Sources of finance available to small scale enterprises in Nairobi, Kenya

Author: Nalwelisie, Chrisantus

Abstract:

The role of SEEs as a source for employment is highly significant. Since SEEs operate on a labour-intensive basis, they are able to create employment indicate that micro-enterprises provide work for 20-40% of total labour force. In the literature, it is widely recognized that small-scale enterprises (SSEs) play a vital role in poverty reduction and employment creation in developing countries. One of the major development constraints faced by SEEs is their lack of access to adequate credit. The main research question of this study is therefore: How can the access of SEEs to credit be improved? In Kenya, there is a gap between the credit supply of both informal and formal providers of credit to SEEs, which use both sources of credit, depending on the specific conditions and purposes of credit. The Kenyan financial system is marked by a dualistic structure, i.e the financial sector is characterized by the existence side by side of formal and informal financial markets. In developing countries such as Kenya this financial dualism arises because the formal financial sector is underdeveloped, a fact, which is, also, reflected in an inadequate formal credit supply for SSEs, in particular by, banks. The informal suppliers of credit make up in part for this lack of financial services. However, the financial services provided by informal suppliers are also inadequate. Two approaches are suitable to narrow the gap. On the one hand, formal actors could adopt the strengths of informal actors, to the extent that this is possible for them. This is the so -called downscaling approach. Informal financial actors have certain strengths, which formal actors could learn from in order to improve their credit supply for SEEs. On the other hand, informal actors could, as far as possible, be integrated into the formal system: There is the so-called modified upgrading approach. The overall objective of this study was to explore alternative sources of finance in the development of Small-Scale Enterprises in Nairobi, Kenya. Small firms have long been a matter of concern for government and policy makers. In the populist tradition of thought, an economy based on small firms has been regarded as the alternative to the standard course of capitalist industrialization, generated, with its tendency towards increasing concentration of industries in the hands of a few large firms. Also covered in this section are; determining of capital structure, uncertainty and information asymmetry, sources of loanable funds, institutional theories of disequilibria credit rationing, macro and micro-based theories, apprenticeship training and a few other concepts. Methodology is discussed in chapter three where the method of data collection, sample size, selection and data analysis procedures are explained. Chapter four covers the findings, data and descriptive statistics. Finally in chapter five are the conclusions of the findings, recommendations strategies and limitations of the study.