local, regional and international literature that has been reviewed in credit referencing. Chapter three presented the research methodology used in the study as well as how data was collected and analyzed. Presentation of the study was then done in chapter four and the findings discussed. The last chapter, five, was the concluding chapter and gave a summary, discussion, conclusion and recommendations of the study.
CHAPTER TWO

2.0. LITERATURE REVIEW

2.1 Introduction

This chapter looked at the literature that had been reviewed in credit referencing both in Kenya and globally. It discussed in depth the importance of brand awareness especially in relation to formal institutions such as the credit reference bureaus in Kenya and went further and illustrated the importance and impact of a credit score rating in accessing credit from a formal financial institution.

2.2 Market Awareness Level of the Three Licensed CRBs

The market awareness level for CRBs in Kenya is associated with the extent to which their different brand names are recognized by potential customers and therefore correctly associated with particular services. A more traditional definition of a brand given by the American Marketing Association is “a name, term, symbol, design or a combination of them intended to identify goods or services of one seller or a group of sellers and to differentiate them from those of competitors”. This definition focuses on the firm’s input activity of differentiating by means of name and visual identity devices (de Chernatony and Dall’Olmo Riley, 1998). A brand is the symbolic embodiment of all the information connected with a product or service. It encompasses the set of expectations associated with a product or service, which typically arise in the minds of "people" (consumers, buyers, or other target audiences). Corporate branding can also be seen as “a systematically planned and implemented process of creating and maintaining a favourable image and consequently a favourable reputation for the company as a whole by sending signals to all stakeholders and by managing behaviour, communication, and symbolism.” (Einwiller and Will, 2002, based on van Riel, 2001). The basis of choosing a brand is generally guided by an overall positive perception that then leads to positive brand attitudes by consumers. Also, service expertise, that is consumer product/ service knowledge associated with a particular brand, is usually reported as a key factor in affecting consumer brand evaluation (Jamal and Al-Mari, 2007).

2.2.1. Brand Equity

This is a set of assets (and sometimes liabilities) linked to a brand name and symbols (Aaker, 1991). Corporate brand equity is known as the differential response by the firm’s relevant
constituencies such as customers, employees, suppliers and other stakeholders, to the words, actions, communications, products or services provided by an identified company (Keller, 2000). Stakeholders’ images are shaped by a variety of formal and informal signals emanating from the company (Bernstein, 1984; Dowling, 2001).

Brand equity that is consumer based refers to the value added to a product or service by a brand from a consumer stand point (Farquhar, 1989). It is the result from the sum total of all marketing activities, so as to create positive, strong and unique associations in consumers’ memory, in order for them to have a favourable perception of and positive attitude toward the brand (Aaker, 1991; Keller, 1993; Yoo et al., 2000; Yoo and Donthu, 2001).

Brand equity consists of two main components (Guyon, 2008): functional and symbolic. The functional component is associated with features and the branded services performance (Keller, 2001). It describes how the service meets the functional needs of customers’. The second component relates to the more intangible aspects of a brand, such as image associations, which are linked only indirectly to the product or services real characteristics.

Different authors have tried to define and identify dimensions of brand equity. Aaker (1991, 1996) identified four criteria namely brand awareness, brand associations, perceived quality and brand loyalty. Degado-Ballester and Munuera-Aleman, 2005 suggested that brand equity also includes dimensions such as brand trust, brand ethics brand personality (Pappu et al., 2005), etc. Therefore despite existing literature providing many there is no consensus on what exactly brand equity means (Pappu et al., 2005, p. 144). As a result of this, I have chosen to use the most widely used definition of brand equity, which is brand awareness.

Finance professionals tend to define brand equity differently from marketers, with the concept being defined both in terms of the relationship between customer and brand (consumer-oriented definitions), or as a thing that the brand owner accumulates. Feldwick (1996) simplifies the variety of approaches, by describing brand equity as a measure of the strength of consumers’ attachment to a brand and a description of the associations and beliefs the consumer has about the brand.
2.2.2. Corporate Image

There is a new crop of upcoming research scholars that appreciate that businesses are not confined to one area of specialization but indeed founded in multiple disciplines. Modern marketing propagates that corporate branding increases consumer awareness of an organization and its services and products. The name of a company, that is the extent to which the brand is familiar and recognized (Kowalczyk and Pawlish, 2002) measures how well known it is and to what extent the familiarity affects consumer awareness. Corporate image is described by Barich and Kotler, 1991 and Ditchter, 1985 as the overall impression made on the minds of the public about a firm. It is the immediate picture mentally created by people about an organization. It is important to note that though corporate image is often interchangeable with corporate identity (Hsieh et al., 2004), Balmer, 1998 and Christensen and Askegaard, 2001 refer to the former as the reality about the company while the latter is the perception held by stakeholders.

Since this study sought to analyze consumers’ perception and market awareness of the Kenyan CRBs, the focus here was mainly on their corporate image. However there is a sense of agreement that companies with a great corporate image can positively maintain a loyal relationship with customers (Andreassen and Lindestad, 1998; Nguyen and Leblanc, 2001) and increase communication efficiency.

In conclusion, Hsieh et al. (2004) agreed that corporate image does affect consumer behavior. Andreassen and Lindestad (1998), reported that corporate image is an important factor that influences customer loyalty, satisfaction standards and the perception of quality. In support of this view, de Ruyter and Wetzels (2000) agreed that it is an information cue used by customers to weigh in on matters like credibility, buying intentions and perceived quality. Also other researchers agreed with this in that a company’s corporate image builds its reputation and leads to a positive corporate reputation in the minds of the public (Alessandri, 2001). This ideally means that reputation is formed over an extended period of time by repeated impressions of the corporate image (Gray and Balmer, 1998). Bhattacharya and Sen (2003) claimed that a good corporate image helps in making the consumers more attached to the company and therefore makes it very important.
This study investigated the extent to which consumers namely SMEs in Kenya were able to identify and relate to the three CRBs licensed in Kenya. It also investigated their level of awareness as regards their product offerings and benefits to them in applying for access to credit. Questionnaires were used to gauge their level of familiarity with their names, level of satisfaction with their services and extend to which they consider themselves as loyal to their product offerings.

2.3 Impact of Information Asymmetry on Credit Access

Financial lending institutions (banks and SaccoS) check for two main things before granting access to funds. They first try to get insight into the possibility of the borrower defaulting on returning the funds. They then require a form of collateral that can act as a guarantee in case of default. These conditions are easily met by large companies for whom critical information and collateral can easily be provided without complications.

For SMEs this is quite different, as they do not benefit from any of the above mentioned advantages (North et al., 2001; Lukács, 2005). Potential SME borrowers do not have the luxury of having their risk profiles assessed easily by banks and for those that do, it is usually quite expensive. More often than not, it is difficult for them to provide the collateral required. Now even though some SMEs grow to become very successful large companies, due to the static structure of the credit system it is not always able to understand in advance when the risk profile of an SME may actually be lower in perspective (Berger and Frame, 2007). These issues could be addressed by improving the quality of information available to lender institutions before providing credit and also if the SMEs were able to provide more reliable guarantees about their future path and solvency.

In addition, lender institutions are faced with constant challenges like more efficient service provision and risk involving more complicated and vague profiles due to the highly competitive context and the obvious desire to survive and obtain a higher level of profitability (Kohlbeck and Warfield, 2002).

Because lender institutions use hard information to confirm if a potential borrower is credit worthy (Cole et al., 2004; De Haas et al., 2010), they do not know if the borrower will or will not default on a loan (Biais and Gollier, 1997). Hard information is easily verifiable and
readily available through financial statements or credit ratings. However, most SMEs cannot provide the information needed by banks to access credit and so they often do not even consider large banks as potential partners (Schmitz, 1982). This activates a vicious cycle where assets are compiled slowly due to lack of funds and this makes banks less keen to grant loans therefore causing SMEs to experience more problems in putting up collateral.

In contrast to typical financial services which are based on hard information, relationship finance tends to rely on soft information. Hard information comprises of documents that can be checked by external players but in relationship banking, credit is usually provided on the basis of mutual trust founded on deep knowledge generated by the fact that bank and firm have been working together for a long period (De la Torre et al., 2010).

Jain (2001), stated that when there are intense long term commercial relationships between two entities, it is much easier to gather soft information regarding the creditworthiness of a firm and its probability of default although none of such information may be confirmed by external actors. SMEs find access to credit a major problem compared to large firms mostly due to the fact that they are widely dependent on external funding, while large companies have more alternatives including equity or bonds.

2.3.1. Impact of Information Sharing On SMEs

The current literature on small business lending (Petersen and Rajan, 2002; Berger and Udell, 2006 Giroud, 2013) indicated banks tend to lend more to local borrowers due to spatial proximity that reduces information asymmetry and allow for easier monitoring. Proximity becomes even more relevant especially when banks are collecting soft information. Alessandrina et al. (2009) suggested that local banking systems can affect information asymmetry between lenders and borrowers by reducing the challenges faced by a firm in regards to financing. Physical proximity involves long lasting relationships and an in depth cultural bond that allows local banks to collect more “soft” information on local borrowers therefore increasing the quality of screening and monitoring (Le and Nguyen, 2009; Biggs and Shah, 2006; Bathelt et al., 2004).

SMEs usually face great challenges to get liquid and working capital to finance their operations. In the past, SMEs would seek working capital financing from commercial banks
based on each banks terms and credits. However, limited operating history, incomplete financial statement or being positioned at the start-up stage with characteristics associated with small workforce number, insignificant performance, high risk, and many other factors, have constrained most of them are still constrained to effectively receive working capital by traditional ways (Song and Wang, 2013). Only by means of higher requirements for mortgage or vouch, can banks compensate the potential loss and credit risks associated with these smaller sized firms (Duan et al., 2009).

In the case of debt financing, lenders typically request collateral in order to mitigate the risks associated with “moral hazard” and the lack of collateral is probably the most widely named stumbling block encountered by SMEs in accessing finance. This therefore leads to the obvious fact that SMEs can only get funded under the condition of high credit scoring based on information transparency.

In the field of information system and management, recent studies take use of information processing theory to argue that information sharing strongly improves information quality and information processing capabilities of companies (Liu et al., 2015; Wong et al., 2015). Therefore, information sharing is many times considered as a crucial contributor to integrated information flow for two-way communications between down and upstream organizations and facilitate the streamlining of inter- and intra-organizational processes (Durugbo, 2014; Handfield et al., 2015).

2.3.2. Infallibility of Information Sharing

In a perfect market setting, with perfect and costless information available to both parties, and no uncertainties regarding present and future trading conditions, the principal-agent relationship does not suffer from the market failure of information asymmetry. However, information in the real world is neither perfect nor without costs, especially since the small business finance market is characterized by risk and uncertainty regarding future conditions, in the process leading to an asymmetric distribution of information between the bank and the firm as well as investors frequently unable to determine the quality of potential borrowers (Tucker and Lean, 2003). From the lender’s perspective, financers usually regard SMEs as riskier enterprises because they face even a higher uncertain competitive environment than larger companies and also are comparatively less equipped in terms of both human and
capital resources to withstand economic adversities, therefore giving rise to the problem of adverse selection (Stiglitz and Weiss, 1981).

In addition, there is the problem of inadequate accounting systems which undermines the accessibility and reliability of information concerning profitability and repayment capacity (Tucker and Lean, 2003). Before lending, lenders and investors must gather, process and interpret firm specific information to distinguish between the supposedly good firms with higher expected profits and low risk and contrast them against the mediocre to poor firms with low expected profits and high risks. Therefore, by screening carefully the group of those borrowing, the lender and / or investor may be able to differentiate enough between “high and low quality” companies and projects. In that case, price variables such as interest rates may work as an appropriate screening device along with providing the lenders the ability to assess whether SMEs are utilizing the funds in an appropriate way, thereby addressing the moral hazard problem. It is important to note though that screening can involve transaction costs that are large relative to an investor’s return, making it less profitable to finance SMEs.

Most importantly, it is vital to fix the problem of information asymmetry to boost the quality of credit by SMEs. A very effective solution to this problem is information sharing, which is basically a commitment to mitigate asymmetric information among value chain members by providing access to otherwise private information which in turn facilitates data collection, documentation, and the storing, retrieving, and transferring of private information therefore leading to high visibility levels in the process (Simatupang and Sridharan, 2001; Yu et al., 2001; Lee and Whang, 2000). Therefore, information sharing of SMEs can improve the information quality and access to credit processing capabilities of all partners (Liu, et al., 2015; Wong et al., 2015), in the process helping the lenders in the supply chain to gain access to large volumes of useful information through which SMEs can access the screening process and receive viable amounts of working capital from lenders.

Lending to SMEs is considered riskier than lending to larger companies (Miettinen, 2007) mainly for the reasons discussed next. First, there is information asymmetry in SMEs, who are considered opaque with information, which makes lending to them to involve high potential risks. Secondly, they have limited access to public equity and therefore offer less information, such as market prices that might suggest the quality of their stock. Thirdly, they
are more reactive to economic changes such as downturns which are more likely to have serious consequences for them. However, studies have shown that it is mainly the rules and regulations of the formal financial institutions, which have created the myth that they together with the poor are “unbankable” as they cannot afford the necessary collateral and therefor deemed “uncreditworthy” (Adera, 1995, in Bhasin and Akpalu, 2001).

Now that it has been established that the main problem of SMEs is financing, it is crucial to inject more funds so as to provide the needed capital for optimal production and profitability. Access to credit is believed to positively affect the availability of production factors such as land, labour, capital, equipment and machinery. Assuming all things hold constant, an increase in the quality and quantity of production factors available to a firm should indeed generate more production and profits. Therefore when a firm is given a loan we expect a positive effect on its profitability. Credit is also important to SMEs in manufacturing as it allows for bulk purchases of resources, which in turn reduces the unit production costs due to the theory of economies of scale. This reduction in production unit costs ultimately is expected to generate profit increments. This clearly illustrates that well managed loans tend to lead to profit maximization. Similarly, a corresponding increase in production and sales as a result of these loans demands that employment be increased to maintain the workforce necessary for the increased production and sales.

2.3.3. Information Sharing in the Region

Looking at the region, Mahembe et al (2011) conducted a study on access to credit and support by SME’s in South Africa. Commissioned by the National Credit Regulator the study sought to assess the matters affecting the consumer credit industry. One of the major findings of the study was that the major impediment to credit for them was lack of fundamental financial education amongst small business owners and the need for mentorship programmes. Secondly, the collateral required upon loan application and credit histories was a huge obstacle. Now in effect this may mean that CRBs are effective in updating of negative information of borrowers i.e. their defaulting histories, positive information is actually not used to measure and illustrate a borrowers’ credit worth and major sources of information are not available apart from the main credit avenues. His study resolved that for these challenges to be managed, access to financial information amongst SMEs was exceedingly important.
Furthermore findings by World Bank Enterprise survey of 2008 where 31% of micro and 39% of SMEs said that unacceptable collateral was a reason for loan uptake being low and they recommended relaxed loan application requirements and use of past positive information from varied sources to decide on their credit worth.

Today in Kenya, there is a formal credit information sharing system that enables all lenders (banks, finance companies, credit card companies, retailers, suppliers extending trade credit) to share their credit information through licensed CRBs, information brokers that are operated independently. These bureaus collect the information monthly and assign a credit score rating to each individual. The lenders that have contributed data can in turn get a return flow of consolidated data about a credit applicant upon request to the CRBs. These days this two-way flow of data between lenders and the bureau is effected electronically (Lorange, 2004).

A customer’s credit report mostly contains demographic information, customer’s statements, payment profile information and account information that is captured into the system using the credit information sharing process that allows credit providers to exchange customers’ information. Locally this is managed by the CRBs licensed by the Central Bank of Kenya. However, with the legislation of the Kenyan CRBs, the central bank allowed a third party to source customer credit history. Historically, banking in Kenya had clauses that protected the customer, because banks were not allowed to share customer banking details due to the confidentiality clauses binding them from sharing information on customers. Hence it was illegal to share information even on bad debtors. Now this has been changed and sharing of customer information is allowed thus reinforcing the importance of the Kenyan CRBs (Larcker, 2005). It is compulsory now for lenders to give a listing of all their bad debtors’ information to the CRBs where the information is collected, collated and processed so as to generate credit reports to be used by lenders in assessing the credit worthiness of those seeking to access credit

2.4 Effect of Credit Information Sharing On SMEs
Credit information sharing between creditors is a fundamental element of the financial infrastructure that allows for the access to a greater volume of finance for consumers. The availability of information creates more opportunities where credit can be given more
efficiently by greatly reducing the time necessary to make decisions. Normally, creditors use credit reports prepared by CRBs to evaluate creditworthiness of borrowers thereby bringing down the risks of advancing loans haphazardly. This is mainly due to the fact that almost all financial markets are characterized by the information asymmetry problem between borrowers and creditors. Therefore an effective credit reporting system is considered to represent a formal answer to this issue on the creditors’ side.

People with high scores are offered credit on much more favourable terms than those who default on their loans who in turn experience a decline in their scores and, therefore, lose access to credit on good terms. Furthermore those that default and run up debt also experience a decline in their credit scores and have to pay higher interest rates on new loans.

2.4.1. Policies for Protection of Data in Credit Information Sharing

As far as research shows there is currently no international policy that specifically regulates protection of personal data in credit information sharing. In the European Union the Data Protection Directive 95/46/EC largely is applicable in the protection of personal data in the context of credit information sharing. However, the Directive 95/46/EC was preceded by three international policies, namely the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data 1980 (the OECD Guidelines), the CoE Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data 1981 (CoE Convention 108) and UN Guidelines for the Regulation of Computerized Personal Data Files (UN Guidelines). Unlike the Directive 95/46/EC and OECD Guidelines, the CoE Convention 108 is open for non-member states to accede. Outside of Europe, Uruguay is the first accession to the Convention while Morocco, Mauritius, Senegal and Tunisia the non-European accession invitation. Of these policies, the EU Directive 95/46/EC is the most influential in the data protection law reform across the world partly due to its restrictive regime of international transfer of personal data.

Whereas credit reporting globally has few documented examples of awareness creation on a national level Panama is one country whose evolution of credit reporting knowledge is deserving of attention. Luz Maria Salamina from the World Bank reported in February 2016 at the 3rd regional credit information sharing conference in Nairobi that Panama have had a credit bureau for 60 years and adults with formal credit are 1.5 million out of a population of
2.5 million adults with a total population of 4 million (World Bank, 2016). This year alone there were about 95 banks, 40 of which have general licenses which serve the local population. Research done among the general population then indicated that the main perception was that the CRB existed to deny credit. In order to change that perception a campaign dubbed ‘Your finances under control’ was initiated. Facilitated by face to face interviews conducted in busy malls and supplemented by TV and radio programs; editorial columns in the papers; engaging the public through a social media strategy; online access to credit reports and webinars resulted in over 5000 people being trained and undergoing formal training on the importance of credit information sharing to consumers.

As a result of this it was deemed necessary to ask questions to find out the concerns of credit consumers so as to use the valuable information collated in designing messages to create awareness. Furthermore, to increase the impact of credit information sharing is the need to identify the consumer’s circle of influence and engage these influencers in campaigns. The circle of influence includes the lender, the regulator, the society and the media. Another point of importance is to form partnerships that will make the process sustainable and can involve creating working groups, training stakeholders and fostering good relationships among consumers. They also concluded that successful financial literacy campaign include giving the consumers access to their credit reports using simple consistent messages and having an efficient complaints’ resolution process.

2.4.2. Regulations for Credit Information Sharing in Africa

Regionally, Africa is experiencing major growth strides in its consumer credit characterized by an emerging credit reporting system. While credit information sharing is crucial for a stable and sustainable financial market to flourish, protection of personal data that is part of credit reports generated by credit reference bureaus is equally important. Makulilo (2016), infers that the emerging credit reporting regulations in Africa incorporate minimum principles of processing personal data similar to standards set in international best practices. However, the scope and extent of such principles is still limited.

With the exception of South Africa, Sub-Saharan Africa is the only region of the world where credit bureaus are not fully functioning. On the occasion of the launching of the CRBs in Uganda, the Governor of the Bank of Uganda remarked that the absence of a CRB in
Uganda has been a major bottleneck to the expansion of the volume of private sector credit. Yet this situation is changing as the demand for information by financial institutions on the one hand and the pressure from the bank supervisors to improve risk management practices on the other has led to several initiatives in Africa to develop credit bureaus. As a result, in the past 10 years there have been positive initiatives that saw the establishment of regional private CRBs and public registries. These initiatives have been supported by the World Bank and International Finance Corporation who have actively been involved in the development of credit reporting in the region.

As elsewhere, establishment of CRBs in Africa met with legal and regulatory challenges. One such challenge is the banking duty of secrecy and confidentiality, which is the heart and soul of the trust customers give to the banker. A person provides much personal information to the bank when opening an account such as name, date of birth, place of residence, national and voter’s identity card, taxpayer registration number, and social security number. In the landmark case of Tourner v. National Provincial & Bank of England, the English Court of Appeal held that the customer has a legal right to keep his affairs confidential (Tourner versus Nat’l Provincial & Bank of England, 1954). A banker cannot just disclose to unauthorized third parties information it has received as part of its handling of a client’s account. This duty is an implied contractual term. In Tourner, the English Court made it clear that the scope of the banker’s duty to secrecy and confidentiality is not limited to the actual state of the account (the amount of money in the account) of the customer but includes any information derived from the account itself as well as transactions that go through the account.

However, Tourner provided four exceptions for when information can be disclosed: (1) compelled by law; (2) duty to the public (e.g., prevention of fraud or crimes); (3) the interests of the bank; and (4) customer consent. The duty of secrecy as stated in Tourner is the legal position in African jurisdictions. Because credit information sharing is not compatible with any of the four exceptions, it has been necessary to amend banking laws to permit the functioning of CRBs. Consumer credit markets depend on the exchange of personal data among participants. As such CRBs collect, file, process, manage, and disseminate financial data of borrowers which more often than not includes individual personal information. The
development of modern technologies such as Big Data, the Cloud and the Internet has enabled CRBs to gather huge amounts of data on creditworthiness of individuals. Different data content and definitions may render difficult a proper assessment of the credit application. Concomitantly the risk of discrimination based on inaccurate information is higher.

At the continental level, the African Union adopted the AU Convention on Cyber security and Personal Data Protection 2014 (the Malabo Convention). The Convention has not yet come into force because the requisite number of ratifications has not yet been achieved. The AU Convention was preceded by the ECOWAS Supplementary Act on Personal Data Protection 2010. It is noteworthy that Part II of the AU Cyber Security Convention, which covers data privacy issues, is substantially close to the ECOWAS Supplementary Act. The ECOWAS Act has been influenced strongly by the EU Directive. The Act is an integral part of the ECOWAS Treaty. Accordingly breaches of the provisions of the Act by member states can be enforced before the ECOWAS Court of Justice. The policies provide for the rights of the individual whose personal data is the subject of processing: right to information, right of access, right to object, and right to rectification and destruction. At the same time, they have provisions on obligations of the data controller: confidentiality, security, conservation, and sustainability.

In contrast to the AU Convention, ECOWAS, and SADC, data privacy policy at the East African Community (EAC) level, comprising Kenya, Uganda, Tanzania, Rwanda, and Burundi rather is not developed. The EAC Legal Framework for Cyber Law Framework 2008 (the Cyber Law Framework) recommends that two minimum obligations should be imposed with regard to a processing activity of personal data. First, is to comply with certain “principles of good practice” in respect of their processing activities, including accountability, transparency, fair and lawful processing, processing limitation, data accuracy, and data security. Second, is to supply the individual with a copy of any personal data being held and processed and provide an opportunity for incorrect data to be amended. Only Ghana, Angola, and South Africa have a general law on data protection and special credit information regulations.
2.4.3. Credit Information Sharing In Kenya
The Credit Information Sharing Association of Kenya (CIS Kenya) was created to formalize the National Credit Information Sharing (CIS) Forum which was started in 2009 so as to unite both bank and non-bank providers of credit to chart a clear path forward towards a full comprehensive mechanism in Kenya (CIS Kenya, 2013). It is important to note that before the implementation of CIS, Kenya Credit Information Sharing Initiative (KCISI) was headlined by a partnership between Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA). Due to the efforts of CIS Kenya and its partners the CIS mechanism has evolved greatly over the last seven years especially the areas of coverage of credit information and usage. However despite gaining traction much work remains to be done.

There are 3.1 million loan and advances accounts compared to 19 million active depositors. So far, 2.9 million credit reports have been accessed for use in credit evaluations while over 700,000 borrowers have been listed in the non-performing loan category. The users of these credit reports include banks, Deposit Taking Institution and other credit providers such as the student loan provider, HELB, and two local development finance institutions: IDB Capital and the Agricultural Finance Corporation. Some employers have also started using credit reports in the assessment of the suitability of prospective employees. Already, credit information sharing has improved credit risk management and sped up lending decisions therefore contributing to an improved loan repayment culture. As a result, funds previously tied up in non-performing loans have been unlocked and made available to new borrowers.

KCISI was set up as a joint collaboration between the Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA) in 2009 with funding from Financial Sector Deepening Trust (CIS Kenya, 2013). As far as enforcement is concerned, the CBK is the regulatory authority for credit reporting. The Bank has various functions and may issue administrative sanctions and penalties for any infringement of the Regulations. If a party is aggrieved by a decision of the Bank or any other act of a bureau, institution, or any other person, it may challenge such decision or conduct in a court of law only after it has exhausted all available remedies under the Regulations. In a case where a petitioner challenged the constitutionality of the CRB Regulations as well as the act of the Bank and CRB to share wrongful information about him without his consent and/or notification, the court held that the
petitioner ought to have invoked the statutory procedure laid in the CRB Regulations (Credit Reference Bureau Regulations, 2008). The court also rejected the constitutionality claim for failure by the petitioner to join the attorney general who was the necessary party. Moreover, the Central Bank of Kenya, bureau, or any other participant is protected against suit or prosecution for anything done in good faith that may result in any loss or damage to any person. In line with this, it has become imperative to redesign the Alternative Dispute Resolution (ADR) mechanism so as to address institutionalized problems that keep affecting consumers participating in the CIS mechanism (Hajat, Ketley, Miano and Njeru, 2016). Eventually, promoting awareness campaigns will have a significant effect in educating and changing consumer behaviour.

Beyond the CRB Regulations, the Constitution of Kenya 2010 expressly guarantees protection of privacy. Article 31 of this Constitution states that every person has the right to privacy, which includes the right not to have their person, home or property searched; their possessions seized; information relating to their family or private affairs unnecessarily required or revealed; or the privacy of their communications infringed (The Constitution of Kenya, 2010). However, up to now Kenya has not passed a general data protection legislation that implements the constitutional right to privacy. It only has a draft Data Protection Bill pending since 2014 which has not yet been tabled in the Kenyan Parliament. However protection of privacy exists in sectoral laws such as the Kenya Information and Communications Act 2012, the Prevention of Terrorism Act 2012, the HIV and AIDS Prevention and Control Act 2006, and the Consumer Protection Act 2012.

It is interesting to point out that most of the credit reporting legislation in Africa lacks regimes of cross-border transfer of personal data. Ghana is the only exception where its main Data Protection Act 2012 does not have a regime of international transfer of personal data. With the credit market in Africa becoming global, the processing of personal data in the context of credit information sharing may leave most people vulnerable to misuse of their personal information especially when the destination to which such information is transferred does not have adequate laws for the protection of personal information. Another interesting issue that is emerging in the credit information sharing market in Africa is the rise of mobile credit reference services, particularly in Kenya. It is not certain to what extent the rules on
credit reporting would extend here. Perhaps telecommunications regulations and regulatory bodies, which are vested with a mandate to regulate communications, will also intervene. So far there is no clear answer on this issue and a possible area of study would be to determine how mobile credit reference bureaus could be regulated.

Every organization requires quality information to cope with the uncertainties in business environment and improve their decision making process (Stern and Reve, 1980). Consumer reporting agencies operated virtually in secret and enjoyed near immunity for inaccuracies contained in their reports. Agencies required in their contracts that subscribers not reveal to subjects that a report was being or had been prepared, the contents of the report, or the identity of the agency providing the report. An individual generally learned that a consumer report was being or had been prepared only by chance. Even when the identity of the reporting agency was discovered, the agency would refuse to provide the individual with a copy of the report or any of the information about him in its files. If the report was obtained and inaccuracies were found, the qualified privilege for consumer reporting agencies in defamation actions under state law was so strong as to preclude relief in all but the most egregious cases. All this is changed by the FCRA, but every instance of reporting inaccurate information does not result in liability under the Act.

A sustainable multi media campaign is necessary in Kenya to change the general perceptions of CRBs and the choice of media should be selected carefully so as to match the intended audience (Hajat, Ketley, Miano and Njeru, 2016). In addition, with access to easy to use credit reports and well trained staff who are ready to advise customers at each point, awareness is bound to grow with most SME business owners having a positive experience during their interactions with CRBs. If an individual reported on disputes the completeness or accuracy of any information contained in his file and directly conveys the fact of that dispute to the reporting agency, the agency must within a reasonable time reinvestigate and record the current status of the information. If after reinvestigation the information is found to be inaccurate or can no longer be verified, the agency is required to delete the information from its file and, at the request of the individual, notify recipients of the information of the deletion. If the reinvestigation does not resolve the dispute, the individual may file a brief statement with the agency setting forth the dispute and direct the agency to notify previous
recipients of his position. Additionally, the agency, in future reports containing the information at issue, must clearly note that it is disputed and inform the recipient of the nature of the dispute.

According to Carolina (1999), the information shared in CRBs is mainly “opaque” that is negative information on defaults or arrears. Furthermore the use of statistical risk analysis totally leaves out the positive aspects of a borrowers lending history.

Perhaps one way of forcing credit reference agencies to take more responsibility for the information they publish, rather than hiding behind the fact that they are merely publishing information supplied by their customers, would be for the CBK to require lenders to satisfy themselves about the robustness of the outsourced information which is so critical to them.

2.5 Chapter Summary
The chapter discussed literature review of existing research literature on brand awareness, impact of information asymmetry and credit information sharing on accessing credit from a formal financial institution. Credit information sharing and reporting is important for the growth of a digital economy in Africa. Equally important is the protection of personal data of consumers in this market. However, pursuing both aims causes some tension. Information sharing presents customers with a good credit rating the opportunity to negotiate for better credit terms. SMEs and individual borrowers stand to benefit greatly from the introduction of CRBs since they will be able to use their credit histories as collateral unlike in the past when they were constrained from accessing credit due to lack of physical collateral. The discussion addressed and tackled all the research questions raised and provided a firm theoretical background for the study. The chapter delved into how to build brand awareness for an organization and also the benefits of credit information sharing from a consumer perspective. The next chapter will outline the research methodology used and describe the research design, population and sampling design, methods of data collection and data analysis methods that were used in the study.
CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1. Introduction
This chapter presented the research methodology used in the study and detailed research design, population and sampling, data collection methods, research procedures and how data collected was analyzed.

3.2. Research Design
According to Leedy & Ormrod (2001) Research Methodology is defined as the general approach taken by the researcher in carrying out the research project. The descriptive survey method is a basic research method that examines the situation as it currently exists. It involves identifying the features of a certain phenomenon based on observation. The descriptive survey method was used as the research design for this study as it effectively answered the what, when, where and how much of the research questions. The survey design strategy is perceived as authoritative in general and is comparatively easy both to explain and understand.

3.3. Population and Sampling Design

3.3.1. Population
According to Cooper and Schindler (2001), a population is defined as the total collection of elements that the researcher wishes to make inferences about. The population was obtained from members of the business hubs located in Nairobi. The Business Network International (BNI) hub has 292 members in its Nairobi network and about 600 in Kenya. Most of the SME businesses in the network fall across various sectors such as Financial Services, Advertising, Architecture, Automobile Repair, Building & Construction, Clothing, Consulting, ICT, Insurance, Legal, Security, Travel among others. Of these, this study aimed to sample member business owners from the different industrial sectors guided by the questionnaire gained insight about the awareness of CRBs in Kenya and the impact of credit rating in accessing a loan.
### Table 3.1: Population Distribution per Strata

<table>
<thead>
<tr>
<th>Industry</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising, Media &amp; PR</td>
<td>9</td>
</tr>
<tr>
<td>Appearance, Apparel, Health wellness &amp; Beauty Consultant</td>
<td>17</td>
</tr>
<tr>
<td>Architectural, Landscaping, Signage &amp; Interior Design</td>
<td>14</td>
</tr>
<tr>
<td>Graphic design, Printing &amp; Photography &amp; Art &amp; Craft Supplies</td>
<td>17</td>
</tr>
<tr>
<td>Automotive &amp; Engineering, Electronics &amp; Appliance</td>
<td>27</td>
</tr>
<tr>
<td>Real Estate, Building &amp; Construction Services</td>
<td>45</td>
</tr>
<tr>
<td>Consulting &amp; Services: Education, Human Resource, Medical, Marketing, Accounting, Legal</td>
<td>57</td>
</tr>
<tr>
<td>Entertainment, Events &amp; Conferencing, Food &amp; Beverages</td>
<td>26</td>
</tr>
<tr>
<td>ICT &amp; Telecommunications</td>
<td>15</td>
</tr>
<tr>
<td>Insurance</td>
<td>17</td>
</tr>
<tr>
<td>Security</td>
<td>18</td>
</tr>
<tr>
<td>Transportation, Freight Forwarding, Travel</td>
<td>20</td>
</tr>
<tr>
<td>Other: Agricultural, Moving, Storage &amp; Pest control, Office Equipment &amp; Supplies. Furniture, Jewelry &amp; Lifestyle Gifts</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>292</strong></td>
</tr>
</tbody>
</table>
3.3.2. Sampling Design

3.3.2.1. Sampling Frame
Sampling design refers to a research plan that indicates how cases are to be selected for observation or as respondents (Mugenda & Mugenda, 2003). The business owners in the Business Network International (BNI) network made up the sampling frame and all had an equal chance of being selected to participate in the study.

3.3.2.2. Sampling Technique
The stratified simple random sampling technique was used as it was effective for the study. This is a probability sampling method where the population is divided into smaller groups known as strata which are based on similar characteristics shared by the members. The strata comprised of business owners from various sectors that are listed in Table 3.1 and therefore it was possible to take a random sample from each stratum so that the sample result could be projected to the target population. The subsets of the strata were then pooled together to create a random sample as indicated in Table 3.2 below. This technique was preferred over simple random sampling as it was highly economical, allowed for easy comparison and the possibility of reducing the sample size so as to increase precision. In this study, only business owners who had been in business for more than 1 year and had an annual turnover of over 1 million Kenya shillings were included as study elements.

3.3.2.3. Sample Size
BNI is a business and professional networking organization whose primary purpose is to exchange qualified business referrals. In Kenya, BNI has over 30 chapters each with about 20 SME members bringing their network to about 600, 49% of whom are located in Nairobi. It was estimated that of the 292 members located in Nairobi, about 34% of the population would be willing to participate in the study during the two month data collection period therefore constituting the stratified sample size. The minimum sample size was calculated using the Yamane formulae which is

\[ n = \frac{N}{1 + Ne^2} \]

where “n” is the targeted sample size, “N’ is the population size and “e” is the margin of error.

27
\[ n = \frac{600}{1 + 600 (0.10^2)}, \text{ therefore } n=86. \]

**Table 3.2: Sample Size Distribution per Strata**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Population</th>
<th>Strata</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising, Media &amp; PR</td>
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<td>Appearance, Apparel, Health wellness &amp; Beauty Consultant</td>
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</tr>
<tr>
<td>Other: Agricultural, Moving, Storage &amp; Pest control, Office Equipment &amp; Supplies, Furniture, jewelry &amp; Lifestyle Gifts</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>292</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
3.4. **Data Collection**

The Data collected during the study was both nominal and ordinal in nature and was used to measure the frequency of variables so as to unearth the relationships between them rather than precise measurements. The collated results were used to express the most common insights among the business owners, that is, the mode as well as the level of agreement with different statements therefore measuring median. This type of data was good for cross tabulation as it gave critical insights into data patterns. The tool used to collect the data from the BNI members was structured questionnaires. The structured questionnaire used contained a mixture of closed ended and open ended questions. Questionnaires were used since the study was concerned with variables that could not be observed, that is views, opinions and perceptions of respondent. This kind of information is best collected through questionnaires (Touliatos and Compton, 1998). The questionnaire was divided into four main sections. Section A was used to collect background information of the respondents on areas like age, gender, education level etc. Section B, C and D addressed each of the three research questions and consisted of rating scales of two levels such as Agree or Disagree and Yes or No. In addition, the five-point Likert type scale was used throughout the questionnaire to standardize the responses and assigned quantitative values to qualitative data therefore making it suitable for statistical analysis. The open ended questions aimed to solicit more responses thus minimizing response bias. Participants were asked to indicate their level of agreement with each statement/item from 1(Strongly agree), 2(Agree), 3(Disagree), 4(Strongly disagree) and 5 (Not applicable).

3.5. **Research Procedure**

The research procedure started with the preparation of the structured questionnaire that was to be delivered during face to face interviews. The questionnaire was pre tested in January 2017 with 5 BNI members of the Jewels chapter that met in Nairobi. The pretest was crucial as it proved useful in revealing weaknesses in the structure and sequence of questions in the questionnaire. As a result of the pretest, questions that resulted in duplicity were identified and changed and the issue of accuracy and precision of the questions was refined. The next step involved recruitment of volunteer 2 data collection assistants who were trained to conduct face to face interviews with the respondents. Together with the researcher for a period of 4 weeks, the clerks attended the weekly Tuesday BNI networking meetings that are
held across different city hotels in Nairobi. Permission was granted by Mr. Muraguri, the National Director of BNI Nairobi to interview the members of different chapters after these breakfast meetings. The researcher and clerks attended the meetings and once concluded before the members dispersed for breakfast, explained the purpose of the study and politely requested them to participate in the study having assured them of response confidentiality. The researcher and clerks were armed with multiple copies of the questionnaire and conducted face to face interviews with the BNI members, noting down the answers on the questionnaires. To ensure a high response rate, respondents were informed beforehand of the duration of the interview and it made it easier for them to commit to the interview without feeling pressured. In addition, the clerks were able to contact the BNI members multiple times due to frequency of the meetings which are held weekly therefore enabling respondents that had previously declined to participate due to time constraints the opportunity to participate at a later date. meetings and for the at the beginning of the and data cleaned for missing values and data entry errors Once the interviews were completed, the questionnaires were collected and collated by the researcher in to a MS Excel sheet and the transferred to the statistical package for analysis.

3.6. Data Analysis
The data was collected, thoroughly examined for completeness as well as correctness and appropriately stored in a format that permitted statistical analysis. The data was then summarized, classified, coded and tabulated. The coded data was then entered into the Statistical Package for Social Sciences (SPSS .version 22) for analysis. The analysis entailed cleaning, screening, coding and analysis using SPSS for computer-aided, statistical manipulation. Descriptive data, correlation and regression analysis techniques were then used to analyze the data and data presentation was done by the use of tables and figures so as to ensure the collated information was clearly understood.

3.7. Chapter Summary
This chapter presented the selected research design for the study and the target population. The sampling design used was the descriptive survey and the data collection method was the interview administered questionnaires. The sampling technique used was the stratified random sampling, targeting a select group of business owners who have over 1 year business
experience and over Kenya shillings 1 million turnover. The research procedures and application of the research questions in this study were explained in detail. Finally the software for data analysis (SPSS .version 22) was selected considering the type of data that was collected and analyzed. Interpretation of the statistical outputs was done and the next chapter discussed the presentation of results and findings of the study.
CHAPTER FOUR

4.0. RESULTS AND FINDINGS

4.1. Introduction

The previous chapter gave an introduction, overview of literature review and the research methodology of the study. This chapter presented the results and findings of the research study on the market awareness levels of the three licensed CRBs in Kenya especially among SME business owners and evaluated if they associated any benefits or pitfalls that arose from credit information sharing in their access to credit from formal financial institutions in Kenya.

4.1.1. Response Rate

The study had a minimum sample size of 88 but target sample size of 125 respondents, all members of the Business Network International (BNI), a business and professional networking organization. From the study 100 of the sampled respondents were willing to be interviewed and completed the questionnaire, giving a response rate of 80% as shown in Table 4.1 below.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>100</td>
<td>80%</td>
</tr>
<tr>
<td>Not responded</td>
<td>25</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.2. General Information

4.2.1. Gender of the Respondents

The results of the study indicated that the majority of the respondents were male (60%) while female respondents were 40%. These results are shown in figure 4.1 below.
4.2.2. Age of the Respondents

Of the 100 respondents, the majority (44%) fell within the age group bracket of 41-50 years followed by 39% falling between 31-40 years old. Only 11% were between 51-70 years old and 6% fell between 21-30 years of age. None of the respondents were below 20 years old. The results are indicated below.
4.2.3. Education level of the Respondents

The results in Figure 4.3 indicate that the highest education level for the majority of the respondents (46%) was University education, 26% indicated college as their highest level of education while there were two groups at 10% who indicated that O-level and Other was their highest level. Only 8% indicated they had attained Graduate level education.

Figure 4.3: Education level of the Respondents

4.2.4. Number of years in business of the Respondents

The results of the study indicated that 43% of the respondents had been in business for between 4-6 years and 38% for between 7-10 years, 14% over 10 years while only 5% had been in business for between 1-3 years. The results are illustrated in the figure below.
4.2.5. Number of respondents who have accessed credit in the last 5 years

It was important for the study to focus on respondents who have recently borrowed credit from financial institutions. A majority of respondents who participated in the study (85%) had accessed credit in the last five years while only 15% had not as illustrated in the figure below.

Figure 4.4: Number of years in business of the Respondents

Figure 4.5: Borrowed in the Last 5 Years
4.3. Market Awareness Level of the Three Licensed CRBs

Consumer awareness is crucial to confirm that the potential benefits of the CRB mechanism are fully understood and appreciated. This study sought to determine the extent to which SME respondents were familiar with the brand names of the three licensed CRB’s in Kenya and in so doing provided valuable insights into how much is understood about their products, benefits and operations.

According to the results in figure 4.6, 68% of the respondents strongly agreed that they were familiar with the term ‘Credit Reference Bureau’, while 20% agreed that the term was indeed familiar. 10% indicated they were not familiar with the term while 2% strongly disagreed that they were familiar with the term.

![Figure 4.6: Familiar with ‘Credit Reference Bureau’](image)

On the term 'credit information sharing', 48% of the respondents agreed they had heard of it, 23% strongly agreed while 22% disagreed and an additional 7% strongly disagreed that they had heard of the term. This concluded that the general majority of respondents had heard of the term credit information sharing as indicated in Figure 4.7 below.
Figure 4.7: Familiar with ‘Credit Information Sharing’

43% of respondents agreed that they were familiar with Metropol credit reference bureau, 10% strongly agreed while 28% disagreed and 19% strongly disagreed being familiar with the firm.

Figure 4.8: Familiar with Metropol CRB
41% of respondents disagreed that they were familiar with Trans-Union (formerly CRB-Africa) 2% strongly agreed while 27% agreed and 30% strongly disagreed being familiar with the firm.

**Figure 4.9: Familiar with Trans-Union**

44% of respondents disagreed that they were familiar with CreditInfo credit reference bureau, 2% strongly agreed while 21% agreed and 28% strongly disagreed being familiar with the firm.

**Figure 4.10: Familiar with CreditInfo CRB**
On how the respondents had heard about CRBs in Kenya 52% of respondents said they heard about them from Banks, MFIs and SACCOs, 24% said online, 10% said through both radio and print media while only 6% said TV.

![Image](image1)

**Figure 4.11: Media Channels**

On the respondents general perception about the role of CRBs in Kenya 32% of respondents said they lower the lending risks for lenders, 24% said they help lenders to collect debts easily, 16% felt they help good customers negotiate better credit and 13% said they make credit affordable to more people. Only 9% said they make credit available to more people and 7% said they reduce collateral requirements.

![Image](image2)

**Figure 4.12: Perceptions on the Role of CRBs**
From the analysis, 59% of respondents agreed they preferred visiting financial institutions that do not use CRBs as a criteria for lending credit, 22% strongly agreed, 9% disagreed and 8% strongly disagreed while 2% preferred the not applicable option. It is evident that the majority felt this to be true and agreed as shown in the figure below.

![Bar graph showing preferences for firms not using CRBs for credit approval.](image)

**Figure 4.13: Prefer Firms Not Using CRBs for Credit Approval**

The study indicated, 37% of respondents disagreed with the statement credit referencing is not acceptable and should not be practiced in Kenya, 28% strongly disagreed, 25% agreed and 3% strongly agreed while 7% preferred the not applicable option. It is evident that the majority felt this not to be true and agreed as shown in figure 4.14 below.
The study indicated, 42% of respondents agreed that currently only lenders benefit from Credit Referencing in Kenya, 34% strongly agreed, 15% disagreed and 5% strongly disagreed while 4% preferred the not applicable option. It is evident that the majority felt this to be true and agreed as shown in the figure below.

**Figure 4.14: Perceive Credit Referencing As Unacceptable**

**Figure 4.15: Believe Only Lenders Benefit from Credit Referencing**

The study indicated, 56% of respondents agreed that CRBs are precisely what we need for proper credit management, 24% strongly agreed, 10% disagreed and 7% strongly disagreed
while 3% preferred the not applicable option. It is evident that the majority felt this to be true and agreed as shown in the figure below.

**Figure 4.16: CRBs Are Necessary for Proper Credit Management**

The study indicated, 49% of respondents agreed that they have no worries about Credit Referencing as they believe it will give them a better opportunity to get a loan, 9% strongly agreed, 132% disagreed and 7% strongly disagreed while 3% preferred the not applicable option. It is evident that the majority felt this to be true and agreed as shown in the figure below.

**Figure 4.17: Credit Referencing Betters Chances to Access Credit**
The study indicated, 45% of respondents disagreed that they fear that everyone will know how much they have in their account through the CRBs, 27% strongly disagreed, 26% agreed and 1% strongly agreed while 1% preferred the not applicable option. It is evident that the majority felt this not to be true and disagreed as shown in the figure below.

![Figure 4.18: CRBs Reveal Account Balances](image)

The study indicated, 35% of respondents disagreed they don't need to check their credit report if the pay bills on time, 19% strongly disagreed, 31% agreed and 13% strongly agreed while 2% preferred the not applicable option. It is evident that the majority felt this not to be true and disagreed as shown in the figure below.

![Figure 4.19: Proportion Not Checking Credit Reports Due to Timely Bill Payments](image)
The study indicated, 50% of respondents disagreed credit reporting is nothing but a sham particularly because of the content of credit reports currently, 31% strongly disagreed, 9% agreed and 5% strongly agreed while 5% preferred the not applicable option. It is evident that the majority felt this not to be true and disagreed as shown in the figure below.

**Figure 4.20: Current Credit Reporting Is a Sham**

The study indicated, 55% of respondents disagreed they believe they will never get a loan again if they get a negative listing today, 24% strongly disagreed, 14% agreed and 5% strongly agreed while 2% preferred the not applicable option. It is evident that the majority felt this not to be true and disagreed as shown in figure 4.21 below.

**Figure 4.21: Negative Listing Equals Never Accessing Credit**
The study indicated, 56% of respondents disagreed there are corrective and effective measures in place in case of accidental listing as a defaulter with the CRBs, 37% strongly disagreed, 28% agreed and 4% strongly agreed while 5% preferred the not applicable option. It is evident that the majority felt this not to be true and disagreed as shown below.

![Bar Chart]

**Figure 4.22: Corrective Measures Exist for Accidental Listing by CRBs**

### 4.4. Impact of Information Asymmetry on Credit Access

When compared to large firms SMEs tend to find access a huge hurdle. The study sought to determine if information asymmetry had an impact on the SMEs looking to access credit from formal financial institutions in Kenya.

According to the results in figure 4.23, 41% of the respondents said they separate their business and personal finances while 59% said they do not.
The study indicated in figure 4.24, 80% of the respondents said both negative and positive credit information should be shared while only 20% said no.

The results of the study shown in figure 4.25 indicated 30% of the respondents said only positive credit information should be shared while only 70% said no.
Figure 4.25: Sharing of Only Positive Credit Information

The results of the study shown in figure 4.26 indicate 23% of the respondents said only negative credit information should be shared while only 77% said no.

Figure 4.26: Sharing of Only Negative Credit Information

The results of the study shown in figure 4.27 indicated 93% of the respondents said consumers should be notified before they are listed on the CRBs and not afterwards while only 7% said no.
Figure 4.27: Notification of Consumers Before Listing by the CRBs

The results of the study shown in figure 4.28 indicated 67% of the respondents said CRBs should not in any circumstances be used as a tool to pressurize consumers / businesses while only 33% said no.

Figure 4.28: CRBs Should Not Be Used as a Tool to Pressurize Consumers

The results of the study shown in figure 4.29 indicated 95% of the respondents said implementation of consumer protection law should be put in place while only 5% said no.
The results of the study shown in figure 4.30 indicated the list of collateral that respondents believe is necessary to access credit in Kenya. 100% of the respondents said an Identity card is necessary, 60% said a guarantor is necessary while only 9% said that it is necessary to have a pay slip or business license. 12% said a title deed or log book is necessary, 34% said a bank statement is necessary while only 10% said it is important to have credit history.
The results of the study shown in figure 4.31 indicated the financial services products that respondents are familiar with that are offered by credit providers. 100% of the respondents knew that personal / business loans and asset finance are offered by these institutions, 56% said they knew of other credit facilities while only 28% knew of financial advice and 21% knew of medical insurance offered by these institutions.

Figure 4.31: Products Offered by Credit Providers

The results of the study shown in figure 4.32 indicated 77% of the respondents said the biggest beneficiary of the CIS mechanism in Kenya was lending institutions, 15% said business borrowers, and 5% said individual borrowers while only 3% said the government.

Figure 4.32: Biggest Beneficiary of Credit Information Sharing
4.5. **Effect of Credit Information Sharing On SMEs**

Credit information sharing (CIS) ideally allows for more opportunities where credit can be issued to SMEs by bringing the time necessary for decision making on granting credit. The study sought to determine if credit information sharing had an effect on the SMEs looking to access credit from formal financial institutions in Kenya.

4.5.1 **Descriptive Statistics**

Table 4.2 gives a combined statistics on the relationship between those who had borrowed in the last 5 years and their perception that the CIS mechanism helped distinguish them from persistent defaulters. It also outlined their perception of CRBs ability to provide accurate credit scoring and reporting. The mean score of 0.56 and the standard deviation of 1.76 meant that the responses were close to the mean. The negative skew of -1.26 indicated that the mean is less than the median which is a confirmation that most of the respondents who had accessed credit in the last five years where confident in the rating and reporting of CRBs.

<table>
<thead>
<tr>
<th>Relationship Total</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>100</td>
<td>0.56</td>
<td>-1.26</td>
</tr>
</tbody>
</table>

4.5.2 **Correlation**

Table 4.3 gives the summarized correlation results of the SMEs that had borrowed credit in the last five years and their perception of the CIS mechanism. It also outlined the correlation results between those that had obtained a credit report recently and their indication that CRBs are capable of providing accurate credit scoring and reporting. The results indicated that there is a perfectly negative correlation between those who had borrowed recently and their perception of the CIS mechanism benefit for the SME as well as in their efforts to obtain a credit report. The other correlations observed thought being positive in nature were very weak and therefore cannot provide evidence of any correlation between those that had recently borrowed and their perception of the CIS mechanism. Neither was any positive
correlation noted for those that had tried to obtain a credit report recently and their confidence in the ability of the CRBs to provide accurate credit scores and reports.

Table 4.3: Correlation

<table>
<thead>
<tr>
<th></th>
<th>Obtained credit from a credit provider in the last 5 years</th>
<th>CIS mechanism helps distinguish SMEs from persistent defaulters</th>
<th>Obtained a credit report from a CRB agency in last 5 years</th>
<th>Confident accurate credit scoring will be done by the CRBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtained credit from a credit provider in the last 5 years</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIS mechanism helps distinguish SMEs from persistent defaulters</td>
<td>-0.073394619</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obtained a credit report from a CRB agency in last 5 years</td>
<td>-0.114930471</td>
<td>0.086039837</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Confident accurate credit scoring will be done by the CRBs</td>
<td>0.028005602</td>
<td>0.020965697</td>
<td>0.09656091</td>
<td>1</td>
</tr>
</tbody>
</table>
4.5.3 Regression Analysis

The regression analysis performed for testing the effect of recent borrowings on the SME business owner’s perception of the CIS mechanism and confidence in the CRBs ability to score and rate creditors is shown in Table 4.4. The R Square value of 0.02 indicates there is almost no fit as only 2% of the data fits on the regression line. The extremely tiny P-value of 9.33E-22 which I rounded off to 0.001 indicated that there is no significant relationship between these statements as answered by the respondents. The t Stat value of 12.46 indicted a significant difference between the statements and is in line with our indicated P-value figure. The confidence interval is shown in the table and reflected a greater level of certainty that the parameters fall within these bounds.

Table 4.4: Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>t Stat</th>
<th>P-value</th>
<th>Significance</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>0.02</td>
<td>12.46</td>
<td>9.33E-22</td>
<td>0.61</td>
<td>0.75</td>
<td>1.03</td>
</tr>
</tbody>
</table>

According to the results in figure 4.33, 35% of the respondents agreed that there is a possible lack of privacy in regards to the CIS mechanism, while 28% disagreed. 18% strongly disagreed, 17% strongly agreed while 2% rated the statement as not applicable.

![Figure 4.33: Lack of Privacy with the CIS Mechanism](image-url)
According to the results in figure 4.34, 37% of the respondents agreed that they fear being denied a loan due to the CIS mechanism, while 23% disagreed. 20% strongly disagreed, 10% strongly agreed while another 10% rated the statement as not applicable.

**Figure 4.34: Fearful of Loan Denial Due to CIS Mechanism**

According to the results in figure 4.35, 39% of the respondents agreed that there is a possibility of their information being hacked, compromised, or manipulated due to the CIS mechanism, while 26% disagreed. 20% strongly disagreed, 9% strongly agreed while 6% rated the statement as not applicable.

**Figure 4.35: Possibility of Information Being Hacked or Manipulated**
According to the results in figure 4.36, 71% of the respondents agreed that they feared wrong or inaccurate information will be shared with credit providers, while 11% disagreed. 7% strongly disagreed and another 7% strongly agreed while 4% rated the statement as not applicable.

Figure 4.36: Fear Sharing of Inaccurate Information with Credit Providers

According to the results in figure 4.37, 31% of the respondents disagreed that there is insufficient information about how the CIS mechanism works, while 25% agreed. 24% strongly disagreed while 10% strongly agreed and another 10% rated the statement as not applicable.

Figure 4.37: Insufficient Information about How CIS Mechanism Works
4.6. Chapter Summary

In this chapter, a presentation and analysis, of the findings and results was done. The chapter represented the results on brand awareness of CRBs among SMEs in Kenya, the impact of information asymmetry on credit access and effect of credit information sharing on SMEs. The analysis was based on the primary data collected from the respondents in the form of questionnaires. The results were arranged based on the research questions of the study aimed at investigating the market awareness levels of the three licensed CRBs in Kenya especially among SME business owners and evaluating if they associate any benefits or pitfalls that arise from credit information sharing in their access to credit from formal financial institutions in Kenya. The next chapter, chapter five, presented the discussion of the findings, conclusion, and recommendations for each research question.
CHAPTER FIVE

5.0. DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction
This concluding chapter has four sections namely summary, discussion, conclusion and recommendations. The first section provided a summary of the research questions, methodology and major findings of the study. The next section provided a discussion of the major findings of the study. The third section gave the conclusion drawn from the discussion. The chapter concluded with the overall recommendations as well as those for further study.

5.2. Summary
The purpose of this study was to investigate the market awareness levels of the three licensed CRBs in Kenya especially among SME business owners so as to evaluate if they were aware of the significance of credit rating to their businesses and investigate if they associated any benefits or shortcoming from credit information sharing in their access to credit from formal financial institutions in Kenya. A descriptive survey research design was used and data was collected using a structured questionnaire that was administered by interview to a convenient sample size of 125 BNI members, 100 of whom completed the questionnaire. All the completed questionnaires were entered into IBM SPSS version 22 statistical software and data analyzed for descriptive statistics. Results were presented in tables and graphs for easy interpretation. The major results of the study included mitigating the negative perceptions of CRBs by enhanced consumer communication and taking advantage of the positive perception that exists about the future of CIS in Kenya as regards promoting growth and increased access to credit at cheaper terms.

On the first research question, the findings established more than three quarter of the respondents were in agreement that they had heard of the term CRB with just about half having heard of Metropol and only a quarter having heard of Trans-Union and CreditInfo CRB in particular. This indicated that although more than half claimed familiarity with CRBs they were unable to identify them by brand name and suggested there is more to be done in order to sensitize SME business owners about the players in this segment. Banks also stood out as doing the most to publicize the SMEs about credit referencing while the other main stream media channels combined had less than 50% of the segment. The study also found
that the majority of respondents believed that CRBs lowered the lending risks for lenders greatly and helped them collect debt easily while only a fraction of those interviewed could relate with the benefits to consumers. Furthermore, though most respondents were in agreement with the vital role of CRBs in credit management, they expressed their preference to use financial institutions that were not insistent on the use of CRBs in the credit approval process.

On the second research question the findings revealed that most of those interviewed did not separate their business from personal finances and agreed both negative and positive credit information should be shared. In addition, a large number of the respondents agreed that consumers should be notified before being listed by the CRBs and not afterwards so as to avoid using the credit rating as a tool to pressurize them. Implementation of a consumer protection law was again almost unanimously agreed on by the respondents who also indicated that an identification card and guarantor were key collateral in the credit application process. Another key finding was that most of the SMEs reported a lack of benefits to them from the CIS mechanism and largely felt that the system is highly skewed to benefit lender financial institutions only.

The last research question sought to determine the effect of credit information sharing on SMEs and a majority of those interviewed agreed that the mechanism has helped SMEs distinguish themselves from defaulters. Though most had not tried to obtain a credit report recently, those that had claimed not to have undergone fewer checks and processes in the quest to access credit. Just over half of the respondents agreed that CRBs were capable of accurate credit scoring while they also indicated a high level of fear as regards lack of privacy and wrong information being shared with credit providers.

In summary, most of the interviewed SMSs viewed CIS as a barrier to accessing credit as banks have resorted to using it as a debt collection tool and whipping borrowers into shape by threatening them with being listed negatively at the CRB. These responses revealed just how little is actually known about the potential functions of CIS in Kenya.
5.3. Discussion

5.3.1. Market Awareness Level of the Three Licensed CRBs

Credit Information sharing was launched in July 2010 and has elicited various reactions from both lenders and borrowers. Generally, a large number of the respondents are familiar with the CIS mechanism and claim to have heard of CRBs. However, when asked to identify the CRBs by name with the exception of Metropol, just about 30-40% of respondents could identify Transunion or CreditInfo. This clearly suggests a low awareness of the local CRBs and their function. According to Jamal and Al-Mari 2017, consumer service knowledge associated with a brand is a key factor in how consumers identified the brand. The study findings supported this statement as most of those interviewed claimed to have heard of the services offered by CRBs but could not identify the CRBs by brand name. Also evident from the responses received from the study is that apart from Banks and print media, there are not a lot of other media channels propelling the message on CRBs and the CIS mechanism. This could mean that information has not been sufficiently publicized or there is insufficient knowledge about what CRBs do and what the CIS mechanism entails.

The study found that the three CRBs currently in existence are known to few credit customers, thus portraying a weak corporate image which is described by Barich and Kotler, 1991 and Ditchter, 1985 as the overall impression made on the minds of the public about a firm. Trust from all stakeholders is required for the CIS system to succeed. However, among the SME business owners who were aware of CIS at first mention, just a little more than half had been told about CIS by their credit provider. As a critical player in the credit market, more needs to be done to create awareness. This indicated that CRBs and lender financial institutions need to make more of a deliberate effort to sensitize the public about CIS and strengthen their corporate images. The importance of the corporate image according to earlier research is instrumental in making the consumers more attached to a company.

A majority of respondents agreed that they prefer to visit financial institutions that do not use CRBs as criteria for giving credit. This can be attributed to the fact that most respondents did not understand the role of the CRBs as an intermediary in the credit application process with most indicating that currently only lenders benefit from the service. This reinforced the claim made by Bhattacharya and Sen (2003), that a good corporate image helps in making
consumers more attached to the company. It is important to note that they said CRBs are indeed acceptable in Kenya and are precisely what is needed for proper credit management as it will give them a better opportunity to get a loan.

Those respondents that differed from the majority expressed concerns over the confidentiality of the credit reports and were worried people will know how much they have in their account through the CRBs. Also a sizeable group felt there was no need to check their credit report as long as they paid their bills on time. This clearly indicated that CRB is not well understood and is not a very popular subject of discussion among most SMEs. In addition most felt that there are not enough corrective and effective measures in place in case of accidental listing as a defaulter with the CRBs. This suggests that there are still incorrect perceptions about the costs of benefits relative to the limitations in terms of consumer protection. It will be vital to develop a comprehensive CIS mechanism so as to alter the existing negative perceptions of CIS amongst SMEs.

It is important to note that over 50% of the respondents were aware of CIS and its functions. 12% were in fact unaware of the existence of CRBs and 52% of the surveyed SME business owners who had accessed credit in the last 5 years learned about CIS from their lenders, demonstrating that lenders are rather vocal on the subject. However, the survey also found that the same lenders ranked highest in ensuring outreach and dissemination of information to consumers.

The main finding at this point from the survey demonstrated the need to take advantage of the positive perception that exists about the future of CIS in Kenya. The majority agreed that CIS is a great innovation for the Kenyan credit market and it is likely to promote financial growth through financial discipline and increased access to credit at cheaper terms.

5.3.2. Impact of Information Asymmetry on Credit Access

It is well known that SMEs find access to credit a major problem compared to larger firms and it was easy to see why as most of the BNI business owners said they do not separate their business and personal finances making the credit application access a murky affair for most lenders. This finding supported those found by Kohlbeck and Warfield (2002), who purported that lender institutions are faced with challenges providing credit to consumers
with risky and vague profiles due to the highly competitive context and the obvious desire to survive and obtain a higher level of profitability.

Despite the pitfalls that come with information asymmetry on credit access, a majority of the respondents felt that both negative and positive credit information should be shared. The current content of credit reports (containing negative information only) is among the key drivers of the negative perception of CIS mechanism in Kenya which is seen as a blacklisting tool. This supported the findings of Mahembe et al (2011), that though CRBs are effective in updating of negative information of borrowers i.e. their defaulting histories, positive information is actually not used to measure and illustrate a borrowers’ credit worth and major sources of information are not available apart from the main credit avenues. His study resolved that for these challenges to be managed, access to both positive and negative financial information amongst SMEs was exceedingly important. It was also almost unanimous from the respondents that all consumers should be notified before they are listed on the CRBs and not afterwards which seems to be the case for most lenders. This will help foster a positive image of the lenders in the market and form a favorable opinion of the CIS mechanism in Kenya.

In addition the majority of respondents agreed that it is imperative to implement consumer protection law to address the gaps, feedback and complaints that may arise due to information asymmetry when trying to access credit. It is important to note that most of the respondents confirmed that as borrowers, they are looking for fairness and expect that their information will be treated confidentially within a legal framework which safeguards such information. The overall aim of making credit affordable as well as increasing financial inclusion are not clear to most of the SME business owners.

Lender institutions providing credit therefore need to increase their efforts to sell the strong points of the benefits of CIS known to consumers and borrowers. From the survey, 77% of those interviewed on who had been the biggest beneficiary of the CIS mechanism in Kenya confirmed the position that the general perception still remains that CIS benefits lenders and not consumers. Borrowers therefore, have not been keen to find out more about CIS and as a result still retain many misconceptions about the mechanism.
What came out clearly from the survey at this point is most of the respondents (77%) believe that CIS benefits are currently heavily skewed towards credit lender institutions therefore propagating the perception that CIS is a tool for lenders to identify and shortlist defaulters. The lack of benefit accrual to consumers is largely attributed to the lack of positive credit information and an inclusive reporting system. Respondents felt practices such as the use of post-listing (rather than pre-listing) notices to consumers, punitive negative data retention laws, limited access to CRBs, and inadequate channels for dealing with complaints all contribute to the lack of acceptance of CIS by consumers.

5.3.3. Effect of Credit Information Sharing On SMEs

Since most (85%) of the BNI members interviewed have at some point in the last five years taken a credit facility it was evident that they knew something about CIS. More than half (65%) of the business owners interviewed were aware of CIS and believed that it helps distinguish themselves from persistent defaulters. Even though most had in the last 5 years tried to obtain credit from a credit provider (banks, MFIs and licensed SACCOs), they still had not tried to obtain a credit report from a CRB agency directly. In fact about 69% of those that had accessed credit said they did not receive accurate and useful information in a relatively short period of time, and with fewer processes. This clearly illustrated that the benefits of CIS on SMEs are yet to be felt and seen.

While about half of the respondents expressed confidence that accurate credit scoring would be done by the CRBs to reflect their situation; a good number of them thought that there were issues around a possible lack of privacy as regards their information being hacked, compromised, or manipulated in the CIS system. This supported the study done by Makulilo (2016), who inferred that the emerging credit reporting regulations in Africa incorporate minimum principles of processing personal data when compared to international standards and the scope and extent of these data protection principles is still limited. Most of them were fearful the system would be used to deny them loans and felt there is insufficient information about how the mechanism works pointing to the need for additional enhanced and directed communication. This was very much in line with the comments the SME business owners made about the CIS system, including awareness creation on CIS, reduction of charges
incurred in obtaining credit reports, and improving the means by which information is shared.

There is another view taken by most of the respondents that the CIS mechanism is also viewed as a policing firm to create financial discipline amongst consumers of credit is a huge benefit to SME business owners. Most of those interviewed expressed a willingness to have lenders to check CRB records. The few that were unwilling to support such access mainly felt that credit bureau records were unreliable, insecure or infrequently updated. In addition, more than half of the respondents acknowledge the importance of traditional collateral such as Identity Card and a Guarantor which are considered free options. All other options such as Payslip, Title deed, Bank Statement and Credit Histories were deemed a hindrance by over 65% of those interviewed in the credit application. This is in line with the findings of Duan et al. (2009), who suggested that in the case of debt financing, lenders typically request collateral in order to mitigate the risks associated with "moral hazard" and the lack of collateral is probably the most widely cited obstacle encountered by SMEs in accessing finance.

In regards to the list of negative perceptions about CIS, consumer ignorance and so called folklore or myths rank highest. This is probably due to the phased implementation of CIS mechanism in Kenya where the banking industry shared negative credit information about their customers and threatened them blatantly with listing on the CRB. Also, the sheer lack of adequate information about CIS generated dissatisfaction and complaints from most consumers and SME business owners. Carolina (1999), explained that the information shared in CRBs is mainly “opaque” that is negative information on defaults or arrears. Furthermore the use of statistical risk analysis totally leaves out the positive aspects of a borrowers lending history. This agreed with the findings of the study and drew unwarranted attention to the actual CIS mechanism being implemented in Kenya. Feedback and complaints from consumers were and continue to be an integral part of the information base as they are used to promulgate regulatory changes and promote awareness and buy in on policy changes that embrace CIS best practice evidenced in different countries around the world. Most complaints listed from consumers were in the areas of data security and consumer protection.
The value of CIS is based on the SMEs credit history as this is the base of credit access. Despite close to half (48%) of those interviewed being aware of CIS, very few of the business owners knew that credit history is important when seeking credit facilities. This clearly revealed a disconnect between having heard about CIS and linking it to credit history. Those looking to access credit therefore ought to be educated about the importance of their credit history as a determinant to evaluating their credit worthiness, and how that information is being shared between lender institutions.

In brief the main finding drawn here from the survey is CIS is currently perceived by SMEs as a barrier to accessing credit as banks have resorted to using CIS as a debt collection tool, threatening debtors with being listed negatively at the CRB. This has led to the belief that CRBs are like a death sentence to credit access for all those who are unable to pay their debt in good time. These responses indicated how little SMEs actually know about the functions and benefits of CIS and also explained why criticisms of the CIS mechanism have arisen.

5.4. Conclusion

5.4.1 Market Awareness Level of the Three Licensed CRBs

It is evident that a positive overall perception generally correlates to a positive consumer attitude that is the base for choosing to interact with a brand. From the findings and discussion, the study concluded that there needs to be a consolidated effort across all stakeholders (CRBs, Banks, SACCOs, MFIs etc.) to act as champions and spearhead the information campaigns across all channels so as to build brand awareness and expel the misconceptions about CIS that remain in the minds of borrowers.

5.4.2. Impact of Information Asymmetry on Credit Access

Information is neither free and nor perfect and SMEs looking to access debt financing have received the shorter end of the stick due to the asymmetric distribution of information between them and the lender institutions. The lack of traditional collateral is one of the largest stumbling blocks they have experienced and so far they have been unable to leverage their credit history to counter this. The survey concluded that SMEs believe lenders are still the biggest beneficiaries of the CIS mechanism in Kenya and not consumers. The fact that the role of CRBs in the credit application and information sharing process is not very widely
understood needs to be dealt with at an early stage if negative perceptions are to be reduced substantially and the use of credit reports promoted.

5.4.3. Effect of Credit Information Sharing On SMEs

When information is readily available it allows for more opportunities for efficient disbursement of credit. If borrowers are educated and able to understand the benefits of information sharing in determining their creditworthiness there is a great chance of reducing the risks associated with advancing of loans to them. The study concluded that an effective credit reporting and information sharing system was the best answer to the dilemma. Once SMEs with a good credit history are able to leverage credit on more favourable terms than those that default, then there will be a huge positive impact on their general perception on the credit information sharing system in Kenya. Much effort is therefore required by the government, CRBs and also lender financial institutions to publicize credit information sharing among the general public if it is to be accepted by stakeholders. Credit providers are nearer to borrowers and therefore better placed to both inform and educate the public about CIS.

5.5. Recommendations

5.5.1. Recommendations for Improvement

5.5.1.1 Market Awareness Level of the Three Licensed CRBs

Based on the survey results, it is clear the information about CRBs is not flowing sufficiently to consumers. This in turn is generating a demand for greater involvement by CRB agencies, in creating awareness about CIS. Some recommendations may require legal amendments for a strong CIS mechanism to thrive. However, the most imperative recommendation is to increase CIS sensitization activities across all sectors of the credit market in Kenya, through the implementation of a dynamic and effective CIS communication strategy. This will give the consumers a chance to improve their credit records by repaying their bad loans. Even more fundamentally, such awareness will evoke the use of credit reports in the risk management processes, prompting good borrowers to seek benefits of their good reputation from lenders.
The survey found that more than half (54%) of respondents had a level of education higher than college qualifications. This means that communication about CRBs and the CIS mechanism should therefore be produced in clear, on technical and easily understandable language so as to effectively reach consumers. Separate target audiences should be considered since technical language may only be understood by credit savvy consumers while be misunderstood by lay under-served consumers. The content of the fore mentioned communication should cover more information about the benefits of CRBs and rather than detailed accounts of the structure and functions of the agencies.

Capacity building is a noteworthy requirement amongst financial institutions, policy makers and all credit users. There is a need to educate all stakeholders about the use of credit reports, and the process of effective participation in CIS. Ultimately, it is necessary to increase awareness levels about CIS using diverse means, and on a large scale. Policy makers, lenders, the media and project sponsors are all key resources to ensure the achievement of this objective.

5.5.1.2 Impact of Information Asymmetry on Credit Access

Although SMEs are not currently sufficiently conversant with CRB operations, the survey confirmed that they do not object to credit information sharing as long as it is secure and used appropriately. It is highly recommendable to take advantage of this positive attitude to emphasize the CIS mechanism’s relevance to SMEs looking to access credit.

The survey also found that SMEs expect a review of the laws with a view to making the system more consumer friendly. This could be achieved through a wide variety of means including sharing full comprehensive data, sending pre-listing notices across different media channels such as to mobile phones by text and examining the existing data retention laws in Kenya. In addition, it would be good to review with an aim of reducing the period in which the CRBs retain names of non-performing loans which is currently seven years.

Rewarding good customers with better credit terms and requiring less collateral might also be considered as a means of fostering a better response from SMEs. In addition, improving access to CRBs across Kenya and creating a clear and accessible dispute resolution channel would be beneficial.
Lastly, the regulation of CRBs to ensure they adhere to a code of conduct requiring them to meet international data security standards in the transmission and storage of information in their domain will go a long way in creating a positive brand image for them.

5.5.1.3 Effect of Credit Information Sharing On SMEs

According to the SMEs, the biggest fear with and cause of most resistance to CIS is the release of data which may be old and dated. Therefore it is recommended that Kenya establishes laws that ensure notification in advance with consumers as well as allow for consultations with borrowers before being listed on the CRB. It is also advisable that apart from a negative listing the agencies look into generating positive credit information and maybe reward those that remain in good standing. This done with an aim of bringing competition among banks and other lender institutions so as to reduce the costs of credit (interest rates).

The Credit Information Sharing Association of Kenya (CIS Kenya) was set up to institutionalize the National Credit Information Sharing (CIS) Forum. The Forum was created in early 2012 in order to bring together both bank and non-bank credit providers to map the way forward towards implementing full file comprehensive CIS in Kenya. Prior to the formation of CIS Kenya, the implementation of CIS in Kenya was spearheaded by the Kenya Credit Information Sharing Initiative (KCISI), a partnership between Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA). CIS Kenya was launched on September 24th 2013 (then referred to as Association of Kenya Credit Providers (AKCP)), and its Governing Council was constituted soon thereafter at its first AGM in November 2013 (CIS Kenya, 2016) is an industry association of lenders, credit reference bureaus, regulators and other interested parties; that fosters the effective development and implementation of a credit reporting mechanism within Kenya; as well as promote cross-border information sharing

As the study reveals, a lot remains to be done in order to increase the level of awareness of and appreciation for the CIS mechanism, by both the borrowers and providers of credit. While CIS is growing in Kenya, a clear legislative mechanism is needed to ensure a holistic approach is taken towards its promotion and growth. Another sound recommendation would be to implement a feasible and sound Consumer Protection Act that requires consumers give
consent to sharing of their information and also have the right to dispute any information about them held in a credit reference bureau.

Additionally, increased awareness amongst borrowers, especially those not currently interacting with the mainstream providers (banks, MFIs and licensed SACCOs) and other lenders (those not in the mainstream listing indicated), is needed in order to spur increased use and support of the mechanism. Indeed, continued communication campaigns are required, in addition to building capacity on the infrastructural capability of CRBs to ensure efficiency in the issuance of credit reports as demand grows and the promotion of goodwill.

5.5.2. Recommendations for Further Studies

This study was limited in scope to the business owners of the BNI network and focused on the formal financial institutions as credit providers. The Central Bank of Kenya recently enforced new laws that include more players that provide credit such as members of KUSCCO, SASRA, TESPOK, AMFI, Higher Education Loan boards and utility service providers under the CIS mechanism. In time it would be beneficial to conduct research that will gauge if this has reduced autonomy when making decisions on whether or not to provide credit to borrowers.
REFERENCES


APPENDICES

Appendix I: COVER LETTER

United States International University - Africa

P. O. Box 14634 - 00800,

Nairobi, Kenya, East Africa

Telephone: | +254.730.116000 | Fax: +254.20.360 6100

Email: info@usiu.ac.ke

RE: LETTER OF INTRODUCTION

(for members of the Business Network International-Kenya)

Dear Sir/Madam,

Michelle Noelle Ochieng is a MBA Student in the Chandaria School of Business at the United States International University – Africa. She will produce her student card, which carries a photograph, as proof of identity. She is undertaking research leading to the production of a project on the subject of the market awareness levels of the three licensed Credit Reference Bureaus in Kenya among Small and Medium Enterprises in Nairobi. The purpose of the study is to evaluate if business owners are aware of the significance of credit information sharing and rating in their access to credit from a formal financial institution in Kenya.

She would like to invite you to assist with this project by agreeing to be involved in an interview and completing the below questionnaire which covers certain aspects of this topic. No more than 15 minutes would be required.

Be assured that any information provided will be treated in the strictest confidence and none of the participants will be individually identifiable in the resulting project, report or other
publications. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

Any enquiries you may have concerning this project should be directed to me at the address given above or by telephone on +254 360 6000.

Thank you for your attention and assistance.

Yours sincerely

Amos G. Njuguna, DBA
Associate Professor of Finance & Associate Dean
Chandaria School of Business
Appendix II: QUESTIONNAIRE

This questionnaire seeks to collect information on the level of familiarity of the three licensed CRB’s among SMEs in Nairobi, Kenya and investigate the effect of credit information sharing among them. Please provide information in the spaces provided. Kindly fill in a response to ALL the questions. All information received will be treated confidentially and used for academic purposes only.

SECTION A: BACKGROUND INFORMATION

Instructions: Please take a few minutes to answer the following questions. The data collected here will be anonymous and your confidentiality is highly assured.

1. Age: (   )Below 20 yrs. (   ) 21-30yrs (   ) 31-40yrs (   ) 41-50yrs (   ) 51yrs & above

2. Gender: (   ) Male (   ) Female

3. Education level: (   ) O level (   ) College (   ) Undergraduate (   ) Graduate  
   Other :( specify)_____________________

4. Number of years in business:(   ) 0-3years (   ) 4-6 years (   ) 7-10 years (   ) Over 10 years

5. Occupation:( specify)_________________________________________

6. Business Sector:( specify)_______________________________________

7. Have you borrowed money either for personal or business use from a formal financial institution in the last five years? Yes (   ) No (   )

SECTION B: FAMILIARITY LEVEL OF THE THREE LICENSED CRBs AND THEIR ROLE IN KENYA
1. Please indicate your level of agreement with the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am familiar with the term: ‘Credit Reference Bureau’</td>
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<tr>
<td>I have heard of credit information sharing (CIS)</td>
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<tr>
<td>I am familiar with Metropol credit reference bureau</td>
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<tr>
<td>I am familiar with Trans-Union (formerly CRB-Africa) credit reference bureau</td>
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<tr>
<td>I am familiar with CreditInfo credit reference bureau</td>
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</tbody>
</table>

2. Please indicate how you heard about CRBs in Kenya

<table>
<thead>
<tr>
<th>Sources of awareness of CRBs</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks/Saccos/MFIs</td>
<td></td>
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<tr>
<td>Websites</td>
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<tr>
<td>Print media</td>
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<tr>
<td>Radio</td>
<td></td>
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<tr>
<td>Television</td>
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</tbody>
</table>
3. Please indicate if you agree or disagree with the below statements in regards to the role of CRBs in Kenya

<table>
<thead>
<tr>
<th>Indicate your general perception about the role of CRBs in Kenya</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help lenders to collect debts easily</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower the lending risks for lenders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helps good customers negotiate better credit</td>
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<td></td>
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<tr>
<td>Make credit affordable to more people</td>
<td></td>
<td></td>
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<tr>
<td>Reduce collateral requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make credit available to more people</td>
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<td></td>
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</tbody>
</table>

4. Please indicate your level of agreement or disagreement with each of these statements regarding the prominence of CRBs in Kenya. Place an "X" mark in the box of your answer.

<table>
<thead>
<tr>
<th>Prominence of CRBs in Kenya</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Neither Agree / Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prefer to visit financial institutions that don't use CRBs as a criteria for giving credit</td>
<td></td>
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<tr>
<td>Credit Referencing is not acceptable and should not be practiced in Kenya</td>
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<tr>
<td>Currently only lenders benefit from Credit Referencing in Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>CRBs are precisely what we need for proper credit management</td>
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<tr>
<td>I have no worries about Credit Referencing as it will give me a better opportunity to get a loan</td>
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<tr>
<td>I fear that everyone will know how much I have in my account through the CRBs</td>
<td></td>
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<tr>
<td>I don't need to check my credit report if I pay my bills on time</td>
<td></td>
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<tr>
<td>Credit reporting is nothing but a sham particularly because of the content of credit reports currently</td>
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<td></td>
<td></td>
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<tr>
<td>I will never get a loan again if I get a negative listing today</td>
<td></td>
<td></td>
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<tr>
<td>There are corrective and effective measures in place in case I am accidentally listed as a defaulter with the CRBs</td>
<td></td>
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</tr>
</tbody>
</table>
SECTION C: THE IMPACT OF INFORMATION ASYMMETRY ON SMES ACCESS TO CREDIT IN KENYA

For these questions concerning the effect of credit information sharing on SMEs in Kenya, please choose the appropriate response. Circle the letter before your answer.

1. Do you separate your business and personal finances?
   A. Yes  B. No

2. Both negative and positive credit information should be shared?
   A. Yes  B. No

3. Only positive credit information should be shared?
   A. Yes  B. No

4. Only negative credit information should be shared?
   A. Yes  B. No

5. Consumers should be notified before they are listed on the CRBs and not afterwards?
   A. Yes  B. No

6. CRBs should not in any circumstances be used as a tool to pressurize consumers / businesses?
   A. Yes  B. No

7. Implementation of consumer protection law should be put in place?
   A. Yes  B. No

8. Please tick all options that apply
The below list indicates collateral needed to access credit in Kenya

<table>
<thead>
<tr>
<th>Item</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity card</td>
<td></td>
<td></td>
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<tr>
<td>Guarantor</td>
<td></td>
<td></td>
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<tr>
<td>Payslip/ Business License</td>
<td></td>
<td></td>
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<tr>
<td>Title deed/ Log book</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Histories</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Please tick the Financial Services Products with which you are familiar that are offered by credit providers / formal financial institutions;

<table>
<thead>
<tr>
<th>Indicate the Financial Products offered by credit provider institutions that you are familiar with</th>
<th>Not Familiar</th>
<th>Familiar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other credit facilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal /business loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial advice</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. Who do you think has been the biggest beneficiary of the Credit Information Sharing mechanism in Kenya? Tick One only.

□ Individual borrowers

□ Business borrowers

□ Lender financial institutions

□ Government regulator (Central Bank of Kenya)

SECTION D: THE EFFECT OF CREDIT INFORMATION SHARING (CIS) ON THE SMEs IN KENYA

For these questions concerning the effect of credit information sharing on SMEs in Kenya, please choose the appropriate response. Circle the letter before your answer.

1. Do you believe that the CIS mechanism helps SMEs distinguish themselves from persistent defaulters?
   A. Yes    B. No

2. Have you in the last 5 years tried to obtain a credit report from a CRB agency?
   A. Yes    B. No

3. If so, please indicate what sort of experience you had
   A. Positive    B. Negative
4. Have you in the last 5 years tried to obtain credit from a credit provider (banks, MFIs and licensed SACCOs etc)?
   A. Yes      B. No

5. If so, did you receive accurate and useful information in a relatively short period of time, and with fewer processes?
   A. Yes      B. No

6. Are you confident that accurate credit scoring will be done by the CRBs to reflect your situation?
   A. Yes      B. No

7. Please tick the appropriate box to indicate your agreement with the following statements in regards to the CIS system on SMEs in Kenya:

   Where: 1= Strongly Agree, 2 = Agree, 3 = Disagree 4= Strongly Disagree 5= Not Applicable

<table>
<thead>
<tr>
<th>SCALE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>possible lack of privacy</td>
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<tr>
<td>fear of being denied a loan</td>
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<td></td>
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<tr>
<td>information being hacked, compromised, or manipulated</td>
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<td></td>
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<tr>
<td>fear that wrong or inaccurate information will be shared with credit providers</td>
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<tr>
<td>fears that there is insufficient information about how the mechanism works</td>
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</tr>
</tbody>
</table>

THANK YOU FOR YOUR TIME AND HONEST FEEDBACK!