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Diploma Thesis

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

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Objectives of thesis

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.

The proposed extent of the thesis

60 – 80 pages

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).

Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled "Impact of adoption of IFRS on the ability to access credit facilities by SMEs in Kenya" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any other person.

In Prague on 6th April 2020 ______________________________

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

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).

Dopad přijetí IFRS na schopnost malých a středních podniků v Keni získat přístup k úvěrovým prostředkům

Abstrakt

Cílem studie bylo zjistit, jaký dopad má přijetí IFRS na schopnost malých a středních podniků získat přístup k úvěrovým prostředkům. Cíle byly; zjistit, zda účetní závěrka sestavená podle IFRS pomáhá v přístupu malých a středních podniků k úvěrům, a zjistit, zda informace vykazované podle IFRS splňují požadavky úvěrových institucí při vydávání úvěrů malým a středním podnikům.

Studie zaujala kvantitativní a vysvětlující přístup a byla provedena mezi lednem 2019 a březnem 2020. Výzkum zahrnoval 100 nejlepších malých a středních podniků v Keni se sídlem v Nairobi podle průzkumu KPMG 2018/2019 a všech 11 kotovaných bank a mikrofinančních bank, které jsou členy Asociace mikrofinančních institucí v Keni (AMFI). Účelný výběr vzorků byl použit, aby přišel se seznamem malých a středních podniků v Nairobi. Hlavními metodami sběru použitých dat byly dotazníky a následné rozhovory. Respondenti byli účetní z řad malých a středních podniků a správců úvěrů ve finančních institucích. Údaje od malých a středních podniků představovaly 44% odpovědí, zatímco finanční instituce měly 81% odpovědí. Hlavními metodami analýzy a prezentace dat byly oblíbené stupnice v procentech, tabulkách, grafech a grafech.

Tento výzkum prokázal, že dodržování směrnic IFRS je praxe, která podporuje průhlednost a ne nutně přístup k úvěru, přičemž 70% respondentů uvádí, že průhlednost je hlavním důvodem. Banky oceňují skutečnost, že používání těchto pokynů je důležité, ale nutně to neznamená, že zvyšuje šance společnosti na přístup k půjčce buď snadno, nebo za nižší úrokové sazby ve srovnání s těmi, kdo IFRS nepoužili.

Klíčová slova: Malé a střední podniky (MSP), Mikrofinanční instituce (MFI), Mezinárodní standardy účetního výkaznictví (IFRS), Segment trhu s růstovými podniky (GEMS)

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1 Introduction

Providing information on the financial position is the main objective of financial statements. It also examines the performance and changes in the financial position of an enterprise which is useful to a wide range of users in making economic decisions (IASB 2011). Financial institutions such as banks use the financial statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. (Atieno, 2009). In 2009, ICPAK introduced the IFRS for SME which would ease the burden of presenting financial statements by SMEs. Research has been done in relation to the adoption of IFRS by SMEs in the world (Blaskova, 2011). To date, some SME's have embraced the new standards while others have not. In most cases, SMEs prepare financial statements for use by the tax authorities or by the banks for purposes of accessing credit. (Wanjohi and Mugure, 2008). This demonstrates the importance of having guidelines of presenting financial statements using the recommended standards, IFRS.

It has been said that SMEs employ 22% of the adult population in developing countries. United Nations Industrial Development Organization (UNIDO) notes that SMEs account for over 90% of private businesses. This contributes to more than 50% of employment and of Gross Domestic Product (GDP) in most African countries. (UNIDO, 1999). SMEs are described as efficient prolific job creators, the seed of big business and the fuel of national economic engine. (Abor & Quartey, (2010); Mullinex (1997) add that even in the developed economic industries, this sector is still the largest employer compared to the multinationals.

The definition of the small and medium-sized entities in the context of the IFRS for SMEs is that it is based on the nature of an entity rather than on its size. ICPAK, (2009) has added on to the IFRS definition by stating that an SME is defined as an entity; which publishes general purpose financial statements for external users, does not have public accountability, whose debts and equity instruments aren't traded in a public market, that does not hold funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Kunt and Beck, (2007) have also added to this definition and stated that the word SME covers a very wide range of measures and definitions varying between the sources which have been reported in the previous SME statistics.

In a report by KPMG, (Overview - East Africa Top 100 Companies, 2019) it has clearly defined a Top 100 Mid-sized Company (Top 100 Company) as one which ranks ahead of its peers in terms of revenue growth (turnover of between USD 67000 and USD 10 million), profit growth, returns to shareholders and cash generation/liquidity therefore, this research will employ this definition of an SME and thus focus on the top 100 SMEs in Kenya. A Top 100 company must have capitalized on growing its market position in the industries in which it operates and over time, the growth has translated into a fairly sound financial position and better returns for its shareholders. Kenya's Top 100 mid-sized companies Survey is an initiative by KPMG Kenya and Nation Media Group. The Survey seeks to identify Kenya's fastest growing medium sized companies in order to showcase business excellence and highlight some of the country's most successful entrepreneurship stories.

A survey of the top 100 SMEs shows that SMEs rely heavily on savings/ bank loans for expansion of capital (Overview - East Africa Top 100 Companies, 2019). Access to external resources is needed to ensure flexibility in resource allocation and reduce the impact of cash flow problems (Bigsten et al, 2000). In crisis periods, firms face credit constraints, but most SMEs rely on credit loans to finance their investments (Albertazzi & Marchetti, 2010); Iyer et al, 2010). There are numerous challenges that small enterprises encounter. They include but are not limited to; high bank charges, the high cost of credit, and fees. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2008).

Madawaki, 2012 says that there are numerous benefits to be gained from respected and mutually recognized international accounting standards and that globalization of markets has become an irreversible process. The use of uniform standards leads to the reduction of cost of doing business across borders by limiting the need for supplementary information. They make the information more comparable, thereby enhancing evaluation and analysis by users of the financial statements (Adekoye, 2011)

Many countries have adopted International Financial Reporting Standards (IFRS) as their primary standards for the preparation of corporate accounts. (Keitha, Zijl and Khairul, (2013). According to Baldarelli, Demartini, & Mošnja-Škare, (2013) the most common users of the small company financial statements are the top management, the banks and also the tax authorities.

Financial reporting by all companies, regardless of size, is usually governed by the regulatory framework which has evolved to encompass even the SMEs. (DTI, 1998)

In comparison to full IFRS, the new standard for SMEs reduces the information which needs to be disclosed, it simplifies the measurement and recognition requirements in connection with financial instruments but contains all the requirements deemed mandatory for SME financial statements. (ICPAK 2009).

IFRS adoption should decrease information asymmetries by increasing the comparability across firms, decreasing risks of misinformation to investors and reducing the cost of gathering information.

Despite these benefits of adoption of IFRS by SMEs, researches have shown that financial reporting quality is lower for SMEs as compared to public companies. These SMEs often have majority owners and they do not value objective financial information to the outside world because the demand is lower. (Ball and Shivakumar, 2005; Burgstahler et al., 2006; Hope et al., 2011).

Empirical studies have focused on the financial reporting by small companies, others have looked in to the particulars of the SMEs such as their objectives and purpose while others have focused on the behaviors and attitudes of SMEs in regard to financial statements publications (Collis, 2003; Abdel 1983; Demartini et al 2005). Results from a study (Balsmeier & Vanhaverbeke, 2013) suggest that IFRS adoption enhances a firm's visibility and transparency to the international loan market, which increases their propensity to receive foreign loans. However, it is still not clear whether the voluntary adoption of IFRS would reduce financial constraints in SMEs. All businesses need capital in order to start their operations and to fund growth in the future.

Lack of access or availability can be a constraint on business growth (Cassar, 2002). It is very critical for the SMEs to grow since they contribute greatly to the economy by providing employment opportunities and lack of access to financial resources has been seen as one of the hindering factors and most formal financial institutions consider SMEs not creditworthy, thus denying them credit (Atieno R, 2009).

There has been strong evidence suggesting that the quality of accounting highly affects investment efficiency positively (Mage, 2010) and therefore this study proposes to determine if SMEs find value in the accounting standards and whether the adoption of the standards improves the ability of the firms to access credit in Kenya so as to ensure that the firms continue to thrive.

2 Objectives and Methodology

2.1 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

2.2 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?

2.3 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.

3 Literature Review

The purpose of this chapter is to review and acknowledge what other scholars have said in their research works concerning this topic. Section 3.1 gives a review of the role of accounting in organizations especially in the SMEs. Section 3.2 covers the basic concepts in relation to the accounting regulatory framework which gives a summary of the professional accounting bodies. Section 3.3 focuses on the emergence of the IFRS for SMEs and its implementation process. The main ideas on why it was implemented are also discussed. Section 3.4 gives a summary of the role of the Microfinance institutions and whether the adoption of the IFRS by SMEs has influenced their capacity to issue credit to the SMEs

3.1 The role of accounting in organizations

(Scorte, Cozma, & Rus, 2009) have given the definition of accounting as an activity specialized in measurement, knowledge, evaluation, management and control of assets, liabilities and equity and it must provide chronological and systematic recording, processing, publication and preservation of information on the financial position , financial performance and cash flows, both for their internal requirements, and in relations with current and potential investors, financial and commercial customers, creditors public institutions and other users. To some degree, Belkouni (2000) argues that accounting is here to meet the social needs which are linked to prevention of fraud, guidance of an industry and to assist the government in its fiscal operations.

When evaluating company financial statements, Collis and Jarvis (2000) and Falk et al. (1976) found that finance providers are interested in amongst others, in the case of private companies, the balance sheet disclosures tend to be important, while in contrast to publicly-listed companies the income-statement items tend to be more important. Although owner-managers may use accounts in a confirmatory role, Sian and Roberts (2003) argue that the accountants view

financial statements as being useful forward-looking tools with their role in assessing risks for making new loan decisions.

SMEs comprise a huge share of the Kenyan market and most of them are run by families and as Bowen, Morara & Mureithi (2009) put it, these family members in charge do not have full accounting knowledge and expertise. As a result, some of these businesses have poor book keeping records coupled with the secrecy on how they conduct their businesses and this deters investors. Nabwire, 2012 goes on further to say that the fact that the SMEs sector is known for bad book keeping even though they have the full IFRS and the IFRS for SMEs to choose from in their accounting is a major issue of concern

To restore confidence in accounting, the accounting regulatory framework was developed so as to give guidance and reduce conflict amongst the different stakeholders of a firm (Drever, Stanton & McGowan, 2007)

3.2 Overview of the accounting regulatory framework

The first IAS was published in 1975 by the IASC which was formed in 1973. The IASC foundation is governed by 22 trustees where responsibilities include appointing the members of the IASB and associated councils and committees (IASCF, 2009). The process for setting IAS has definitely gone through substantial changes and evolution, leading to restructuring of IASC in to IASB in 2001 (Barth, Wayner, Lang 2005) The IASB is a private standard-setting body operated and overseen by the International Accounting Standards Committee Foundation (IASCF).

The IASB is better funded, better staffed and more independent than its predecessor, the IASC. (Ball, 2006). The goal of IASB is to develop an internationally acceptable set of high quality financial reporting standards. To achieve this desired goal, it has issued principle based standards. (Barth, Wayner, Lang 2005). The IASB also approves IFRS including interpretations and related documents, exposure drafts and discussion papers. Today, over 100 jurisdiction worldwide require or permit IFRS for domestic reporting purposes (IASCF, 2009).

IFRS are adopted voluntarily by countries or organizations so they must accommodate international differences used by the various countries (Thorsten and Fulbier, 2009). Research examining voluntary adoption has been mounting (Soderstrom & Sun, 2007). In this respect, Daske et al. (2007) distinguished between firms that voluntarily applied IAS/IFRS into serious and label adopters. The distinction captured the idea that some adopters have seriously modified their financial reporting strategy after adoption, whereas others use the flexibility of IAS/IFRS standards to keep on using the usual financial reporting strategy under the new international label. Daske et al. (2007) find that the positive effects of adoption are more pronounced for serious adopters than label adopters. When the two groups of adopters are brought together, the average effects of adoption become modest.

The new IFRS standards were implemented at a principles-based structure which was viewed as necessary to provide sufficient flexibility to be applied on the global level (Carmona & Trombetta, 2008)The principles-based structure is a generic set of accounting standards which involve a degree of ambiguity and incorporates professional judgment (Carmona & Trombetta, 2008). This is in sharp contrast with the rules-based structures such as the US GAAP, which instead provides rules that attempt to cover many scenarios including industry specific practices which are crucial.

The accounting profession in Kenya is regulated by the Accountants Act Chapter 531, Laws of Kenya. It was enacted on 1 July 1977. The Accountants Act established certain bodies which include, KASNEB that issues exams to people intending to be accountants and ICPAK which is in charge of regulating the accounting profession (UNCOD, 2006). In a bid to encourage the use of International Financial Reporting Standards (IFRS), ICPAK established an award known as the Financial Reporting (FI*R*E*)* Award in 2002. This award involves the evaluation of financial statements which have been voluntarily submitted by companies, to gauge their compliance with the requirements of IFRS.

3.3 Emergence of IFRS for SME’S

In 2003, IASB voted to develop specific standards for SMEs. In July 2009, the International Accounting Standards Board issued a new (IFRS) designed for use by SMEs (ICPAK, 2009). Although the IASB was convinced that the full IFRS was suitable for all entities and served the needs of users of financial statements, it still recognized that SMEs needed to be catered for

(Eierle and Haller, 2009).

South Africa was the first country in the world to adopt the standards for SMEs in 2007 while it was still an exposure draft and other countries have slowly began to embrace it. This clearly shows the need of an accounting standard that is suitable for the SMEs (Stainbank, 2008). Studies done in South Africa (Hattingh, 1999; Cleminson and Rabin, 2002; Wells, 2005; Van Wyk, 2005; SAICA, 2006) confirmed that the cost of compliance with general purpose accounting standards such as SA GAAP or IFRS exceeded the benefits for SMEs and therefore the country saw the need of cutting cost by complying with the IFRS for SME which was considered as relatively cheap and applicable. The IFRS for SMEs is a self-contained standard of 230 pages, designed to meet the needs and capabilities of SMEs which are estimated to account for over 95% of all companies around the world. The IFRS for SME has been tailored to focus on the needs of users such as the lenders who would want to know the creditworthiness of the firm, the Investors who would consider whether to invest or divest in the company and most importantly the managers so as to gauge the performance of the company in term of its profitability. Collis and Jarvis, (2000); Jarvis et al., (2000). All these users mentioned above will need to see the financial statements of the SMEs meaning that proper presentation and use of accounting guidelines such as the IFRS will be advantageous to the firms, more so, the IFRS for SMEs.

SME implementation group (SMEIG) which was created in 2010 by IFRS foundation trustees makes recommendations to IASB on need to modify the IFRS for SME. (IFRS, 2014). The standard is applicable immediately. It is a matter for authorities in each territory to decide which entities are permitted or even required to apply IFRS for SMEs. The IASB came up with this standard because of the difficulty and cost to private companies of preparing fully compliant IFRS information. It also realized that users of the private entity financial statements have a different focus from those publicly listed companies (PWC, 2009). Murray and Johnson, (1983);

Coppens et al, (2006) also concur with this reasoning and add that one major argument used to advocate for the size-based financial reporting relaxations relates to the high costs of adhering to the accounting regulation. Smaller entities may incur relatively high costs for complying than the larger companies as they don't enjoy the accounting specific economy of scale effects of large firms.

The main argument against differential reporting is the need for universality meaning that companies shouldn't be subjected to different rules giving rise to different 'true and fair' views. (Gebhardt, Marton et al, 2005). Opponents of a separate set of standards for SMEs believe that the entities must follow the same basic accounting principles and not categorize them. Some of the benefits of financial reporting by SMEs in the UK in a survey by Collis and Jarvis (2000) were confirmation and verification of results while the main limitation was cost. Findings by John and Heales (2000) suggest that some small companies might not adopt the Financial Reporting for SMEs due to the likelihood of growth. Over 80 jurisdictions either have adopted the IFRS for SMEs or have indicated publicly plans to adopt it soon (IFRS 2012)

ICPAK (2009) pointed out that the new standard has reduced the disclosure requirements and has simplified the measurement requirements in connection with the financial statements but still contains all the necessary requirements for SMEs. Compared to the full IFRS, it is less complex.

Topics not relevant to SMEs have been omitted, some of the principles for recognizing and measuring the liabilities, assets, expenses and incomes. Some of the topics which have been omitted from the IFRS for SMEs are earnings per share, segment reporting, interim financial reporting and special accounting for assets held for sale. (Epstein and Jermakowitz, 2010). Also, where full IFRS allows accounting policy choices, the IFRS for SME only allows the easier option. An example, in the IFRS for SMEs, there is no option of revaluing property, intangibles and equipment. There are also significantly fewer disclosures needed as compared to the full IFRS. The standard is reviewed once every three years. The IASB assumes a narrower group of financial statement users for SMEs than for large public interest entities and a different weighting of the importance of the users. (Haller and Eierle, 2004).

To ascertain whether or not an entity has adopted IFRS, one needs to carefully examine the financial statements of the entity. This task however as seen by Quack, Mander, & Dobusch,

(2013) has become very tedious as the volumes of financial statements have increased in the recent past following the widespread switch to IFRS. The most obvious sections of the financial statements to look at is the "notes to the financial statements", where the company mentions the basis of preparation i.e., the accounting standards used in preparing the financial statements. Apart from the "notes to the financial statements", another way suggested by Quack et al., (2013) to determine if an entity has adopted IFRS is to examine the audit report. Usually, regulation and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) state that the auditors provide details of the accounting standards used in preparing the financial statements and on what basis the audit opinion can be formed.

3.3.1 Access to credit by SME's

All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2002). One of the studies done by the IASB for around 31,000 small companies in 68 developing countries and emerging markets found that private firms with greater financial transparency experience and use of accounting standards have significantly lower problems with gaining access to external finance and obtain those funds at a lower cost than other firms. New or start up SMEs can be financed from the founders' own wealth and/or by accessing the external sources of finance, whether from informal sources such as family and friends, or from the formal, market-based sources such as banks, venture capitalists and private equity firms. (Olawale & Garwe, 2010) However, Studies have shown that banks are the main source of external finance for SMEs across countries (Beck & Kunt, 2010).

The financing of small and medium-sized enterprises (SMEs) has been a major subject of great interest both to policymakers and researchers because of the significance of SMEs in private sectors around the world and the perception that these firms are financially constrained.(Beck & Kunt, 2010) Until recently, the conventional thinking regarding SME financing was that the small and domestic private banks are more likely to finance SMEs because they are better suited to engage in relationship lending, a type of financing based primarily on soft information gathered by the loan officer through continuous, direct contacts and personalized meeting with SMEs, their owners and managers, and the local community in which they operate in.(Berger &

Udell, 2006). However, some recent studies (Berger and Udell 2006; Berger et al. 2007; and (de la Torre, Martínez Pería, & Schmukler, 2010) have begun to dispute this conventional thought and propose a new paradigm for bank SME finance, saying that the large and foreign banks can be as effective in SME lending through arms-length lending technologies such as asset-based lending, factoring, leasing, fixed-asset lending, credit scoring and centralized organizational structures instead of relationship lending. This clearly demonstrates that it's not only the small and domestic banks which offer credit facilities but also the big commercial banks.

Despite the fact that SMEs are considered as job creators, they face bottlenecks which affect their growth. SME development is hampered by a number of factors, including finance, lack of managerial skills, technology and equipment, regulatory issues and access to international the markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002). Financial constraint remains the biggest challenge.

Studies in South Africa (Rogerson, 2008) shows that the significance of the issues concerning better access to finance by SMEs have been identified as key strategic elements in promoting entrepreneurship in the country. In recent years, policy makers in the UK have attempted to address the apparent market failure to supply adequate and specific finance for SMEs (Matlay, Hussain, Millman, & Matlay, 2006).

(Kessey, 2014) Adds on to say that the search for investible capital by entrepreneurs of Small and Medium Enterprises (SMEs) in Ghana has been an arduous and frustrating task. It has become nearly impossible for the SMEs to get finance in most parts of the world. (Kessey, 2014) goes on further to look at the SMEs in the agricultural sector and observes that the sector faces challenges in accessing credit facilities due to issues such as; lack of bank accounts, collaterals, and information regarding the procedure for accessing credits from micro financial institution. The complex mechanism of commercial banking is largely not understood by the small scale farmers and thus limits their access. It is argued that the financial lending institutions in developing countries shy away from giving loans to farmers because of the high cost of administering such loans and also perceived high default rates among farmers.

Another factor which is often cited that hampers SME financing is opaqueness, meaning that it is difficult to ascertain if firms have the capacity to pay and/or the willingness to pay. This opaqueness usually undermines lending from institutions which engage in more impersonal or arms-length financing that requires objective, hard and transparent information (de la Torre et al., 2010).

Even those SMEs who are in the formal market, a further complication faced by entrepreneurs trying to access finance is that banks are not set up to cope with small loans. For example, only 59% of small and medium enterprises had any credit products as compared to 82% for large firms. (Business daily 2012)

3.3.2 The case of access of credit by SME's in Kenya.

In relation to a study undertaken by Hallberg (1998) and Mead & Liedholm, (1998) access to finance is an important ingredient to development of any business. Financial constraints are likely to affect business creation and improvement. SME in Kenya have difficulties of accessing both credit finance and equity (Memba, Gakure, & Karanja, 2012). However, banks are not the only problem. The poor quality of financial records and high informality lock out many SMEs from accessing credit (East African, 2013). These financial records are better presented when proper guidelines in the IFRS are followed. Many banks in Kenya don't have the skills to properly assess SMEs; they are used to lending to the big companies and using a factory or go down as collateral. So when an SME doesn't have these things, the banks are not able to engage with them and this has affected the availability of finance to the SME's. As Steel (1994) highlights, the high transactions costs and risks associated with small loans, lack of collateral and also historical orientation towards larger companies continues to restrict small scale enterprise access to formal credit. This is not different from Kenya where access to credit is a serious issue and Kariuki's (1995) study of the bank credit access in Kenya illustrates this point further.

On the positive side, East African, 2013, financial lending institutions have since relaxed collateral requirements from clients as they have a fallback position should the SMEs default and the banks have reduced the waiting time for processing the loans. This has boosted the chances of SME's accessing finance. With the introduction of IFRS for SME's in Kenya (ICPAK, 2009), ICPAK had hoped that the SMEs would comply with the simplified standards and that it would reduce the burden of presenting financial statements. Recent studies (Nabwire, 2012), (World Bank 2001), show that a small percentage of SME's in Kenya have adopted the IFRS. This study aims at establishing whether the few who have adopted the standard are having an easier time accessing finance and whether the lack of adopting in other firms has disadvantaged the rest in doing the same.

3.4 Role of microfinance institutions in Kenya

Microfinance can be defined as the provision of financial services such as, micro savings, micro credit, micro money transfers, micro withdrawal and micro insurance to the entrepreneurs who operate in the informal sector and also households of low income. Products issued by microfinance institutions are grouped into three components namely, products of a financial nature, social products and business development or advisory products (Kessey, 2014). Micro credit is able to promote the small scale investments that generate sufficient revenues from otherwise unrealized market activities and still yield a return on the amount lent by the MFI (Luzzi & Weber, 2006).

MFIs have expanded their operations into five different continents and penetrated both rural and urban markets. They have achieved success with a variety of credit products and collection mechanisms (Sengupta and Aubuchon, 2008). The microfinance industry in Kenya has experienced rapid growth over the recent years in an attempt to meet the high demand for credit from individuals and more so SMEs. The main objective of MFI is to support the SME's through offering credit facilities and deposit taking (Nyabwala, 2010). This definitely means that the existence of a healthy relationship between the MFIs and SMEs is the basis for the prosperity of not only the developed countries, but also the developing ones such as Kenya.

Baas & Schrooten, 2004 show that there is need for the accounting standards to be applied by the SMEs in need of finance by suggesting that there are strong arguments for an improvement of the current design of accounting standards specifically for SMEs. The first reason is that in order to be efficient, international accounting standards should apply to all types of enterprises and second, additional information gained through the process would lead to an improvement in decision making when the financial institutions are contemplating lending to the SMEs. Both banks and the enterprises would be the beneficiaries of such a change in the institutional framework. Baas & Schrooten, 2004 further goes on to say that the introduction of international accounting standards by the SMEs would have a self-containing and positive impact on competition within the banking sector.

Summary

The use of International financial reporting standards in the world has been well demonstrated above, more so, its adoption by the SMEs which have been considered as job creators. Most of the SMEs in both the developed and developing markets have cited difficulties in accessing loans from financial institutions. One of the reasons for them being denied credit is that since they do not have proper books of accounts and therefore it is hard to know their financial position and ability to pay back the loan. IFRS makes information more comparable and reliable thus making it easier for users to analyze the financial statements. The adoption of IFRS for SMEs is a positive move because when financial institutions can comfortably interpret the company statements then chances of being issued credit are higher.

4 Practical Part

This chapter explains how the data will be gathered and analyzed so as to answer the research questions and achieve the objectives outlined in chapter 1. It forms a link between the theoretical parts of the research with the practical element which is the fieldwork. Section 3.1 focuses on the research design which will be used, 3.2 describes the target population and the sampling techniques suitable for the study, 3.3 analyzes the various forms of collecting data relevant to the study and finally 3.4 looks at the techniques of analyzing the data collected and how to organize it to form a comprehensive study.

4.1 The Research Design

The overall design of my thesis took a quantitative and cross sectional approach, meaning that the research used an objective, formal and systematic approach where primary and secondary data was utilized. An explanatory approach was also employed to determine whether the financial statements prepared by IFRS help SMEs to access credit.

4.1.1 Population

The target population was 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). This as earlier emphasized was because one of the major criteria for participating in the Top 100 KPMG companies survey was that an SME should have at least a 3 year audited financial track record and financial statements which clearly show the revenues, liquidity and profitability of the firm. Since this study was based on the accounting standards and access of credit, at least one accountant in each SME and a finance manager/ credit controllers in each financial institution was in the best position to assist in this research.

4.1.2 Data Collection

Data collection is simply how the information will be gathered. Questionnaires were the main mode of collecting data and also follow up interviews. Questionnaire is a common instrument for observing data beyond the physical reach of the observer (Leedy, 1989). Questionnaires are research instruments which consist of a series of questions either closed or open ended. They were advantageous to this study because they were less costly to administer and they catered to the busy professionals such as the finance and accounting managers who had tight schedules. A likert scale was used to gauge the agreement levels. With regard to the close ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicated that the item was perceived to be essential while a score of 3 or 2 indicated that the item was perceived to be fairly important, but not essential, while a score of 1 indicated that the item was disregarded for being unimportant. Courtis (1992) and Iyoha and Faboyede (2011) have used this scale and found it suitable. An IFRS conformity index developed by Ding et al, (2005) was used to measure the level of adoption in the firms.

Follow up interviews allowed the researcher to ask more detailed questions and clarify any ambiguous answers given in the questionnaires. The finance managers in the firms were at the best position to interview. A semi-structured interview was more applicable in this research because it will assist in going in depth and seeking new insights in relation to the topic (Robson, 2002). The semi-structured interview will allow the researcher to omit or add some questions still related to the research and also change the order of the questions depending on the flow of the conversation. Saunders et al., 2007, strongly suggest the use of semi-structured interview for an explanatory study because it provides a platform to know more.

Data Analysis

Data analysis is the process of evaluating the data collected using analytical and logical reasoning so as to examine each component of the data provided. Data from various sources is gathered, reviewed, and then analyzed to form some sort of a finding or conclusion. The main forms of analyzing the data were through the use of tables, charts and graphs.

Limitations of the study

1. It was difficult to prove whether the companies had complied with IFRS because their financial statements were considered as private.
2. Some employees could not authenticate their information for fear of being victimized by the company for sharing the views.
3. Accessing all the firms was a challenge due to constraints such as high transport costs and lack of adequate time since the researcher had to also attend classes.

4.2 Ethical Consideration

This area looks in to the ethical aspects of carrying out this research. This research aims at showing if there is a relationship between the adoption of IFRS and access of credit by SMEs. All the respondents were treated with respect and any information given was considered confidential. The questionnaires and interview questions were structured in a manner not to cause any embarrassment or any material disadvantage. Since financial statements prepared by SMEs are private, the firms which were comfortable in sharing their information were assured of non-disclosure to other parties.

5 Results and Discussion

This chapter represents the findings of the research. It attempts to answer the two main objectives; whether Financial statements prepared using IFRS helps in accessing credit by SME's and whether the information disclosed by IFRS meet the requirements of the lending institutions when issuing credit to SME's. The first part of the findings tackles the first objective while the second part of the findings mainly tackles the second objective.

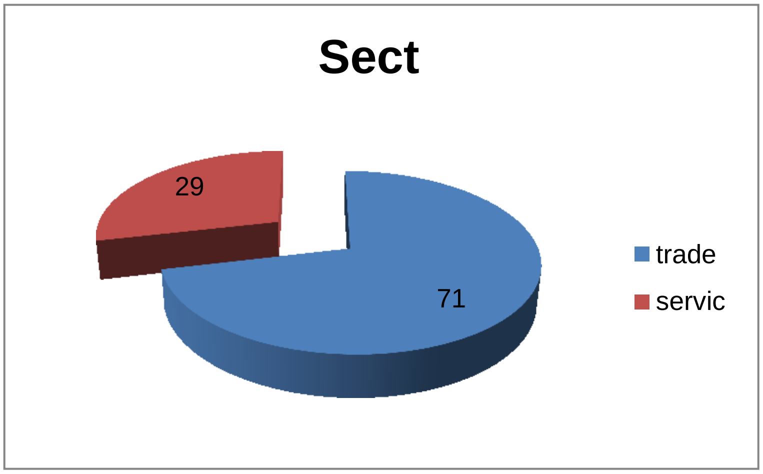
This research involved the microfinance institutions registered under the Association of Microfinance Institutions (AMFI) and based in Nairobi. Only the commercial banks and the microfinance institutions were used totaling to 11 institutions used in the study. Questionnaire being the main tool of collecting data from the respondents, 11 questionnaires were sent out to the institutions. 10 out of the sent questionnaires were returned of which 1 was incomplete and was therefore considered to be a spoilt questionnaire. Only one questionnaire was not returned. The researcher therefore used 9 of the questionnaire and this represented 81% response rate.

The research also involved the small and medium sized enterprises. The top 100 SMEs' as voted during the 2019 survey by KPMG was used as the target population. A focus on the SMEs' located only in Nairobi was used through the means of purposive sampling. 47 questionnaires were sent out to the institutions and also interviews to the head accountants were conducted in some of the institutions. 25 out of the sent questionnaires were returned of which 4 were not clearly filled. 22 questionnaires were not returned and therefore the researcher only used 21 questionnaires which represented a 44% response rate.

5.1 Analysis for the SMEs

The top 100 SMEs are mainly companies that offer both services and participate in trading activities in Kenya. This is shown in table 1

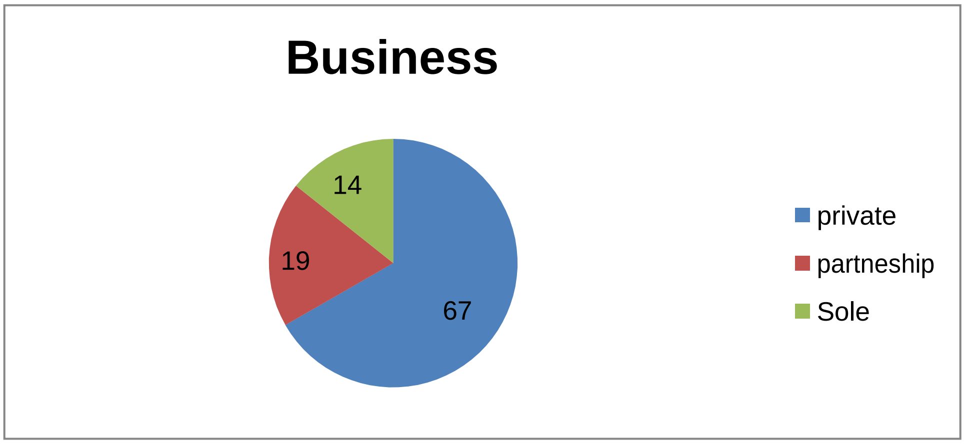
Figure 1: Sector Categorization



In this research, 29% of the companies were found to be in the trading sector while a bigger percentage, 71% of the firms was found to be in the service sector.

5.1.1 Business Ownership

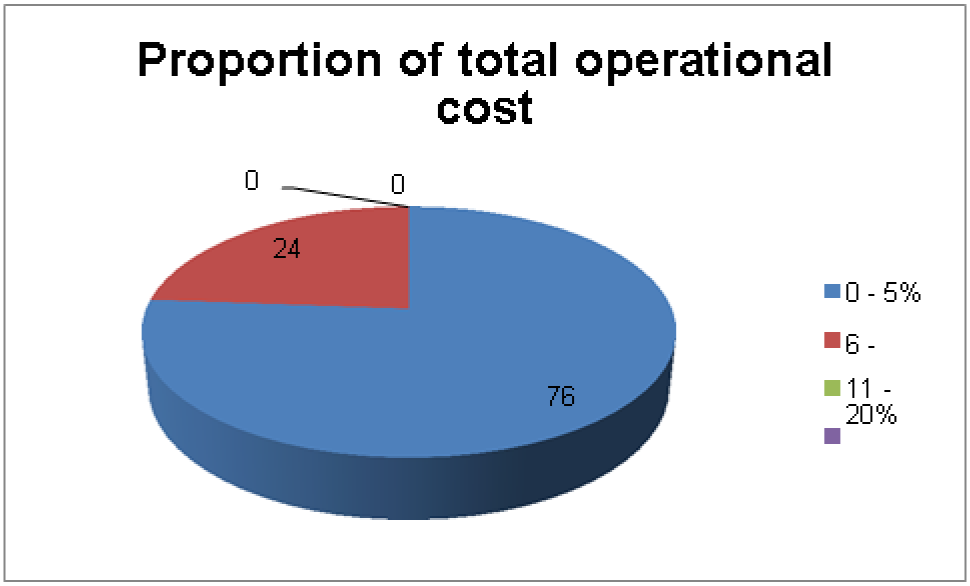
Figure 2: Business ownership categories



In terms of the business ownership, the types were divided in to 3 main forms which were private limited companies, partnership agreements and sole proprietorships. 14% were found to be sole proprietorship, 19% were partnership agreements while private limited companies took the biggest share of 67%.

5.1.2 Proportion of total operational cost to accounting

Figure 3: Proportion of total operational cost to accounting



The proportion allocated towards the accounting services was generally low as most of the companies did not have a big department dedicated to accounting services. 76% of the firms felt that they use less than 5% of their total operational cost on accounting services. 24% said that they use less than 10% but more than 5% of their operational cost on accounting services. This was mainly attributed to the fact that they are still small companies and therefore the accounting department is still not considered as a crucial department as compared to the big sized firms and multinational companies.

5.1.3 Years in existence

Majority of the companies as shown in the table below had been in existence for more than 10 years and this was more favorable considering that the research found out that these companies had a higher chance of having adopted the IFRS as compared to companies which were below 10 years

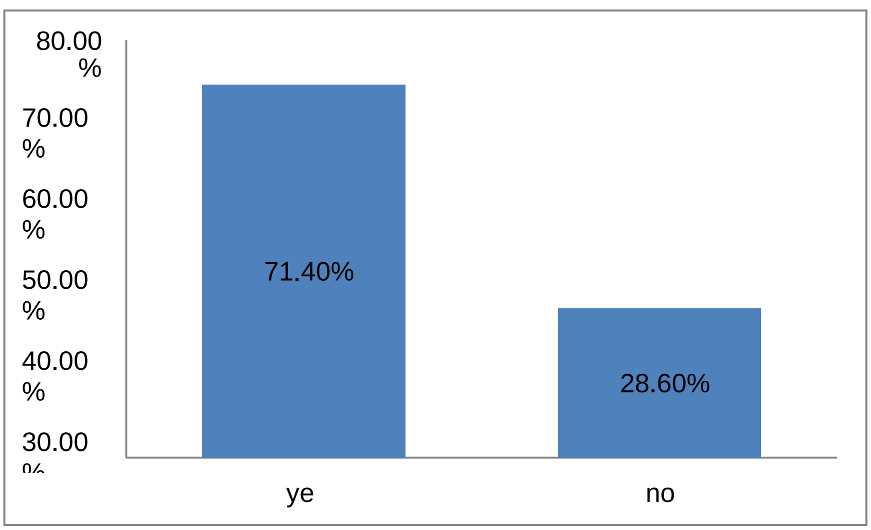
Figure 4: Company duration in the market

YEARS	OVER 10 YEARS	7 – 10 YEARS	3 – 6 YEARS
PERCENTAGE	76.1%	23.8%	0%

5.1.4 Access to credit facilities

The researcher sought to find out whether the firms had requested for a loan in the last 3 years and whether the loan had been accepted. All the firms acknowledged that they had indeed requested for mainly bank loans and overdraft. 71.4% of the respondents had been granted the loans while 28.6% had been denied access to the credit facilities due to various reasons.

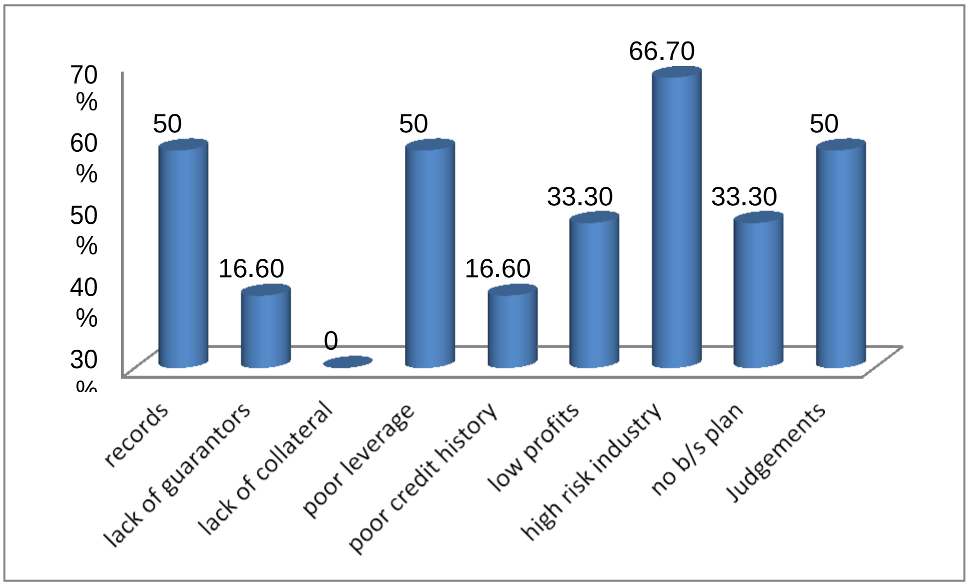
Figure 5: Borrowing activities of companies



5.1.5 Reasons for not being granted the loan

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

Figure 6: Reasons for denial of credit

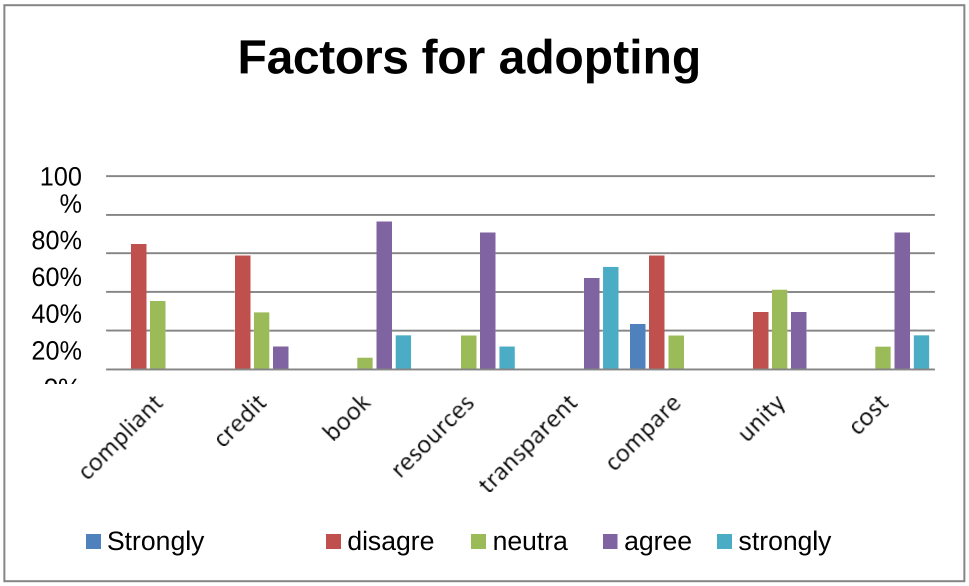


Being in a high risk industry was cited as the main reason why the loans were not accepted (66.7%) continuing judgments, poor financial records and poor leverage (50%) were also cited as factors that hindered their access to loans Lack of guarantor (16.6%) and lack of collateral (0%) were noted as the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

5.1.6 Adoption of IFRS

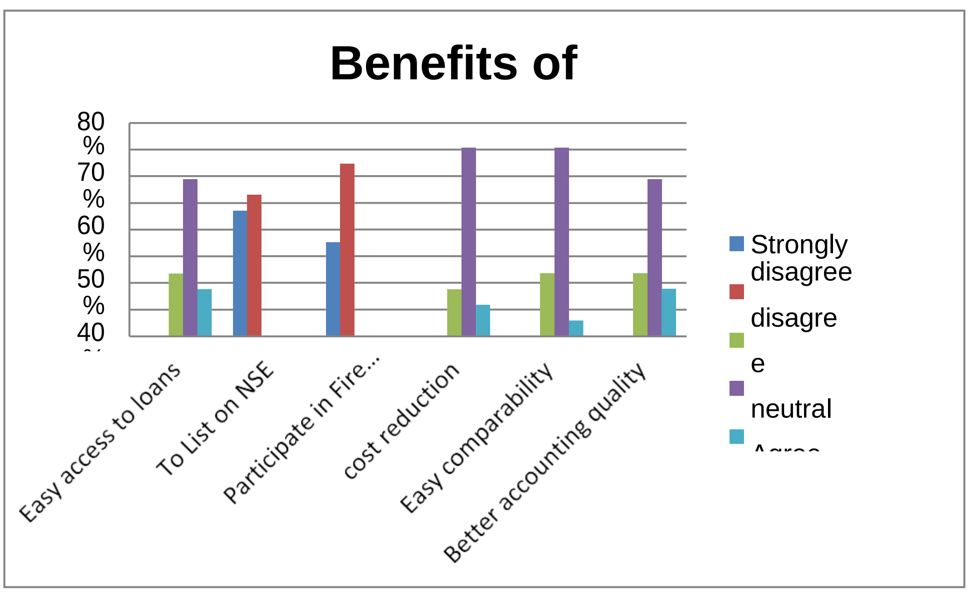
Out of the 21 firms that returned the questionnaires, 17 firms had adopted the IFRS or at least had started the process of adopting it. This was done through issuing a conformity index to the respondents where they were expected to tick the areas of IFRS which they have implemented. An aggregate of all the areas ticked was arrived at and if a firm had ticked more than half of the 8 randomly selected areas then the firm was considered to have adopted IFRS or had started the process of adoption. The researcher looked at the factors that contributed to the decision of adopting IFRS and the results were as follows: Higher level of transparency (52.90%) was noted as the most likely reason followed by ease of book keeping and less cost both at 70.6%. Most of the firms did not find the need to access credit facilities as a major deciding factor (58.8% disagreed). Need for comparability and as a unifying factor were reasons that ranked the lowest with a 58.8% and 64% disagreeing rate

Figure 7: Factors leading to the adoption of IFRS



5.1.7 Benefits of adopting IFRS

Figure 8: Benefits of adopting IFRS

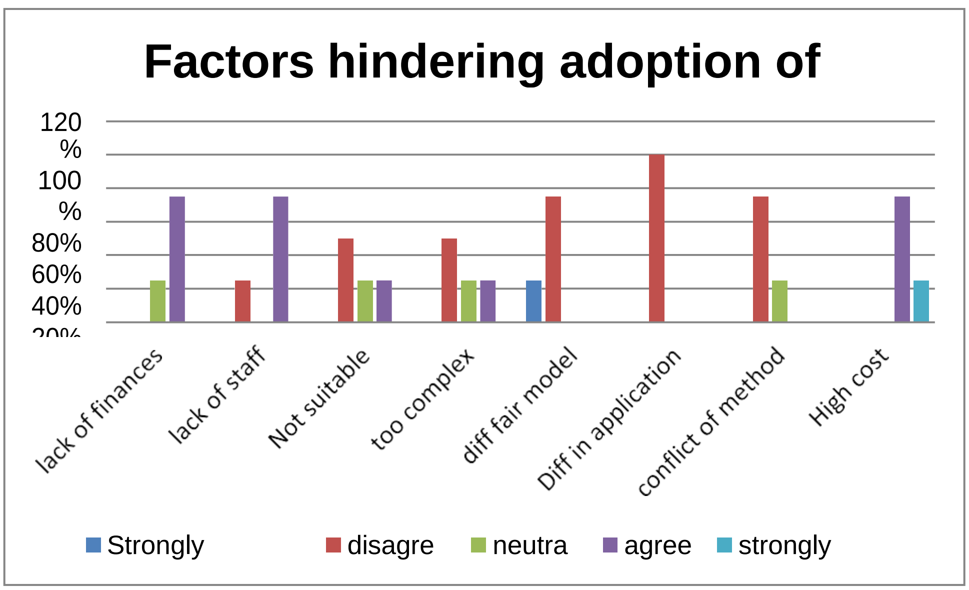


The researcher also wanted to find out the benefits accrued by the firms which had adopted the IFRS. Cost reduction, ease of comparability and better accounting quality ranked highest with 70% agreeing level. Access of loans was also another benefit which ranked high at 58%. Listing on the NSE (54% disagreeing level) was not a priority and some firms even stated that they had no motive of ever participating in the listing in the near future. Other companies were even not aware of the segment introduced by the NSE which focuses on the SME GEMS. Participating in the Fire award was also seen as an insignificant benefit with a disagreeing level of 64%. Most of the companies were also not interested in participating in the award even in the future.

5.1.8 Factors hindering adoption of IFRS

4 Firms had not adopted IFRS but had stated that they would do so in the future. The following factors were rated on why they had not adopted it.

Figure 9: Factors hindering adoption of IFRS



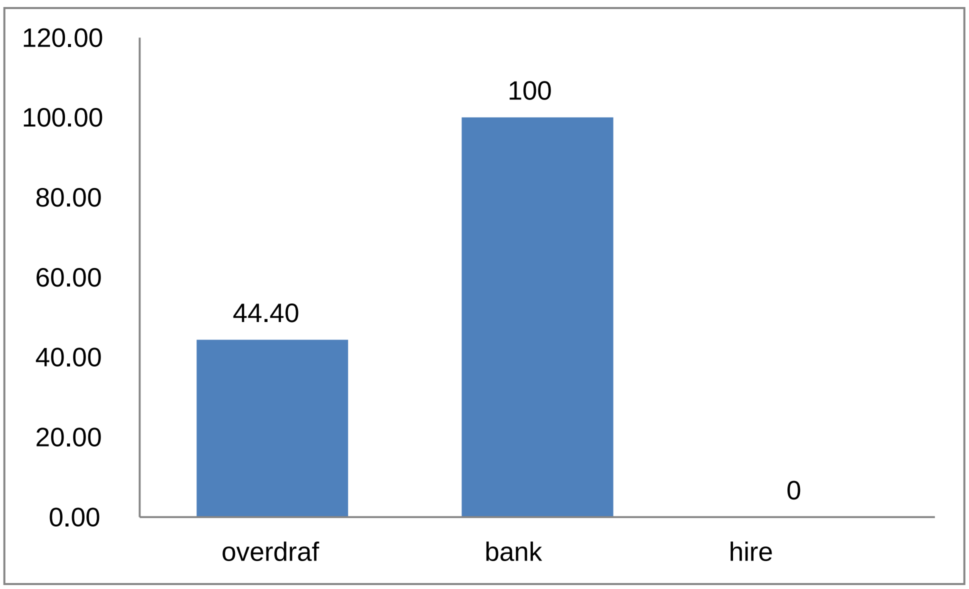
The reasons that were ranked highest were high cost of complying with the standards (74%), Lack of trained employees who are conversant with the IFRS (72%) and Lack of finances (72%). Reasons that were not considered as significant were due to difference in the fair model (71%), conflict in the methods used in the accounting (69%) and differences in applying the standards

(100%)

5.2 Analysis for the banks

To ensure that the research was not biased to only the SMEs, the researcher decided to also include the banks since they are the ones that provide credit facilities to the SMEs and would also give a clearer view to this research. 11 questionnaires were sent to banks within the AFMI group either through email or hand delivery or also through interviews. 9 banks responded which showed an 81.8% response rate.

Figure 10 : most issued credit facilities by the banks to SMEs



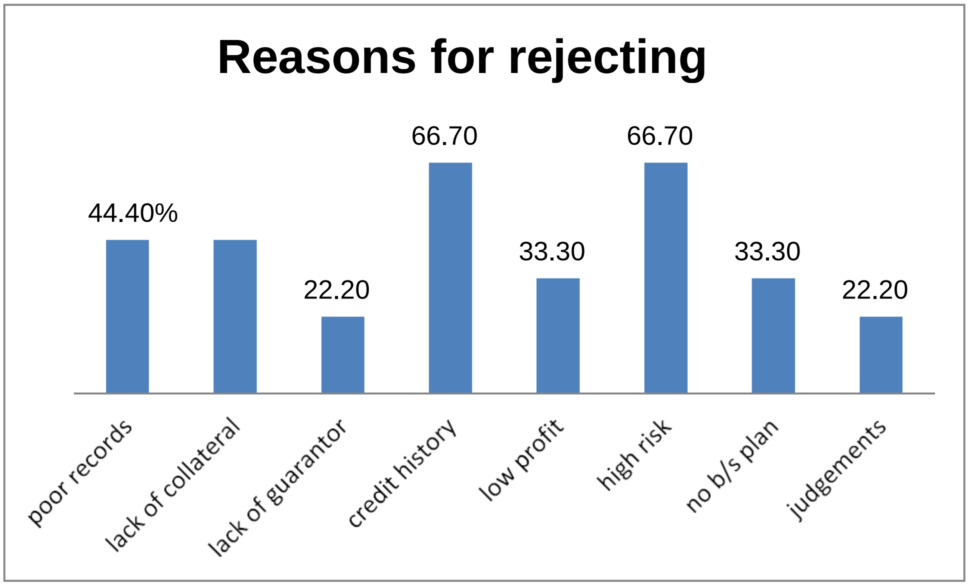
From the table above, it is clear that all the banks sampled offered bank loans to the SMEs (100%) and 44.4% of the banks offered overdraft facilities. This showed that these two were the most popular facilities borrowed by the SMEs.

5.2.1 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

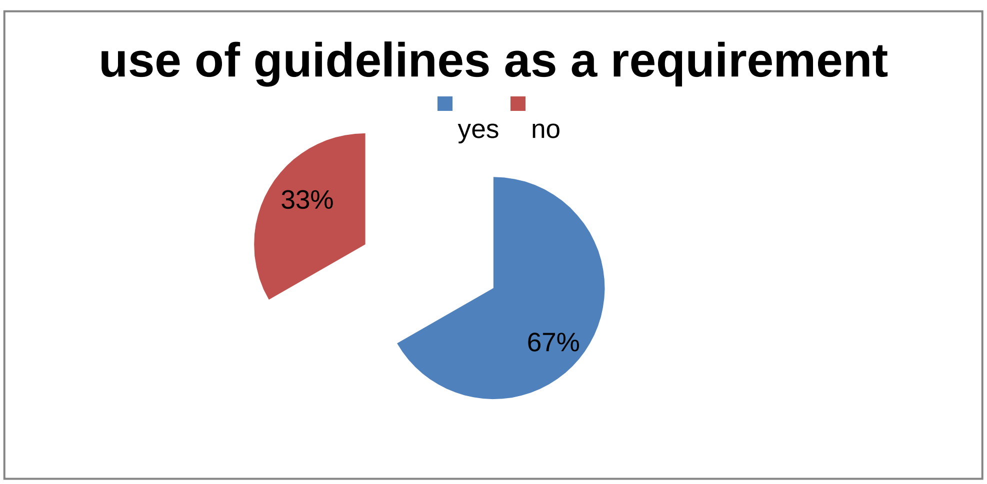
Figure 11: Reasons for rejecting credit requests



5.2.2 Use of guidelines/standards as a requirement before accessing credit facilities

To find out if banks look at whether the firms have followed a specific guideline in presenting their financial statements, the researcher inquired about it and the following chart below shows the response

Figure 12: Reasons for use of guidelines/standards



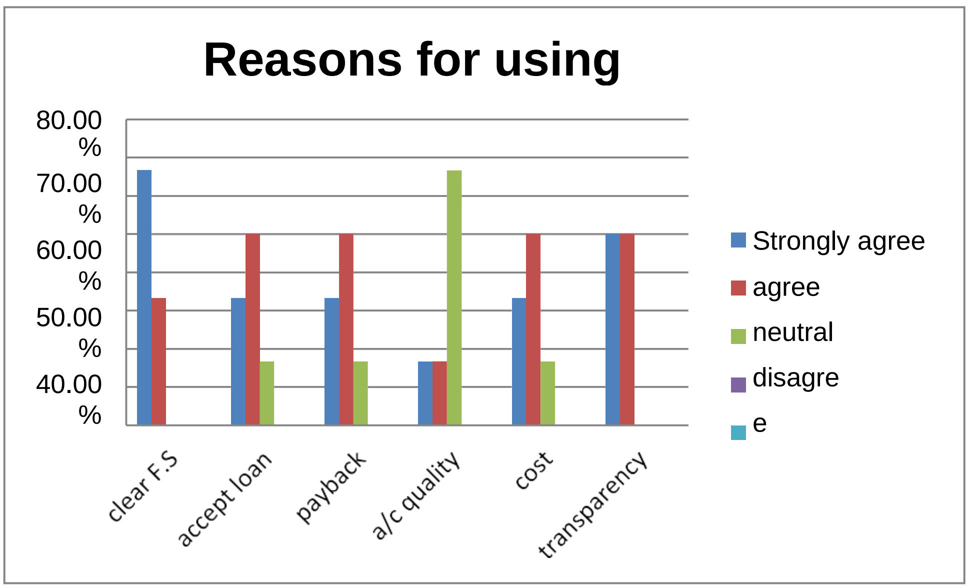
67% of the banks stated that they looked at the guidelines used but that it was not a priority. 33%

of the banks were not really interested with guidelines used. Most of the banks that did not see the need of looking at whether the SMEs had employed any guidelines were the microfinance institutions. They stated that all they needed were proof of payments and invoices used by the companies and that no specific order was necessarily required. For the banks that considered the guideline, they did not specifically look at whether the firms had used IFRS or just any other guidelines.

5.2.3 Reasons for advocating for the use of guidelines

For the banks which said that they pay attention to guidelines used in preparing financial statements, they ranked the benefits which are shown in the graph below

Figure 13: Reasons for advocating use of IFRS



Ease of transparency (50%), clear financial statements (67%) and higher chances of accepting the loan request (50%) were considered the major reasons that led the banks to advocate for the use of guidelines or standards in coming up with the financial statements.

5.2.4 Adoption of IFRS and interest rates

All the banks that returned the questionnaires mentioned that adoption of IFRS or any other standard did not affect the interest rates in any way. The interest rates charged by SMEs which had not complied to IFRS were the same as those that had complied. Other factors other than adoption of IFRS came in to play.

Figure 14: adoption of IFRS and interest rates

Returned questionnaires	Disagreeing level
9	100%

5.3 Summary

The findings above clearly answered both of the set objectives that the researcher had sought to find out. On the first objective of whether the financial statements prepared using IFRS helps in accessing credit by SMEs, it was found out that most companies adopt the standards majorly for reasons other than accessing credit. 70% of the respondents mentioned that better bookkeeping and ease of transparency are the major reasons for adopting the standards. Accessing credit ranked very low as a reason. On the second objective of whether the information disclosed by IFRS meet the requirements of the lending institutions when issuing credit, most of the respondents who were microfinance institutions stated that the disclosure is not mandatory. All they need is proof that a company has a good credit history and that it is a going concern. The information disclosed only helps in creating transparency but does not guarantee that the firm will be issued the loan or not

6 Conclusion

The overall objective of the research was to establish whether financial statements prepared using IFRS made access to credit facilities easier and also whether the information disclosed by the use of IFRS increased the chances of the banks issuing the facilities to the SMEs. This chapter presents the discussions and interpretation of this research project, giving the highlights of the significant findings

6.1 Access of credit facilities by SME

Previous research has shown that many SMEs had not been granted the loans they had requested for as discussed by Memba, Gakure, & Karanja, 2012 due to various reasons. The 28.6% of the respondents whose loan applications had been rejected represent a smaller proportion but the reasons for not being granted the facilities were very familiar since previous research done by Wanjohi and Mugure, 2008 cited the same reasons. These included poor financial records with 50% of the respondents citing it as one of the major reasons for not getting a loan. Most of the firms interviewed said that proper methods of book keeping were lacking in their firms because there was no one to follow up on how the entries had been made. However, 66.7% of the respondents in the financial institutions cited poor credit history as the main reason for rejecting loans. If an SME had too many debts to pay and also had outstanding issues with other lenders then this was a red flag for the banks not to issue credit to the firm. A poor financial record was not seen as a very huge factor. The financial institutions, mostly the big banks were quick to say that they really did not consider whether the SMEs had complied with IFRS or not. They appreciated the fact that having a well laid out financial statement enhanced transparency and clarity of the firm’s dealings (67% agreement level) but that it did not necessarily increase the chances of accepting a loan request. Also, all the banks stated that the level of interest rates charged for loans did not vary due to the compliance or non-compliance of the financial reporting guidelines. On the requirements when issuing credit, use of guidelines was not considered a priority but that it was still important for transparency as the research found out.

6.2 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.

6.3 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.

6.4 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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8 Appendix

Appendix 1

QUESTIONNAIRE (Accountant)

Dear respondent,

I am a student at the Czech University of Life Sciences pursuing my MBA and I am conducting a research on the "**Impact of adoption of IFRS (International financial reporting standards) on the ability to access credit by the top 100 mid-sized companies in Kenya"**.

It is my hope that you will give me your assistance and the information needed. The information given shall be treated with confidentiality.

Name of organization …………………………………………………………………………

(Tick where appropriate)

1. Type of business ownership

Partnership	( )	Sole proprietorship ( )	
Private limited company	( )	other (specify)……………………………	

2. Which sector does your company operate in?

Trade ( )

Service ( )

Other (specify)……………………………………………..

3. How many years has your organization been in operation?

0 – 3 years ( ) 4 – 7 years ( )

8 – 10 years ( ) Over 10 years ( )

5. What percentage of the total operational cost can be attributed to the accounting services in your firm?

0% - 5% ( )

6% - 10% ( )

11% - 20% ( )

21% - 30% ( )

More than 30% ( )

6. Has your business applied for a loan from a financial institution in the last 3 years?

Yes ( ) No ( )

If No, please state the reason

………………………………………………………………………………………..

7. Was the request for the loan accepted?

Yes ( ) No ( )

If No, what reasons were given? (You can tick more than one reason)

- Lack of proper financial records ( )
- Lack of guarantors ( )
- Lack of collateral ( )
- Too much leverage ( )
- Poor credit history ( )
- Inadequate profits or cash flow to support debt repayment ( )
- High risk Industry ( )
- Lack of preparation or business planning ( )

- Existing judgments, unpaid or overdue bills ( )
- Other (specify)……………………………………………………………………………..

8. If you have adopted the IFRS, rate the following factors which influenced your decision to do so with 5 representing strongly agree and 1 representing strongly disagree (if not adopted, skip to question 10)

Factor	1 Strongly disagree	2 Disagree	3 Neutral	4 Agree	5 Strongl y agree
The emphasis for organizations to be IFRS compliant					
To access credit from financial institutions					
The need to have an efficient and reliable book keeping method					
The availability of resources to enable IFRS compliance					
Improved transparency					
International comparability					
As a means of unifying business transactions					
Need to cut costs when preparing financial statements					

9. What are the benefits you have enjoyed since you adopted the IFRS? (Please tick where appropriate)

Benefit	1	2	3	4	5
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Accessing loans from financial institutions					
To list or consider being listed in the NSE					
Registering for the FIRE award					
A significant reduction in the costs incurred in preparing financial					
Increased comparability with other businesses					
Improved accounting quality					

10. If you have not adopted any IFRS, rate the following factors which have influenced your decision not to. 5 represents strongly agree while 1 represents strongly disagree.

Factor	1	2	3	4	5
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The lack of finances to comply with IFRS					
The lack of competent staff to ensure compliance of IFRS					
The non-suitability of IFRS in the business					
Growing complexity of IFRS					
Complication in the fair value model					
Difficulty in applying the standards					
Conflict between accounting regulations in the Companies act and IFRS regulations					
High cost of educating and training staff on IFRS					

Thank you for your time and effort

Appendix 2

QUESTIONNAIRE (Credit controller)

Dear respondent,

I am a student at the Czech University of Life Sciences pursuing my MBA and I am conducting a research on the **Impact of adoption of IFRS (International financial reporting standards) on the ability to access credit by SMEs**.

It is my hope that you will give me your assistance and the information needed. The information given shall be treated with confidentiality.

Name of Institution ………………………………………………………………………………

1. Do you offer credit facilities to

SMEs? Yes ( ) No ( )

If yes, which facility is considered to be on high demand?

- Overdraft facilities ( )
- Bank loan ( )
- Hire purchase agreements ( )
- Any other ………………………………………………………………………………

2. Have you rejected any loan requests from any SME in the past 3

years? Yes ( ) No ( )

If yes, what was the main reason you rejected the request? (You can tick more than one reason)

- Lack of proper financial records ( )
- Lack of collateral ( )
- Lack of a guarantor ( )

- Poor credit history ( )
- Inadequate profits or cash flow to support debt repayment ( )
- High risk Industry ( )
- Lack of preparation or business planning ( )
- Existing judgments, unpaid or overdue bills ( )
- Any other (specify)………………………………………………………………………………………

3. Does your institution consider whether the financial statements issued by the SME's have followed any particular standards or guidelines such as IFRS?

Yes ( ) No ( )

If yes, please rate the following reasons that justify the need of SME's to follow a specific guideline/standard when presenting the financial statements for a loan application, such as the use of IFRS. (Tick where appropriate)

Reasons	1	2	3	4	5
	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
To make the financial statements more clear and understandable					
To increase the chances of the loan request being accepted					
To check whether the firm has the capacity to pay back the loan on time					
To increase the accounting quality					
Significant reduction of costs incurred in preparing the financial statements					
Improved transparency					
Improved comparability with other firms in terms of performance					

4. What priority do you give the requirement of using a guideline such as IFRS when issuing a loan (rate between 1 and 5, 5 being the highest and 1 the lowest.

1 (   )   2 (   )   3 (   )   4(   )   5( )

5. Is there a difference in the interest rates offered to an SME that has complied with IFRS and one which has not when issuing credit?

Yes (   )   No ( )

5b. If yes above, what are the different rates? ....

Thank you for your participation

Appendix 3

Conformity Index

Areas of IFRS to measure the level of adoption. (Tick on the areas you have applied in your firm)

1	Consolidated financial statement of a consolidating company	
2	Statement of equity	
3	Present information on the changes in cash and cash equivalents for a period	
4	Measurement of inventories	
5	PPE measurement	
6	Recognition of internally generated intangible assets	
7	Presentation of the financial statements	
8	Taxation	