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Extended Abstract

Impact of adoption of IFRS on the ability to access credit facilities by SMEs in Kenya

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Abstract

The study sought to establish the effect of adoption of IFRS on the ability to access credit facilities by SMEs. The objectives were; to find out whether financial statements prepared using IFRS helps in accessing credit by SMEs and to determine whether the information disclosed by IFRS meet the requirements of the lending institutions when issuing credit to SMEs.

The study took a quantitative and explanatory approach and was carried out between January 2019 and March 2020. The research comprised of the top 100 SMEs in Kenya, based in Nairobi according to the KPMG survey 2018/2019 and all the 11 listed banks and microfinance banks who are members of the Association of Microfinance institutions in Kenya (AMFI). Purposive sampling was used to come up with the list of SMEs in Nairobi. Questionnaires and follow up interviews were the main methods of collecting data used. The respondents were accountants from the SMEs and the credit controllers in the financial institutions. Data from the SMEs accounted for 44% of the responses while the financial institutions had an 81% response rate. The main methods of data analysis and presentations used were likert scales in percentages, tables, charts and graphs.

This research established that compliance with IFRS guidelines is a practice that is encouraged for transparency and not necessarily for accessing credit, with 70% of the respondents stating that transparency is a major reason. The banks appreciate the fact that using such guidelines is important but it does not necessarily mean that it increases the chances of a firm accessing loan either easily or at lower interest rates as compared to those who have not applied the IFRS.

Keywords: Small and Medium Enterprises (SMEs), Micro Finance Institutions (MFIs), International Financial Reporting Standards (IFRS), Growth Enterprise Market Segment (GEMS), Institute of Certified Public Accountants (ICPAK).

Objectives and Methodology

Objectives:

The main objectives of this research are:

1. To find out whether Financial statements prepared using IFRS helps in accessing credit by SMEs
2. To determine whether the information disclosed by IFRS meet the requirements of the lending institutions when issuing credit to SMEs

Research questions:

1. Do the financial statements prepared using IFRS help in accessing credit by SMEs?

2. Does the information disclosed by IFRS meet the requirements of the lending institutions when issuing credit to SMEs?

Methodology:

This section explains how the data will be gathered and analyzed so as to answer the research questions and achieve the objectives outlined. It forms a link between the theoretical parts of the research with the practical element which is the fieldwork. It focuses on the research design which will be used, describes the target population and the sampling techniques suitable for the study, analyzes the various forms of collecting data relevant to the study and finally looks at the techniques of analyzing the data collected and how to organize it to form a comprehensive study.

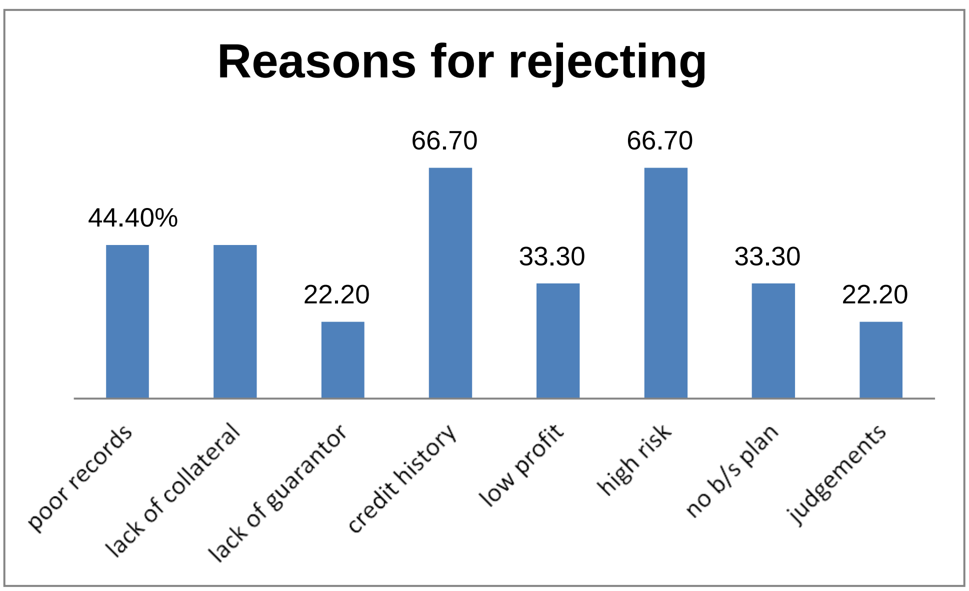
Results and Discussion

Reasons for rejecting loans

All the banks stated that they had rejected a loan or more in the last 3 years. The main reasons for rejecting the loans were also ranked to show which ones were the most common reasons.

Poor credit history and being in a high risk industry were ranked to be the most preferred reasons for rejecting the request for a loan at 66.7%. Lack of a guarantor was seen as the lowest ranked reason. This was because the credit controllers stated that most SMEs never lack a guarantor and in most cases, they bring in family members or other relatives. The table below shows the ranking of the reasons

Reasons for rejecting loans



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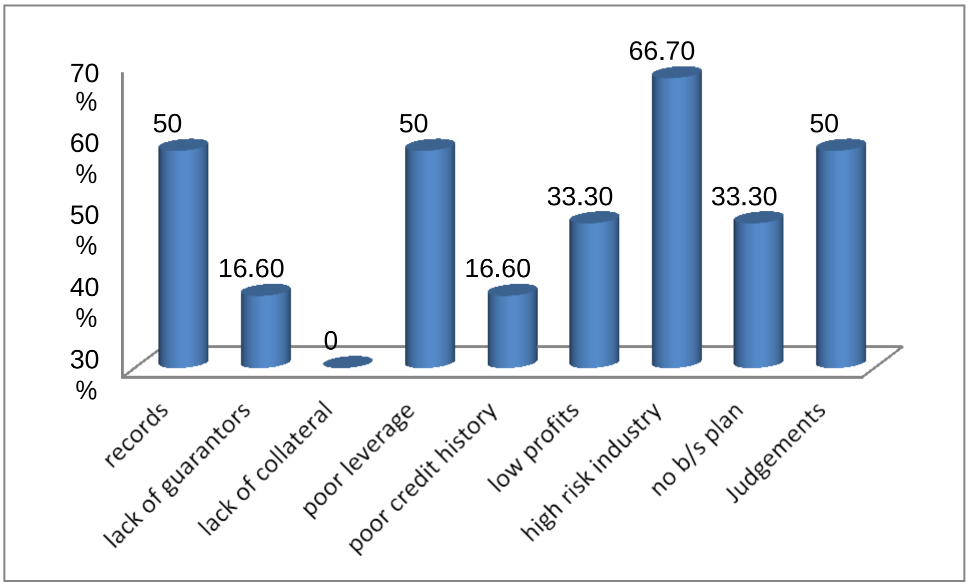
Reasons for denial of credit

The 28.6% respondents who cited that they had not been granted loans at least once over the past 3 years cited various reasons attributing to this as shown below

Reasons for denial of credit



Being in a high risk industry was cited as the main reason why the loans were not accepted (66.7%) continuing judgments, poor financial records and poor leverage (50%) were also cited as factors that hindered their access to loans Lack of guarantor (16.6%) and lack of collateral (0%) were noted as the least reasons because most of the banks did not ask for a collateral or that guarantors were in most cases, always available.

Conclusion and Recommendation

Conclusion

This research has shown that compliance with IFRS guidelines is a practice that should be encouraged for transparency and not necessarily for accessing credit. The banks appreciate the fact that using such guidelines is important but it does not necessarily mean that it increases the chances of a firm accessing loan either easily or at lower interest rates as compared to those who have not applied the IFRS.

Recommendation

IFRS improves the level of transparency and bookkeeping and therefore more companies should be encouraged to comply with the guidelines so as to enjoy such benefits.

Even though the research shows that there is little effect on the ability to access credit by complying with IFRS, this should not deter companies from adopting the standards since it leads to other benefits as mentioned above which are critical in the success of the business.

Areas for further research

1. Further research should be done on SMEs located outside Nairobi so as to get a better understanding of this research across the country.
2. Research on whether the adoption of IFRS encourages firms to list on NSE should be done extensively especially with the introduction of the GEMS segment which encourages SMEs to list their companies.

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