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RESEARCH ARTICLE

FINANCING OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN KENYA: A STUDY OF SELECTED SMEs IN KAKAMEGA MUNICIPALITY

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ABSTRACT

Business finance for Small and Medium Enterprise in Kenya is what determines their mortality rate. The objective of the study was to find out major sources of financing of SMEs in Kenya: the extent to which, formal financing were accessible to the SME. 60 SME Owner/Manager were interviewed in Kakamega Municipality. The study utilised descriptive research design which included surveys and fact- finding enquiries of different kinds and data collection using questionnaire. The sampling frame of 1311 was stratified into 6 criteria and systematic random samplings of 60 samples were selected from all the strata using the same sampling proportion (0.045). The analysis of data was done using both quantitative and qualitative methods to report the findings. Functions used for analysis in this study were frequencies, charts and cross tabulations. Qualitative analysis used a central tendency measure which was able to calculate mean scores on a likert scale. Qualitative phase helped to fill in the gaps and provided additional information on measures to enhance SMEs financing. It was found that less than half of SMEs in Kakamega Municipality consider formal financing as a source of capital for their operations, more than 90 percent of SMEs who sought for formal financing succeeded. These results showed that formal financing were significant to keep the business operational of SMEs in Kakamega Municipality. Overlap between various sources was observed indicating multiple sources of capital are adopted by a variety of the SMEs which includes loan from micro-finance institutions and private sources (personal savings, friends and relatives). Major challenges that faced SMEs in Kakamega Municipality were identified as stiff competition, high running costs, low sales, and low profit margins. The SME Owners/Managers also indicated that cost of financing was high and was the major impediment to them seeking financing of their enterprises.

INTRODUCTION

In many emerging markets the Small and Medium Enterprises (SMEs) sector is one of the principal driving forces for economic and job creation. SMEs and micro-enterprises constitute over 95 per cent of all enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization (UNDP, 1999). However, inadequate access to financing continues to be one of the major significant impediments to creation, survival and growth of SMEs in Africa. Further owing to their high risk profile, SMEs in Africa largely remain an unattractive investment for mainstream investors. Of particular concern for investors are the country, currency and credit risks characteristics of many African countries in which SMEs operate (UNEP, 2007). While the definition of SMEs varies from one country or continent to another, most of these organizations have been using the definition of the SME sector as provided by the World Bank or International Finance Corporation (IFC). In terms of need for finance, the IFC defines an SME as `Small Enterprises` with loan size of \$10,000 to \$100,000 and `Medium Enterprise' with loan sizes of \$100,000 to \$1 million (UNEP, 2007). In many countries such as U.S.A, Britain, European Countries, Japan and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees, that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees or based on the number of paid employees, turnover, balance sheet and level of independence of the enterprise. (European Commission, 2003). According to EC, a "small enterprise" is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million; a "micro enterprise" is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (European Commission, 2003). In Kenya, the definition that would classify and categorize enterprises, while taking into account capital, employment and output is

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theoretically the most appropriate. However unavailability of capital and output figures frequently requires that SMEs be defined based on employment alone. Dondo in 1990 in his study of the "Changing role of key institutions actors in implementing credit programs for small scale enterprises development in Kenya" with K-rep; defined small enterprise as an enterprise with fewer than 50 employees. Parker and Torress in 1994 in their study of "Micro and Small Scale Enterprises in Kenya, defined "micro- enterprise" are those with 10 or fewer workers; "small enterprises" have from 11 to 50 workers and "medium enterprises" have from 51 to 100 workers. There are more than 800,000 small, medium and micro enterprises in the country (GOK, 2004). In 2003, Kenya's SMEs contributed about 18 percent of GDP and employed 5.1 million representing 74 percent of Kenyan labour force (Obwocha 2006).

Bank loan is the principal source of external financing for SMEs, it is important to examine the role of the banking sector in the economy of Kenya. Low productivity banks find it costly to evaluate and monitor small-value loans. The lack of public credit institutions, such as a rating agency makes the evaluation of firm credibility very costly for banks, and dissuades them from lending to small enterprises. Moreover, deficiencies in the legal system hinder the enforcement of contracts, especially debt, and result in relatively high collateral requirements that small firms find slightly more difficult to meet (World Bank & KIPPRA, 2004). SMEs financing constraints is attributed by high transaction costs, high collateral requirements and lack of quarantee credit instruments, deficiencies in legal systems, regulatory and policy problems and asymmetric information. In order to operate efficiently, SMEs require easy access to short and long term capital. In general terms, it appears that lending to SMEs is seen as a high risk business since most of these enterprises lack collateral. The problem does not appear to be lack of funds but rather how to make them accessible to SMEs. The available funds are often diverted to the larger enterprises and only an insignificant number of SMEs seem able to attract bank financing (United Nations, 1993).

Previous studies on small enterprise development in Kenya (Mullei & Bokea,2000; Coughlin & Ikiara, 1998; King 1996) have largely focused on social, economic and administrative constraints that hinder development of the SMEs. However, the proposed investigation focussed on major sources of formal and informal financing of SMEs. Even though previous studies on financing SMEs were carried out in some parts of Kenya, there is no sufficient information in the above area in most parts of Kenya. The proposed study area i.e. Kakamega Municipality is one of the country's upcoming business towns, which has very little documentation on financing SMEs. This therefore makes the basis of the proposed investigation.

MATERIALS AND METHODS

Research Design

The study utilized a descriptive research design, which included surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research design is a description of the state of affairs as it exists at present (Kothari, 2003). The design involved a primary research method that is the collection of primary data.

Target Population

The study was carried out in Kakamega Municipality. The target population was all SMEs in the Kakamega Municipality. The total population of SMEs in Kakamega is 1,420 which comprised all active enterprises that are operation and which have been able to renew their permit fee at the beginning of the year 2009.

Description of Sample and Sampling Procedures

The sampling frame of 1420 was obtained from the Kakamega Municipality. One hundred and nine (109) enterprises were excluded from the sampling frame. These comprised enterprises which are directly supported by the Government funding, organisations that supply credit to SMEs such as commercial banks and thirty two (32) micro credit groups; enterprises with more than one branch within the Municipality and enterprises which are branches of big companies with headquarters in Nairobi and forest natural resources which comprised 36 organisations. The remaining sampling frame of 1311 enterprises were stratified as specified in table 3.1, and a systematic random sample of 60 was selected from all the strata using the same sampling proportion (0.045).

Table 1: Sampling

	Criteria	Population	Cases	Percent
1	Medium traders, shops, retail store or personal services	179	8	13.3
2	Small traders, shops, retail store or personal services	306	14	23.4
3	Financial services and education institutions, health facilities and professional services	395	18	30.0
4	Hotels, Guest houses and restaurants	198	9	15.1
5	Transport, storage, supermarkets and communication	103	5	8.3
6	Workshops, furniture and garage	132	6	10.0
	Total sample	1311	60	100

Description of the Research Instruments

Primary data were collected through use of questionnaire. The questionnaire contained both open-ended and closed questions. The questionnaire sought to capture information to help in achieving the set objectives.

Description of Data Collection Procedures

The data from SMEs were collected from the Owner/Managers of 60 SMEs sample who were required to inform the study about the financing of SMEs. The study used quantitative methods of data collection that involved interviewing of selected respondents with the aid of a structured questionnaire. Before data collection, an introduction letter from Catholic University of Eastern Africa was obtained to introduce the researcher to Kakamega Municipality and another letter was obtained from Kakamega Municipality to enable the researcher to administer questionnaires and interviews to the various SMEs within the Municipality. Some questionnaires were administered by use of drop and pick to SMEs Owners/Managers who requested to be given time to fill them within timeframe of one week. The remaining questionnaires were administered through face-to-face basis; whereby some Owners/Managers filled the questionnaire and asked for clarifications for some questions; while some Owner/Managers were read to them to respond from the given options, especially for those who were illiterate.

Data Analysis Techniques

The study used qualitative and quantitative methods to report the findings. The quantitative phase helped the researcher to generate descriptive and inferential statistics necessary to make deductions on how formal and informal financing contribute to the widening or narrowing of financing gaps of SMEs. After a careful review and cleaning of the collected data, the closed ended questions were coded and entered into a codebook from where they were keyed into a computer using the statistical Package for Social Science (SPSS). Analysis was carried out by typical statistical functions in the SPSS software. Functions used for analysis in this study were frequencies, charts and cross tabulations. Frequency tables and bar graphs incorporating percentages were used in ranking particular practices or approaches adopted by SMEs in their day to day businesses. Quantitative analysis used central tendency measure which was able to calculate means on scores on likert scale. The scores on the likert scale were used to measure the level of accessibility of SMEs in general in Kakamega Municipality as a whole, and specifically by SME owners who had attempted loan application, a priori. Cross tabulations were used to determine relationships between variables. The qualitative phase helped to fill in the gaps and provided additional information on measures to enhance SME financing. Qualitative data from open-ended responses was analyzed through content analysis.

RESULTS AND DISCUSSIONS

This section presents, discusses and interprets the empirical finding of the study. This was organized in terms of themes and sub themes of the research questions. These comprised financing of SMEs in Kakamega Municipality; access of SMEs to formal financing in Kakamega Municipality; other financing and challenges of SMEs in Kakamega Municipality and discussions.

Financing of SMEs in Kakamega Municipality

Sources of start up capital

Table 2 shows sources of start-up capital by SMEs in kakamega Municipality. The table depicted that 60 percent of the sampled SMEs and 10 percent got over 60 % and 40%-59% of start up capital from personal savings respectively. 8.3% percent of the SMEs relied on loan from commercial banks for 10%-39% of their start-up capital while 6.7 percent of the SMEs relied on trade credits from suppliers for less than 10% of their start up capital. These results indicated majority of SMEs in Kakamega Municipality did not rely on commercial banks for start-up capital: this included both formal and informal financing.

Table 2: Sources of start-up capital

Source of capital	Proportion of total capital used	Frequency	Percent
Loan from commercial banks	Over 60%	2	3.3
	10% - 39%	5	8.3
	0%	53	88.3
	Total	60	100.0
Loan from microfinance institutions	Over 60%	3	5.0
	10% - 39%	1	1.7
	0%	56	93.3
	Total	60	100.0
Trade credit from suppliers	Over 60%	7	11.7
	40% - 59%	1	1.7
	10% - 39%	3	5.0
	Below 10%	4	6.7
	0%	45	75.0
	Total	60	100.0
Loan from friends and relatives	Over 60%	2	3.3
	40% - 59%	1	1.7
	10% - 39%	2	3.3
	0%	55	91.7
	Total	60	100.0
Personal savings of owners	Over 60%	36	60.0
	40% - 59%	6	10.0
	10% - 39%	3	5.0
	0%	15	25.0
	Total	60	100.0

Less than half of SMEs in Kakamega Municipality consider formal financing as a source of capital for their operations. However more than 90 percent (21 out of 23) of SMEs who sought for formal financing succeeded. Majority of these SMEs in Kakamega Municipality got start up capital from personal savings. Although majority of these were run on private sources of capital, a significant proportion relied on capital from formal financing institutions for their day to day operations. In a study of Cooley (1997) sources of start up capital for SMEs in Kisumu, Eldoret and Meru were surveyed. It was noted that no firm obtained its start up capital from a formal sector source. Personal savings represented the primary source of capital in all industries studied, with appropriately half of the respondents having started their business from savings, relatives, partners and friends were the only sources of start up capitates. A research which was carried out on SME financing in the United Kingdom (U.K) and China, a comparative perspective with the purpose to outline the preliminary results of an empirical investigation into access to finance and related issues, as experienced by SME owner/managers in the U.K and in China. Evidence suggests that there are similarities as well as differences between SME financing in the U.K and China. In terms of initial funding, a large proportion of respondents relied exclusively on financial support from their immediate family (Hussain, Milman & Matlay, 2006).

Formal Financing

Table 3 gives the status of formal financing of SMEs sampled. A total 91.3 percent of the SMEs who attempted loan application succeeded. 23 percent out of fifty nine (59) of the sampled SMEs attempted loan application. The results indicated that the probability of an SME securing formal financing is high after loan application process in Kakamega Municipality. However, the result further revealed that less than half of the SMEs (39 percent) consider formal financing as a significant source of capital to run their operations.

Table 3. Results of loan application in 2009

Whether attempted loan application from commercial banks or micro-financial institutions this year 2009	Whether got loan applied for		
	Yes	No	Total
Yes	21	2	23
	91.3%	8.7%	100.0
No	0	36	36
	0.0%	100.0%	100.0%
Total	21	38	59
	35.6%	64.4%	100.0%

Sources of operational capital

Table 4 reveals the sources of capital necessary to keep SMEs operational in Kakamega Municipality. The table shows that 83.3 percent of the SMEs relied on private sources to keep their businesses operational, 31.7 percent relied on loan from commercial banks and 21.6 percent relied on loan from micro-finance institutions. These results showed that formal financing from financial institutions were significant to keep the business operational of SMEs in Kakamega Municipality. However, majority of SMEs are run by capital from private sources. Overlap between various sources was observed indicating multiple sources of income are adopted by a variety of the SMEs.

Table 4. Sources of operational capital

Source of capital	Level of importance	Frequency	Percent
Loan from commercial banks	Very important	12	20.0
	Somewhat important	7	11.7
	Not important	7	11.7
	Not applicable	34	56.7
	Total	**60**	**100.0**
Loan from micro-finance institutions	Very important	5	8.3
	Somewhat important	8	13.3
	Not important	6	10.0
	Not applicable	41	68.3
	Total	**60**	**100.0**
Private sources(personal savings, friends and relatives)	Very important	48	80.0
	Somewhat important	2	3.3
	Not important	1	1.7
	Not applicable	9	15.0
	Total	**60**	**100.0**

Access to formal financing by SMEs

Relationships between loan and repayment characteristics

Table 5 below depicts a chi-square test of significance of relationships between loan repayment characteristics of formal financing from financial institutions in Kakamega Municipality. The table shows there was no significant relationship between the approved loan and the interest rate with χ = 62.79 N=18 df =60 and p = 0.378 at p = 0.05 significance level. Further there was no observed relationship between loan repayment time and the interest rate on advanced loan with χ = 86.85 N=18 df =60 and p = 0.281 at p = 0.05 significance level. These results indicated that interest rate on advanced loan by financial institutions in Kakamega varied significantly and were independent across and within bank institutions. There was no observed trend of determination of chargeable interest rate based on amount of loan and duration of loan repayment.

Table 5. Relationships between loan and repayment characteristics

	Pearson Chi-Square	N	Df	Asymp. Sig. (2-sided)
Approved loan vs. interest rate	62.79	18	60	0.378
Loan repayment period vs. interest rate	86.85	18	60	0.281

Level of financing by financial institutions

Table 6 shows the categories of amounts of loan advanced to SMEs. 35 percent of the SMEs who applied for the loan got Ksh 200,001 -500, 000, 15 percent each got Ksh 51,000 – 100,000, Ksh 500,001 – 1,000,000 and Ksh 1,000,001 – 2,000, 000 respectively. These results indicated that most SMEs 70 percent that apply for formal financing requested for over Ksh 200,000.

Table 6. Amount of loans approved for SMEs

Approved loan	Frequency	Valid Percent
Below Ksh 50,000	2	10
Ksh 51,000 - 100,000	3	15
Ksh 100, 001 - 200,000	1	5
Ksh 200,001 - 500,000	7	35
Ksh 500,001 - 1,000,000	3	15
Ksh 1,000,001 - 2,000,000	3	15
Above Ksh 2,000,000	1	5
Total	**20**	**100**

Seventy percent (70%) of SMEs which applied for formal financing requested for over shs 200,000. Generally thirty percent (30%) of SMEs were able to access loan facilities from commercial banks and micro-finance institutions in Kakamega Municipality. According to SMEs that had attempted loan application, accessibility to financing was high. Sixty one percent (61%) of sampled SMEs in Kakamega Municipality opted not to apply for loan from commercial banks and Micro Finance Institutions(MFIs). According to Gray, Cooley & Lutabingwa (1995) a research which was carried out to investigate a sample of 320 manufacturers from three industries in Kenya. The study had sought to evaluate characteristics of small scale manufacturers that make it difficult to be profitable and the problems faced which contribute to poor performance. The findings exhibited ninety two percent (92%) of sampled population opted not to apply for loans or had applied but their application were rejected. This shows that majority of SMEs currently take courage to approach commercial banks and micro financial institutions to source for external finance.

Accessibility of financing from commercial banks by SMEs

Figure 1 shows the responses of the sampled SMEs owners and managers on accessibility of formal financing. The figure indicates that majority of the SMEs were unable to gauge the level of accessibility of the formal financing. A total of 30 percent indicated that accessibility was high while 13.3 percent observed that accessibility was low. These results indicated that only SME owners managers who had attempted loan application were better placed to give information on level of accessibility of financing in Kakamega Municipality. Table 7 gives the mean scores of rating of the level of accessibility by SME owners and managers who had earlier applied for financing.

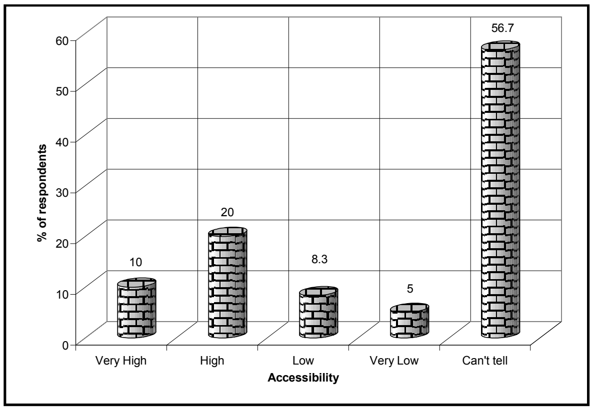

Figure 1: Responses on extent to which financing from commercial banks is accessible to SME

Table 7 gives the mean score of the rating of the level of accessibility by SME owners and managers who had earlier applied for financing. Table 4.6 gives the mean score on a Likert type scale of 1 to 4. A rating of 1 meant that financing was very highly accessible, a rating of two meant accessibility was high, 3 meant it was low and 4 indicated that accessibility was very low. The sample that responded had a mean score of 2.2 indicating that accessibility for financing in Kakamega Municipality was high. However a score of 2.2 is towards 2.5 indicating that the trend of accessibility is likely to deteriorate than it is to improve.

Table 7. Descriptive statistics of accessibility level by SMEs

	N	Mean	Std. Deviation
Extent to which financing from commercial banks is accessible to SME	26	2.2	0.939

The sampled population identified the following as reasons why they observed that accessibility to financing was high in Kakamega Municipality , all banks are advancing micro-credit facility**,** Competition has made banks flexible in giving loans**,** Depends on relationship (2nd or 3rd loan easier), High interest rates**,** Loans available but terms not attractive**.** Reasons that made the sampled population observe that accessibility to formal financing was low were difficult for new business or first time borrower, Difficult procedure in processing loan and lack of adequate security by SMEs**.**

Business operational challenges of SMEs

Table 8 shows the challenges faced by SMEs and their management in Kakamega Municipality in running the day to day businesses. Stiff competition was the major challenge which exhibited 63.3 percent of the sampled SMEs as compared to high running costs that was experienced by 50 percent of the SMEs. Low sales were a problem cited by 45 percent of the SMEs, followed by low profit margins with 41.7 percent and management challenges faced 18.3 percent of the SMEs studied. These results revealed that stiff completion, high running costs and low sales affected both SMEs that had applied for loans and those that were not servicing loans. It therefore follows that these were the major challenges facing SMEs in Kakamega Municipality. Other challenges mentioned were increased insecurity, high taxes, unstable and unpredictable economic trends, weekly repayments for group loan, low purchasing power due to economic status of surrounding community, migration of clients, political uncertainty- flow of funds in schools affected (bookshops), requests for goodwill, monitoring of workers difficult (for furniture workshops) and lack of enough capital.

Table 8. Business operational challenges of SMEs in Kakamega Municipality

Challenge	Response	Frequency	Percent
Low profit margin	YES	25	41.7
	NO	35	58.3
	Total	60	100.0
Low sales	YES	27	45.0
	NO	33	55.0
	Total	60	100.0
Stiff competition	YES	38	63.3
	NO	22	36.7
	Total	60	100.0
	YES	15	25
High interest rates on	NO	45	75
loans	Total	60	100.0
High monthly	YES	11	18.3
instalments on loans	NO	49	81.7
	Total	60	100.0
	YES	30	50.0
High running costs	NO	30	50.0
	Total	60	100.0
	YES	11	18.3
Management	NO	49	81.7
challenges	Total	60	100

The major challenges that faced SMEs in Kakamega Municipality were identified as stiff competition, high running costs, low sales, and low profit margins. The SME owners also indicated that cost of financing was high and was the major impediment to them seeking financing of their enterprises. According to Kauffmann (2005) pointed out that, SMEs are weak in Africa because of small local markets, underdeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize in case of bankruptcy) so they can be more flexible in uncertain business conditions. Africa faces many obstacles including corrupt governance structures, unfavourable macroeconomic environment, debilitating physical infrastructure, and administrative challenges. However, inadequate access to financing continues to be one of the most significant impediments to creation, survival and growth of SMEs in Africa. Further owing to their high risk profile, SMEs in Africa largely remain an unattractive investment for mainstream investors. Of particular concern to investors are the country, currency and credit risks characteristics of many African countries in which SMEs operate (UNEP, 2008).

Reasons for non application for formal financing

Table 9 shows why the SMEs did not apply for loan in 2009 and reasons for non application. The table indicated that 14 out of the sample that responded to the question cited that they did not apply because finances were not needed of which 7.1 percent each cited that they were still paying loan taken from previous year, deposits by client were sufficient, get financial support from the headquarters and had all necessary requirements as explanations for their lack of application of loan facility. 71.4 percent indicated other reasons as possible explanation which included poor economic year, business/political risks, low sales and high interest rates. A total of 12 out of 28 which is 42.9 percent of sampled SME owners did not apply for loan because they believe cost of financing is too high. The possible explanations they gave were poor economic year, business/political risk, low sales and high interest rates. Others indicated lack o funds to spent on luxury (hair).

Table 9. Reasons for non application for formal financing

	Why business did not attempt applying for financing in 2009			
Explanation for non application for loan	Financing not needed	Applying for financing is difficult	Cost of financing is too high	Total
Others	10	0	7	17
	71.4	0	58.3	60.7
Still paying loan	1	0	0	1
taken in 2008	7.1	0	0	3.6
Deposits by	1	0	0	1
client are	7.1	0	0	3.6
sufficient				
Get financial	1	0	0	1
support from H/O	7.1	0	0	3.6
Had all necessary	1	0	0	1
requirements	7.1	0	0	3.6
High interest rate	0	1	2	3
	0	50	16.7	10.7
No money to	0	0	1	1
spent on hair	0	0	8.3	3.6
Political	0	0	1	1
instability	0	50	0	3.6
Security	0	1	0	1
requested outside	0	50	0	3.6
business tools				
	0	0	1	1
Work is less	0	0	8.3	3.6
	14	2	12	28
	100	100	100	100

Those who observed that applying for financing were difficult and were their cause of declining to apply in 2009 for financing pointed out that security requested was outside their business tools and financial institutions charged high interest rates. Majority of enterprise that did not request for financing observed that financing was not needed and that cost of financing was too high. According to World Bank and KIPPRA (2004), smaller firms report lower use of credit instruments, are less likely to apply for loan because of cost and rejection fear.

Conclusion and Recommendations

Less than half of the SMEs in Kakamega Municipality consider formal financing as a source of capital for their operations. More than 90 percent of SMEs who sought for formal financing succeeded. Majority of SMEs got start up capital from personal savings. Although majority of SMEs were run on private sources of capital, a significant proportion were run by capital from formal financing institutions. Informal financing for SMEs were significant in Kakamega Municipality. Overlap between various sources was observed indicating multiple sources of income are adopted by a variety of the SMEs. Seventy percent (70%) of SMEs which applied for formal financing requested for over shs 200,000. Generally thirty percent (30%) of SMEs were able to access loan facilities from commercial banks and micro-finance institutions in Kakamega Municipality. According to SMEs that had attempted loan application, accessibility to financing was high. Sixty one percent (61%) of sampled SMEs in Kakamega Municipality opted not to apply for loan from commercial banks and Micro Finance Instituions (MFIs).It was found that less than half of SMEs in Kakamega Municipality consider formal financing as a source of capital for their operations, more than 90 percent of SMEs who sought formal financing succeeded. These results showed that formal financing were significant to keep the business operational of SMEs in Kakamega Municipality. Major challenges that faced SMEs in Kakamega Municipality were identified as stiff competition, high running costs, low sales, and low profit margins. The SME Owners/Managers also indicated that cost of financing was high and was the major impediment to them seeking financing of their enterprises. Based on the findings of the study the following are recommendations. First expanding the supply of finance through non financial private sector, this included capacity building through trainings on financial management. Improving business conditions, the Government to provide incentives for investments such as tax holidays and reduce bank interest rates. The following are suggested areas for further research: assessment of challenges that commercial banks and other financial institutions face in financing SMEs in Kenya.

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