Challenges faced by small and medium garment enterprises in financing business operations within Umoja Embakasi constituency

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Abstract:

Globally, there is an increased recognition of the important role played by Small and Medium Enterprises (SMEs) in the economic development of a country. Similarly, in Kenya, SMEs are the main engine behind economic growth, contribution to the GDP, employment creation, poverty reduction and industrial development. Garment SMEs are amongst the oldest within the country and are widespread all over the country. Past study shows that Garment SMEs represents 5 percent of all micro enterprises and one third of all manufacturing SMEs in Kenya. The typical firm operates with the owner and one or two employees. They are spread all over the country with 60 percent of all garment SMEs concentrated in the rural areas (McCormick et. al. 2007). Despite various attempts by the Government and other bodies to resolve challenges hindering growth and development of SMEs raising capital to finance operations remains a major constraint of majority of the SMEs, (Naidu et al, 2011), (Ndung’u 2010). This means that for SMEs to achieve their expected roles as drivers of economic growth challenges that hinder their development should be addressed. The General objective of the study was to establish challenges experienced by Small and Medium Garment Enterprises in Umoja location of Embakasi Constituency in financing their business operations. The specific objectives of the study were to establish how Government policies and legal and regulatory framework influence SMEs ability to finance their business operations, to establish how the size of business influence ability of SMEs in financing their business operations, to establish how collateral requirement influence ability of SMEs in financing their business operations, and lastly to establish the attitude of garment SMEs owners in financing their business operations through credit facilities.

The study adopted a descriptive research Design targeting a population of 162 enterprises dealing with garment production in Umoja-Embakasi Constituency which are licensed with Nairobi City Council. A sample of 48 enterprises was selected using cluster sampling design for testing. Primary data was collected by use of questionnaire, analyzed using Statistical Package for Social Sciences (SPSS) and presented in tables and graphs. Secondary data was obtained from magazines, books, periodicals and internet. Conclusions drawn from the study indicate that collateral requirement together with Government policy on imported garments adversely affect garment SME financing among other factors such as size of business and Financial Institutions attitude towards SMEs. The study established that though Financial institutions regard SMEs as high risk investments their credit rating is good. The study recommends that access to finances by garment SMEs in Umoja- Embakasi constituency be made easier through easily accessible devolved funds and lower interest rates. Financial institutions should reduce their demand for collateral. Government policy needs to target the policy on imported commodities which enjoy low taxes and adversely affects locally manufactured garments with high cost of production. A study should be carried out to investigate the benefits accruing to SMEs which have access to credit facility and garment business owners should be trained on the importance of financing business operation through credit facility.