FINANCING OF SMALL AND MEDIUM BUSINESS ENTERPRISES IN KENYA: A CASE OF SMEs IN ONGATA RONGAI – KAJIADO COUNTY

BY

EVANS KOECH

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2015
FINANCING OF SMALL AND MEDIUM BUSINESS ENTERPRISES IN KENYA: A CASE OF SMES IN ONGATA RONGAI – KAJIADO COUNTY

BY

EVANS KOECH

A Research Project Report Submitted to the School of Business in Partial Fulfillment of the Requirement for the Executive Masters in Organization Development (EMOD)

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2015
I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University Africa for academic credit.

Signed: ___________________________    Date: __________________

Evans Kiprotich Koech (ID: 610946)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________    Date: __________________

Mr. Kepha Oyaro

Signed: ___________________________    Date: __________________

Dean, Chandaria School of Business
COPYRIGHT

I hereby certify that the work herein is my original work. No part of this publication may be reproduced or distributed in any form or by any means or stored in a database or retrieval system without prior written consent of the author.
ABSTRACT

This study had an overall objective of determining how small and medium business enterprises obtain and manage their finances. Small and Medium Enterprises (SMEs) play a vital role in the Kenyan economy, as they control a greater percentage of it. However, most SMEs face a lot of challenges, especially when it comes to their financing and handling their finances, which directly affects their development in the business world. The specific objectives of the study were (i) To establish the main sources of financing for SMEs. (ii) To access the impact of education and training on financing of SMEs and (iii) To evaluate the management related issues affecting the financing of SMEs with a view to proposing some recommendation to help mitigate these challenges.

The study focused mostly on establishing and finding out the various sources of finance that the SMEs are exposed to in Ongata Rongai Town. This included both internal and external sources of financing, including the government funds. The study will go ahead to establish the challenges that the small business owners are facing with respect to accessing the finances for their businesses.

The research design adopted a case study approach and included mixed research design. This study was carried out in Ongata Rongai.

The number of SMEs was 142. In order to determine the sample size, n, I used a formula for calculating sample size by (Mugenda and Mugenda, 1999). The confidence level was 95% and confidence interval was 10. Therefore the sample size, n was 104. Results were presented in form of tables. Inferential statistics technique was also used to make generalizations about the population from which the samples were drawn. This process was achieved through sampling.

The data collected was analyzed using qualitative and quantitative methods and this was being done using Statistical Package for Social Sciences (SPSS). Data was coded according to different variables and descriptive statistics such as frequencies, mode, mean percentiles, variances and standard deviations were be used for study for ease of interpretation and the data was presented into tables, bar graphs and pie charts.

The findings of the study in relation to the first objective were that majority of the SMEs in Kajiado county depend on; loans from financial institutions and personal savings which in most cases do not meet their entire objectives. The study also found a direct correlation
between management decisions impact on financing as most are not well informed in that they cover all aspects some of which need some level of expertise like accounting. The third major finding was that there was a definite corroboration effect between education level and decision making ability to influence better financing of SMEs. The higher the education level and training the better for decision making and ultimately chances of better financing.

The research led to the conclusion that a large percentage of the SMEs are run by entrepreneurs’ with basic knowledge and training in the specific business or industry they have ventured into. A major conclusion that was also noted was that use of the major sources of funding for the SMEs which was loans from financial institutions and personal savings had a direct bearing on the knowledge and training the owners had achieved over time. Those who had run their SMEs over a period of more than 3 years and had gained knowledge and some training on utilizing and acquiring financial resources during this period had better profit margins and capital stability.

A number of recommendations were drawn from this study. In order to raise and improve SMEs performance, SME owners and ultimately financial institutions including the county government should raise awareness through training and disseminating knowledge through education on the availability of government funding towards SMEs. The need to include experts in specific functions such as accounting in SMEs can guide SME owners on proper management decisions and ultimately better financing and higher profits. This will eventually benefit the entire community as SMEs form a vital role in development of a county. There should be measures to try reducing the lending rates and costs of borrowing for many SMEs to have access to finances.
ACKNOWLEDGEMENT

I wish to express my sincere appreciation to the many people that have devoted their time during the different stages of this research to give me support and ideas.

Special thanks to my supervisor Mr. Kepha Oyaro for the guidance and support throughout the whole paper to ensure it was a success.

I am also grateful to my family members and in a special way, my lovely wife and two beautiful daughters, Amani and Neema who even without completely understanding it; gave me support as I ventured into this work.

Finally, my greatest thanks are to the Almighty God who has given me the physical health, spiritual nourishment and willpower to succeed.
DEDICATION

I dedicate this work to my family, my dear wife for encouraging me, pushing me to supporting me throughout this course and project. I sincerely appreciate it and without her I would not have come this far.
**TABLE OF CONTENT**

**STUDENT'S DECLARATION** ................................................................. ii

**COPYRIGHT** ...................................................................................... iii

**ABSTRACT** ........................................................................................ iv

**ACKNOWLEDGEMENT** ......................................................................... vi

**DEDICATION** ....................................................................................... vii

**LIST OF TABLES** ................................................................................ x

**LIST OF FIGURES** ................................................................................ xi

**CHAPTER ONE** ...................................................................................... 1

1.0 Introduction ....................................................................................... 1

1.1 Background of the study .................................................................. 1

1.2 Statement of the problem .................................................................. 4

1.3 General Objective ........................................................................... 5

1.4 Research Objectives ........................................................................ 5

1.6 Scope of the study ............................................................................ 7

1.7 Terminologies .................................................................................. 7

1.8 Chapter Summary ........................................................................... 8

**CHAPTER TWO** ..................................................................................... 9

2.0 LITERATURE REVIEW ....................................................................... 9

2.1 Introduction ..................................................................................... 9

2.2 Assessment of Finance as a Challenge facing SMEs .......................... 9

2.3 Effects of training and education on the financing of SMEs ........... 15

2.4 Effects of management related issues affecting financing of SMEs .. 19

2.5 Chapter Summary ........................................................................... 21

**CHAPTER THREE** ............................................................................... 22

3.0 RESEARCH METHODOLOGY ............................................................ 22

3.1 Introduction ..................................................................................... 22

3.2 Research design .............................................................................. 22

3.3 Population and Sampling Design ................................................. 23

3.4 Data collection methods ............................................................... 25

3.6 Pilot Study ....................................................................................... 25

3.7 Data processing and analysis ....................................................... 26
# TABLE OF CONTENTS

**CHAPTER FOUR** .................................................................................................................. 27

4.0 Discussion of Findings ........................................................................................................ 27

4.1 Introduction .......................................................................................................................... 27

4.2 General Information ............................................................................................................ 27

4.3 Sources of Finance .............................................................................................................. 30

4.4 Factors Affecting Access to Finance .................................................................................. 31

4.5 Effects of Education and Training ...................................................................................... 34

4.6 Statistical Results ............................................................................................................... 37

**CHAPTER FIVE** ...................................................................................................................... 38

5.0 Summary, Conclusion and Recommendation ................................................................. 38

5.1 Introduction ......................................................................................................................... 38

5.2 Summary of the study .......................................................................................................... 38

5.3 Discussion of the findings .................................................................................................... 38

5.4 Conclusion ........................................................................................................................... 40

5.5 Recommendations .............................................................................................................. 40

**REFERENCES** ..................................................................................................................... 41

Appendix I: Introductory Letter ............................................................................................... 45

Appendix II: Questionnaire ...................................................................................................... 46
LIST OF TABLES

Table 4.1: Gender .................................................................................................................. 27
Table 4.2: Enterprise Form ..................................................................................................... 28
Table 4.3: Year Established ..................................................................................................... 28
Table 4.4: Education Level ..................................................................................................... 29
Table 4.5: Number of Workers ............................................................................................... 29
Table 4.6: Sources of Finance ................................................................................................. 30
Table 4.7: Source of Loan ......................................................................................................... 31
Table 4.8: Loan Objective Achieved ....................................................................................... 31
Table 4.9: Lack of Collateral ................................................................................................... 31
Table 4.10: How Interest Rate Affect Access to Financing .................................................... 32
Table 4.11: Gender Discrimination Effect on Getting Finances ............................................. 33
Table 4.12: Changes ................................................................................................................. 33
Table 4.13: Have you attended Training .................................................................................. 34
Table 4.14: Effect of Education Level on Financial Decisions .............................................. 35
Table 4.15: Does the Business Pay Tax ................................................................................... 35
Table 4.16: Head of Business ................................................................................................ 36
Table 4.17: Model Summary for Finance ................................................................................. 37
Table 4.18: The Regression Coefficients for Finance ............................................................... 37
LIST OF FIGURES

Figure 4.1: Used Loan Before ................................................................. 30
Figure 4.2: No Business Records ............................................................ 32
Figure 4.3: Awareness of Government Funds ........................................ 34
Figure 4.4: Do you Recommend Training ................................................ 35
Figure 4.5: Head of Finance ................................................................. 36
CHAPTER ONE

1.0 Introduction

1.1 Background of the study
Entrepreneurship the world over has emerged as an opportunity for employment, a way of helping the poor to indulge themselves in the field of employment, and a way of improving both their socio-economic status. Small and Medium Enterprises (SMEs) are viewed as a driving force of economic and social growth in the African perspective. They are viewed as an opportunity for growth of businesses in a country; they lead to growth of wealth and employment which is widely viewed as being of essence to a country’s business growth. SMEs are hailed for their central role in promoting financial growth and sustainable development (Pelham 2000).

Reinecke (2002) highlights that several acclaimed businesses worldwide and even multinational companies have their humble beginnings from ideas originally borne from a small entrepreneurial entity. Small ideas have grown and been perfected over time to become big time profit making and mentoring business enterprises in existence today.

The concept of microfinance is not new and its impact in the economic growth and development of a nation cannot be overemphasized. Yahaya and Osemene (2011) point out that in the global arena savings and credit groups that have operated for centuries include the “pasanaku” in Bolivia, “tandas” in Mexico, “cheetu” in Sri Lanka, “chit funds” in India, “arisan” in Indonesia, in Africa “Ajo” in Nigeria, “susus” of Ghana, and Kenya women finance fund in Kenya, as well as numerous savings clubs and societies found all over the world. In Formal savings and credit institutions for the poor, a concept originating from Prof Yunus with Grameen bank have also been around for decades. Too many countries, especially in the developing world, through thousands of microcredit institutions launched provided that even the poorest of the poor could be considered credit-worthy thus obtain financial services even though they were neglected by the banks (Yunus, 2007).

Generally it is recognized that SMEs are known to face distinctive challenges, which affect their growth and profitability and for this reason, lessen their capacity to effectively have value addition to sustainable development. The various challenges faced by SMEs identified by International Finance Corporation (IFC) (2011) include inadequate education and skills,
managerial training and experience, poor infrastructure, lack of access to credit, lack of technological change, lack of innovative capacity and scanty market information.

Chittithaworn, Islam, Keawchana and Yusuf (2011) note that SMEs account for a huge percentage of the entire enterprises in the different sectors. About 90% of enterprises in the Asian Productivity Organization (APO) member countries are SMEs and account for about 75% of the Gross Domestic Product, compared to 50% in the rest of the world. SMEs play a vital role in economic and social life, and they generate a large number of non-agricultural jobs, exports, sales, and value-added. Yet in most of these countries, SMEs face similar constraints and hence are low-productivity enterprises. Furthermore, of the overall number of SMEs, small enterprises cover 76.0 percent, while medium companies account for 17.8 percent of all manufacturing businesses. In addition, researches in the past acknowledged that SMEs play an important function in the economy of a country. Therefore, the performance of the SME sector is closely allied with the performance of the nation. In the interim, the feasible 90 percent of all industrialized enterprises were SMEs, with 868,000 employees or 38.9 percent of the total. Prior literature dealing with the circumstances of successful enterprises has centered on huge businesses rather than SMEs. Nevertheless, changes in the environment cause more ambiguity in SMEs than in large companies (APO, 2007).

SMEs are growing recognition and have a significant role in economic development. SMEs tend to be large in number, accounting for about 90% of all enterprises in many African countries and over 80% of new jobs and employed labor force in a given country (Reinecke, 2002). They are frequently depicted as efficient and productive job creators, the seeds of gigantic businesses and the fuel of national economic engines. Further in emphasis SME sector has the largest working citizens in the developed industrious economies more than multinationals (Mullineux, 1997).

Wanjohi and Mugure (2008) posits that while the lack of access to finance is approximately universally categorized as a major challenge for SMEs, the argument is that the success of SMEs, in particular the lower values ones that many entrepreneurs manage, is in their ability to relate finances properly to sustain innovative initiatives that can give them a competitive edge in the market, thereby spurring their growth.
SMEs are believed to be a prolific ground with regard to innovation with an advantage in their flexibility and less rigid organizational structures, which on average promotes a higher speed of response. As a result, SMEs by and large add value to the creation of economic and social value (Crawford, 2003; Lin & Chen 2007). However, their inclination and capacity to build up innovative products and services can be hampered by a common lack of financial strength as well as technical and managerial skills (Gray 2006; Shiu & Walker 2007). Therefore, interventions need to be considered in terms of technological innovations to support new product and services offering appropriate financial packages to fund the development of such innovations and managerial skills to commercialize the innovations.

Microcredit way of financing the poor who were neglected by banks who were concerned with profit margins required innovative delivery channels and methodologies thereby alleviating poverty among the citizens and facilitating economic growth. According to Mukhtar (2009) credit has been documented as a fundamental tool for promoting small and medium enterprises (SMEs). Over the years, numerous traditional microfinance institutions, such as self help groups and rotating savings (merry-go-round) and credit associations have been set up to provide credit to both the rural and urban dweller in Kenya. This was based on the fact that vigorous economic growth cannot be attained without putting in place well focused program to reduce poverty through empowering the people by increasing their access to factor of production, especially credit.

In Kenya, the SME enterprise sector in two fold has the potential and the remarkable undertaking of bringing millions of citizens from the survivalist level including the informal economy to the mainstream economy. Stevenson and St-Onge (2005a) profiled Kenyan entrepreneurs into four categories; first being that of the Jua Kali micro-enterpriser where most owners who run the sector are unregistered and have little education and lack of entrepreneurial and business knowhow. They also have minimum access to credit and inadequate awareness of markets and market opportunities. The second grouping consists of entrepreneurs with micro enterprises of 6-10 employees. These constitute 2.6 percent of the enterprises. The third kind is the small enterprises with over 10 employees, which form 0.7 percent of enterprises. These entrepreneurs own SMEs and have a minimum of secondary education, previous public or private sector enterprise experience as an employee or business person, and a supportive investor either a husband who may be directly or indirectly involved in the business. Their businesses are generally registered and operate from legitimate
business premises. The fourth type is made up of entrepreneurs with university education, who came from entrepreneurial family backgrounds, have experience in managerial positions in the corporate world, access to financial means and supportive husbands. They constitute less than 0.1 percent of all owned enterprises.

It is in this interest that the Government of Kenya has acknowledged the significant roles SMEs play in the Kenya economy, therefore through Kenya Vision 2030 has incorporated the strengthening of SMEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030 [MPNDV 2030], 2007).

This study hence seeks to assess financing of small and medium business enterprises, in the case of SMEs in Ongata Rongai, Kajiado County. The purpose of this research is to draw attention to the challenges, successes and failures of SMEs.

1.2 Statement of the Problem

Notwithstanding the role of SMEs in the Kenyan economy, the financial constraints they face in their operations are overwhelming, leading to a negative impact on their development and limitation to their potential to drive the national economy as expected. To the struggling citizens amidst challenging economic environment, the situation is disheartening especially for a developing economy without the essential infrastructure and technology to attract investors in funding SMEs.

The constraints that impede all entrepreneurs to operate in difficult conditions are inclusive of; political instability, insecurity leading to lack of proper environments for investors, poor infrastructure, high production costs, and non-conducive business environment. These challenges have tended to impact more on SMEs entrepreneurs. In addition, entrepreneurial development is impeded by other definite constraints such as limited access to key resources including land and credit, the legal and regulatory framework of newly devolved Counties, and the socio-cultural environment. Furthermore, the collective impact of globalization, changing patterns of trade, and evolving technologies has forced entrepreneurs to have the necessary skills and expertise to become successful in their businesses. They lack the requisite level of education and training, including business and technical skills and entrepreneurship training are a necessity for success (Stevenson & St-Onge 2005b).
In the entire challenging environment as highlighted, the Government of Kenya introduced the Enterprise Fund in 2007 to empower youth, women and men’s groups so that they are able to engage more in development of themselves, their families and the country at large. It also enabled wealth distribution and allow entrepreneurs to borrow money to engage in businesses and other activities at very reasonable interest rates without the requirements of cumbersome sureties and other bureaucratic quagmires. This, as the government envisioned, would add value to the growth of the SMEs (WEF 2009).

However, five years after official launch of the Fund in 2007, the program is not well understood especially as to what scope the provision of the Fund is adding value to the growth of the SMEs and improving the livelihood of Kenya citizens. In addition it is ambiguous to what degree the fund is supporting new and innovative business ideas that are not regularly considered by conventional financial institutions. Further, it is notable that many SMEs in the country lack the capacity in terms of qualified personnel with the necessary skills and knowledge to manage their activities. An essential requirement in accessing credit from any financial institution is providing financial statements, SMEs however due to lack of training are not able to publish quality financial information as may be required and as such may lose out on funding opportunities which may require technical reports such as audited financial statements. This paper therefore seeks to assess financing of small and medium business enterprises by focusing on SMEs in Ongata Rongai, Kajiado County with emphasis on their challenges, successes and failures.

1.3 General Objective
The purpose of the study was to determine how small and medium business enterprises obtain and manage their finances.

1.4 Research Objectives
The specific objectives of the study included:

1.4.1 To establish the main sources of financing for SMEs.

1.4.2 To assess the impact of education and training on the financing of SMEs.

1.4.3 To evaluate the management related issues affecting the financing SMEs.

1.5 Significance of the Study
Various parties are to benefit from this study and its findings. This study will be of great interest to the following beneficiaries either directly or indirectly:

5
1.5.1 Government

The government as a whole and specifically the county government of Kajiado will benefit from the information provided by first of all becoming aware of the challenges experienced by the SMEs and call for a mechanism to address and seek solutions. The government's strategy to empower entrepreneurs in the vision 2030 will be supported by the study and it will thus enable them to determine shortfalls and gaps which need to be addressed and decisions made by management to make solid decisions about the required actions in addressing financing of SMEs. As a result, the government will be in a better position to further support SMEs in a more structured way to address the needs of SMEs in order to achieve their values and preferences.

1.5.2 SMEs Entrepreneurs, researchers and the Public

Entrepreneurs will embrace the study so as to reduce the limitations surrounding financing of SMEs and hence use this study to create mechanisms on how to go about the changes in both the environment and the performance of the enterprise. The study will also be beneficial to entrepreneurs in that they will be better placed to know the challenges experienced by their counterparts and by doing embrace solutions in making their enterprises successful and minimizing their failures. The general public will come to understand through awareness of the issues relating to financing SMEs throughout the county and thus become part a major campaign in advocating for fair policies that will go a long way in to encouraging and enabling persons to easily venture into starting enterprises. The researchers will benefit from the information provided so as to come up with solutions arising from the gaps in the study.

1.5.3 Policy Makers

The study will assist the Government Ministries to bring services closer to the beneficiaries and to ensure that support reaches the target audience in the shortest time possible. In line with this, the key reforms at the tertiary academic levels will improve dispatch of funds for purchase of instructional materials and other support services that will boost knowledge on entrepreneurial skills. In addition the Policy makers will benefit from the information provided so as to incorporate the issues raised in relation to making relevant policies in regards to financing SMEs and advocating for inclusion of relevant policies that facilitate easy means for accessing funds.
1.6 Scope of the study
This study focused on SMEs in Ongata Rongai in County Council of Okekejudo (CCO), over a six-month period. Ongata Rongai is situated approximately 20 km in the outskirts of Kenya’s capital city of Nairobi. The primary focus was limited to the assessment on financing of small and medium business enterprises and highlight the factors that mostly influence success and failures of SMEs in the rapid growing town of Ongata Rongai with majority of SMEs initiated everyday by residents and visiting citizens many of whom have opted to settle and live here in search of a livelihood. The study was carried out in the month of January year 2015.

1.7 Terminologies

1.7.1 Entrepreneurship
It refers to an activity which leads an individual or a group to invest personal resources for the creation and management of a new organization designed to pursue an innovative opportunity (Hindle & Rushworth, 2000).

1.7.2 Small and Medium Enterprises
Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) defines SMEs as an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the equivalent of US$1 million in value.

1.7.3 Central Bank of Kenya
The Central Bank of Kenya is Kenya’s Central Bank. It’s the largest Bank in the republic of Kenya, which happens to control all the activities of all other Banks, including Commercial banks and lending institutions. It’s active in promoting financial inclusion policy and is a member of Alliance for Financial inclusion. (Central Bank Act (CAP 481), 1966)

1.7.4 Microcredit
Microcredit is the extension of very small loans - microloans to impoverished borrowers who typically lack collateral, steady employment and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower women and uplift entire communities by extension. (Durevall and Ndungu, 1999)

1.7.5 Business Enterprise
Business enterprise refers to the activity of providing goods and services involving financial and commercial and industrial aspects business. (Durevall and Ndungu, 1999)

1.7.6 Economic activities

These are the actions that involve the production, distribution and consumption of goods and services at all levels within a society. Gross domestic product or GDP is one way of assessing economic activity, and the degree of current economic activity and forecasts for its future level can significantly impact business activity and profits, as well as inflation and interest rates. (CBK 2010)

1.8 Chapter Summary

The chapter dealt with introducing the research which is financing SMEs their challenges, successful and failures; A case study of Ongata Rongai in the Kajiado County in Kenya. The chapter highlights the objective of assessing the financing of small and medium enterprises and puts forth research questions in relation to the financing of SMEs; challenges faced; successes and failures in relation to financing. Therefore the purpose of this study was to highlight the successes and challenges facing the financing of SMES in the County of Kajiado.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter captures the review of related literature done on the area under study. The reviewed literature is obtained from online books, journals, articles and magazines. The chapter is presented based on the following sub sections: Access to finance as a challenge facing SMEs, training and education needs affecting the financing of SMEs and management related issues affecting financing of SMEs.

The chapter finally concludes with a summary of the issues and content addressed in the reviewed literature and knowledge gap that the study covered.

2.2 Access to finance as a challenge facing SMEs

Access to finance means financial inclusion, or broad access to financial services. It can be defined as an absence and minimal barriers in the use of financial services. Improving access then means improving the degree to which financial services are available to all at a fair price (The IBRD/World Bank, 2008).

2.2.1: Market Trends in Loan Requirements

The global financial crisis have caused the financial institutions to be more cautious and credit processing has become more complex, that SMEs find it difficult to both understand the procedures and decisions when it come to the loan processing. The credit "crunch" appears to be even more severe among service providers. Many SMEs in the service sector do not own land and equipment, and as a result, it is difficult to provide any form of security or collateral to financial institutions. Reflecting that, Bank Negara Malaysia (2004) stated that demand for new financing by businesses was higher in 2004. In Kenya, loan applications received from businesses were increased by 22% in 2006, a turnaround from the decline of 2.7% in 2001 (KNBS, 2009).

Accessibility to finance is a major factor affecting the growth and success of SMEs, thus adequate access to financing is critical to enable SMEs to contribute to the economic development of the nation. From a bank's perspective, the financing to SMEs is often regarded to be of higher risk due to the relative opaqueness of these firms as compared to larger firms (Berger & Udell, 2006). Previous studies have shown that management's
relationship and track record of payment to the bank or financial institutions, presence of collateral and capacity of the Small Medium Enterprises to repay the loan are some of the factors that are being assessed by the credit officers of the banks or financial institutions when issuing out the loan.

Obviously, the factors are those that can signal SM Es’ quality to bank and reduce extent of information asymmetry, which in return benefit SM Es to acquire bank loan. In order to be effective a signal should be costly to all borrowers, but more importantly it should be prohibitively costly to the riskier borrowers. Bank loan that SM Es can get is an increasing function of its own collateral, size, internal funds, acceptance of contractual clauses, relationship. Also, the probability of SM Es’ getting bank loan is an increasing function of its own collateral, size, internal funds, acceptance of contractual clauses, relationship. Larger-sized enterprise, especially those with big proportion of tangible assets can provide more collateral as bank requires. Besides, large-sized firm involves large bankrupt cost and reputation cost when he fails to repay the loan.

Banks generally put forward a series of clauses that protect his right. The acceptance of these clauses is a positive signal to bank and result in more bank loan and smaller interest rate for the borrower. Ross, Westfield and Jaffe (1996) cite evidence revealing that 91% of public debt issues in the United States include the prohibition of using additional debt, 39% of realizing mergers and 36% of selling shares. An increasingly large body of research looks into advantage of relationship between firms and providers of capital in facilitating access to funds (Diamond, 1989; Boot and Thakor, 1994; Uzzi, 1999; Scholtens, 1999; Cole, 1998; Berger and Udell, 1995; Petersen and Rajan, 1994; Fama, 1995). In general, a long-term relationship with a formal financial intermediary is expected to lower the costs of financing because that it decreases the cost of monitoring, opens the possibility for greater contact compliance and gives the financier more control over potential moral hazard problems.

Based on 3404 small companies in the United States, according to their book asset value, Petersen and Rajan (1994) classified them into six categories and found that only part of the sample firm get bank loan, but the percentage rises from 34% for the smallest size to 91% for the largest size. So we propose hypothesis 2 that the larger the size of SM Es, the more bank loan SM Es can get and by the higher probability SM Es get bank loan. Internal funds carry an opportunity cost to the entrepreneur, as with collateral, by tying his fortune to that of the
Thus the basis of this study objective on requirements for loans is to examine whether the factors have a significant influence on the loan assessment of the Small Medium Enterprises. Sections to follow will discuss the literature review on related determining factors, empirical framework of the study, data collection, findings and finally will dwell on the implications of the study for all variables at play.

2.2.2 Internal and external finance

The ability of small and medium entrepreneurs to access funds is directly related to the presence of a well-functioning financial environment. Accessing funds for any start up business is a challenge despite one having an entrepreneurial idea (UNIDO, 2002). According to Walton (1999), small and medium-sized enterprises (SMEs) have always played a significant part in the national and global economy. There are several ways of accessing both internal and external finance. Internal finance is getting funds through personal savings whereas external funding is through financial institutions. There are two notable variants of external finance: debt financing and equity financing. Debt financing involves the procurement of interest bearing instruments. They are secured by asset-based collateral and have short or long term structures. Equity funding component of external finance doesn’t necessarily require collateral because the financiers were generally part of the management (Oguijiuba, Ohuche, and Adenuga, 2004). Small businesses face challenges of access to capital and money markets. Mostly, investors are unwilling to invest in proprietorships, partnerships or unlisted companies due to the high risk involved in losing their money.

As risk perception about small businesses is high so is the cost of capital, institution credit, when available, requires collateral which in turn makes owner of the business even more vulnerable to foreclosure (World Bank, 2004). Despite efforts by financial institutions and public sector bodies to close funding gaps, Small and Medium
Enterprises (SMEs) continue to experience difficulty in obtaining capital. The gaps are related to firm size, risk, knowledge and flexibility. Unlike in big and established businesses more collateral is required in accessing the funding by the small enterprises. According to PECC (2003), financial institutions may lack expertise in understanding SMEs and maybe lacking flexibility in terms and conditions of financing that are required by SMEs. World Bank (2004) asserts that the debate on the funding and challenges for the access of capital by SMEs has been there since Macmillan report.

According to Clarke (2001), obtaining finance is a long journey and the end success is determined by the methodology applied during evaluation of the business and awarding of credit by financier. He further notes that banks trades on customer deposits and they lend at high interest rates enough to pay their operating overheads and leave balances to pay interest (lower) to the customers whose deposits are being loaned out to other customers. When the financial institutions are evaluating loan applications they want to know whether by lending money they will be able to get his amount back and earn profit on it. Evaluate if a business is in a position to pay the loan with interest for the period in question, they want to see this in banks statements or cash-flow statements, the managers are seeking to see the flow of money in and out of the business, apart from the ability to repay loan as well as agreed interest, the manager wants to evaluate how risky a business is, the banks want to see from the balance sheet how much the owner has invested in the business including profits that have not been withdrawn. The managers want to know the collateral by the business is offering in for the loan advancement when the financial institutions are doing loan evaluation it is worth noting that banks do not lend with a view to selling collateral to recover their money (Rukunga, 1999).

Economists like Stiglitz and Weiss (1981), contend that lending institutions may indeed fail to allocate loans efficiently attributable to lack of financial information about them. The information challenge leads to credit rationing and constitute the failure of credit market. According to Caves (1998), the prevalence of credit market failure is an important constraint on growth of SMEs. Since the closure cost rate of SMEs is higher than larger enterprises, the financial service providers tend to consider SME financing risky.

Small & Medium Enterprises financing also requires innovations in lending technology that could reduce risk to the lender in ways that does not increase the overall transaction
cost to the entrepreneur. Conventional wisdom argues that bank or commercial finance company lending would typically not be available to small businesses until they achieve a level of production where their balance sheet reflect substantial tangible business assets that might be pledged as collateral, such as accounts receivable, inventory, and equipment (Brewer and Genay, 1994). This sequencing of funding over the growth cycle of a firm can be viewed in the context of modern information based theory of security design in notion of financial pecking order.

SMEs can be a game change in the growth of the economy and job creation in developing countries. Both policy makers and researchers have noted the contribution of SMEs across the world if they are capable of accessing the loans. Data collected by Ayyari, Beck and Demirguc-Kent (2007) for 76 developed and developing countries indicate that, on average, SMEs account for close to 60% of manufacturing employment. More importantly, a number of studies using firm – level survey data have shown that SMEs not only perceive access to finance and the cost of credit to be greater obstacles than large firms (Oya, Nataliya& Valentine, 2011).

A study by Kamweru (2009) on challenges faced by small & medium enterprises in accessing finance in Kiambu town, Kenya found that the key challenges the SMEs face in accessing financing namely: slow process of loan application, non-financing of startups, lack of collateral, adverse credit selection, financing less than amount applied for which inhibit them from meeting their financial requirement as well as institutional policies which makes the offer higher interest rates and credit rationing. On the respondents opinion on the ease of accessing loan, the respondents were asked to rate how easy it has been for them in accessing funds from financial institutions. 46.9% of the respondents felt that it has been fairly easy to access funds, 3.1% rated access of funds from financial institutions to be very easy. On the other hand 33.4% felt that access of funds from financial institutions has been very difficult and 15.6% rated it as extremely difficult.

From the above review of literature, it can be observed that indeed access to finance is an issue that is faced across various SMEs in the global market. There are a number of studies which have been reviewed on access to finance among SMEs globally, however each of these studies have had their own limitations. For instance, no particular study reviewed in this section has shown the situation as it is among SMEs in Ongata Rongai.
to town. Hence, there is need for this study to investigate on how access to finance affects financing of SMEs in Ongata Rongai.

2.2.3 Access to finance and its effects on the growth of SMEs in Kenya

The SMEs in Ongata Rongai town play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over fifty percent of new jobs created in the year 2005. Notwithstanding their significance, past statistics point out that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). It is generally recognized that SMEs face constraints, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The constraints include the legal and regulatory environment which still impend on business operations, thus frighten away potential investors and constrict revenues from those in operations. As such, there is need for a business environment that is at par with international best practice so that the country can attract the requisite private investments. There has been complaints regarding tedious registration and certification process in Kenya. Various bodies have their requirements and require money and time. One option left to an entrepreneur is to evade the process but this process is more expensive at the end because of penalty charged (Wanjohi, 2009).

In addition other factors include the registration of business names, obtaining licenses, adhering to statutory requirements, taxation and contracting still poses major challenges to SMEs in Kenya. Contracts involve long legal processes such as leasing, drawing up business contracts, legal representation and other aspects that place the SMEs in a disadvantaged position. Most of these enterprises find these processes lengthy and time consuming, hindering growth or expansion of enterprises (Muraguri, 2010).

According to KRA (1994), the principle factor contributing to poor tax collection include; poor compliance at the informal sector economy, narrow coverage of the existing tax instruments, poor administration and tax collection efforts. As a result of poor taxation system, the costs of running business in Kenya continue to heighten.

According to Tagoe, Nyarko & Anuwa-Amart (2005), the main challenge facing SMEs is access to affordable credit over a reasonable period. This is determined by the financing needs of SMEs and the action of investors. SMEs financing needs, reflect their operational requirements. The management of this challenge depends upon various factors; government borrowing, the general economic climate, availability of collateral, quality of SMEs record
keeping, and SMEs investors relations skills. Other financial challenges that face small enterprises include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising financial freedom among the 'little investors,' through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits (Wanjohi & Mugure, 2008).

Wanjohi and Mugure (2008) found out that credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

2.3 Effects of training and education on the financing of SMEs

SMEs challenges are attributable to lack of know-how in running of the business, and good management of the little income. Human capital is the bedrock upon which all other organizational resources rest upon. Bontis, Dragonetti, Jacobsen and Roos (1999) gave definition of human capital as representing the human factor in the organization/business, the combined intelligence, skills and expertise that gives the business its distinctive character. The said human element in the business are those that are capable of learning, changing, innovating and providing the creative thrust which, if properly motivated, can ensure the long-term survival and the growth of the enterprise.

2.3.1 Impact of education and training on productivity

Human capital theory suggests that education or training or generally provision of knowledge raises the productivity of workers by imparting useful knowledge and skills to them (Becker, 1964). Human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability, which is a product of innate abilities and investment in human beings. The theory sees the need of the provision of knowledge to the enterprises for smooth running as well as helping them increases survival chances and growth.
Walton (1999) opines the longstanding challenges associated with SMEs are how to assist small organizations in developing their human resources. Research evidence has consistently shown that SMEs provide less formal training than larger firms (Patton, 2005). SMEs rarely send their human capital for any form of training may it be internal or external. According to Walton (1999), the view that SMEs are less likely to engage in formal training provision than larger concerns is a well-rehearsed position. Walton further notes that many small and medium-sized enterprises in Nigeria pay lip service to human capital development. They ignore the strategic role this sub-sector plays to national development. Many SMEs are confronted with enormous challenges in human capital development and the attraction of talents from the external labor market. For those SMEs which value the human capital development embark on it carelessly without proper mechanisms for a beneficial end. Training in SMEs has been seen as informal and on-the-job, with little or no provision for management development and no career development (Marlow & Patton, 1993; Storey, 1994).

Many challenges confront the planning and execution of human capital development in Nigerian SMEs, such as negative training philosophy. Many owner-managers of SMEs believe that training and development is not imperative to their enterprises and it’s a form of wasting resources (Fajana, 1995). According to McMahon and Murphy (1999), training is often perceived as a luxury involving not only course fees, but also the cost of unproductive labor. According to Fajana (1995), this negative belief is fuelled by glut of skilled yet unemployed people in the labor market. SMEs owners also fear that they might spend a fortune in training their employees for them to be poached by higher and well established organizations thus rendering their efforts and resources futile. SMEs are faced with financial constraints unlike big organizations.

### 2.3.2 Barriers to education and training

A study by Anne et al on Leveraging Training Skills Development in SMEs found that the main barriers to training high-medium skilled employees the majority of respondents indicated were finance related such as “high costs/too expensive” (81%), and “lack of public money” (57%). A smaller percentage also chose “impossible to interrupt production/no time” (43%), (which is strongly linked to the first two related to lack of resources) and to a lesser extent “too difficult to access training” (33%), “too difficult to identify suitable provider” (24%) of the training.
According to Hill and Stewart (2000), on a case study research into human resource development within three SMEs firms, investigated employers attitudes towards learning, examined the link between career structures and training in organizations of all sizes. Evidence from this study found that small organization lacked of career structure which did not guarantee promotion and training. Therefore, small firms have difficulties to progress and compete with larger firms whereby the employees have low motivation to perform. This is a major hurdle that small firms faced especially in the developing countries.

Many owner-managers of SMEs display apathy or lack of interest in training their employees. There is also the absence of training policies. Many SMEs lacks laid-down structures governing training and development programs, that is, there exists no training policy to provide guidance to managers as to the type of training needed, those who may require training, budget for the programme, as well as responsibility for training and development inter-alia and lack of assessment to training needs (Murphy, 1999). Without training needs analysis to realize the gaps, the process is haphazardly done just for training sake, without having a demonstrated training need. According to Stahl, Nyhan, and D’Aloja (1993), SMEs lack the capacity to define their real training needs and also lack the capacity to plan, organize, and implement training.

Armstrong (2001) views training as an important tool for SMEs in that it could be used to increase all round competencies, multi-skilling, multi-tasking or functional flexibility. Another hindrance to training comes in the leadership in that the seniors fears of job take-over by subordinates, feel threatened to recommend their subordinates for training programs whenever the opportunity arises. Inadequate or no budget allocated to human capital development is also one of the problems facing SMEs (Obokoh, 2008).

A study investigating the challenges confronting human capital development in small and medium-sized enterprises (SMEs) in Nigeria found that 52% of the respondents agreed and strongly agreed that SMEs engage in human capital development haphazardly without embarking on needs analysis. On allocation of budget for the training Seventy-six percent of the respondents agreed and strongly agreed that an inadequate budget is allocated to human resource development in SME. Question the view of training by SMEs managers, Sixty seven percent of the respondents agreed and strongly agreed that
human capital development is viewed as a cost rather than a benefit with a pay-off in SMEs.

2.3.3 Education

Omar, Arokiasamy and Ismail (2009) wrote a paper entitled “The Background and Challenges Faced by the Small Medium Enterprises: A Human Resource Development Perspective”. The paper put more emphasis on the development of human resource in that it observed is a critical component for the success of any given SME. The paper further observed that besides the challenges such as financial constraints, high turnover and low motivation among employees, the human resource factor still remained more prevalent as compared to any other aspect. This paper however failed to investigate on how the human resource capacity affected the financing of SMEs. As such, to counter this, the current study looks at education and training as critical components of the human resource development and how it affects the financing of SMEs in Ongata Rongai.

It may be observed that HRD activities are essential for SMEs for long term survival. HRD activities such as training and development, career planning, self-directed learning, employee motivation have led towards a better performance, higher creativity and innovation, retaining, staff, better service, equality and enrich human capital. It is believed that small firms should put in place, strategies to enhance knowledge, skills, and expertise. In terms of HRD, these have led to better performance and encouraged individual for higher commitment to the organizational performance. In today’s HRD, it is important for all sized organization and with no exceptional for small firms as well. (Hill and Stewart, 2000)

As observed lack of training among the staff members in the SMEs may hinder a lot of things. Members who lack training and knowledge may not be in a position to know their rights and how to access finances from other financial institutions. Moreover, they may not be in a position to allocate the right finances required for the operations of their respective businesses. As such, this study intends to investigate what exactly are the training and education related needs which affect financing of SMEs in Ongata Rongai.
2.4 Effects of management related issues affecting financing of SMEs

Management issues bedeviling small businesses affects their overall profitability and growth hence diminishing their ability to contribute effectively to sustainable development and job creation in the country (Wanjohi, 2010). Inadequate skills in the management levels prove to be one challenge affecting their growth. Its note worth that *juakali* informal sector in the past has it that it can be a driver for the economy as well as employment in Kenya. Mostly the owners of these business lack adequate skills to run these business into growth which can create more employment. This is attributed partly to low level of education of the owners. Requirement of enterprises is that the producer is able to sell his products effectively and how to control the financial side of the business and in doing that the entrepreneur must be skilled in business. Faced with financial challenges SMEs fails to engage skilled labor in their production line and development which further hinders growth. The world, and in Kenya in particular, are still faced with numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance, the GEM Reports (2001-2010) noted that Kenyan SMEs also suffer from poor management skills, which is a result of a lack of adequate training and education. This results in high rates of business failure - Kenya has one of the lowest SMEs survival rates in the world.

2.4.1 Access to credit

This study investigates the extent of access to credit and support for SMEs in Kenya. The study was commissioned by the NCR, and it seeks to understand what has been researched and written on SME access to credit and support in relation to juristic persons as defined by the NCA. The study is intended to assist the NCR in making policy proposals to the Minister of the Department of Trade and Industry (the DTI) on matters affecting the consumer credit industry in order to improve access to credit for persons contemplated in the Act.

A study was carried out by Rahman and Algoritmi (2013) to investigate the challenges faced in the adoption of Open Innovation Strategies in SMEs: An Exploratory Study in Portugal. From the analysis, the study found that the major challenges affecting the SMEs are lack of skilled manpower (25% of respondents) as a general constraint, low purchasing power (15%) and problems in accessing finance (10%). This hinders aspect of innovation in the small industries.
A different study by Bowen, Morara and Mureithi (2009) on management of business challenges among small and micro enterprises in Nairobi-Kenya found out that Majority of the respondents (47 percent) had post-secondary school or vocational training followed by those who had completed secondary school (28.8 percent). Compared to owner managers, more employee managers (65.7 percent) had higher qualifications in post-secondary school or vocational training compared to owner managers (36.7 percent). Only a small proportion of the respondents (4.5 percent), had reached university level or above. It can be inferred that small and micro businesses are dominated by people with relatively low levels of education. With this it can be inferred

2.4.2 Management influence on growth

A new business includes chances of prospering and failure especially if poorly managed. SMEs face challenge in management and due to their small size simple management mistake is likely to crumble the business. According to Longenecker, et al., (2006) failure to plan, improper financing and top poor management are the main causes of failure of the small businesses. Lack of credit facilities has also been identified as one of the most serious constraints facing SMEs and management thus hindering their development (Oketch, 2000; Tomecko&Dondo, 1992; Kiiru, 1991).

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and vocational training and well organized management structure, are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 1998).

The international labor organization (ILO), a United Nation agency dealing with labor issues collaborates with the government in various countries in training management and establishing support systems to address the needs of SMEs. This is after noting the gap in management of the organizations especially the small business. This is intended in raising the chances of their growth and sustainability. King (2007) opines that lack of managerial skills can lead to small businesses failure. The areas of weaknesses in terms of management could be in finance, human resources and marketing. The management should be able to plan for the businesses in terms of competition, poor procedure in management should be avoided, that is, business need to be well designed to reduce the incidence of errors and avoid poor time management.
2.4.3 Managements financial skills

According to Peterson, Kozmetsky and Ridgway on Perceived Causes of Small Business Failures they rate lack of management skills at 29%, the highest against the other parameters contributing to small business failures. A different study by Bowen et al on management of business challenges among small and micro enterprises in Nairobi-Kenya Slightly attributes failure of SMEs to financial management issues and poor communication skills in business and thus the need of them by the management so to carry out their roles effectively. More than half of the respondents (50.5 percent) said having good communication skills is necessary in any business. This is mainly because of the personalized services that most customers anticipate when dealing with small business owners or managers. Financial management knowledge is also considered as key with 47 percent of the respondents mentioning it.

2.5 Chapter Summary

The role the SMEs play in the economy cannot be underestimated in terms of job creation and growth of economy. Small business face challenges in their effort to grow ranging from access to finances, poor management and poor training of the employees as well as managers. Lack of financial capability to outdo the already established big businesses or level the playing field proves to the biggest challenge the small businesses. Financial institutions require collateral to advance a loan to any business and since the small businesses have no or poor financial history it becomes a nightmare to access funding for their development. They also face challenges in the labor market since they cannot match or outdo bigger enterprises when it comes to employing the best in the industry. Poor financial management also contributes to stagnating growth of SMEs as well as fear to try new ventures or markets.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section presents the context in which the study was conducted and is divided into seven sub-sections. The section contains the description of the research site, research design, study population, sampling population, sampling procedures, data collection methods, data processing methods and analysis and finally the ethical considerations to be observed in the study. The purpose of the study is to determine how small and medium business enterprises obtain and manage their finances assess in Ongata Rongai, Kajiado in Kenya, 19.7 km by road south of Nairobi, the capital city of Kenya. Apart from being a residential neighborhood, it is one of the fastest growing commercial centers’ housing several malls, hospitals, education facilities and several other of businesses.

3.2 Research design

Research design refers to the clearly defined structures within which the study is implemented (Burns & Grove 2001:223). A qualitative, exploratory, and descriptive design was followed using the phenomenological method to explore the various ways of Financing SMEs (Streubert & Carpenter 1999:18). The richness and depth of the description gained from a qualitative approach, provides a unique appreciation of the reality of the experience (Munhall 2001:106).

Qualitative research emphasizes the dynamic, holistic and individual aspects of the human experience, and attempts to capture those experiences in their entirety, within the context of those experiencing them (Polit & Beck 2004:16; Streubert & Carpenter 1999:15). The researcher chose to follow a qualitative research process to explore the factors affecting financing of SMEs in Ongata Rongai Town.

Exploratory research is defined by Burns and Groove (2001:374) as research conducted to gain new insights, discover new ideas, and for increasing knowledge of the phenomenon. The study attempts to explore the financial power of businesses in Ongata Rongai Town in Kenya.
Descriptive research involves direct exploration, analysis and description of the particular phenomena, as free as possible from unexplained presuppositions, aiming at maximum intuitive presentation (Streubert & Carpenter 1999:49). Descriptive studies are used to document the phenomenon of interest in the real situation (Marshall & Rossman 1995:41). The experiences of business owners and entrepreneurs, and recommendations for the improvement of ways of financing of SMEs are proposed.

Specifically, quantitative data was collected using semi-structured questionnaires while qualitative data was collected using key informant interviews and case narratives. Descriptives will be presented using tables and charts.

3.3 Population and Sampling Design

3.3.1 Population

According to Cooper and Schindler (2008), a population is the total collection of elements whereby references have to be made. The study population to which the research result was generalized was including all the 142 SMEs in ONGATA RONGAI town.

3.3.2 Sampling Design

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda and Mugenda, 1999). This subgroup is carefully selected so as to be representative of the whole population with the relevant characteristics. Each member or case in the sample is referred to as subject, respondent or interviewee. Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. The study will apply both random sampling procedures to obtain the respondents for questionnaires. The sample frame of the study includes a representative sample of the individuals living in the informal settlement.

Stratified sampling divides a heterogeneous population into a number of distinct categories or strata of independent sub population from which individual elements can be randomly selected (Trochom, 2000). The SMEs that will form the sample will be calculated using the sample formula (Mugenda & Mugenda 2003) as follows;
\[ nf = z^2 pq \]
\[ e^2 \]

Where

\( z = \) table value from the normal table

\( p = \) probability of success

\( q = (p - 1) \) probability of failure

\( e = \) allowed error

\[ nf = (1.96)^2 (0.5) (0.5) \]
\[ (0.05)^2 \]
\[ = 384 \]

A study done by the Kajiado County Integrated Development Plan, (2013-2017) indicated that there are 142 SMEs in Ongata Rongai town. According to Zikmund (2010), Mugenda and Mugenda (2003), when the population size is less than 10,000, the sample size (nf) can be calculated as follows;

\[ nf = \frac{384}{1 + 384/142} \]
\[ = 103.665 \]
\[ = 104 \]

3.3.3 Sampling Frame

A sampling frame is a list of elements in the population from which the sample is actually drawn (Brav et al, 2012). Sampling frame will be all ECD representatives of the selected 12 primary schools in Kenya. The list will be obtained from Ministry of Education as at June 2015.

3.3.4 Sampling Technique

Sampling technique is the method used to select the sample elements from a population to represent the population as a whole (Fama & French, 2006). This is because there are many
techniques used to choose the sample contents is simple random sampling. The researcher employed the random sampling technique which was found adequate to respond to issues related to financing of SMEs. According to Guruillon et al. (2006) if a population is small, it is appropriate for the entire population to be included in the study. For this study however, we had a population that allowed for sampling of any technique as borrowed from Mugenda and Mugenda, 2003.

3.3.5 Sample Size

A sample size comprises a group of 104 respondent SMEs, consisting of part of the target population carefully selected to represent that population (Imran, 2011). According to Jensen (2007) if a population of interest is small and the results are important, it is desirable to conduct a census where data is collected from every member of the population. In this study the sample size is the representation of SMEs in Ongata Rongai.

3.4 Data collection methods

The study used both primary and secondary data. Primary data was collected by use of structured interview questions and secondary data was drawn from review of organizations’ profiles, annual reports and journals, the internet, books, magazines, past research findings among others. Cooper and Schindler (2006), defines primary data as original search where data being collected is designed specifically to answer the research questions.

Data was collected using a questionnaire developed by the researcher drawn from the research questions. This questionnaire was self-administered and was shared by the respondents it two ways. One would be hand delivery and the second method would be through emails. The researcher ensured that confidentiality was maintained and the respondents were not expected to reveal their identity while filling in the questionnaires.

The questionnaire comprised of both open ended and closed ended questions. The questionnaire was divided into the main areas of investigation apart from the first part which captures the demographic characteristics of the respondents. Other sections include SMEs Management Issues related to planning, implementation and evaluation, leadership and the financing issues that affect SMEs sustainability.

3.6 Pilot Study

A pilot test was conducted using 3% (5 respondents) of the sample population selected using random sampling approach. The results from the pre-test were analyzed using statistical
program for social sciences (SPSS) to establish the internal consistency of items in each of the independent variables. The pilot test results were used to improve the questionnaire.

3.7 Data processing and analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda and Mugenda, 2008). The quantitative data was analyzed using descriptive and inferential statistics provided by the Statistical Program for Social Sciences (SPSS) to generate the required frequencies and percentages that was interpreted to answer the research questions. Mean and standard deviation was applied in the analysis of the data. Qualitative data collected through case narratives and key informant interviews was thematically analyzed in line with the study objectives. A verbatim approach was adopted where direct quotations and selected comments from informants was used to emphasize the informants’ voices in the discussions.

Data was presented in tables, Figures, bars and pie charts to enable ease of use, understanding and appreciation. Data was collected over a one-month period.
CHAPTER FOUR

4.0 DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the demographic characteristics of the respondents and the research findings from the study. It analyses the data systematically focusing on the study objective: challenges facing the financing of SMEs in Ongata Rongai town. Analysis is done using statistical package of social sciences (SPSS) and excel. Each variable is analyzed separately in order to bring out the extent to which each of them (sources of finance, education level, security/collateral, taxation and access to government funding) affects the dependent variable. Financing SMEs. The findings are presented as a report of the questions answered by respondents.

4.2 General Information

4.2.1 Respondent’s data

A total of 104 questionnaires were administered. Out of this, 102 were returned. This represented a response rate of 98.1%. Sekaran, (2006) observes that high response rates (over 80% of the target sample in a social research) assure more accurate research results.

Table 4.1: Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MALE</td>
<td>64</td>
<td>62.7</td>
<td>62.7</td>
</tr>
<tr>
<td>FEMALE</td>
<td>38</td>
<td>37.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table 4.1 above shows that out of all the 102 respondents, majority were men, who formed 62.7% of the response, as opposed to 37.7% who are female employees and business owners.
## Table 4.2: Enterprise Form

<table>
<thead>
<tr>
<th>Valid</th>
<th>SOLE PROPRIETOR</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARTNERSHIP</td>
<td>54</td>
<td>52.9</td>
<td>94.1</td>
<td></td>
</tr>
<tr>
<td>COMPANY</td>
<td>6</td>
<td>5.9</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Our study was seeking to find out the various forms of enterprise in Ongata Rongai Town. The table 4.2 above shows that majority of the SMEs in the town are Partnerships. This makes 52.9% of the total respondents, followed by sole proprietors who are 41.2%. There were only 6 companies, making 5.9% of the respondents.

## Table 4.3: Year Established

<table>
<thead>
<tr>
<th>Valid</th>
<th>Before 1990</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1995</td>
<td>34</td>
<td>33.3</td>
<td>37.3</td>
<td></td>
</tr>
<tr>
<td>1996-2000</td>
<td>42</td>
<td>41.2</td>
<td>78.4</td>
<td></td>
</tr>
<tr>
<td>2001-2005</td>
<td>12</td>
<td>11.8</td>
<td>90.2</td>
<td></td>
</tr>
<tr>
<td>2006-2010</td>
<td>6</td>
<td>5.9</td>
<td>96.1</td>
<td></td>
</tr>
<tr>
<td>After 2010</td>
<td>4</td>
<td>3.9</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I also sought to find out the year the SMEs in Rongai Town were established. 41.2% of the SMEs were established in the years between 1996 and 2000, meaning for quite some time, they have been in business. Slightly a significant number 33.3% were established the years before, that is between 1991-1995. Only 3.9% of the respondents agreed that their businesses were established before 1990, as well as a similar percentage having been established after 2010.
Table 4.4: Education Level

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Masters and Above</td>
<td>14</td>
<td>13.7</td>
<td>13.7</td>
</tr>
<tr>
<td>Bachelor's</td>
<td>40</td>
<td>39.2</td>
<td>52.9</td>
</tr>
<tr>
<td>Diploma/Certificate</td>
<td>48</td>
<td>47.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

On education levels, it is evident that most of the people operating the SMEs have Diplomas and Certificates. The table 4.4 above shows that this makes up 47.1% of all respondents, with 39.2% being Bachelor’s holders, 14% having master’s degrees. This shows how much the people who include the business owners and their stuff as interviewed are well versed with knowledge.

Table 4.5: Number of Workers

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Than Ten</td>
<td>36</td>
<td>35.3</td>
<td>35.3</td>
</tr>
<tr>
<td>11-20</td>
<td>40</td>
<td>39.2</td>
<td>74.5</td>
</tr>
<tr>
<td>21-30</td>
<td>26</td>
<td>25.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study further sought to establish the number of workers in the various SMEs in Ongata Rongai Town. According to the findings as in the table 4.5 above, it is evident that many businesses 39.2% have workers between 11 and 20, 35.3 have less than 10 workers while 25.5 have between 21 and 30 workers. This could define the extent of the activities undertaken.
### 4.3 Sources of Finance

#### Table 4.6: Sources of Finance

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINANCIAL INSTITUTIONS</td>
<td>30</td>
<td>29.4</td>
<td>29.4</td>
</tr>
<tr>
<td>FRIENDS</td>
<td>24</td>
<td>23.5</td>
<td>52.9</td>
</tr>
<tr>
<td>BUSINESS SAVINGS</td>
<td>20</td>
<td>19.6</td>
<td>72.5</td>
</tr>
<tr>
<td>PERSONAL SAVINGS</td>
<td>28</td>
<td>27.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study sought to find out the source of income for various SMEs in Ongata Rongai and data was collected as in Table 4.8 above. 29.4% of the study population was financed by financial institutions, while 23.5% had income from friends 19.6% got income from business savings and 27% financed through personal savings. According to this research most SMEs got income from outside the business that 52% got income from friends and financial institutions.

#### Figure 4.1: Used Loan Before
In the case of those that have ever used loans, 67% have ever used loans while 33% have not used before. This shows that a good number of SMEs have been financed through loans; hence the loans form the major financing of SMEs in Rongai.

**Table 4.7: Source of Loan**

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>60</td>
<td>58.8</td>
<td>58.8</td>
</tr>
<tr>
<td>Personal loans</td>
<td>42</td>
<td>41.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

The study tried to further research on the source of loans for financing the SMEs in Rongai, and from table 4.7 above it was found out that 58.8% was from bank loans while 41.2% was from personal loans. It was concluded that the banks have more influence on the source of loans for financing the SMEs.

**Table 4.8: Loan Objective Achieved**

<table>
<thead>
<tr>
<th>Objective Achieved</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>35</td>
<td>34.3</td>
<td>34.0</td>
</tr>
<tr>
<td>NO</td>
<td>67</td>
<td>65.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

To find out whether the loan objective was achieved, the study found out as shown in table above; 34.3% said yes and 65.7% did not achieve the objective of the loan. From the above findings, it shows that loans were not well utilized to achieve the main objectives.

**4.4 Factors Affecting Access to Finance**

**Table 4.9: Lack of Collateral**

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>MODERATELY DISAGREE</td>
<td>24</td>
<td>23.5</td>
<td>23.5</td>
</tr>
</tbody>
</table>
The SMEs were required to provide security for the loans they borrow, hence the research found out that 23.5% of the population moderately disagreed that they lacked property to give as security for the loans, while 19.6% agreed and 56.9% strongly agreed that they do lack collateral. The study found out some of the reasons for lack of collateral are because the SMEs are small growing businesses thus do not have enough security for loans borrowed.

**Figure 4.2: No Business Records**

Based on the column bar records above it was found out that most of the SMEs in Ongata Rongai did not have business records. 7.8% strongly disagreed, 29.4% moderately disagreed, 29.4% agreed and 33.3% strongly agreed not having business records for their businesses.

**Table 4.10: How Interest Rate Affect Access to Financing**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>M O D E R A T E L Y</strong></td>
<td>48</td>
<td>47.1</td>
<td>47.1</td>
</tr>
<tr>
<td><strong>D I S A G R E E</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>A G R E E</strong></td>
<td>18</td>
<td>17.6</td>
<td>64.7</td>
</tr>
<tr>
<td><strong>S T R O N G L Y A G R E E</strong></td>
<td>36</td>
<td>35.3</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
High interest rates hinder most businesses from getting external source of finance, and as the research conducted on SMEs in Ongata Rongai town found out, 47.1% moderately disagreed, 17% agreed and 35.3% strongly agreed. From the findings in Table 4.14 above, it is observed that interest rates affect financing of SMEs.

**Table 4.11: Gender Discrimination Effect on Getting Finances**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DISAGREE</td>
<td>14</td>
<td>13.7</td>
<td>13.7</td>
</tr>
<tr>
<td>STRONGLY DISAGREE</td>
<td>46</td>
<td>45.1</td>
<td>58.8</td>
</tr>
<tr>
<td>MODERATELY DISAGREE</td>
<td>36</td>
<td>35.3</td>
<td>94.1</td>
</tr>
<tr>
<td>STRONGLY AGREE</td>
<td>6</td>
<td>5.9</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study also sought to find out the effect of gender discrimination on getting finances and from the research 13.7% disagreed, 45.1% strongly disagreed, 35.5 moderately disagreed and 5.9% strongly agreed. It is therefore evident that gender discrimination does not impact SMEs getting finances in Ongata Rongai town.

**Table 4.12: Changes**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACCESS TO CREDIT</td>
<td>42</td>
<td>41.2</td>
<td>42.0</td>
</tr>
<tr>
<td>IMPROVED SECURITY</td>
<td>4</td>
<td>3.7</td>
<td>44.0</td>
</tr>
<tr>
<td>EDUCATION AND TRAINING</td>
<td>56</td>
<td>54.9</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

In the case of changes that would affect financing of SMEs in Rongai, 42% was access to credits, improved security was 3.7%, education and training was 54.9%. Thus was concluded that education and training of SMEs owners has more effect on financing of SMEs in Rongai.
4.5 Effects of Education and Training

Figure 4.3: Awareness of Government Funds

The study also sought to find out if the people were aware of government funds to finance their SMEs. 66.7% were aware of the funds while 33.3% was not aware of the government funds. Thus from the above information it was concluded that more awareness needs to be created on SMEs financing in Rongai.

Table 4.13: Training attendance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>YES</td>
<td>64</td>
<td>62.7</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td>38</td>
<td>37.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>102</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to the research the above data showed that 62.7% said they attended training while 37.3% did not. Thus it contributes to the ratio that is aware of government funds.
The study found out that 56.9% recommend training to others while 43.1% did not recommend the training for business people that own SMEs in Ongata Rongai town.

Table 4.14: Effect of Education Level on Financial Decisions

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>56</td>
<td>54.9</td>
<td>54.9</td>
</tr>
<tr>
<td>NO</td>
<td>46</td>
<td>45.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Education level has an influence on financing of SMEs in Ongata Rongai and from the data collected 54.9% agreed that education level has an influence while 45.1% said education does not affect financial decisions made by SME owners.

Table 4.15: Does the Business Pay Tax

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>66</td>
<td>64.7</td>
<td>64.7</td>
</tr>
<tr>
<td>NO</td>
<td>36</td>
<td>35.3</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.15 above gives information on data collected about tax payment. 64.7% of the population said the business pays tax while 35.3% said the business does not pay tax.

Table 4.16: Head of Business

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>20</td>
<td>19.6</td>
<td>19.6</td>
</tr>
<tr>
<td>MANAGER</td>
<td>62</td>
<td>60.8</td>
<td>80.4</td>
</tr>
<tr>
<td>SUPERVISOR</td>
<td>20</td>
<td>19.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study tried to find out who the SMEs in Ongata Rongai acted as the head of office. 19.6% had the CEO as head of business, 60.8% Manager and 19.6% had a supervisor. This showed that the SMEs had someone in position to handle and make business financing decisions.

Figure 4.5: Head of Finance

On finding out who controlled finance in the SMEs in Ongata Rongai 27.5% of the population had an accountant, 15.7% supervisor, 15.7% cashier, 21% said the owner controlled cash in the business, 9.8% of the population said the bursar controlled finance while another 9.8% said the manager was the head of finance. This showed that the SMEs had an individual who managed how the business will run financially, thus it has an influence on how the SMEs could get finances.
4.6 Statistical Results

4.6.1 Regression Analysis for Finance

The table 4.7 below shows the regression model summary for financing SMEs. The table indicates that lack of collateral cause (0.63) which is 6.3% of all business finances. Meaning that lack of collateral affects the financing of SMEs.

Table 4.17: Model Summary for Finance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.251</td>
<td>.063</td>
<td>.034</td>
<td>1.17254</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CHANGES IN INTEREST RATE, AWARE OF GOVT FUNDS, LACK OF COLLATERAL

Table 4.18: The Regression Coefficients for Finance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.387</td>
<td>.786</td>
<td>3.035</td>
<td>.003</td>
</tr>
<tr>
<td>LACK OF COLLATERAL</td>
<td>.192</td>
<td>.144</td>
<td>.135</td>
<td>1.330</td>
</tr>
</tbody>
</table>

a. Dependent Variable: FINANCE

The Table 4.18 above shows that lack of capital affects the level of getting finances. The significance level of .017, at the alpha level of 0.05 (5%) indicates that statistically, lack of collateral affects the financing of SMEs.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study sought to find out the challenges facing financing of SMEs in Ongata Rongai Town. Specifically, the study sought to establish the sources of finance, education levels, security or collateral, taxation and access to government funding as factors affecting the financing of SMEs in Ongata Rongai Town.

5.2 Summary of the study

This chapter summarizes the collected data and the statistical treatment of analysis, discussion with reference to specific objectives/research questions and assesses the meaning of results by evaluating and interpreting them. The conclusions relate directly to the specific objectives/research questions. The recommendations refer to the suggestions for further study, or proposals for change, or both. Each recommendation traces directly to each conclusion.

5.3 Discussion of the findings

The study results indicated that the majority of the respondents were men who had a higher percentage than that of women. This shows the more involvement of women than men in the SMEs in Ongata Rongai Town. The study also found out that many businesses were established between 1996 and 2000, and have worker of mainly between 11 and 20, hence should have a significant result given the experience they have gone through. These businesses are mainly run by Diploma and certificate holders, with a significant number run by bachelor’s degree holders, a sign that most of them have knowledge of business and industry.

The study found out that majority of the businesses depended on loans, with many SMEs accepting that they have used loans before. Most of these loans they have used are from financial institutions, which are followed by use of personal loans. So it’s either a business is using a loan from a financial institution of from personal savings of the owner of the business. However, according to the respondents, the loans do not meet the objectives. This means that the loans are either not enough or the business takes less what it required.

Since security is very necessary when it comes to acquisition of financing, the study sought to find out to what extend the security and collateral could affect the financing of SMEs in
Ongata Rongai Town. The findings indicated that lack of collateral was a major hindrance to accessing financing of SMEs in Ongata Rongai Town, as many of the respondents strongly agreed, while others agreed and moderately agreed. This means that many SMEs in Ongata Rongai town do not have sufficient assets that can be used as security when bargaining for loans from the various financial institutions. Most SMEs in Ongata Rongai don't keep business records. It was found out that many businesses do not practice book keeping. Everything is manual and no previous records are in store. This affects the ability to access the loans are lenders would like to consider the cash flows of the business before considering to give out money. According to the SMEs in Ongata Rongai town, high interest rate was also a hindrance to large percentage of them accessing financial assistance in that it reduces their borrowing power and thus making them borrow less. On the effect of gender discrimination on accessing of finance by SME’s, it was established from the study it had no effect on accessing of finance by the institutions. This means that financial institutions don’t consider gender as a prequalification to access to financing. Therefore anyone irrespective of gender can equally get financial aid. Education and training was found to be an important aspect that should be considered to improve performance of SMEs in that it would enable them to better understand their businesses and business trends in the economy thus improving their chances of getting finances. Awareness of government funds was a study that was also conducted since it forms an integral part in helping in the growth of SMEs and it was found that most SMEs were not aware of the existence of the funds, which was contributed by not attending training as seen in the research. Many SME owners did not know the existence of any governmental funding small businesses, and the existence of such funds. Due to this we sought to find out the effect of business trainings and seminars. The fact that many respondents had attended business trainings left them really supporting the same.

The findings clearly indicated that the level of education had an effect on the financial decisions made by the SMEs. SMEs with people who have higher education levels tend to make better decisions than those with lower education levels or no education at all.

Tax is essential to the well-being of the nation. As a habit, many businesses in Ongata Rongai town don’t pay tax. In as much as some do, tax evasion is employed so as to beef up their financial power. SMEs prefer not to pay tax, as that would affect their financial power.

Many of the SMEs in Ongata Rongai town are headed by either managers to a large extend or the business owners. The decision making is therefore based on the management in place or
the organizational owners. This therefore was has a direct effect of the financial decisions. Accountants were in place to take charge of the financial being of the SMEs, though the decisions had effects from management and business ownership.

5.4 Conclusion

SMEs play major role in development of a town so it is better to promote their growth. Therefore introducing more and cheaper ways of accessing finance would ease their financial stress. This would help them develop and grow to points where they can easily afford security and independently acquire loans. The government, through Central Bank should ensure regulation of the lending interest rate. This will set lending rates that will ensure a larger percentage of SMEs are able to easily access the finances. This will also boost the government as it will be able to earn its revenue from them.

The government, through its local mechanism, should organize more seminars to train and create awareness to SMEs owners on the availability of government funding. This will ensure more SMEs are able to have capital that would ensure they run all their operations successfully.

The government should also promote education and ensure that people in a society are able to get to higher levels of education, as seen person with higher education tend to manage business better than the ones with less education

5.5 Recommendations

Following the findings of the study of financing SMEs in Ongata Rongai Town, the researcher can recommend that lenders and financial institutions consider the SMEs when it comes to consideration for loans without necessarily having the required security. Other options other than business assets, like personal assets and guarantors can be considered.

It can further be recommended from the study the government through CBK should ensure proper regulation of the lending rates so as to accommodate the many SMEs countrywide who are cant access finances due to the high costs of lending from lenders and other financial institutions.
REFERENCES


42


Stevenson, L. & St-Onge, A. (2005b) Support for Growth-oriented Women Entrepreneurs in


Appendix I: Introductory Letter

To Whom It May Concern

Dear Sir/Madam,

I am a masters’ degree student in the school of Business, at United States International University. In partial fulfillment of the MBA degree, I am conducting a study on “Financing of Small and Medium Business enterprises in Kenya: a Case of SMEs in Ongata Rongai Township – Kajiado County.” You have been selected to form part of this study. To this end, I kindly request your assistance in completing the attached questionnaire. The information and data required is needed for academic purposes only and was treated in strict confidence.

Thank you in advance

Yours Faithfully,

Evans Koech
Appendix II: Questionnaire

This questionnaire is meant to collect information on the “Financing of Small and Medium
Business enterprises in Kenya: a Case of SMEs in Ongata Rongai Township – Kajiado
County. Kindly answer the following questions by writing a brief answer statement or ticking
in the spaces provided as applicable.

PART A: Background Information

1. What is your Gender?
   Male ☐ Female ☐

2. What is the name of your Business?

3. What is your position in this organization?

4. What is the form of enterprise ownership?
   Sole Proprietor ☐ Partnership ☐
   Company ☐ Other, specify ☐

5. When was your enterprise established?
   1996 - 2000 ☐ 2001 - 2005 ☐
   2006 - 2010 ☐ After 2010 ☐
6. What is your highest Level of Education?

- Masters and above
- Bachelors
- Diploma/Certificate
- High School
- Primary School

PART B: Financial Access and SMEs Investment Growth

1. How many employees work in your enterprise?

- Less than 10
- 11-20
- 21-30
- 31-40
- 41-50
- More than 50

2. How do you compare this number with the number of employees five years ago or when you started your business, whichever is later?

- Tremendous Increase
- Increase
- Tremendous decrease
- Some Increase
- A decrease
- No Change

3. What are the sources of finance for your business in percentage?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans from Financial Institutions</td>
<td></td>
</tr>
</tbody>
</table>

47
<table>
<thead>
<tr>
<th>Loans from Friends &amp; relatives</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>From Business Savings</td>
<td></td>
</tr>
<tr>
<td>Personal Savings</td>
<td></td>
</tr>
<tr>
<td>Others (Specify)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

4. Have you ever obtained a loan to further your investment?

   Yes [ ]   No [ ]

If yes, please indicate the source of the loan.

- Bank Loans [ ]
- Micro-Finance Institution [ ]
- Small Business Administration (SBA) Loans [ ]
- Personal Loans [ ]
- Government/CDF Grants [ ]

5. Did you meet the objective of the loan?

   Yes [ ]   No [ ]

Explain?
c) How do you agree to the following factors affecting your access to loans?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Moderately Agree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of collateral</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of business performance records</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High cost of repayment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender discrimination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reasons (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Where, from the following did you put the money when you received financial funding?

- Initial Capital
- Working Capital
- Additional Capital
- Purchase of Fixed assets
- Others (Specify)

7. What can you attribute financial growth in your business to:

- Access to Credit
- Improved Security
- Less Regulations
- Education and training
- Other Specify
8. **How would you rate the following constraints hindering SMEs Investment growth for the period 2009-2011? Please indicate the percentage applicable to each. The total should add up to 100%**

<table>
<thead>
<tr>
<th>CONSTRAINT</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Access</td>
<td></td>
</tr>
<tr>
<td>Regulations</td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td></td>
</tr>
<tr>
<td>Literacy</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
</tr>
<tr>
<td>Others (specify)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

**PART C: Effects of Education and Training on Financing SMEs**

1) **Are you aware of any sources of free government funding for SMEs?**

Yes [ ] No [ ]

*If Yes, which ones*

2) **a) Have you ever attended a training or seminar on Financing of SMEs and handling SMEs finances**

Yes [ ] No [ ]

*b) If NO, do you recommend that you have one?*

Yes [ ] No [ ]

3) **Do you think one's education level determines the effectiveness of financial allocation in a business?**

---

35
4) Does your business pay tax to the government?

Yes  [ ]  No  [ ]

If yes, how does it affect the business finances?

PART D: Management related issues affecting Financing of SMEs

1. Who runs the business?

Business Owner  [ ]  Manager  [ ]  Supervisor  [ ]

Any other, (specify)

2. Who is in charge of Finances in your business enterprise

Qualified Accountant  [ ]  Business Owner  [ ]

Supervisor  [ ]

Any other, (specify)

3. Do you think there is positive influence on financial decision making by the owners

Yes  [ ]  No  [ ]

Explain:
4. Any other comment or opinion or observation about the Effects of finance access to the SMEs investment growth in Ongata Rongai Township

Thank you for giving your honest opinion while filling this questionnaire. END