

**CHALLENGES/ OBSTACLES OF FINANCING SMALL& MEDIUM
SCALE BUSINESS IN KENYA**

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ABSTRACT

Small and Micro Enterprises (SMEs) play an important economic role in many countries especially in the Kenyan economy. The Kenya Economic Survey 2011 released by the Minister of Planning, National Development and Vision 2030, confirms once again the significance of small and medium enterprises (SMEs) in job creation. The survey states that of the 503,000 jobs created last year, 440,400, or 80.6 per cent were in the SMEs. Only 62,600 or 12.4 per cent were created in the formal sector, mainly in “building and construction; transport and communications; wholesale and retail trade; restaurants and hotels, but despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months. The survey attributes the new jobs created to improved economic conditions, increased access to affordable credit from banks, the Women Enterprise Fund and the Youth Development Fund, which aided in starting and expanding businesses thereby creating more jobs. The literature review on SME's access to bank finance indicates that most SME operators have limited access to bank finance. SME access to the formal financial sector is constrained by high risks and transaction costs associated with commercial lending.

The study identified the following way in which used by SMEs to raise the extra finances; saving and trying to reduce expenses, use of merry go-rounds, borrowing from friends at zero interest rates, reducing credit period for the firm's creditors, obtaining credit facilities from suppliers, ploughing back profits, offering stock as security, consulting with other SMEs owners, joining Sacco, using credit cards and overdrafts. The SMEs have the following strategies to overcome the challenges; fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service deliver