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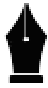

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LENDING TECHNOLOGIES OF COMMERCIAL BANKS AND ACCESSIBILITY OF FINANCE BY SMALL AND MEDIUM SIZE ENTERPRISES IN KAKAMEGA COUNTY, KENYA

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Abstract

Small and Medium Enterprises accelerates the achievement of wider socio-economic objectives. The ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification which largely depends on the accessibility to finance. Banks have developed lending technologies to aid in screening of risk associated with loan

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approval to SMEs. The purpose of this study was to investigate the effect of the lending technologies of commercial banks on accessibility of finances by SMEs in the County. The study sought to determine the effect of relationship lending technology on financial accessibility to SMEs. Ex post facto research design was used with a population of 2,200 SMEs owners. A sample size of 327 respondent determined by Krejcei Morgan table was used. Both primary and secondary data was used. Inferential statistics was used to analyze data. Regression results revealed that 32.7% of the decline in financial accessibility in the county is attributed to relationship lending, correlation coefficient r= -0.183, p-value= 0.001< 0.05 The study recommends use of alternative credit screening techniques like credit reference bureaus and credit derivatives which would create separate credit risk transfer market independent from the original loan process to increase financial accessibility to the SMEs.

Keywords: Commercial banks, Relationship lending technology, financial accessibility, small and medium size enterprises

INTRODUCTION

A casual survey of the literature point out that financial accessibility is cited by majority of the SMEs' owners as the most challenging phenomenon their enterprises face. Commercial banks, micro-finance institutions and other lending agencies have strategically developed loan packages tailored to the unique needs of the SMEs (Berger & Udell, 2006). However, very little if any is seen in improving capital deepening of these enterprises if compared to the percentage granted to the large firms. This raises pertinent questions on the lending technologies adopted by the lending financial institutions in Kenya more especially the Commercial Banks because they are the most sought financial institution by the SMEs. Banks normally extend financing to SMEs through three distinct technologies; transaction lending, relationship lending and collateral lending (Bartoli, Ferri, Murro, & Rotondi, 2013). This paper focuses on the relationship lending technology and to establish it effect on the dependent variable which if the financial accessibility to SMEs.

Economists and business experts agree that SMEs are the key drivers of economic growth through job creation, increased exports and imports, and increasing production volumes (Mahembe, 2011; Ayyagari, Beck & Demirgüç-Kunt, 2012). Furthermore, SMEs internationally seem to have a standard pattern of involvement in economies, for example: SMEs in Japan employ approximately 69% of the domestic workforce and contribute approximately 60% to the GDP (Robu, 2013). SMEs in the European Union employ up to two-thirds of the domestic

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workforce and contribute up to 52% to GDP (Robu, 2013). SMEs in the UK employ approximately 60% of all private sector employment and contribute 47% to all private sector turnovers (FSB, 2016). SMEs in Canada employ up to 70% of the total private workforce, while contributing between 25 and 41% of the GDP (Industry Canada, 2013). SMEs in the USA employ approximately 58% of the private workforce and contribute approximately 65% to the GDP (Robu, 2013). SMEs in South Africa account for as much as 91% of formal business and contribute up to 57% to GDP and employ close to 61% of the domestic workforce (Abor & Quartey, 2010). It is, therefore, obvious that the sustainability of the SME sector should be of paramount importance to policy-makers globally. A flourishing SME sector should ultimately contribute to stimulated economic growth and job creation. The inverse, however, is also true. If SMEs are not enabled to be sustainable, the economic repercussions will be high unemployment and low GDP levels.

Locally, while Kenya's small and medium enterprises (SMEs) continue to create jobs and boost the country's GDP. Kenya's 2017 overall GDP growth projection was projected to be 6.4 percent with SMEs contributing 3 percent of the projection. Despite this kind of contribution, from the global perspective, the overwhelming consensus is that SMEs are indeed facing tough credit conditions (European Union, 2017). Maudos (2013) gave the same view by providing the following international data: In Portugal, 45% of SMEs considered banks as being reluctant to provide credit, while 38% of Irish SMEs shared this viewpoint. In Spain, as much as 27% of SMEs indicated that access to finance is their most serious problem, while more than 57% considered the banks as being reluctant to provide credit. In Greece, as much as 31% of SMEs indicated that access to finance is their most serious problem, while 49% considered the banks as being reluctant to provide credit. Although not as severe, 10% of German SMEs and 13% of French SMEs indicated that access to finance is their most serious problem.

In the continent of African most economies consider accessing finance as one of the main constraints listed by several surveys and SME studies (Mahembe, 2011; Berry et al., 2002; Chimucheka & Rungani 2011). Research conducted by Fatoki and Asah (2011) in South Africa indicated that 91% of SMEs surveyed stated that they needed external finance from a commercial bank for working capital (40%), to invest in fixed assets (57%), and for business acquisitions (3%). Notwithstanding such needs, only 39% successfully applied for finance. Access to finance is considered as a major obstacle to the development of SMEs in Africa. Malhotra et al.(2007) state that literature on corporate finance indicates the lack of finance is key obstacle to SMEs growth. According to Mills and McCarthy (2014), bank loans (as a form of finance) have always been of crucial importance to SMEs. Indications were that more than 80%

of SMEs regard banks as their primary source of business funding (Mahembe, 2011). However, although bank finance seems to be the most preferred source of SME financing, Mazanai and Fatoki (2012) found that only approximately 30% of SME financing applications are eventually approved.

In Africa banks have an important role to play due to their dominance in the financial systems in terms of capital and the limitations of the micro financial institutions (MFIs), especially in regard to serving the higher end of the SME market (Ayyagari et al., 2012). SMEs depend on these financial institutions for their external financing needs because their small size and lack of substantial public information about their quality prevent them from accessing public capital markets such as through the issuance of commercial paper, bonds, or publicly traded equity (Holod & Peek, 2013; Santikian, 2014).In the SME segments, banks find lending to SMEs more costly than lending to corporate customers and tend to lend more to corporate customers than SMEs (De la Torre, 2008). Olomi (2013) established that the survival rate of SMEs was significantly low. Due to doubts about their survival and the possibility of growth, banks are inclined to tighten their requirement to approve financing to SMEs and usually require a lot of information about such investments (Omar, 2013). Mills and McCarthy (2014) confirm this trend when they stated that banks are often either too strict when considering funding applications or are outright unwilling to provide funding.

The participation of Kenya government in the financial sector dates back to the late 1960s when the government aimed to make the sector more responsive to the borrowing needs of the Kenyan public. This was in order to offset the tendency of financial corporations to invest their funds abroad and hence living out the common citizen from development participation (Central Bank of Kenya Annual Report, 2009). Kenya's commercial banking sector comprises of 3 public, 28 local (private), 11 foreign (private) and two Islamic (private) as at 31st Dec. 2018 (CBK & Kenya Bankers Association, 2018). Financial sector in most of the developing countries are characterized by fragility, volatile interest rates, high risk investment and inefficiencies in the intermediatiobn process. The industry further differs in ownership, structure, financial liberalization level and accounting treatment of various streams of income. Different regulations do exist for all institutions and some are standard across foreign banks, locally owned private banks and financial parastatals (RoK, 2016).

Despite the government inviolvent in the commercial banking sector,according to a report Deloitte(2016) Kenya Economic Outlook SMEs are hindered by inadequate financial accessibility. A survey by the Kenya National Bureau of Statistics(KNBS) released in 2017 indicates that approximately 400,000 micro, small and medium enterprises do not celebrate their second birthday (as cited by Kathuku 2017). Few reach their fifth birthday- leading to

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concerns of sustainability of this critical sector. Introduction of interest rate cap was a welcomed initially intended to lower the cost of credit and increase accessibility for both businesses and individuals. It has however generated a lot of debate of weather it has made the economic situation worse or good depending where one stand on the demand supply curve, shifting from interest rate to other determinants like the lending technology used by commercial banks.

Financing therefore, should be one of the most important factors influencing SME success that requires much attention, economic policy and regulations must endeavor to make access to funding less inhibiting to SMEs .It therefore implies that if the banks use lending methods which SMEs find difficult to meet a number of them will be left out and their growth and that of the economy will be affected in the long run. This knowledge gap informed this study to get information from the consumer side on the lending technologies of the commercial banks and credit accessibility.

Statement of the Problem

Empirical evidence across the globe shows that accessibility to finance affect the functioning of SMEs, hinders SMEs investment and innovation, and impedes SMEs growth as well (Dauda & Nyarko 2014; Oum, Harvie, & Narjoko, 2011; Ayyagari, Demirguc-Kunt, & Maksimovic, 2011; and Fatoki & Odeyemi, 2010; Kiama, 2012). The ability of SMEs to grow depends mostly on their ability to invest in restructuring, innovation and other factors that require funding. Accessibility to finance by SMEs is vital to their growth and development. However, accessibility to finance remains one of the major challenges, especially to those SMEs in developing economies (Kiama, 2012 as cited by Nkuah, 2013).

To date, in most developing countries and Kenya in particular, SMEs lack adequate accessibility to finance and money markets and still experience difficulties in obtaining capital despite efforts by some financial institutions and public sector bodies to open more avenues of funding (Kiama, 2012). The majority of the SMEs are still not considered credit worthy by commercial banks due to their inability to fulfill some conventional banking requirements (Alhassan and Sakara, 2014).As such most SMEs in Kenya are forced to consider other informal financing options, whose lending conditions are less stringent. The funding obtained from informal financing, is not enough to finance SMEs ’expansion and growth. Therefore, it is important to explore the contribution of the lending technologies of commercial banks in Kenya to SMEs accessibility to finance since banks are considered as the major contributor in the financial sector.

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In Kenya, a study by Langat (2013) examined the determinants of lending to farmers by commercial banks in Kenya and established that commercial banks give out loans to farmers that have reliable sources of income, but the study focused on the farming sector, hence its findings cannot be generalized to all SMEs. Most studies on SMEs performance, growth and development acknowledge that lack of credit is the greatest constraint that SMEs face. Nonetheless, majority of the studies focus on the factors that influence the performance of SMEs and conclude that accessibility to finance is utmost problem which if solved can help mitigate the other factors such as management since they will be able to afford training and even employ people with relevant skills. As such, most of these studies deviate from an in-depth analysis of the courses of financial constrained by SMEs in terms of the finance source. Instead, the studies give recommendations to SMEs and other stakeholders on how to mitigate or solve the financing problem without determining the factors that influence accessibility to finance and the particular sources involved. Moreover, there is no comprehensive study in Kakamega County on the commercial banks lending technologies and SMEs accessibility to finance. The foregoing issues, therefore, sets the study while drawing on Kuntchev, Rodríguez-Meza and Yang (2012) methodology to identify financial accessibility level. In light of the aforementioned this study was conducted on SME to determine the interplay between the commercial banks' lending technologies and financial accessibility in the County.

Objective of the Study

The objective of the study was to establish the effect of lending technologies of commercial banks on accessibility of finances to small and medium size enterprises (SMEs) in Kakamega County-Kenya.

Research Hypothesis

Ho_1 There is no statistically significant effect of relationship lending technology on financial accessibility to SMEs in Kakamega County.

LITRATURE REVIEW

Theoretical Review

A theory is a study of systematically interrelated concepts, definitions and propositions that are advanced to explain or predict phenomena (facts); the generalization we make about variables and the relationship among the variables (cooper & Schindler, 2008). Different theories suggest different approaches to explain the factors that influence SMEs access to financing, some of the relevant theories are given below.

The Financial Life Cycle Theory by Franco Modigliani

The stage model or firm life cycle approach describes the development of the firm as a linear sequential process through a number of stages. The number of stages is not standardized. A model based on three phases of growth and five-stage evolution-revolution models have been proposed. The financial life cycle model incorporates elements of trade-off, agency, and pecking order theories and describes sources of finance typically advanced by founders at each stage of a firm's development (Modigliani, as cited in Deaton, 2005).

At start-up, the commonly held view is that firms have difficulty accessing debt finance due to information opacity, low asset base and inexperience (Fjose, 2010). The most important and commonly-used sources of finance at this stage are personal savings of the firm owner and finance from friends and family members (Gompers, 2010). The contribution of the firm owner in emerging firms is not confined to equity, but commonly includes the provision of quasi-equity in the form of personal assets used as collateral to secure business debt (Calice et al,. 2012). As successful firms survive nascent and start-up phases, and matures through growth stages, personal funding becomes relatively less important as investment finance is increasingly sourced from retained profits. Furthermore, accumulation of a trading history facilitates access to increased sources and amounts of debt financing, particularly long-term bank debt financing. Thus, it is common for SMEs to have high levels of short-term debt in their infant stages (Nofsinger and Wang 2011). Short-term debt is neither sufficient nor appropriate for firms requiring large amounts of additional debt finance for investment. However, these requirements are more suitably fulfilled by long-term debt, or by raising external equity through a private placement or an initial public offering of common stock (Srinivas, 2015).

On reaching maturity, firms have acquired a trading history, a strong asset base and typically have access to a broad range of financing sources. Sources of finance accessed at this stage are generally determined by preferences of firm owners, rather than supply side restrictions. A number of firms may then enter a stage of decline due to diminishing returns, whereupon the firm may be liquidated or taken over (Fatoki & Asah 2011).

Financial Intermediation Theory by Gurley and Shaw

According to Andries (2009), the financial intermediation theory can be traced to the works of Gurley and Shaw and has a basis on the agency theory and the theory of information asymmetry. The theories of intermediation are built on the models of resource allocation based on perfect markets and that it is the frictions like transaction costs and asymmetric information that are important in understanding intermediation. Financial intermediation describes the process where surplus units (savers) give funds, through deposits, to intermediaries (financial

institutions such as banks, credit unions, insurance companies, and mutual funds) who in turn channel out the funds to deficit units (spenders or borrowers) (Saunder & Cornett, 2011). Financial intermediation is therefore the transfer of funds from agencies with surplus to agencies with deficit through financial intermediaries (Andries, 2009). Financial intermediaries can therefore be described as the financial institutions specialized in buying and selling of financial capital. Financial intermediaries borrow from one group of agents and lend to another group of agents, that the borrowing and lending groups are large hence diversification on each side of the balance sheet, and that the claims issued to the borrowers and to the lenders have different state contingent payoffs. The financial intermediaries bring together the depositors and the borrowers matching their transaction needs and providing other services and as a result reduce the transaction costs and eliminate information costs. Financial intermediaries also act as delegated monitors (on behalf of the depositors) and therefore help lower monitoring costs hence eliminating would be agency costs, lower liquidity costs, and lower price risks. Depositors entrust their funds with these intermediaries who in turn invest them through loans and other investment projects, with the depositors able to liquidate (through withdrawals) their savings at any given time (Andries, 2009).

Relationship Lending Technology

Santikian (2014) refers to relationship lending technology as the provision of financial services by a financial intermediary on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services. Relationship lending may have an impact on credit rationing as (Boot, 2000; Jiangli, Yom and Unal, (2008) concurs that establishing a lending relationship with a bank can reduce asymmetries of information and create greater accessibility to the SME borrowers. Berger and Udell (2006), also agrees that one of the most powerful technologies available to reduce information problems in small firm finance is “relationship lending.” He goes on and describes relationship lending as a technology where banks acquire information over time through contact with the firm, its owner, and its local community on a variety of dimensions and use this information in their decisions about the availability and terms of credit to the firm. This lending technology offset information asymmetry and therefore likely to increase credit availability to small firms.

Relationship lending is emphasized in previous studies as being the most suitable technology to use when dealing with SMEs because these enterprises are considered informationally opaque (Carbo-Valverde, Rodriguez-Fernandez, &Udell, 2009; Ono & Uesugi, 2009). Earlier, Elyasiani and Goldberg (2004) posit that SMEs are less transparent (more informational opaque) than their larger counterparts because, apart from having insufficient

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collateral to pledge, they do not have audited financial statements. Due to the SMEs' opaque nature in terms of ascertaining the reliability of information provided, it has conventionally been assumed that small and domestic banks applying relationship lending are better equipped to lend to SMEs (Berger & Udell, 2006).

Though the lending relationships have extensively been favored to increase credit availability by most scholars in this area, flaws have also emerging in this part of literature. Jiangli et al (2008) after analyzing World Bank data from various countries finds that lending relationships exhibit country-varying impacts on credit availability. For instance both Korean and the Thai firms benefit from strong lending relationship, while the opposite is true for the Philippine firms (ibid). The findings suggest that empirical evidence on the effect of lending relationship on credit availability is still a subject of inquiry.

Relationship lending is a complex phenomenon that is difficult to measure and thus has been proxied by different aspects. Elsas (2005) argues that it is not clear which proxies should be used for relationship lending and suggests that directly asking one of the involved parties is a straightforward way to generate a criterion for assessing whether a given bank-borrower relationship is special in the sense of relationship lending. More recently, Santikian (2014) emphasizes that even though banks are a primary source of capital for small, private firms, the inner workings of small firms' bank relationships remain obscure. The most commonly used proxies for relationship lending are; duration, scope and concentration of borrowing (Elsas, 2005; Iturralde, Maseda, Lehman and San –jose, 2010; Lehmann & Neuberger, 2001; Ongena & Smith, 2000).

Duration is the most widely used measure of relationships and reflects the length of time that the bank has provided loan, deposit, or other services to the firm (Ongena & Smith, 2000; Elsas, 2005). Theoretically, there is a positive relationship between duration and information flow which should improve the bank's willingness to provide funds to the SMEs and thus availability of finance to the borrower (Berger & Udell, 2002; Degryse & Van Cayseele, 2000).

Scope reflects the breadth of the relationship, that is, the number of different services or interaction over multiple services between the bank and the customer (Degryse & Van Cayseele, 2000). Information gathered from the interaction may not only have an effect on the credit terms with the borrower (Santikian, 2014) but may also affect the bank's comparative advantage in lending. Boot (2000), for instance, suggests that a bank may use a firm's checking and deposit accounts to assess loan repayment capability.

Concentration of borrowing is the number of bank relationships that a borrower maintains and it's expected that by having one exclusive relationship promotes closer ties between the bank and borrower. Iturrald et al., (2010) suggest that the number of relationships

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may be influenced by the characteristics of companies and the social and economic environment of a particular country. They further suggest that a main bank relationship should lead to more accurate information and therefore reduce the bank's monitoring costs in tandem with Diamond's (1984) preposition that a single bank relationship is optimal because it avoids duplication of screening and monitoring efforts. Elsas (2005) concur that the larger the number of bank relationships, the higher the riskiness of the borrowers because monitoring of the borrower tends to be weaker.

Financial Accessibility by SMEs

Lack of access to finance is almost universally indicated as a key problem for SMEs. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives amounts not enough to enable SMEs undertake their business activities optimally hence the over reliance on commercial banks. According to Kinyua (2014), Inaccessibility to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face small enterprises. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 and the resent trouble in most SACCOs testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes, came up, promising hope among the unfinanced SMEs that they can make it to the financial freedom through soft borrowing luring them to save with this entities only to lose their savings. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2008). Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by Kinyanjui (2006) show how SMEs are constrained by finance. In South Africa Eeden (2004) found finance as cited as one of the most prominent constrains. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs.

In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral, absence of registries for mortgages and pledges may increase risks

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to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary (Kinyanjui, 2006).

According to Olson (2012) the obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such services: essential services they would need when they approach banks and other types of lenders. In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital and leasing. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high perceived risks in SME loans, access to competitive interest rates may also limit. In many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs. As a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. Capital is therefore necessary for the long-term survival and growth of small enterprises.

A study was carried to determine access to credit by smallholder farmers in Kenya in the Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi) by Kiplimo, Ngenoh, Koech, & Bett (2015). The study used primary and secondary data where 613 small hold farmers in both regions were randomly sampled according to the total number of households in each division. They used logit regression model to determine the factors influencing credit access. Access to credit was measured by actual receipt of credit, financial service from any given source. The result indicated that financial records, collateral and relationship availability had significant positive effects on access to credit. This concurred with Hussein, (2007). The choice of binary logit model was appropriate since the dependent variable was categorical. Karanja, Mwangi, & Nyakarimi (2014) investigated factors that influenced access to credit among women enterpreneur in Isiolo town (Kenya). They conducted a census to the 6 registered financial institutions, 18 management employees and 20 women enterpreneurs where descriptive survey design was adopted. In addition, they used chi square to test the hypothesis and it was found that there was a significant relationship between the

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collateral requirement and access to credit services. It was also revealed that out of 3 firms studied, 80% asked for motor vehicles to secure borrower's credit. While Kung'u (2011) conducted a survey Westland, Kenya to examine factor affecting credit access to SMEs. Data was collected using 115 questionnaires. Participants were randomly selected from 6 sectors, namely industrial, technology, electrical, shopping, building and travel. This study found that start up business (those under 3 years) was faced with credit access, setbacks due to lack of collateral and information. Be that the case, globally there exist several forms of collateral accepted by banks for purposes of guaranteeing the recovery of loans we will deal with the most common in Kenya for the purpose of this study which are asset based, factoring and leasing.

Using the finance section of the Enterprise Surveys questionnaire model by the World Bank as used by Kuntchev et al,.(2012) the researcher adopted three major groups that measure the extent firms' access to finance among the respondent. The first group called Fully Credit Constrained (FCC) includes the SME firms that meet all the following conditions simultaneously. Did not use external sources of finance for both working capital and investments during the previous fiscal year; Applied for a loan during the previous fiscal year; Do not have loan outstanding at the time of the survey which was disbursed during the last fiscal year or Did not use external sources of finance for both working capital and investments during the previous fiscal year. Did not apply for a loan during the previous fiscal year .Do not have an outstanding loan at the time of the study. The reason for not applying for a loan was other than having enough capital for the firm's needs. Some characteristics of the potential loan's terms and conditions deterred these firms from applying. It is thus concluded that they were rationed out of the market. In summary, fully credit constrained firms have no external loans because loan applications were rejected or the firm did not even bother to apply even though they needed additional capital.

The second group called Partially Credit Constrained (PCC) includes firms that meet the following conditions: Used external sources of finance for working capital and/or investments during the previous fiscal year and/or have a loan outstanding at the time of the study, and either: Did not apply for a loan during the previous fiscal year and the reason for not applying for a loan was other than having enough capital for the firm's needs; Applied for a loan but was rejected. However, firms in this group manage to find some other forms of external finance and, consequentially, they are only partially credit constrained. Finally, the third group called Non Credit Constrained (NCC) includes the firms that fit into the following description: Did not apply for a loan during the previous fiscal year; The reason for not applying for a loan was having enough capital for the firm's needs Kuntchev et al,(2012).

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RESEARCH METHODOLOGY

This study adopted ex-post facto research design.Cohen, Manion and Morison, (2000) have defined an ex- post facto research design as asystematic ,emperical enqury in which the researcher does not have direct control over indipendent variables because their manifestations have already occurred or because they cannot be manipulated. The design has an advantage because it meets an important need of the researcher where the regorous experimental approach is not possible. The design was therefore the most suitable for this study since the lending technologies which were treated as the independent varables had already been used on the SMEs loan applicants and had already influenced access to finance/loan by SME's from commercial banks.

Target Population

The study population was all registered SMEs with the Kakamega County Government.

Sampling Design and Sample Size

For this study, stratified random sampling technique was used where the researcher targeted each group. The study adopted the Krejcie and Morgan (1970) table to obtain sample size for the SME managers/owners. The researcher then obtained a representative sample size from stratum by the use of proportional sampling.

Data Collection Instruments

Structured questionnaire was used to collect primary data. The questionnaire was preferred in this study because respondents of the study are assumed to be literate and quite able to answer questions asked adequately. The study also used secondary data. Kothari (2014) terms questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably short span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization. Approval from the university was obtained to conduct the study; permission was obtained from the National Commission of Science Technology and Innovation (NACOSTI). The researcher then paid a courtesy call to the SMEs. Providing introduction letter to each of the SMEs requesting for permission to carry the study in their firm.

The questionnaire used had five sections A, B, C, D, E .Four sections A, C, D and E were self-designed while section B dealing with the dependent variable was adopted from the survey work done by Kuntchev, Rodríguez-Meza and Yang (2012).The first section of the instrument probed for background and demographic data, while the subsequent section delved

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into the respondents' insights about the study objectives. In each section, the respondents were given clear instructions on how to complete the item. The questionnaire was refined during the piloting of the instrument. A total of 327 questionnaires were sent out and properly monitored to allow for a satisfactory response rate. In developing the questionnaire the researcher adopted a Likert scale (e.g. 1-Strongly disagree, 2 - Disagree, 3-undecided (Neutral), 4-Agree, 5-Strongly agree).

Validity

Validity of the research instrument is improved through expert judgment. As such, the content validity was ascertained by the supervisors; who constantly checked and evaluated the research instrument.

Reliability

The study used 'split-halves' and 'internal consistency' methods to measure reliability. 'Split-halves' method involved comparing the two halves of the responses to each other and similarities identified. The more the similarities between the two halves and each question can be found the greater the reliability as recommended by Mugenda Mugenda (2011). Internal consistency method was tested using Cronbach's Alpha. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group.

FINDINGS AND DISCUSSION

Response Rate

In this study, out of a total of 327 questionnaires that were distributed to the sampled respondents, 314 of them were filled and returned. Therefore, 314 were correctly filled and were used for the analysis, which made up a response rate of 96.02%. As indicated by Mugenda and Mugenda (2011), a response rate of more than 50% is satisfactory for examination and announcing; a rate of 60% is great and a reaction rate of 70% and over is sufficient. In regard of the evidence, the response rate was sufficient to conduct the research.

Pilot study result

In this study, data collection instruments were tested on 10% of the population, thus 32 respondents (10% of 327) were used to ensure that the questionnaire is relevant and effective. Reliability was tested using questionnaire duly completed by the 32 randomly selected respondents. These respondents were not included in the final study sample in order to control response biasness.

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Reliability Test

In order to establish the reliability of the questionnaires, Cronbach's Alpha Coefficient which measures the internal consistency was estimated using SPSS. Table 1 shows that all scales were reliable as their reliability values exceeded the prescribed acceptability threshold of 0.7 for Cronbach Alpha tests. The reliability is expressed as a coefficient between 0-1 the higher the coefficient value the more reliable is the test.

Table 1 Reliability Test

Variable	Cronbach's Alpha	Comments
Transaction lending technology	0.866	Accepted
Collateral security lending technology	0.756	Accepted
Relationship lending technology	0.839	Accepted
Moderating effect of legal and regulatory environment	0.734	Accepted

Descriptive Statistics

SMEs Accessibility to finance

In order to determine the level of accessibility among the respondent questionnaire with three categories was adopted, using World Bank's Economic Survey model as used by Kuntchev et al,.(2012). The categories are; fully credit constrained, partially credit constrained and not credit constrained (FCC, PCC and NCC) respectively.

Table 2 Accessibility to finance

	Frequency	Percent
FCC	160	51.0
PCC	94	29.9
NCC	60	19.1
Total	**314**	**100.0**

51 % of the respondents were fully credit constrained, 29.9% of the respondents had a partial credit constrained and 19.1% of the respondents had no credit constrain.

Relationship lending technology

The objective of the study was to determine the effect relationship lending technology on financial accessibility by the SMEs in the county. A set of statements considered relates to

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determinants of relationship lending were administered. The respondents were to indicate the extent of agreement with each of the statements.

Table 3 Relationship lending technology on SMEs Accessibility to Finance

	SA (%)	A (%)	N (%)	D (%)	SD (%)
The duration of the relationship determines the success to loan application	84(26.8)	111(35.4)	41(13.1)	61(19.4)	17(5.4)
The scope of the relationship enables one to get his loan approved faster	109(34.7)	78(24.8)	78(24.8)	32(10.2)	17(5.4)
My application was rejected despite having banked with them for over two years because of my account volume	72(22.9)	84(26.8)	80(25.5)	61(19.4)	17(5.4)
The concentration of your relationship influences approval of applications	144(45.4)	64(20.4)	57(18.2)	32(10.2)	17(5.4)

From the study finding in above, 35.5% of the respondents agreed that the duration of the relationship determines the success loan application. 34.7% of the respondents strongly agreed that the scope of the relationship enables one to get his loan approved faster, with 24.8% of the respondents agreed with the same. 26.8% the respondents agreed that their loan application were rejected despite having savings with the bank for over two years because of their account volume. Finally, 45.9% of the respondents strongly agreed that the concentration of the relationship between the SMEs and their banks influences approval of their loan applications.

Statistical Modeling

Hypotheses testing

The hypotheses were tested at 0.05% significance level with 95% confidence which is accepted for non-clinical research using multiple linear regressions. The table below shows multiple regression results. The results indicated that transaction lending technology, relationship lending technology and collateral lending technology commercial of commercial banks explained 69.2% of the variances in SME's financial accessibility as indicated by squared multiple correlation (R2) of 0.692. The results indicate that the overall model was statistically significant. Further, the results imply the above variables are good predictor of financial

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accessibility by SMEs in Kakamega County. This was supported by an F statistic of 247.133 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. From the result commercial banks' relationship lending technology have a negative and significant effect on SMEs financial accessibility. (r=-0.619, p=0.001)

Kinyua (2014) researching on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya and found out that; accessibility to finance had the potential to positively affect performance of SMEs, The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase MSEs performance.

While Wanjohi and Mugure (2008) in a study carried out in kajiado who argued that there are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees, lack of collateral and longtime lending procedures. Financial constraint remains a major challenge facing SMEs in Kenya. Small-scale enterprises play a major role in facilitating economic growth in Kenyan economy. The greatest hindrance to their active participation is the access to affordable credit and at reasonable terms.

Table 4 Multiple regression results

Variable	B	Std. Error	t	Sig
(Constant)	3.201	1.899	1.685	0.516
Transaction lending technology	-0.772	0.182	-4.241	0.000
Relationship lending technology	-0.619	0.176	-3.517	0.001
Collateral lending technology	-0.907	0.214	-4.238	0.000
F statistics(p value)	247.133(0.000)			
R squared	0.692			

Relationship Lending Technology

The second objective of the study was to determine the effect of relationship lending technology on financial accessibility to SMEs in Kakamega County. The study predicted that relationship lending has no statistically significant effect on financial accessibility to SMEs in Kakamega County, the null hypothesis was that there is no statistically significant effect of relationship lending technology on financial accessibility to SMEs in Kakamega County. Multiple linear regression was used to test the hypothesis. The acceptance or rejection criteria was that, if the p value is greater than 0.05, the Ho2 is not rejected but if it's less than 0.05, the Ho2 fails to be

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accepted. The outcome given in the table above shows that the p-value was 0.001<0.05. This resulted to the rejection of the null hypothesis hence there is statistically significant effect of relationship lending technology on SMEs Financial accessibility in Kakamega County.

This finding is consistent with that of Santakian (2014) who maintain that credit access decreases with decrease in the relationship and vice versa, that building relationships with financial institutions improves firms' ability to access external financing. Creating commercial banks relationships with SMEs reduces information asymmetry and agency problems, since valuable information about SME quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing. This technology favors SMEs who have been in business for some time but discouraging for the startups who are in dear needs for funds hence making it discriminative as a method.

Table 5 Summary of the hypothesis testing framework.

Hypothesis statement	Rule	p-value	Decision
Ho1- There is no statistically significant effect of relationship lending technology on financial accessibility to SMEs in Kakamega County	Reject Ho if p value>0.05	P>O.O5 **P=0.001**	Rejected the null hypothesis

Correlation analysis

The study sought to determine the direction and strength of the relationship between the different factors presumed to have influence on accessibility to finance by conducting a correlation analysis. The relationship lending technology was found to be negative and statistically significant on financial accessibility (r=-0.183, p=0.001) at 0.05 level of significance.

Table 6 Correlation analysis of the study variables

		Financial access to SMEs
Relationship lending technology	Pearson Correlation	-.183*
	Sig.(2 tailed)	.001

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

Regression Analysis

The study sought to establish the relationship between relationship lending technology and financial accessibility in Kakamega County –Kenya.

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Table 7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.572	.327	.321	.40671

From the finding presented in table the above, the value of R-Square is 0.327. This implies that 32.7% of SMEs financial accessibility was explained by the use of relationship lending technology by the commercial banks.

Table 8 ANOVA test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1420.211	1	1420.211	12.3	.000
	Residual	2922.941	312	9.368		
	Total	4343.153	313			

a. Dependent Variable: financial accessibility

b. Predictors: (Constant), Relationship lending technology on SMES financial accessibility

The ANOVA result shows that the overall model was statistically significant. The result implies that relationship lending technology is a good predictor of financial accessibility among the SMEs. This was supported by F statistics of 12.3 and the p- value of 0.000 at 0.05 level of significance.

Table 9 Coefficient table for relationship lending technology

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.922	.665		4.393	.000
	Relationship lending technology	-.404	.085	-.572	-4.781	.000

a. Dependent Variable: financial accessibility

The study findings show that relationship lending technology have a negative and significant effect on SMEs financial accessibility in Kakamega County (r= -0.572, p-value = 0.000 < 0.05 and t=-4.781).This indicated that relationship lending technology when used on by the commercial banks on appraisal for loans result to a negative influence on financial accessibility

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by SMEs in Kakamega County. A unitary increase on the requirement of this technology will lead to 0.572 unit decrease in accessibility of finance by SMEs.

The specific model was;

Financial accessibility = 2.92 - 0.572X

Where, X is Commercial banks' relationship lending strategy

SUMMARY OF FINDINGS

The study was done due to the realization that there was a research problem that though it's widely acknowledged, the level of contribution of SMEs to the GDP of the country their development was inhibited due to limited financial capital. Empirical literature revealed that there were several factors affecting SMEs country wide but there was limited studies targeting the role of commercial bank lending technologies in semi -urban counties like Kakamega County in regards to SMEs accessibility to finance.

This section confirms the study was able to come up with the intended findings of the research. Recommendations and conclusions were extracted from the overall study results. The data was collected from SMEs traders in Kakamega County, which has 12 Sub-Counties. A total of 327 questionnaires were distributed out of which 314 were duly filled and returned, which is 96.02% return rate.

The objective of the study was to determine the effect of relationship lending technology on financial accessibility by SMEs in Kakamega County. The findings revealed that relationship lending technology had a negative and significant effect on financial accessibility by SMEs in Kakamega County. The result revealed that 32.7% of the decline in financial accessibility in the county is attributed to relationship lending, with a Pearson correlation coefficient of r= -0.183, p-value= 0.001< 0.05 which is significant at 0.05 level of significance. The results further revealed that 42% of the respondent agreed that relationship determines accessibility to finance; SMEs access to credit is difficult without a strong relationship with the bank while 35.5% of the respondents indicated that the duration of the relationship with the bank determines the success of their loan application.

CONCLUSION

SMEs are the core solution to economic problems like unemployment problem which is growing in Kakamega County. However, SMEs still reported acute problems financial accessibility through commercial banks. This study explored relationship lending technology used by the banks and their effects on financial accessibility which would enable policy makers and planners to formulate proper measures to encounter firms' financing obstacles. The study found out that

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most of the firms experiencing financing obstacles tended to possess SMEs' features i.e. small and medium, young and firms without collateral.

Though there is need to mitigate credit risks by proper screening commercial banks needs to adopt new risk mitigation methods that will not derail financial accessibility to any segment of the economy. Over-reliance on traditional lending technologies by the banking sector is evidenced, which can be attributed to less attention given to other credit mitigation measures by banks. The study suggest other credit mitigation measures like proper use of credit referencing which has been introduced in the market and credit risk transfer which has not been considered in Kenya. We conclude that increasing and proper use of credit referencing, and introduction of credit risk transfer instruments like credit derivatives could increase lending activity to the SMEs in the County.

RECOMMENDATIONS

It is recommended that commercial banks offering SME finances should make them more accessible to entrepreneurs. This can be done by using various technologies which are tailor made to their needs and in line with the ability of the SMEs. The use of modern credit risk mitigation technology like credit referencing and the introduction of derivative market will lower the shortcomings of the over reliance on traditional lending technologies hence increasing financial access to SMEs.

CONTRIBUTIONS OF THE STUDY

The study in effect adds to literature on bank's financing for SMEs in general and specifically for SMEs operating smaller towns in Kenya. The study re-affirmed that relationship lending technologies can be counterproductive to financial access by SMEs hence stifling growth of the sector since at this stage we have start-ups with new business ideas which are normally opaque to the financiers. Likewise, a number of weaknesses such as the lack of documented books of accounts and formalized credit history observed in their operations were viewed as prohibitive to SME operations which in turn affect their efficiency.

AREAS FOR FURTHER RESEARCH

The limitations of this study light a number of prospects for future research. Primarily it is proposed that a similar research project be undertaken on a national basis and involving other formal lenders. A comprehensive study could also be conducted on a county by county basis in the country .Such study would be beneficial in helping to find out if there are particular regional factors that impact on SMEs financial accessibility.

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