INFLUENCE OF COMMERCIAL BANKS' COLLATERALS LENDING STRATEGY ON THE GROWTH OF SMES IN KENYA

Dr. Jane Karambu Kathuku, Dr. Patrick Karanja Ngugi and Dr. Willy Mwangi Muturi

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[1]*Dr. Jane Karambu Kathuku

Postgraduate Student, Jomo Kenyatta University of Agriculture and Technology

Corresponding Author's Email: kathukujane2015@gmail.com

[2]Dr. Patrick Karanja Ngugi

Lecture, Jomo Kenyatta University of Agriculture and Technology

[2]Dr. Willy Mwangi Muturi

Lecturer, Jomo Kenyatta University of Agriculture and Technology

Abstract

Purpose: The purpose of the study was to establish the influence of commercial banks' collaterals lending strategy on the growth of SMEs in Kenya.

Methodology: The researcher used purposive sampling to select respondents. The sample size was comprised of 352 respondents. The study used questionnaires to collect data from the field. Both quantitative and qualitative data gathered was coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. Descriptive statistics was used to analyze the data in frequency distributions and percentages which were presented in tables and figures. Inferential statistics were used to analyze qualitative data.

Results: The study found out that commercial banks' collateral have a negative and significant effect on SMEs growth. (r=-0.96, p=0.000).

Unique Contribution to Theory, Practice and Policy: The study also recommended that commercial banks to flex terms and conditions for credits for the SMEs. The study found out that an increase in collateral and covenants leads to a decline in performance of SMEs. Therefore, commercial banks need to make credit terms to be friendly to the creditors in this case the SMEs owners. Small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks should typically agree to accept collateral in any term and also should be more inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral.

Keywords: *Collaterals lending strategy, growth SMEs.*

1.0 INTRODUCTION

1.1 Background of the Study

In developing countries like South Africa and Ghana, despite efforts to overcome the widespread lack of financial services and the expansion of credit among small business of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 2006).

A number of factors affect the growth of African MSEs, including the business environment and the quality of the labour force. However, a crucial element in the development of the MSE segment is access to finance, particularly to bank financing, given the relative importance of the banking sector across the continent. African MSEs are more financially constrained than in any other developing region (Stephanou & Rodriguez, 2010). Only 20 percent of MSEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. The study found that the MSE is a strategic priority for the banks in the region. MSEs are considered a profitable business prospect and provide an important opportunity for crossselling (Calice, 2012).

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. 2013 (CBK & Kenya Bankers Association, 2013). Financial sector in most of the developing countries are characterized by fragility, volatile interest rates, high risk investment and inefficiencies in the intermediation 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, 2010).

Most banks have dedicated units serving MSEs, to which they offer largely standardized products though the degree of personalization is growing. And albeit advanced transaction technologies based scoring and risk-rating systems remain relatively underdeveloped, banks are gradually automating their risk management frameworks to achieve efficiency gains (Calice, 2012). The findings were broadly akin to those of similar studies in other geographical contexts, suggesting that banks in the region have enthusiastically embraced the MSE segment and are making substantial investments to develop their relationship with MSE clients. Kariuki (2011) studied on bank's credit access in Kenya and established that MSEs were faced with higher nominal interest rates at higher inflation rates in the latter half of the 1980s. Moreover, the explicit transaction costs of borrowing were found to be high in relation to interest costs.

1.2 Statement of the Problem

One of the biggest obstacles in MSEs is access to either start-up or expansion capital. Lacking sufficient credit, entrepreneurs are seldom able to take advantage of discounts on new materials, and are unable to extend credit to their customers. Credit and capital have been found to be the greatest perceived needs of small businesses (Liedholm & Mead, 2009). They require working

capital to survive and buy equipment. Various lending institutions like K-Rep, Faulu-kenya and Jamii Bora Bank have introduced products that enhance lending to MSEs. Despite the loan facilities offered by these institutions, the MSEs Performance, growth and existence still remains unknown. Studies on micro-enterprises suggest that most of them do not grow, although approximately 40% does actually grow (Baud & Bruijne, 2013). Micro and small enterprises have a high mortality rate. Many are started every year but very few see their third birthday (Ngugi, 2012). Micro and small enterprises do not grow at the expected rate to become medium enterprises hence the missing middle phenomena (Ngugi, 2013).

Reports from Kenya Bankers Association show that 80% of lending by banks is to corporate and government clients (KBA, 2014). Worked out, this leaves only about 20% of lending by banks shared between individual borrowers and the MSEs. Yet up to 40% of the country's GDP is attributed to the MSEs. Could this trend be reversed by the commercial banks' lending strategies? This was the subject of this study.

Despite abundant literature on MSEs Loan, there still remains a gap in literature on the effect of the loan to the micro and small enterprises. Kombo, (2010) has researched on challenges faced by physically impaired people in access of services offered by KCB. In a study on utilization of micro finance by small entrepreneurs in Kenya, (Ndung'u, 2010) highlights how the MSEs have utilized credit extended to them. There is no research that has been done on commercial banks 'collaterals lending strategies and thus exist a research gap. This study was therefore aimed at assessing the influence of commercial banks' collaterals lending strategies on the growth of micro and small enterprises in Kenya.

1.3 Objectives of the Study

The objective of the study was to investigate the influence of commercial banks 'collaterals lending strategies on the growth of micro and small enterprises in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Credit Rationing Theory

Credit Rationing Theory postulates that asymmetric information leads to credit rationing conditions by modifying the risk-return distribution. This fact encouraged banks to refuse advancing capital for investments and produced divergence between capital demand and supply. Constrained accesses to finance derived from financial institutions' credit rationing behavior were not efficient because managers worked under conditions of asymmetric information. This resulted into less profitable investments being financed while more profitable investments were left out resulting into adverse selection and moral hazard risks. Therefore, asymmetric information explained asymmetric distribution of credit among firms with identical characteristics (Alfo & Trovato, 2006).

A firm accepted to invest only in riskier projects that produced higher income levels to be able to cover up debts. This resulted into the fact that the lender could not avoid selecting the riskier project and therefore accepted the risk of the firms as presented in the financing proposal. In the presence of excess demand, the lender had different maxima that corresponded to the rates with the lower adverse selection likelihood for credit rationing. Rationing conditions reduced access to financial resources not only for new investment, but also for employment creation and poverty alleviation. Another facet of credit rationing was that financial institutions

managers accepted personal responsibilities for non-performing loans advanced to MSEs without government guarantees, hence agency problems existed. Managers had the responsibilities to protect the depositors' interest hence operated under credit rationing conditions (Stiglitz & Weiss, 1981).

Start-up MSEs are more likely to be affected by information asymmetry problems. Information asymmetries are more acute in new and technology-based propositions. At an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur. Especially with manufacturing or technology based firms, entrepreneurs were reluctant to provide full information about the opportunity because of concerns that disclosure could dispose their ideas to the competitors. There were also some categories of owners of MSEs who faced additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there were asymmetries arising from location as well as sector. For example, owners of MSEs in rural environments faced difficulties with access to bank finance (Deakins *et al*., 2008).

Financial institutions approved loans to firms which provided collateral in addition to those firms that had established long term relationships with lenders. Due to the existence of asymmetric information, banks based their lending decisions on the amount of collateral availed. Collateral acted as a screening device and reduced the risk of lending faced by commercial banks. By pledging an asset, a borrower signaled the quality of his project and his intention to repay the amount advanced. In the event of default, collateral taken by the bank placed it in a privileged position with regard to other creditors (Green, 2003).

Small firms were disadvantaged in this regard, due to the fact that they lacked collateral security and also they lacked a proven credit track record. Therefore, start-up firms with new innovative products were constrained to access financing due to the fact that they were unlikely to furnish banks with securities. In addition, due to information asymmetries, financial institutions failed to see the profitability and viability of the proposals.

2.2 Empirical Review

Collateral is typically an obligatory condition for granting a loan. However, small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks typically agree to accept collateral in the following form: real property, products or valuable assets. They are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral (Suder, 2009).

Demirogiu & Christopher (2010) undertook a study in Florida, USA between 2008-09 to examine the relationship between covenant tightness and the broad performance. Overall, the study found no systematic relationship between covenant tightness and declines in overall performance. In particular, no significant difference in the frequency of credit rating downgrades or in changes in-scores between the firms in the loose and tight covenant samples were established. However, they found that the frequency of a delisting in the three years following the loan agreement is higher for firms in the tight covenant sample.

The Bankers Roundtable (2010) conducted a survey directed towards its members in the 125 largest banking companies in the U.S. The focus of the survey was broad, inquiring about members' general experiences with environmental liability and the impact on lending policies and fiduciary policies. In general, the survey found that concerns regarding environmental liability continue to affect lending policies and fiduciary practices across the country. More

specifically, 100 percent of banks responding indicated that they had environmental policies in place to guide their lending practices.

The survey also showed that, after environmental site assessments and screening criteria, contractual covenants were the tool most widely used by the respondents for managing and controlling environmental risk. Fifty-five percent of the respondents stated that they included specific environmental covenants and conditions within their basic contractual agreements that directly assessed a borrower's environmental performance and activities. However, there is need to critically examine such an option vis-à-vis the capacity of firms to implement environmental management policies. Otherwise such a covenant may be a deterrent in accessing bank loans for micro and small enterprises which may lack the capacity to implement sound environmental policies. In any case, one needs to ask the question; how many MSEs are able to go green sustainably?

Organization for Economic Co-operation and Development (OECD, 2011) indicates that MFIs are the main source of external finance for MSEs. Therefore, it is essential that the banking system be prepared to extend credit to the MSE sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to MSEs. Macroeconomic policies may lead to excess demand for available domestic savings, while government policy may favour industrialization and/or import substitution, which effectively gives large domestic firms privileged access to finance. On the contrary, these terms frustrate the MSE sector firm accessing credit because all the efforts and policies favour large borrowers at the cost of the small operators.

In a study by Chowdhury (2012), it was argued that local market competition among MFIs in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a package of low interest rates tied with low amount of loan disbursed. Some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed. However, when assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because MSEs do not have adequate or no collateral as indicated by Katto (2008) their performance ends up being affected.

Mwania (2011) concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because MSEs only manage to access a small amount of loan due to short repayment periods. 53% of BBL customers interviewed felt the process was cumbersome. Some felt that after availing all the required documentation, the turnaround time was not acceptable. 52% of the entrepreneurs utilized the loan advanced 100% for working capital and their revenue increased from previous thus boosting the business performance. 11.9% diverted the amounts advanced and they confessed as having difficulties in meeting their repayments on time. They also saw their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced. The study also found a positive correlation between BBL and entrepreneurs business performance and concluded that young businesses require more support financially to supplement their working capital. The study recommended that Kenya

Commercial bank had a few issues to address such as lending procedures, collateral requirements and repayment period to ensure better customer satisfaction and that further research should be done on entrepreneur's competencies, competition, government regulations etc.

According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy. The results showed that the limited use of credit reflects lack of supply, from the rationing behavior of both formal and informal lending institutions. The study concluded that given the established network of formal credit institutions, improving lending terms and conditions in favour of small-scale enterprises would provide an important avenue for facilitating their access to credit.

Carolyne, (2012) conducted a study on Factors influencing credit rationing by commercial banks in Kenya. The target population from which the sample was drawn is Commercial banks within Nairobi region. A representative sample was drawn using the Proportionate Stratified random sampling. Both primary and secondary data was used in the study. Data collected was validated, edited and coded then analyzed using descriptive statistics with the aid of Statistical Package for Social Sciences (SPSS).Data presentation methods used were tables, charts and diagrams. The study established that the key factors that influenced credit rationing by commercial banks in Kenya are loan characteristics, firm characteristics and observable characteristics. Some of the recommendations that the study made were that that it is beneficial for banks to ration credit but it should be done with professionalism and with no biasness, the factors that influence rationing of credit should be evaluated thoroughly by the person in charge and given priority before issuing credit. And the Banks should find out more about credit rationing and how it can contribute to their business growth.

3.0 RESEARCH METHODOLOGY

The researcher used purposive sampling to select respondents. The sample size was comprised of 352 respondents. The study used questionnaires to collect data from the field. Both quantitative and qualitative data gathered was coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. Descriptive statistics was used to analyze the data in frequency distributions and percentages which were presented in tables and figures. Inferential statistics were used to analyze qualitative data.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The return rate provides a profile of respondents who participated in this study. A total of three hundred and fifty two (352) questionnaires were given to the respondents (MSEs owners and credit officers). A total of three hundred and thirty-seven (337) questionnaires were returned giving a return rate of 95.73% as shown in table 1.

1: Response rate

Response	Returned	Percent (%)
MSE s' owners	331	95.66
Credit officers	6	100
Total	**337**	**95.73**

The average return rate was 95.73% which was considered appropriate for the research findings of the study. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50 percent is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50 percent are acceptable to analyze and publish, 60 percent is good and 70 percent is very good. This implies that the research finding was comprehensive enough to give good reliability.

4.2 Demographic information

The study sought to establish the characteristics of the respondents such as gender, level of education, type of business and number of employees working

4.2.1 Gender of the respondents

The study also sought to establish the gender of the respondents. This aimed at establishing whether the view of all gender was accommodated in the study. The results on gender of the MSEs is as in table 2

Table 2: Distribution of Mses Owners by gender

Gender	MSEs owners	%
Male	184	55.6
Female	147	44.4
Total	**331**	**100**

Table 2 shows that the respondents for this study were predominantly male MSEs owners, Out of 331 respondents, 55.6% were male. This agrees with a study by Ellis, Cutura, Dione, Gillson, Manuel & Thongori (2007) that in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Other studies that have identified male domination in the formal and informal sectors include Gakure (2001) and Gakure (2003).

Further, the credit officers were requested to indicate their gender. The results on gender of the credit officers is as in table 3.

3: Distribution of Credit officer by gender

Gender	Credit officers	%
Male	3	50
Female	3	50
Total	**6**	**100**

Table 3 shows that the respondents for this study were equal in number (50%). This disagrees with a study by Ellis, Cutura, Dione, Gillson, Manuel & Thongori (2007) that in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Other studies that have identified male domination in the formal and informal sectors include Gakure (2001) and Gakure (2003).

4.2.2 Level of education of the respondents

The respondents were requested to indicate their level of education. The results are presented in table 4.

Table 4: Distribution of MSEs Owners by academic qualification

Education level	MSEs owners	%
Primary	-	-
Secondary	31	9.4
College	174	52.6
University	122	36.9
Total	**327**	**100**

Table 4 shows the level of education of the MSEs owners. Majority of the MSEs owners 174 (52.6%) had a college level as their highest level of education, 122(36.9%) had university level as their highest level while only 31 (9.4%) had secondary level to be the highest level of education. This finding is consistent with that of Kimemia (1990) who argued that employees need technical skills to apply skills and use techniques from education, training and experience, human professional experience is necessary to work effectively with the people and conceptualize and analyze complexities.

Further, the credit officers were requested to indicate their level of education. Results are presented in table 5.

Table 5: Distribution of credit officers by academic qualification

Education	Credit officers	%
Primary	-	-
Secondary	-	-
College	3	50
University	3	50
Total	**6**	**100**

Table 5 shows the level of education of the credit officers. 50% of the credit officers had a college level as their highest level of education, while another 50% had university level as their highest level. This finding is consistent with that of Kimemia (1990) who argued that employees need technical skills to apply skills and use techniques from education, training and experience, human professional experience is necessary to work effectively with the people and conceptualize and analyze complexities.

4.2.3 Type of Business

The respondents were requested to indicate on the type of business they operated in. The results are presented in table 6.

Table 6: Type of business

Business	Frequency	Percent
Manufacturing	66	19.9
Trade	123	37.2
Service	142	42.9
Total	**331**	**100**

Results in Table 6 shows 42.9% of the respondents who were the majority were operating in the service industry, 37.2% were in trade industry while only 19.9% of the respondents were in manufacturing industry.

4.2.4 Length of Business operation

The respondents were requested to indicate the length of business operation. The results are presented in table 7

Table 7: Length of operation

Length of operation	Frequency	Percent
Less than 1 year	64	19.3
1 to 3 years	148	44.7
3 to 5 years	94	28.4
5 to 10 years	25	7.6
Total	**331**	**100**

Results in table 7 shows that majority (44.7%) of businesses had been in operation for between 1-3 years, 28.4% had been operation for 3 to 5 years, and 19.3% had been operation for less than one year while 7.6% had been in operation for 5 to 10 years.

4.2.5 Number of employees

The respondents were requested to indicate on the number of employees in their enterprises. The results are presented in table 8

Table 8: Number of employees

Employees	Frequency	Percent
1- 5 employees	262	78.1
6-10 employees	57	17.2
11-50 employees	12	3.6
Over 50 employees	4	1.2

Results in Table 8 shows that 78.1% of the MSEs had between 1-5 employees, 17.2% had between 6-10 employees, 3.6% had 11-50 employees.

4.2.6 Years worked in the bank

The credit officers were requested to indicate on the number of years they had worked in the bank. The results are presented in table 9

Table 9: Years worked in the bank

Duration	Frequency	Percent
Less than 2 years	1	16.7
3 to 5 years	2	33.3
Over 5 years	3	50
Total	**6**	**100**

Results in table 9 revealed that 50% of the respondents who were the majority had worked for over 5 years, 33% had worked for 3 to 5 years while 16.7% had worked for less than 2 years.

This implies that majority of the respondents had worked in the organization for a long period. This finding is consistent with that of Ngui (2014) who found out that 65% of the

respondents have worked in the sector for over five years, a period considered long enough for an employee to understand the operations of their respective duties

This finding is consistent with that of Randoy et al, (2006) who found out that one's experience depends on the number of years of service in the sector involved. It is assumed that the longer one worked in an organization, the more they understand the organization and hence the higher the ability to articulate issues pertaining to the organization (Afande, 2013).

4.3 Descriptive statistics

4.3.3 Influence of Commercial banks' collaterals on growth of MSEs

The third objective of the study was to establish the influence of commercial banks' collaterals and covenants on the growth of MSEs in Kenya. The MSEs owners were asked to if they have been asked for collateral from bank when they wanted loan.
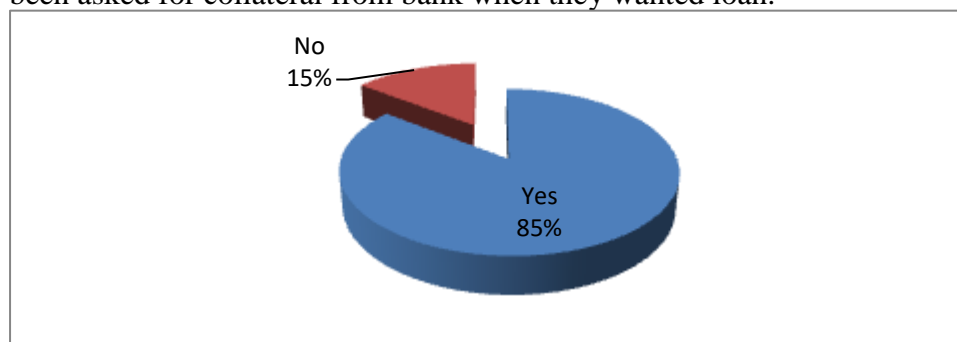
Figure 1: Collateral

Figure 1 shows that 85% of the MSEs' owners have been asked for a collateral when they wanted a loan while 15% were not asked for. According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy.

For those who answered that they have been asked for collateral, they were further asked to indicate on the extend they agree on the affordability of the collateral. Results are presented in table 10.

Table 10: Affordability of collateral

	Agree	Neutral	Disagree
Affordability	75.80%	24.20%	0.00%

Results in table 10 indicates that 75.8% of the MSEs' owners agreed that the collateral wast affordable while 24.4% were neutral. In a study by Chowdhury (2012), it was argued that local market competition among MFIs in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a

package of low interest rates tied with low amount of loan disbursed. Some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed.

Credit officers were requested to indicate their level of agreement on the statements on collateral and covenants-covenant tightness and covenants intensity. Results are presented in Table 11.

Table 11: Covenants and tightness

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Covenants tightness							
The bank controls what other stakeholders charge the borrower e.g. valuers, advocates among others	0.00%	0.00%	0.00%	100%	0.00%	4.00	0.00
The bank relies only on its details about the MSE customer	0.00%	50.00%	33.30%	16.70%	0.00%	2.67	0.82
The bank goes ahead to also monitor the MSE borrower	0.00%	0.00%	0.00%	33.30%	66.70%	4.67	0.52
Average						**3.78**	**0.44**
Covenants intensity							
The bank asks for additional collateral when a customer violates any covenant. The banks adjusts covenants	0.00%	16.70%	33.30%	50.00%	0.00%	3.33	0.82
to suit MSE borrower activities	0.00%	0.00%	0.00%	66.70%	33.30%	4.33	0.52
The bank maintains the same covenant through all its customers	0.00%	16.70%	16.70%	16.70%	50.00%	4.00	1.27
Average						**3.89**	**0.87**

Results in Table 11 showed that majority of the respondents agreed with majority of the statements under covenant tightness and intensity as indicated by the mean scores of 3.78 and 3.89 respectively. According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy.

Credit officers were further asked to indicate the range of the value of collaterals. Results are presented in table 12.

Table 12: Value of collaterals

Loan	Less than 200,000 (1)	200,000-1,500,000 (2)	Above 1,500,000 (3)	Mean
Less than 100,000	100.00%	0.00%	0.00%	1.000
100,000-1,000,000	33.30%	66.70%	0.00%	1.670
Above 1,000,000	0.00%	83.30%	16.70%	2.170
Average				**1.613**

Results in table 12 shows that for the class of loan less than 100,000, 100% of the respondents indicated that the collateral value was less than 200,000. For the loan between 100,000-1,000,000, 66.7% of the respondents indicated the collateral value being 200,0001,500,000 while 83.3% of the respondents indicated a collateral value of 200,000-1,500,000 for a class of loan of above 1,000,000. These results imply that most banks charge high collateral which may not be affordable to MSEs.

The summary mean for each sub variable is provided in Table 26. The results shows that covenant intensity has the highest mean of 3.89, meaning that it has a greater influence on growth of MSEs. Covenant tightness was ranked second with mean of 3.78 then finally collateral with a mean of 1.61.

Table13: Summary of influence of Collateral on growth of MSEs

Sub-variable	Mean
Covenant intensity	3.89
Covenant tightness	3.78
Collateral Value	1.61

4.3.4 Influence of commercial banks' Collateral on growth of MSEs

The results presented in table 14 present the fitness of model used of the regression model in explaining the study phenomena. Collateral and covenants explained 4% of growth in MSEs.

Table 14: Model Fitness

Indicator	Coefficient
R	0.200
R Square	**0.040**
Adjusted R Square	0.037
Std. Error of the Estimate	3.65438

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant

Table 15: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	170.345	1	170.345	12.752	**.000**
Residual	4087.484	306	13.358		
Total	4257.829	307			

Table 15 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that Collateral and covenants is good predictors of MSEs' growth. This was supported by an F statistic of 12.752 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in table 16.

Table 16: Regression of Coefficients

Variable	B	Std. Error	t	sig
(Constant)	8.764	0.502	17.471	0.000
Collateral and covenants	-0.96	0.269	-3.571	**0.000**

Results in table 16 shows that Collateral and covenants have a negative and significant effect on the growth of MSEs (r=-0.96, p=0.000). This means that a unitary increase in collateral and covenants will lead to a decline in the growth of MSEs by 0.96 units. Mwania (2011) in his study concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because MSEs only manage to access a small amount of loan due to short repayment periods. He also saw that their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced.

The specific model was;

MSE growth $=8.764+0.96X$

Where X is Collateral and Covenants

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on the study findings, the study concluded that commercial banks' collateral and covenants adversely affect the growth of MSEs. MSEs often have difficulty in providing sufficient and good-quality collateral to banks. The banks typically agree to accept collateral in different forms. They are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral. MSEs only manage to access a small amount of loan due to short repayment periods. 53% of BBL

customers interviewed felt the process was cumbersome. Some felt that after availing all the required documentation, the turnaround time was not acceptable.

5.2 Recommendations

The study also recommended that commercial banks to flex terms and conditions for credits for the MSEs. The study found out that an increase in collateral leads to a decline in performance of MSEs. Therefore, commercial banks need to make credit terms to be friendly to the creditors in this case the MSEs owners. Small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks should typically agree to accept collateral in any term and also should be more inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral

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