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# Effects of Information on Loan Access: A Case of Small and Medium Enterprises in Kenya

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**ABSTRACT**
The purpose of this study was to evaluate whether inaccess to information affect small and medium enterprises (SMEs) in accessing loans from commercial banks in Meru County Municipality. The descriptive research design was used. The specific objective of the study was to determine the relationship between access to information and access to bank loan by SMEs. The target population consisted of 599 SMEs registered, licensed and operating within Meru County Municipality. A sample size of 60 SMEs was selected using stratified random sampling. Primary data was collected by use of administered questionnaires that were hand delivered to the respondents of the SMEs owners. Data collected was presented in frequency tables. The Pearson Chi-Square statistics measures the significance of the relationship between the variables while eta statistic measures the degree of the relationship. The SPSS version 21 statistical software was used to analyse the collected data. Pearson Chi –Square statistic was used to test research hypotheses and the significance of relationships between the variables of the study. Access to information was found to influence SMEs loan access from Commercial Banks by SME owners. Recommendations from the study were that the banks should adopt the relationship lending that has succeeded in other countries. The SME owners should be provided with adequate information by the banks and also they should also give the appropriate information to the banks which would enhance trust between the SME owners and the banks eliminating the fear of high business risk. The banks should provide tailor- made products for their different types of customers.

**Key words:** Information access, Small and Medium Enterprises, Loan access, Commercial Banks

## INTRODUCTION

In this chapter, the background information of the study, the statement of the problem, the objectives and research hypotheses, justifications of the study, scope of the study, limitations and delimitations of the study are discussed.

**1.1 Background to the Study**

Ardic, Mylenko and Salfane, (2012) stated that in USA, Small and Medium Enterprises (SMEs) are very important to the economic growth as they contribute towards creating job opportunities and production for the citizens. They also stated that the G-20 summit meeting was committed to identify ways to improve the access to finance by SMES. Despite the importance and the complexity of SMEs as a contributor to the United States economy, there has been surprisingly little academic research on the economic environment faced by SME owners or the effects of policy variables on small business success (Berkowitz & White, 2004). Clark, Eaton, Lind, Pye and Bateman, (2011) stated that in Australia most large companies started as small enterprises. This clearly shows that the current SMEs have the ability to develop and would be critically dependent on access to external financing. According to Hallberge (2000), the crisis periods of the 1990's in Latin America and East Asia confirms this proposition that SME's are more likely than large firms to be denied new loans during the financial crisis. Shen, Shen, Xu, and Bai (2008) stated that in China SMEs have problem in accessing finance which has a negative effect for long term economic development. Stephanou and Rodriguez (2008) found that access to credit is one of the major constraints of SME's in Columbia. Klapper, Saria- Allende and Zaidi (2006) also acknowledged that in Slovenia and Belgium SMEs sector is underdeveloped due to their inability to raise external finance.

Osotimehin, Jegedec and Akinlabi (2012) stated that in Nigeria SME owner suffer financial constraints which were also due to structural and environmental challenges. Fatai (2011) stated that small and medium scale enterprises in Nigeria have performed at very abysmal level as compared to other countries which have contributed to increase of poverty, hunger, unemployment and low living standard of people in a country whose economy is ailing. Agyapong and Darfor (2011) in a study done in Ghana on the criteria for assessing SMEs borrowers stated that banks use different criteria based on their experiences and the SMEs behavior. They found that lending to SMEs was a high risk business and so they concentrated on lending to financially stable large enterprises.

Guitard (2009) stated that the commercial banks intended to expand their networks in Kenya's main regional cities as a way of getting closer to SMEs and serving their trade finance requirements. Omboi and Wangai (2011) in a study done in Meru Central District, Kenya, on the factors that influence the demand for credit among small-scale investors stated that despite the existence of competition among lending institutions, the small-scale investors continue to stagnate and retrogress, confine in narrow market, level of education, number of dependents and household income significantly influence the demand for credit. Atieno (2001) stated that in Kenya, if the lending terms and conditions were tailored in favour of SMEs, access to credit would improve their businesses. It is in line with this that this study was intended to find out whether the proposed improved terms had any influence on the access to credit by SMEs.

Miller, (2003) stated that if inadequate information regarding an SME is obtained by a bank it may be disastrous in that it would advance a large amount of loan which would be difficult for the SME to service making the bank incur an NPA. Galindo and Schiantarelli, (2003) stated that the SMEs face higher and tough barriers to external financing than large firms. Atieno, (2001) stated that the choice of credit is a decision that an individual household makes which is

determined by the information available to the potential borrower on the available sources and their specific requirements. This information is influenced by proximity of different sources and perceptions about the sort of customers that a particular finance credit source entertains. SME owners are not able to provide reliable information as proof of their creditworthiness which is affected by their low cash flows. Weak market efficiency makes the hands of both the lender and the borrower tied. This is because the borrower protects some information and releases only that he wishes the bank to know while the banker on the other hand does not disclose all information for the borrower's certainty of the amount he intends to borrow.
Nevertheless, SME business owners we find that they are people who tries to make end meet and this is only possible if they have enough cash flow to meet their shops meet their customer demands. This also ensures they are on board in the contribution to the nationals GDP as they help the country to mobilize scarse resources that the government has undeveloped mechanism. By so doing the SME's play a very vital role which their optimum operations has never been realized in the whole world because the banks and other lenders have had a long term attitude that once they lend to SME owners that will end up being a bad debt as they will never pay. This leads to a situation of exodus closures than expansion making it a more frustrating affair than a satisfaction hence increased levels of poverty providing the reason for the study to establish what has been the reason.

**1.2 Statement of the Problem**
Provisions of finance in the business world, enables SME owners meet their customers' needs on timely and sufficiently basis. Whenever need arises therefore, there must be someone willing to provide it. Not many entrepreneurs have the benefit of family financial support and owing to this the commercial banks remain the only source of their solution to provide the finances to the SME owners. For a period of not less than ten years, SMEs in Meru County Municipality have been in operation and no much change can be observed if anything to go by, some have already been closed down. This may have been due to lack of finances to operate or loss making ventures which could not achieve their breakeven points. SMEs are left in the middle as the Micro enterprises are financed by Micro financiers. SMEs seek financial assistance from commercial banks for their businesses activities and because of existing restrictions they are not in a position to finance them wholly. These business owners may be faced by many challenges and that was why this study was carried out to establish whether inaccess to information would have effect on SMEs in accessing bank loans among other factors. Shen et al. (2008) in their studies stated that SMEs have problems in accessing credit in their states. Omboi and Wangai, (2011) and Kithinji, (2010) stated that banks in Kenya discriminate on sex since they are found to have an attitude towards the SMEs owners' ability to repay loans. Guitard (2009) stated that the Kenya Government should develop favourable terms which would enable SMEs access credit from Commercial Banks. This would require expansion of networks in order to reach all SMEs even those in the rural and remote areas. Access to finance by SMEs is a global issue which requires urgent attention to ensure their success and sustainability. The study was intended to study the current situation in accessing to bank loans by SMEs in Meru

County Municipality. This study therefore aimed at determining whether in access to information would affect SMEs in accessing to bank loans in order to bridge the knowledge gap.

**1.3 Study Objectives**
The general objective of this study was to evaluate whether inaccess to information do affect SMEs in accessing bank loans in Meru County Municipality.
The specific objective was: To determine the relationship between access to information and access to bank loans by SMEs.

**1.4 Research Hypotheses**
The research hypotheses tested was:
$Ho_{1.}$ Access to information has no significant relationship with SME access to bank loans.

**1.5 Significance of the Study**
The significance of the study was to establish whether inaccess to information affect access to Commercial Bank loans by SMEs. The findings from this study may be used as a mediation to improve the relationship between commercial banks and SME owners where the bank may take a different approach as to how they are supposed to handle their customers in business. The Government may adopt the recommendations of this study and try to intervene for the SME owners who assist in creating jobs while focusing on the achievement of the vision 2030 which is based on the role that SMEs play in the economy.

**1.6 Assumptions of the study**
The assumptions of the study were that Small and medium enterprises grow as a result of having access to loans and stagnate in the absence of loans.
The study assumed that Access to financial information by SME determines the types of loans they borrow and the amount involved.

**LITERATURE REVIEW**
**2.1 Introduction**
In this chapter a detailed literature review is discussed. The theoretical framework which gives the foundation of this study is discussed. A conceptual framework showing the relationship between the independent and dependent variables is presented.
**2.2 Theoretical framework**
The following theories were used to support the study.
**2.2.1 Signaling theory** is based on the assumption that information is not available to all parties at the same time and that information asymmetry is the rule. Information asymmetries can result in very low valuations or sup-optimum investment policy. This is because the SMEs are expected to make appropriate financial and managerial decisions for their businesses because they may cause them to expand or collapse. This makes information availability an important guide for making such decisions for the borrower and the lender.

In this study, the SME owner will be expected to provide all information to the commercial banks to enable them to be given the appropriate service and also the banks too are expected to supply the necessary information to enable SME owners to make decisions whether to borrow loan now or at a later date.

**2.2.2 Moral Hazard theory** is a theory that states that where the loans are made to SMEs they take the higher share of the risk without getting any support from the banks. This is because the owners of the firm benefits fully from any additional returns but does not suffer disproportionately if the firm is liquidated. This creates a moral hazard problem which arises out of over-investment. This may result from the situation of a lending that is bad in a short period of time, a situation that all commercial banks would like to avoid, (Srinivas, 2009).

**2.2.3 The crucial role of access to finance theory**: Modern development theory studies the evolution of growth, relative income inequalities and their persistence in unified models. The theory stresses capital accumulation where financial market imperfections determine the extent to which the poor can borrow to invest in businesses and physical capital. In relation to entrepreneurship financial market imperfections determine the extent to which talented but poor individuals can raise external funds to initiate projects. Finance influences not only the comparative economics opportunities of individuals from relatively rich or poor households, (Demirguc-kunt and Peria, 2007). This makes access to finance by SMEs the key to mobilization of resources as the key driver to economic development.

The theories above are important to the study because they look at the needs of the SME to be externally financed since it may not be adequate to finance a business internally. For the appropriate consideration, the SME owners are supposed to be honest in their dealings and utmost disclosure so that they are granted the bank loans they sought which promotes the SMEs operations.

### 2.3 Conceptual framework

The conceptual framework shows the dependent variable: access to bank loan and independent variable was access to information and the intervening variables that were considered in the study.

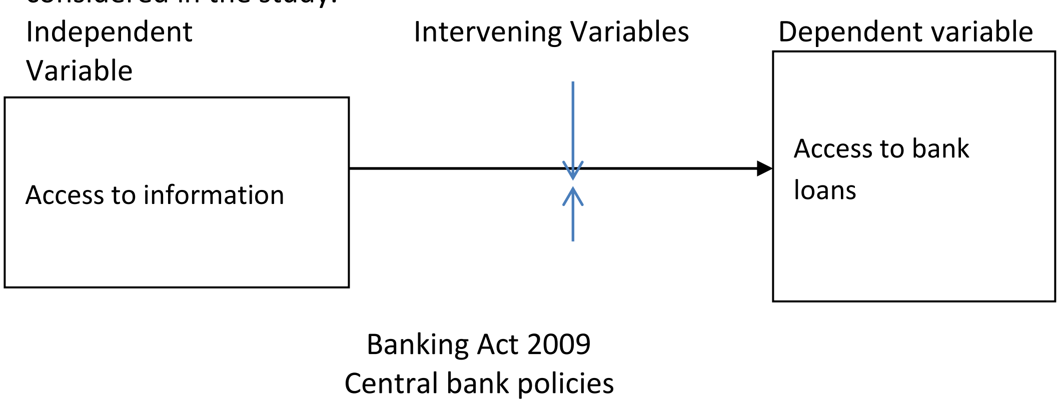


**Fig. 2.1 Conceptual framework**

Figure 2.1 shows the relationship between independent variables and dependent variable in existence of intervening variables. SMEs are owned by people of meager resources who are very innovative playing a very important role in an economy. They do not have access to adequate finances for their operations and this makes them to seek external financial assistance from the commercial banks. It has been noted across the world that SMEs face challenges in accessing the credit due to constraints of inaccess to information which may not be efficient to intervene for them in accessing to finances. The financiers work very hard to win the trust of the SME owners' so that they can seek for bank loans from them.

### 2.3.1 Competition

Competition is the authority to people doing similar business to compete for the available market which is the finance market where all those authorized get into the field to do what they know too well without fear and favor and reach to their customers. This makes banks to sell their products in a competition manner where the best seller enjoys the larger market. Perfect competition puts under control what terms are to be accorded to the customers in accessing bank loans ensuring no manipulations of the customers.

### 2.3.2. The CBK Act (2009)

The CBK Act states what would happen in the financial sector regulations which become very discouraging for the banks making them to lend to large businesses that are financially established leaving the SMEs with no one to financially support their businesses hence constraint in accessing bank loans.

### 2.3.3 The Central Bank Policies

The Central banks spells out its policies on the authority to lend and how much to lend in order to ensure that there is no inflation in the country due to excess lending without purpose. The lending rates are checked hence controlling the lending rates that may be too high making loans expensive for SMEs offsetting their businesses return.

### 2.4 Empirical Review

Stephanou and Rodriguez (2008) in Columbia found out that access to credit is a major constraint of SME's. Also acknowledged by Klapper et al. (2006) that in Slovenia and Belgium SME's sector is underdeveloped due to their inability to raise external finance a case reflected in Central and Eastern Europe. Shen et al. (2008) from their study found that SMEs in China have problems in accessing finance. It negatively effects in the long term economic development of a state. Clark et al. (2011) further stated that in 2010 the senate economics committee inquiry into access of small business to finance reported decreased competition, increased bank profit margins and price leadership in the banking sector. Apart from the generation of employment they also offer and propose range of advantages to the economy. SMEs have fast and flexible roles, close to their customers and they can be a competitive spur to large firms. They perform important sub-contract functions and import substitution role. Small firms are innovatory and create new ventures which are an important route for new ideas into an economy. Small firms are more likely to be locally owned are ways of centralizing forces which counter balances distribution of power in society. Most of the loans being made to microenterprises will not be repaid most of these programs are likely to be transitory and many of the targeted borrowers will not be materially assisted in the long run through programs that increase their debt. Their opinion was that debt is not an effective tool for helping most poor people enhance their economic condition be they operators of small farms or microenterprises or poor women which was established by (Omboi and Wangai, 2011). In most cases lack of formal loans is not the most pressing problem faced by these individuals. It must also be recognized that providing financial services to poor people is expensive and building sustainable financial institutions to do this requires patience and a keen eye for costs and risks. Most formal financial institutions in low income countries currently avoid providing these services for sound commercial reasons and sources of informal finance are able to offer loans only by charging relatively high interest rates. While they were skeptical about credit programs for poor people in general, they also recognize that competitive formal financial systems should naturally expand especially on the deposit side to serve much larger numbers of these individuals. Sustainability may be based on developing financial systems that deal sufficiently in small transactions which allow innovation in order to assist more poor people to become creditworthy while having long-term working relationships with formal financial institutions.

Kithinji (2010) stated that commercial banks are the basis of the payment system in many economies by playing an intermediary role between savers and borrowers, mobilize financial resources. Lending is the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. Loans however expose the banks to the greatest level of risk of default which makes them shy from lending to small business owners.

Obino (2012) argues that Kenya's banking industry has greatly improved as compared to what they used to be in the 1980s and 1990s. Guidelines for classification of loans were revived and issued to facilitate better credit risk assessment. CBK encouraged banks to form credit reference and credit rating agencies in order to enhance credit risk assessment and rescue those institutions that were under statutory management, strengthening the system and enhancing surveillance in the industry.

Chimuchek and Rungani (2011), they also felt that the Government/ agencies and financial institutions need to support the small business sector for it remains the economic engine of many African Countries. The sector helps in reducing the impact of socio- economic challenges like unemployment and poverty. They felt that financial institutions should develop products suitable for small business operators. Finally small business operators rely on bank a loan which is the simplest source of external finance despite the difficulties in accessing it.

**2.4.1 Access to information**

Ganbold (2008) stated that in Mongolia information asymmetries may be a limiting factor to accessing finance for SMEs since it is expensive to obtain information on their credit worthiness. SME's are mainly known to be unstable which affects their ability to contract for loan. Obamuyi (2007) in Nigeria study done stated that the default levels in developing countries is due to the fact that the governments and banks do not collect and analyses information on SMEs in order to make informed decision with full knowledge of problems in the sector.

However, Agyapong and Darfor (2011) stated that in Ghana most of the loan mangers use several criteria's on whether to accept or reject a loan application for small business operators. They mostly use the intended purpose of the loan, repayment records or previous loans, repayment schedule, type of business activity, size of loan relative to the size of the business. The lenders also consider the risk involved in dealing with small business operators. Traditionally, the assessment of credit worthiness of small business borrowers was based on the experience and skills of banks in applying basic lending principles such as the CAMPARI approach.

**2.4.2 Central bank of Kenya policies**

CBK (2011) outlined that the principle objective of the CBK is to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices in the economy. The price stability is necessary for enhancing investment and supporting economic growth and employment creation which is a role that is supported by the existing SMEs in the Meru county Municipality and other counties of the country, Kenya. The CBK formulates monetary policy to achieve the financial, credit and inflation targets set by the Executive Secretary in the Ministry of finance. The CBK uses Central Bank Rate (CBR) as the monetary policy instrument which must be reviewed on monthly basis to measure the direction which is indicated by the short term interest rates. The CBK licenses, supervises and regulates the operations of the Commercial banks of the country as mandated by the banking Act (Cap 488). The Banking Act, CBK Act, Microfinance Act and Buildings societies Act together with the regulations and prudential guidelines issued there under grants the CBK statutory powers to oversee the smooth entry licensing, operations and exit of financial institutions as per this section. The CBK carries out on- site and out –of –site surveillances to establish the extent of commercial banks and other financial institutions conduct inspections, confirms records and state of compliance with legal and regulatory requirements. This is purposely to ensure that the banks operate at a level suitable for lending to their customers.

**2.4.3 Banking Act (2009)**

The Act refers Commercial banks as companies that are governed by the Act (2009) and applies to nationalized banks, non-nationalized banks and co-operative banks which are involved in borrowing, raising or taking of money, bills business, gives advance letters of credit (LC), bank guarantee, indemnity, foreign exchange and provides safe custody vault. They are involved in managing, selling and realizing property that may come into possession of the bank in satisfaction or part satisfaction of any of its dues, acquires, holds and deals with any property or any right, title or interest in any such property that any form the security or part of the security for any loans or advances or which may be connected with such security.

## RESEARCH METHODOLOGY

### 3.1 Introduction

In this chapter the research design, the sampling frame, the target population, data collection instruments, data presentation, data analysis techniques and criteria for interpretation of results that were used in this study are discussed.

### 3.2 Design of the Research

A descriptive research design was adopted which is undertaken to ascertain and describe the characteristics of the variables of interest in a situation. The goal is to offer a profile of the phenomena of interest from a specific perspective data in order to test the hypotheses on the factors that affect SMEs in accessing bank credit. It is restricted to fact-finding and will result in the formulation of important principles of knowledge and solutions to significant problems. It is more than collection of data and it involves measure, classification, analysis and interpretation (Kombo & Tromp, 2006).

### 3.3 Locale of the study

The location of the study was made of the nine wards with 599 SMEs registered, licensed and operating where the owners were the respondents that are in Meru County Municipality. This makes the sampling frame to be made of sixty (60) SMEs registered in Meru County Municipality.

### 3.4 Target Population

Kombo and Tromp (2006) stated that target population is the entire group of SMEs from which a sample is drawn and thus which the sample will represent. The target population consisted of 599 SMEs from Meru County Municipality.

**Table3.1: Target Population of SMEs**

| Ward / Zone/ Stratus | | Registered SMEs |
|---|---|---|
| 1. | Central | 102 |
| 2. | Commercial | 210 |
| 3. | Kaaga | 80 |
| 4. | Gakoromone | 120 |
| 5. | Milimani | 27 |
| 6. | Stadium | 24 |
| 7. | Mwendantu | 31 |
| 8. | Hospital | 4 |
| 9. | Cathedral | 1 |
| Total | | 599 |

Source: Meru county Municipality 2012

Table 3.1 shows the targeted population of SMEs registered and operating in Meru County municipality according to their wards / zones.

### 3.5 Sampling Procedures and Sample Size

#### 3.5.1 Sampling procedures

To obtain a sample a sampling design need to be used. According to Kombo and Tromp, (2006) sampling design refers to how cases are to be selected for observation. According to Mugenda and Mugenda, (2003) “where time and resources allow, a researcher should take a big sample as possible.” However the sample depends on factors such as the number of variables in the study, type of design, method of data analysis and the size of the accessible population. Kasomo (2007) stated that for descriptive studies 10% of the target population is a representative sample. Stratified random sampling design was used to obtain the sample size for the SMEs which are located in nine different wards in Meru County Municipality.

#### 3.5.2 Sample size

From the target population of 599 SMEs, 60 SMEs were proportionately obtained.

**Table3. 2: Sample of SMEs**

| Ward / Zone/ Stratus | | Sample of SMEs | Percentage response |
|---|---|---|---|
| 1. | Central | 10 | 17 |
| 2. | Commercial | 21 | 35 |
| 3. | Kaaga | 8 | 13 |
| 4. | Gakoromone | 12 | 20 |
| 5. | Milimani | 2 | 3 |
| 6. | Stadium | 2 | 3 |
| 7. | Mwendantu | 3 | 5 |
| 8. | Hospital | 1 | 2 |
| 9. | Cathedral | 1 | 2 |
| Total | | 60 | 100 |

Source: Meru County Municipality 2012

Table 3.2 shows the selected sample of the SMEs owners/ managers who were the respondents in the study.

### 3.6 Research Instruments

Questionnaires were used to collect data from both the SMEs owner. The questionnaires were hand delivered to the respondents and collected. This was to ensure all targeted respondents received their questionnaires as planned.

#### 3.6.1 Reliability of measurement Instruments

According to Mugenda and Mugenda, (2003) reliability is the measure of the degree to which instrument yields consistent results after repeated trials. To increase the reliability of the data collected, the test-retesting method was used where the instrument was administered twice at different times to same respondents which was intended to examine whether the same responses could be obtained. Pre-testing of the questionnaire was conducted before the actual study to test the reliability of the structured questionnaire for the study in collecting data. A group of forty SME owners who were not in the sampled population were used in testing the reliability of the questionnaire.

#### 3.6.2 Validity of measurement Instrument

Mugenda and Mugenda, (2003) stated that Validity is the degree to which the instrument measures what it is intended to measure. For testing the validity of the questionnaire experts and the supervisor were consulted to ensure the instrument comfortably collected the appropriate data.

### 3.7 Pilot Study

Kothari, (2003) stated that before the actual study took place, test -retesting of the instrument was carried out on forty respondents from the unsampled groups of SMEs. This facilitated changes and modification of the questionnaire which made adjustments on instruments for the actual collection of data. The final copy of the questionnaire was then drafted after taking into account all the comments and suggestions received from the pilot study.

### 3.8 Data Collection procedures

According to Kombo and Tromp, (2006), data collection is the gathering of information to serve or prove or refuse some facts. The researcher obtained an introduction letter from the university before going out to collect data. The researcher adopted drop and pick method where questionnaires were personally issued to the respondents which ensured that all respondents got their questionnaires as planned and they were informed that they were to be collected on the same day or as agreed. Drop and pick also allows the researcher to collect the completed document from those whom were issued with it.

### 3.9 Data Analysis Procedures

Quantitative techniques were used. The data from the questionnaires were coded and the response on each item put into specific main themes. The data obtained from the research instruments was presented by use of frequencies tables and percentages. The data collected was categorical and the study inductive which made the Pearson Chi-Square statistic used to test the hypothesis. Further, the measurement scales for the variables were nominal verses ordinal, eta statistic was used. The Pearson Chi-Square statistics measures the significance of the relationship between the variables while eta statistic measures the degree of the relationship. The SPSS version 17statistical software was used to analyse the collected data.

## DATA ANALYSIS AND RESULTS DISCUSSION

### 4.1 Introduction

In this chapter data presentation, analysis results discussions are discussed. General conclusions from the results after testing hypothesis are given.

### 4.2 Response rate

Out of the sixty (60) questionnaires issued, forty-three (43) questionnaires were received giving a response rate of 72%. The respondents were SMEs owners who operated a wide variety of businesses in Meru Ward where 10(23%) were hardware's, 4(9%) stationery, 8(19%) farm produce, 8(19%) electrical and electronics appliances, 4(9%) automobile service, 4(9%) medical services and appliances and 5 (12) textiles who import clothes.

**Table 4.1 SMEs owners' responses**

| Ward/zone | No of SMEs Selected | Response Frequency | Percentage (%) |
|---|---|---|---|
| Central | 10 | 8 | 18 |
| Commercial | 21 | 13 | 30 |
| Kaaga | 8 | 8 | 19 |
| Gakoromone | 12 | 9 | 21 |
| Milimani | 2 | 2 | 5 |
| Stadium | 2 | 1 | 2 |
| Mwendantu | 3 | 2 | 5 |
| Hospital | 1 | 0 | 0 |
| Cathedral | 1 | 0 | 0 |
| Total | 60 | 43 | 100 |

Table 4.1 shows the responses received from the SME owners from each ward with 18% from central, 30% commercial, 19% kaaga, 21% Gakoromone, 5% from Milimani and Mwendantu each, 2% from Stadium and none from hospital and Cathedral wards.

### 4.3 Data analysis and discussion

The collected data will be presented in frequency tables and analysed using frequencies while the Pearson Chi-Square was used to establish the significance of relationship between the variables and testing the hypothesis.

### 4.3.3. Effect of in access to information on access to bank loan

The objective of the study was to determine the extent to which inaccess to information affects access to bank loan by SMEs.

**Table 4.8 Response on effect of inaccess to information on access to bank loans**

| Rankings | Fi | Percentage (%) |
|---|---|---|
| Most influential | 75 | 44 |
| More influential | 62 | 36 |
| Influential | 18 | 10 |
| Less influential | 9 | 5 |
| Least influential | 8 | 5 |
| Total | 172 | 100 |

Table 4.8 shows the responses on the relation of access to information to access to bank loan in percentages where 44% most influential, 36% more influential, 10% influential, 5% less influential and 5% least influential.

$Ho_1$: The hypothesis was that access to information has no significant effect on bank loan access by SMEs.

**Table 4.9 Results of relationship between access to information and access to bank loans**

| | Value | df | p-value |
|---|---|---|---|
| Pearson Chi-Square | 53.57 | 12 | .000 |
| Eta | .384 | | |
| N of Valid Cases | 172 | | |

Results from table 4.7 shows that computed $\chi^2$ is 53.57 the overall effect of access to information has on access to bank loan based on variables used which are adequacy of information, timeliness of information on bank loans, mode of acquiring the information on bank loans and relevance of the information on bank loans. The critical value of Chi-Square at 95% confidence level, 12 degrees of freedom is 23.34. Since the calculated value of $\chi^2$ is greater than the tabulated value, we reject the hypothesis and conclude that there is significant relationship between access to information and loan access from commercial banks.

The study revealed that inaccess to information is a significant factor that affects access to bank loans by the SME owners which supports the findings by Obamuyi (2007) which indicated that there was a great default levels since the banks did not collect and analyse information on SMEs. However, the study established that most of the registered SME businesses are owned by male gender which disagrees with the study done by Omboi and Wangai (2011) which indicated that banks discriminated against the female gender when lending loans which they used as their ability to repay base.

Nevertheless, inaccess to bank loans, indicated that it affects the growth of SME businesses though they play a great role in the development of a country's economy which was established by studies done by Stephanou and Ridriguez (2008) and Klapper et el.(2006) a situation that this study supported.

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.2 Summary of the study

The study was to establish whether inaccess to information do affect SMEs owners in accessing to commercial bank loans. Generally most of the SME respondents were direct from secondary schools at 93% which may indicate lack of business skills. Hardware business was found to be the highest type of business that is operated in Meru County Municipality. The study was based on the specific objective to determine the relationship of access to information and access to bank loans by SMEs. The hypothesis tested was that there is no significant relationship between access to information with access to external finance. Data was presented using frequency tables, charts and graphs and Pearson chi- square statistics was used to test the hypothesis. After testing hypothesis, findings on relationship between access to information has no significant relationship on access to bank loans and its calculated Chi-Square was (53.57) meaning that we reject the hypothesis since it's greater than the tabulated Chi-Square of (23.34).

### 5.3 Conclusion

After data analysis was completed, the specific study objective conclusions are given as below.

### 5.3.2 Access to information

From the data analysis carried out from the study, access to information was found to have a significant relationship with access to bank loans where the highest relationship was with timeliness of information on bank loans with Chi-square of 29.762, followed by adequacy of the information with Chi-square of 28.60, next relevance of the information on bank loans had relationship of Chi-square of 27.008 was because the calculated Chi-Square was greater than the critical value. Based on the study topic access to information is a factor that hinders SMEs from accessing loans from commercial banks. The SME owners were found to lack business skills that are never offered in high schools since majority of them were up to secondary school level. With adequate information being availed to the SME owner, he would be in a better position to know what is at his disposal financially and what would promote his business. This requires full disclosure of material facts by both the SME owner and the lender. In the absence of information wrong decisions will be made which may lead to hurting the businesses and economy.

**5.4 Recommendations from the study**

SME owners also depend on the information that is available and as such the banks should avail all information to their customers which should be adequate and relevant to enable the SME owners to make certain decisions and should be timely. To ensure adequacy and timeliness of information to the SME owners Germany and India have enhanced the internet connectivity to ensure that information is posted to data banks about the banks, and their products which are accessible at subsidized costs. This empowers the SME owners to make appropriate financial decisions. The SME owners should also acquire training on how to prepare and maintain appropriate financial statements. Training institutions should take up the initiative and ascertain the scale, scope SMEs performances and training needs in order to design tailor made in-house and on the job training programs in entrepreneurship and project management skills for SMEs owners in Meru County Municipality. The training of SME has been successful in Japan, Sweden and Germany. There should be entrepreneurial skills that should be accorded to the SME owners to enhance better business management of which may be a factor that may be indirectly affecting them. The banks should also adopt relationship lending for those customers who are faithful and banking with them for a reasonable period which would encourage the SME owner to operate consistently only one bank account. Relationship lending has been successful in USA, Latin America in Chile, Serbia, Puerto Rico, Venezuela and Argentina. The government should enter into collaboration with other stakeholders to initiate training on maintaining proper books of accounts not only for their businesses but also to increase their eligibility for bank loans. In Japan, a Japanese Finance Co-operation for Small Business (JFS), in India; Small Industries Development Bank of India (SIBDI) and in Uganda (Poverty Eradication Action Plan (PEAP) the Government have entered into co-operation with banking sector and created special institutions that lend only to SMEs and created funds for them.

**5.5 Recommendations for further research**

This study was on whether inaccess to finance is a factor that affects access to bank loans by SMEs registered, licensed and operating in Meru County Municipality.

The study recommends further research study to be carried out in trying to establish whether the unregistered SMEs in the Meru County Municipality do access to bank loans and how they do so.

Also there is need to study on the networks that are being created to bridge the gap between the SMEs and the large enterprises, those in the urban areas and rural areas and the extent to which they have been embraced. This is to enhance financing of SMEs.

This study was done in Meru County Municipality and there is need to establish whether SME owners in other parts of the country face the similar challenges in accessing bank loans.

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**Appendix A**
**Table 3.4 Data Analysis**

| Research Hypotheses | Variable | Level of analysis | Tool of analysis | Level of confidence |
|---|---|---|---|---|
| $Ho_{1.}$ Access to information has no significant effect on access to bank credit by SMEs. | Access to information | Descriptive | “ | 95% |

**LIST OF ABBREVIATIONS AND ACRONYMS**

ABC - Association of Business Committee
ABS - Australian Bureau of Statistics
AMFIU - Association of Microfinance Institutions of Uganda
CAMPARI - Character, Ability, Margin, Purpose, Amount, Repayment and Insurance
CBK - Central Bank of Kenya
CBR - Central Bank Rate
EC - European Commissions
FSD - Financial Sector Deepening
JFS - Japanese Finance Co-operation for Small Business
LC - Letter of credit
M & As - Mergers and Acquisitions

| | |
|---|---|
| NPA | - Non –Performing Assets |
| NPL | - Non Performing Loans |
| NSE | - Nairobi Security exchange |
| PEAP | - Poverty Eradication Action Plan |
| SIBDI | - Small Industries Development Bank of India |
| SME | - Small and Medium Enterprise |
| SPSS | - Statistical Package of Social Sciences |
| USA | - United States of America |